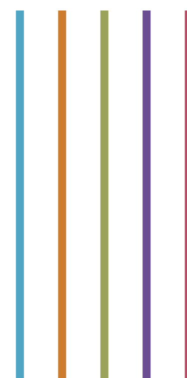
Annual report



Contents

Section 1 Overview
01 Who we are
02 Mail.Ru Group in brief
04 How we work
05 Corporate history
07 Highlights
10 Chief Executive Officer's report

Section 2 Business review
12 Key audience statistics
13 Operating review
22 Financial review

Section 3 Management
33 Management
35 Corporate governance
39 Risk management
42 Board and Management remuneration
43 Responsibility statement

Section 4 Financial statements
46 Independent auditors' report
47 Consolidated Statement of Financial Position
48 Consolidated Statement of Comprehensive Income
49 Consolidated Statement of Cash Flows
51 Consolidated Statement of Changes in Equity
53 Notes to Consolidated Financial Statements

Section 5 Additional information
109 Cautionary statements

Mail.Ru Group is a leading company in the high-growth Russian-speaking internet market. In terms of number of users, Russia is now the largest internet market in Europe[1]. Our sites reach approximately 84% of Russian internet users on a monthly basis[2]. Based on total time spent online, the Company is the world's sixth largest internet business[3].

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

Our product portfolio

Mail.Ru Group owns Russia's leading email service and Russia's largest internet portal, Mail.Ru[4]. We operate two of the three largest Russian language online social networking sites, Odnoklassniki (OK) and Moi Mir (My World)[5]. Our portfolio also includes the country's two largest instant messaging networks – Mail.Ru Agent and ICQ[6]. We lead the interactive entertainment market with our online games platform, which is Russia's largest.

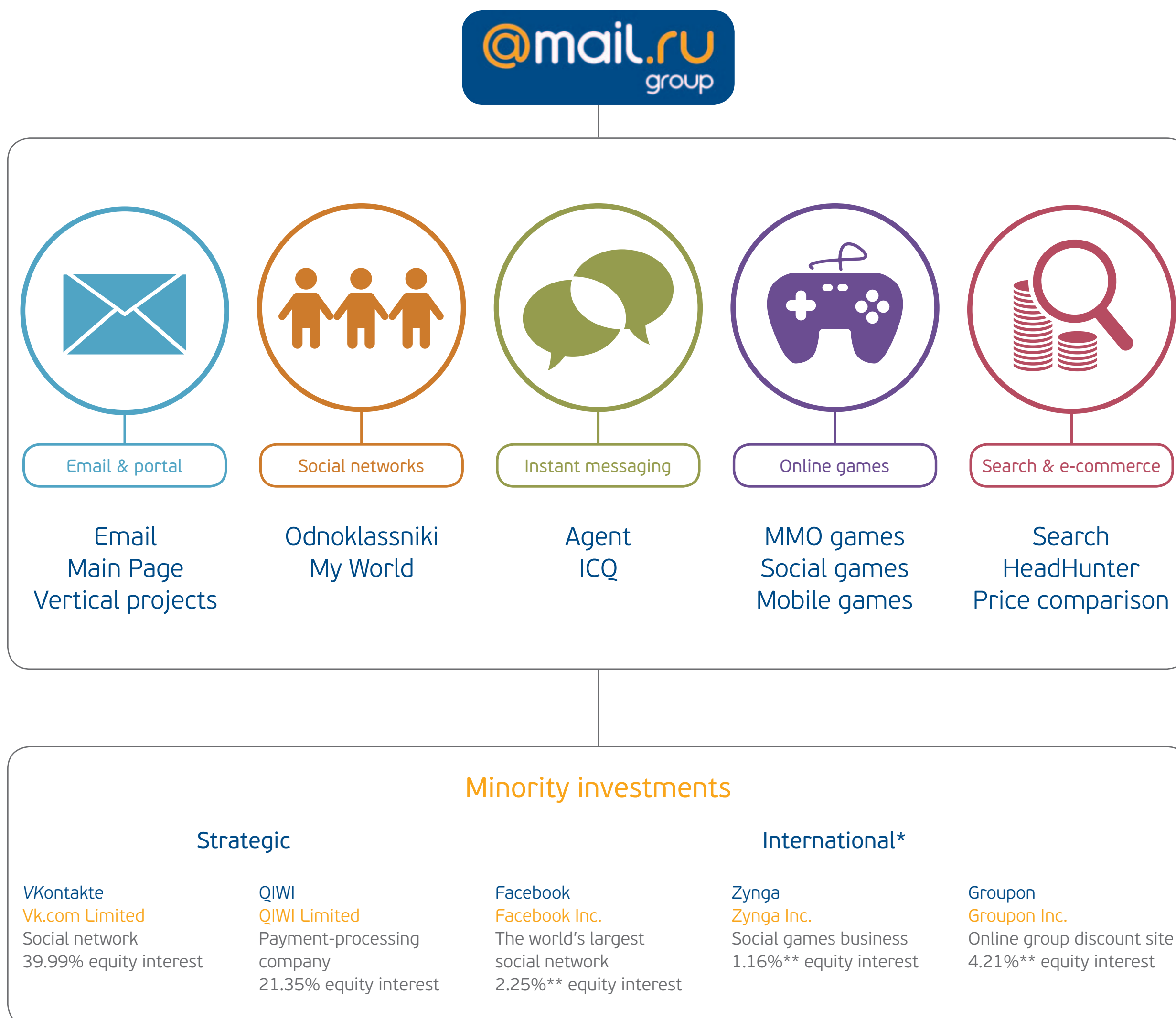
Leveraging our user base

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 comScore, Sep 2011
2 comScore, Dec 2011
3 comScore, Dec 2011
4 TNS, Dec 2011
5 TNS, Dec 2011
6 comScore, Dec 2011

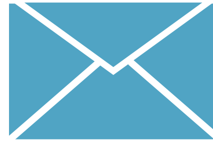
Mail.Ru Group offers a variety of online communications products and entertainment services for Russian speakers all over the world.



Minority investments

Strategic		International*		
*V*Kontakte Vk.com Limited Social network 39.99% equity interest	QIWI QIWI Limited Payment-processing company 21.35% equity interest	Facebook Facebook Inc. The world's largest social network 2.25%** equity interest	Zynga Zynga Inc. Social games business 1.16%** equity interest	Groupon Groupon Inc. Online group discount site 4.21%** equity interest

* As at 31 December 2011
** Fully diluted



Email & portal

Mail.Ru is the leading email service in Russia

Social networks

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

Instant messaging

Mail.Ru Agent and ICQ, the two largest Russian instant messaging (IM) services

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 in the Russian-speaking internet

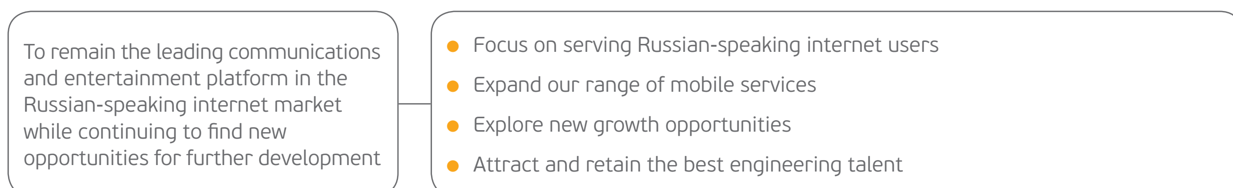
How we work

Our business model

We are operating an integrated communications and entertainment platform that aims to serve the 250-300 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 others are located around the world.

