Mail.Ru Group Limited

Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2013

Contents

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Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders of Mail.Ru Group Limited

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Mail.Ru Group Limited and its subsidiaries ("the Group") as at June 30, 2013 which comprise the interim consolidated statement of financial position as at June 30, 2013 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

September 4, 2013

Interim Consolidated Statement of Financial Position

As of June 30, 2013
(in millions of Russian Roubles)

	Notes	As at June 30, 2013 (unaudited)	As at December 31, 2012
ASSETS			
Non-current assets			
Investments in strategic associates	5	8,617	8,945
Goodwill		32,969	32,969
Other intangible assets	6	10,113	10,567
Property and equipment	7	2,086	1,619
Available-for-sale financial assets	15	11,565	10,162
Financial assets at fair value through profit or loss	15	1,404	1,311
Deferred income tax assets		65	29
Other non-current assets	8	1,007	925
Total non-current assets		67,826	66,527
Current assets			
Trade accounts receivable	15	2,589	2,724
Prepaid income tax		115	94
Prepaid expenses and advances to suppliers		532	582
Financial assets at fair value through profit or loss	15	187	291
Other current assets	9	274	224
Short-term time deposits	15	459	991
Cash and cash equivalents	15	6,359	27,690
Total current assets		10,515	32,596
Total assets		78,341	99,123
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		–	–
Share premium		46,323	46,216
Treasury shares		(492)	(611)
Retained earnings		13,468	35,993
Accumulated other comprehensive income		9,906	8,513
Total equity attributable to equity holders of the parent		69,205	90,111
Non-controlling interests		3	4
Total equity		69,208	90,115
Non-current liabilities			
Deferred income tax liabilities		2,976	2,975
Total non-current liabilities		2,976	2,975
Current liabilities			
Trade accounts payable	15	981	858
Income tax payable		168	348
VAT and other taxes payable		987	974
Deferred revenue and customer advances		2,318	2,253
Other payables, provisions and accrued expenses	10	1,703	1,600
Total current liabilities		6,157	6,033
Total liabilities		9,133	9,008
Total equity and liabilities		78,341	99,123

Interim Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2013
(in millions of Russian Roubles)

	Notes	Six months ended June 30, 2013 (unaudited)	Six months ended June 30, 2012 (unaudited)
Display advertising		2,474	2,205
Context advertising		1,589	1,083
Total online advertising		4,063	3,288
MMO games		3,065	2,125
Community IVAS		4,015	3,134
Total IVAS		7,080	5,259
Other revenue	11	1,325	1,064
Total revenue		12,468	9,611
Net gain on venture capital investments and associated derivative financial assets and liabilities	15	211	112
Personnel expenses		(3,411)	(2,907)
Office rent and maintenance		(507)	(219)
Agent/partner fees		(1,309)	(930)
Marketing expenses		(330)	(333)
Server hosting expenses		(414)	(285)
Professional services		(104)	(103)
Other operating expenses		(380)	(383)
Total operating expenses		(6,455)	(5,160)
EBITDA		6,224	4,563
Depreciation and amortisation		(1,348)	(1,327)
Impairment of intangible assets		(3)	(1)
Share of profit of strategic associates		144	62
Finance income		162	160
Other non-operating income/(expense)		(17)	4
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	15	14	(15)
Net gain on disposal of shares in available-for-sale investments		–	20,498
Net gain on disposal of shares in strategic associates	5	1,286	–
Net foreign exchange gains		72	1,616
Profit before income tax expense		6,534	25,560
Income tax expense	12	(1,802)	(1,418)
Net profit		4,732	24,142
Attributable to:			
Equity holders of the parent		4,719	24,133
Non-controlling interest		13	9
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		(11)	1
Available-for-sale financial assets:			
Gains/(losses) arising during the period, net of tax effect of 0		1,403	(1,572)
Reclassification adjustments for gains included in profit or loss, net of tax effect of 0		–	(20,498)
Total other comprehensive income/(loss), net of tax effect of 0		1,392	(22,069)
Total comprehensive income, net of tax		6,124	2,073
Attributable to:			
Equity holders of the parent		6,111	2,064
Non-controlling interest		13	9
Earnings per share, in RUR:			
Basic earnings for the year attributable to ordinary equity holders of the parent		22.6	115.8
Diluted earnings for the year attributable to ordinary equity holders of the parent		22.0	115.6

Interim Consolidated Statement of Cash Flows

For the six months ended June 30, 2013
(in millions of Russian Roubles)

	Notes	Six months ended June 30, 2013 (unaudited)	Six months ended June 30, 2012 (unaudited)
Cash flows from operating activities			
Profit before income tax		6,534	25,560
Adjustments for:			
Depreciation and amortisation		1,348	1,327
Bad debt expense		84	45
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	15	(14)	15
Net gain on disposal of shares in strategic associates	5	(1,286)	–
Net gain on disposal of shares in available-for-sale investments		–	(20,498)
Loss on disposal of property and equipment and intangible assets		16	1
Finance income		(162)	(160)
Dividend revenue from venture capital investments		(6)	(36)
Share of profit of strategic associates		(144)	(62)
Impairment of intangible assets		3	1
Net foreign exchange gains		(72)	(1,616)
Share based payment expense	16.3	709	774
Other non-cash items		9	8
Decrease in accounts receivable		100	361
(Increase)/decrease in inventories		7	(8)
Increase in other assets		(30)	(155)
Decrease in accounts payable, provisions and accrued expenses		(278)	(45)
(Increase)/decrease in other non-current assets		(156)	45
Increase in deferred revenue and customers advances		62	219
(Increase)/decrease in venture capital financial assets designated as at fair value through profit or loss	15	26	(367)
Operating cash flows before interest and income taxes		6,750	5,409
Dividends received from financial investments		6	55
Interest received, net of related bank commissions paid		191	117
Income tax paid		(2,041)	(1,065)
Net cash provided by operating activities		4,906	4,516
Cash flows from investing activities			
Cash paid for property and equipment		(789)	(397)
Cash paid for intangible assets		(539)	(389)
Proceeds from disposal of shares in strategic associates	5	1,644	–
Dividends received from equity investments designated as available-for-sale financial assets		–	18
Dividends received from strategic associates		134	126
Proceeds from disposal of shares in available-for-sale investments		–	22,883
Issuance of loans		(12)	(2)
Collection of loans		–	2
Collection of short-term and long term deposits		829	500
Acquisition of short-term and long term deposits		(210)	(823)
Net cash provided by investing activities		1,057	21,918
Cash flows from financing activities			
Proceeds from issuance of common stock, net of share issuance costs paid		4	2
Cash paid for treasury shares		(99)	(297)
Dividends paid to shareholders	17	(27,660)	–
Dividends paid by subsidiaries to non-controlling shareholders		(14)	(3)
Net cash used in financing activities		(27,769)	(298)
Net increase/(decrease) in cash and cash equivalents		(21,806)	26,136
Effect of exchange differences on cash balances		475	1,562
Cash and cash equivalents at the beginning of the period		27,690	4,015
Cash and cash equivalents at the end of the period		6,359	31,713

Interim Consolidated Statement of Changes in Equity

For the six months ended June 30, 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, 2012		208,408,438	–	44,370	(633)	23,485	58,903	126,125	10	126,135
Profit for the period		–	–	–	–	24,133	–	24,133	9	24,142
Other comprehensive income:										
Foreign currency translation		–	–	–	–	–	1	1	–	1
Net change in cumulative holding gains on available-for-sale investments		–	–	–	–	–	(22,070)	(22,070)	–	(22,070)
Total other comprehensive income		–	–	–	–	–	(22,069)	(22,069)	–	(22,069)
Total comprehensive income		–	–	–	–	24,133	(22,069)	2,064	9	2,073
Share-based payment transactions		–	–	774	–	–	–	774	–	774
Exercise of options over the shares of the Company		132,335	–	(122)	86	–	–	(36)	–	(36)
Acquisition of treasury shares		(288,051)	–	–	(297)	–	–	(297)	–	(297)
Acquisitions of non-controlling interests in existing subsidiaries		–	–	14	–	–	–	14	(14)	–
Dividends by subsidiaries to non-controlling shareholders		–	–	–	–	–	–	–	(3)	(3)
Other changes in net assets of strategic associates		–	–	4	–	–	–	4	–	4
Other changes in share premium		–	–	2	–	–	–	2	–	2
Balance at June 30, 2012		208,252,722	–	45,042	(844)	47,618	36,834	128,650	2	128,652

Interim Consolidated Statement of Changes in Equity (continued)

	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		–	–	–	–	4,719	–	4,719	13	4,732
Other comprehensive income:										
Foreign currency translation		–	–	–	–	–	(11)	(11)	–	(11)
Net change in cumulative holding gains on available-for-sale investments	15	–	–	–	–	–	1,403	1,403	–	1,403
Total other comprehensive income		–	–	–	–	–	1,392	1,392	–	1,392
Total comprehensive income		–	–	–	–	4,719	1,392	6,111	13	6,124
Equity settled share-based payment transactions		–	–	751	–	–	–	751	–	751
Exercise of options over the shares of the Company		244,383	–	(270)	242	–	–	(28)	–	(28)
Acquisition of treasury shares		(139,261)	–	–	(123)	–	–	(123)	–	(123)
Share-based payment transactions by strategic associates				26				26		26
Share-based payment modification	16.1	–	–	(399)	–	–	–	(399)	–	(399)
Dividends by subsidiaries to non-controlling shareholders		–	–	–	–	–	–	–	(14)	(14)
Dividends to shareholders						(27,244)		(27,244)		(27,244)
Other changes in net assets of strategic associates		–	–	(5)	–	–	1	(4)	–	(4)
Other changes in share premium		–	–	4	–	–	–	4	–	4
Balance at June 30, 2013		208,593,649	–	46,323	(492)	13,468	9,906	69,205	3	69,208

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2013
(in millions of Russian Roubles, unless otherwise indicated)

1 Corporate information and description of business

These interim condensed consolidated financial statements of Mail.Ru Group Limited (formerly Digital Sky Technologies Limited and renamed in October 2010, hereinafter "the Company") and its subsidiaries (collectively – "the Group") for the six months ended June 30, 2013 were authorised for issue by the directors of the Company on September 4, 2013.

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

The Company consolidates or participates in businesses that operate in the Internet segment, including portals, social networking and communications, e-payment solutions, online marketplaces, massively multiplayer online games ("MMO"), 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.

2 Basis of preparation

The interim condensed consolidated financial statements for the six months ended June 30, 2013 have been prepared in accordance with IAS 34.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2012 prepared in accordance with IFRS.

2.1 Application of new and amended IFRS and IFRIC

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2012, except for adoption of new standards as of January 1, 2013 listed 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. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet.

IAS 32 Tax effects of Distributions to Holders of Equity Instruments (amendment)
The amendment to IAS 32 *Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements of the Group, as there are no tax consequences for the Group attached to dividends distribution by the company.

IAS 34 Interim Financial Reporting and Segment Information for Total Assets and Liabilities (amendment)
The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as neither total segment assets nor total segment liabilities are reported to the Group's chief operating decision maker (CODM).

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 interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

2 Basis of preparation (continued)

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

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

The amendment requires an entity to disclose information about rights to set off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32.
The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

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 interim condensed 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. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Group has not 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.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. The Group provides these disclosures in Note 15.

In addition to the above-mentioned amendments and new standards, IFRS 1 *First-time Adoption of International Financial Reporting Standards* was amended with effect for reporting periods starting on or after January 1, 2013. The Group is not a first-time adopter of IFRS; therefore, this amendment is not relevant to the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.2 Change of statements of comprehensive income presentation

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

3 Seasonality of operations

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

4 Operating segments

In reviewing the operational performance of the Group and allocating resources, the Chief Executive Officer of the Group, who is the Group's Chief Operating Decision Maker (CODM), reviews selected items of each segment's 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, disposals or 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 its operating segments based on the types of products and services the Group offers. The Group has identified the following reportable segments on this basis:

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

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

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

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

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

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

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

The Group's share of profits of strategic associates is not attributed to any operating segment and not included in the calculation of EBITDA. The Group's share of profits of key strategic associates (Qiwi 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 (see also Note 5). 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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4 Operating segments (continued)

The information about the breakdown of revenue from external customers by the customers' country of domicile and non-current assets by country is not available to the management of the Group, and it considers that the cost to develop such information would be excessive.
The income statement items for each segment for the six months ended June 30, 2013, as presented to the CODM, are presented below:

	Email, portal and IM	Social networks	Online games	E-commerce, search and other	Eliminations	Group
Revenue						
External revenue	2,048	4,628	3,349	2,417	–	12,442
Intersegment revenue	14	15	–	149	(178)	–
Total revenue	2,062	4,643	3,349	2,566	(178)	12,442
Total operating expenses	954	1,245	2,146	1,569	(178)	5,736
EBITDA	1,108	3,398	1,203	997	–	6,706
Net profit						5,063

The income statement items for each segment for the six months ended June 30, 2012, as presented to the CODM, are presented below:

	Email, portal and IM	Social networks	Online games	E-commerce, search and other	Eliminations	Group
Revenue						
External revenue	1,824	3,655	2,475	1,739	–	9,693
Intersegment revenue	12	–	–	126	(138)	–
Total revenue	1,836	3,655	2,475	1,865	(138)	9,693
Total operating expenses	733	957	1,701	1,122	(138)	4,375
EBITDA	1,103	2,698	774	743	–	5,318
Net profit						3,969

A reconciliation of total revenue, as presented to the CODM, to IFRS consolidated revenue of the Group for the six months ended June 30, 2013 and 2012 is presented below:

	2013	2012
Total revenue, as presented to CODM	12,442	9,693
Adjustments to reconcile revenue as presented to CODM to consolidated revenue under IFRS:		–
Differences in timing of revenue recognition	(19)	(142)
Barter revenue	39	24
Dividend revenue from venture capital investments	6	36
Consolidated revenue under IFRS	12,468	9,611

A reconciliation of EBITDA, as presented to the CODM, to IFRS consolidated profit before tax of the Group for the six months ended June 30, 2013 and 2012 is presented below:

	2013	2012
Group aggregate segment EBITDA	6,706	5,318
Adjustments to reconcile EBITDA as presented to CODM to consolidated profit before income tax expenses under IFRS:		
Differences in timing of revenue recognition	(19)	(142)
Net gain on venture capital investments and associated derivative financial assets and liabilities	211	112
Share-based payments expenses	(709)	(774)
Dividend revenue from venture capital investments	6	36
Other	29	13
EBITDA	6,224	4,563
Depreciation and amortisation	(1,348)	(1,327)
Impairment of intangible assets	(3)	(1)
Share of profit of strategic associates	144	62
Finance income	162	160
Other non-operating income/(expense)	(17)	4
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	14	(15)
Net gain on disposal of shares in available-for-sale investments	–	20,498
Net gain on disposal of shares in strategic associates	1,286	–
Net foreign exchange gains	72	1,616
Profit before income tax expense	6,534	25,560

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4 Operating segments (continued)

A reconciliation of net profit, as presented to the CODM, to IFRS consolidated net profit of the Group for the six months ended June 30, 2013 and 2012 is presented below:

	2013	2012
Total net profit, as presented to CODM	5,063	3,969
Adjustments to reconcile net profit as presented to CODM to consolidated net profit under IFRS:		
Share-based payments expenses	(709)	(774)
Differences in timing of revenue recognition	(19)	(142)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries and associates	38	34
Amortisation of fair value adjustments to intangible assets and impairment thereof	(831)	(851)
Gain on financial instruments at fair value through profit or loss	225	97
Net gain on disposal of shares in available-for-sale investments	–	20,498
Net foreign exchange gains	72	1,616
Share in financial results of non-core associates	(9)	7
Net gain on disposal of shares in strategic associates	1,286	–
Other	(12)	(25)
Tax effect of the adjustments and tax on unremitted earnings	(372)	(287)
Consolidated net profit under IFRS	4,732	24,142

5 Investments in strategic associates

In May 2013 the Company sold 6.31% of economic interest in strategic associate Qiwi plc (“Qiwi”) during Qiwi’s IPO for an aggregate net cash consideration of RUR 1,644. As a result of disposal the Company recognised a gain in the amount of RUR 1,286 under “Net gain on disposal of shares in strategic associates“ in the interim consolidated statement of comprehensive income. After partial disposal of the investment the Company retained 15.04% of interest and power to participate in the financial and operating policy decisions through its representation in Qiwi’s Board of Directors. Accordingly the Company retained significant influence over Qiwi and continued to account for the remaining investment using the equity method.

Although certain indicators of impairment were identified for some of the Group’s associates as of June 30, 2013, the recoverable amount of the investments based on earnings multiples analysis was higher than the respective carrying values and accordingly, no impairment was recorded in the first half of 2013.

6 Intangible assets

During the six months ended June 30, 2013, the Group capitalised software development costs and otherwise acquired intangible assets with a cost of RUR 588 (2012: RUR 389). The Group did not acquire any intangible assets or goodwill through business combinations in the six months ended June 30, 2013 or in the six months ended June 30, 2012.

In the six months ended June 30, 2013, the Group recognised RUR 3 (2012: RUR 1) of impairment losses with respect to online game software. The impairment entirely belongs to the Online Games operating segment and is explained by underperformance of related games.

7 Property and equipment

During the six months ended June 30, 2013, the Group acquired property and equipment with a cost of RUR 799 (2012: RUR 401).

8 Other non-current assets

Other non-current assets consist of the following:

	June 30, 2013	December 31, 2012
Long-term deposits	1	81
Advances and security deposit under long-term lease contract	991	837
Other non-current assets	15	7
Total other non-current assets	1,007	925

Notes to the Interim Condensed Consolidated Financial Statements (continued)

9 Other current assets

Other current assets consist of the following:

	June 30, 2013	December 31, 2012
Inventory	28	34
VAT receivable	147	99
Interest receivable	27	56
Other current assets	72	35
Total other current assets	274	224

10 Other payables, provisions and accrued expenses

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

	Note	June 30, 2013	December 31, 2012
Payables to personnel		883	540
Accrued vacations		421	360
Accrued professional consulting expenses		86	81
Advance received under fit-out contract		186	208
Other current payables and provisions	14.1	127	411
Total other payables, provisions and accrued expenses		1,703	1,600

11 Other revenue

Other revenue consists of the following:

	Six months ended June 30	
	June 30, 2013	June 30, 2012
Online recruitment services	1,160	878
Listing fee	59	77
Dividend revenue from venture capital investments	6	36
Other	100	73
Total other revenue	1,325	1,064

12 Income tax

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

	Six months ended June 30	
	2013	2012
Current income tax expense	1,837	1,248
Deferred income tax expense/(benefit)	(35)	170
Total income tax expense	1,802	1,418

Notes to the Interim Condensed Consolidated Financial Statements (continued)

12 Income tax (continued)

Reconciliation between tax expense and the product of accounting profit multiplied by BVI's domestic tax rate for the six months ended June 30, 2013 and 2012 is as follows:

	Six months ended June 30	
	2013	2012
Profit before income tax expense	6,534	25,560
Income tax expense computed at statutory tax rate of 0%	–	–
Foreign tax rate differential	(1,380)	(992)
Tax on dividends	(45)	(5)
Adjustments in respect of current income tax of previous year	(2)	4
Tax on unremitted earnings	(291)	(355)
Non-deductible expenses	(84)	(70)
Total income tax expense	(1,802)	(1,418)

13 Commitments, contingencies and operating risks

13.1 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.

13.2 Taxation

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

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

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

13.3 Legal proceedings

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which have 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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

13 Commitments, contingencies and operating risks (continued)

13.4 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 Group's profitability.

13.5 Private information

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

13.6 Intellectual property rights

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

13.7 Development

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

13.8 Regulation

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

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

13.9 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.

13.10 Infrastructure and capacity

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

Notes to the Interim Condensed Consolidated Financial Statements (continued)

14 Balances and transactions with related parties

The following table provides the total amount of transactions which have been entered into with related parties during the six month periods ending June 30, 2013 and June 30, 2012 as well as balances with related parties as of June 30, 2013 and December 31, 2012, excluding directors and key management of the Group (see below). All related party transactions were made in accordance with contractual terms and conditions agreed between the parties.

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
2013				
Strategic associates	147	85	126	15
Other entities	1	11	10	7
2012				
Strategic associates	120	86	158	17
Other entities *	–	3	152	–

* excluding joint not-for-profit project described in the Note 14.1 below

The Group's sales to and receivables from related parties mainly include sales to and receivables from Haslop Company Limited ("Mamba") and VK.com Limited ("VK").

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

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

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

14.1 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 a payable of RUR 316 in connection with the project under "Other payables, provisions and accrued expenses" in its consolidated statement of financial position as of December 31, 2012. The payable was fully settled in the six months ended June 30, 2013.

14.2 Directors of the Company

Total cash remuneration of the members of the Board of Directors (each a "Director" and collectively, "Directors") of the Company amounted to RUR 23 for the six months ended June 30, 2013 (2012: RUR 22). No options over the shares of the Company were granted to Directors for the six months ended June 30, 2013 (2012: nil). During the six months ended June 30, 2013, Directors did not forfeit any options (2012: 152,566) and exercised options over 26,766 shares of the Company (2012: 179,332). The corresponding share-based payment expense was RUR 19 for the six months ended June 30, 2013 (2012: insignificant).

14.3 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 282 for the six months ended June 30, 2013 (2012: RUR 274). In addition to the cash remuneration in the six months ended June 30, 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: 166,000 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: 2,490,000 options at the exercise price of USD 25.6 per share[1]). During the six months ended June 30, 2013, key management of the Group (excluding Directors) did not forfeit any options (2012: 22,500) and exercised options over 520,538 shares of the Company (2012: 159,988). The corresponding share based payment expense amounted to RUR 612 for the six months ended June 30, 2013 (2012: RUR 671).

14.4 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.

[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 16 and 17.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

15 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of June 30, 2013 and December 31, 2012 and are presented by category of financial instruments in the table below:

	Category*	June 30, 2013	December 31, 2012
Financial assets			
Financial investments in associates	FAFVPL	1,496	1,567
Derivative financial assets over the equity of investees	FAFVPL	27	35
Convertible note	FAFVPL	46	–
Financial derivatives under lease contract	FAFVPL	22	–
Available-for-sale equity investment	AFSFA	11,565	10,162
Long-term deposits	LR	1	81
Trade accounts receivable	LR	2,589	2,724
Loans and interest receivable	LR	42	62
Short-term time deposits	LR	459	991
Cash and cash equivalents	LR	6,359	27,690
Total financial assets		22,606	43,312
Current		9,628	31,757
Non-current		12,978	11,555
Total derivative financial assets		49	35
Current		–	–
Non-current		49	35
Financial liabilities			
Trade accounts payable	FLAC	981	858
Total financial liabilities		981	858
Current		981	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.

15.1 Fair value hierarchy

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

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

Notes to the Interim Condensed Consolidated Financial Statements (continued)

15 Financial instruments (continued)

15.1 Fair value hierarchy (continued)

As at June 30, 2013 and December 31, 2012 the Group held the following financial instruments measured at fair value:

	June 30, 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	1,496	–	–	1,496
Derivative financial assets over the equity of investees	27	–	–	27
Convertible note	46	–	–	46
Financial derivatives under lease contract	22	–	–	22
Total financial assets at fair value through profit or loss	1,591	–	–	1,591
Available-for-sale equity investments	11,565	11,565	–	–
Total financial assets measured at fair value	13,156	11,565	–	1,591

	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	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

Transfers between levels of fair value hierarchy are deemed to have occurred at the date of the event or change in circumstances that caused the transfer. In 2013 the investment in Facebook was reclassified from Level 2 to Level 1 as a result of valuation technique change to using quoted prices (unadjusted) in active markets due to expiration of restrictions on sale of Facebook shares held by the Group.

The balance of Level 3 measurements as of December 31, 2012 is reconciled to the balance of those measurements as of June 30, 2013 as follows:

	Balance as of December 31, 2012	Purchases	Sales	Gains/(losses) recognised in profit and loss	Balance as of June 30, 2013
Financial investments in associates	1,567	12	(294)	211	1,496
Derivative financial assets over the equity of investees	35	–	–	(8)	27
Convertible note	–	46	–	–	46
Financial derivatives under lease contract	–	–	–	22	22
Total financial assets measured at fair value	1,602	58	(294)	225	1,591

The balance of available-for-sale equity investments as of December 31, 2012 is reconciled to the balance of those investments as of June 30, 2013 as follows:

	Number of shares holding as of December 31, 2012	Balance as of December 31, 2012	Gains/(losses) recognised in other comprehensive income	Balance as of June 30, 2013	Number of shares holding as of June 30, 2013
Investment in Facebook	14,210,507	10,162	1,403	11,565	14,210,507
Total		10,162	1,403	11,565	

15.2 Valuation techniques

Financial investments in associates are the Group's investments in various smaller Internet businesses 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.

15 Financial instruments (continued)

15.2 Valuation techniques (continued)

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 June 30, 2013 and December 31, 2012 are as follows:

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

The fair value of the Group's investment in Facebook as at December 31, 2012 was determined using observable market inputs.

15.3 Risk assessment

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 ventures operating in different segments of the Internet industry. Additionally, the overall impact of venture capital activities on the Group's operations is mitigated by a limited size of the venture capital investment portfolio in relation to the aggregate operations of the Group.

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

At the reporting date, the Group's exposure to unlisted equity securities at fair value through profit or loss, listed available-for-sale investments and derivative financial instruments was equal to the carrying amounts of the respective financial instruments as of the reporting date. A 10% decrease in the overall earnings stream of the valuations performed for the Group's unlisted investments could have a negative impact of approximately RUR 24 (2012: RUR 82) 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 31 (2012: RUR 123) on the Group's pre-tax income The effect of a 100 basis point increase in risk-free rate on the Group's pre-tax income is not significant in all periods presented in these interim condensed consolidated financial statements.

16 Share-based payments

16.1 Change in settlement method

In March 2013, the terms of exercise of certain options were modified. Specifically, any option holder granted an aggregate of 20,000 or more options at either the IPO Portion (i.e. options with an exercise price of USD 23.9 per share at the time of the modification, subsequently reduced to USD 19.6 per share – see Note 16.2 below) or the 2011 Portion (i.e. options with an exercise price of USD 21.8 per share at the time of the modification, subsequently reduced to USD 17.5 per share – see Note 16.2 below) was only allowed to exercise the respective portion options in the form of GDRs, while exercises by the optionees granted a smaller cumulative number of options can continue to be in GDRs or cash at the Company'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 Company 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 1,093,527 options outstanding as of the modification date.

As a result of the modification, the Company recorded a share-based payment liability of RUR 399 as of the modification date with a corresponding reduction in Share premium. As of June 30, 2013, the liability was RUR 370 and is included in payables to employees under "Other payables, provisions and accrued expenses" in the interim consolidated statement of financial position.

16 Share-based payments (continued)

16.2 Reduction in exercise price

In March 2013, the exercise price of all outstanding options was reduced by USD 4.3 per option in connection with the payment of a special dividend (see Note 17). The change in exercise price was accounted for as a modification.

As a result of the modification, the Group recognised RUR 171 in share-based payment expense in the six months ended June 30, 2013.

16.3 Share-based payment expense

The Group recognised an aggregate of RUR 709 in share-based payment expense in the six months ended June 30, 2013 (2012: 774), including RUR 792 in equity-settled share-based payments (2012: 774) and a negative RUR 83 in cash-settled share-based payments (2012: nil). The expense was included under “Personnel expenses” in the interim consolidated statement of comprehensive income.

17 Special dividend paid to shareholders

In March 2013, the Group paid a special dividend USD 4.30 per share for shareholders on 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.

18 Events after the reporting period

18.1 Partial disposal of investment in Facebook

In July-August 2013 the Company disposed of its remaining 14.2 million Facebook shares for an aggregate net cash consideration of USD 527 million.

18.2 New anti-piracy law

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 law and none of the Group’s properties have been blocked up to date.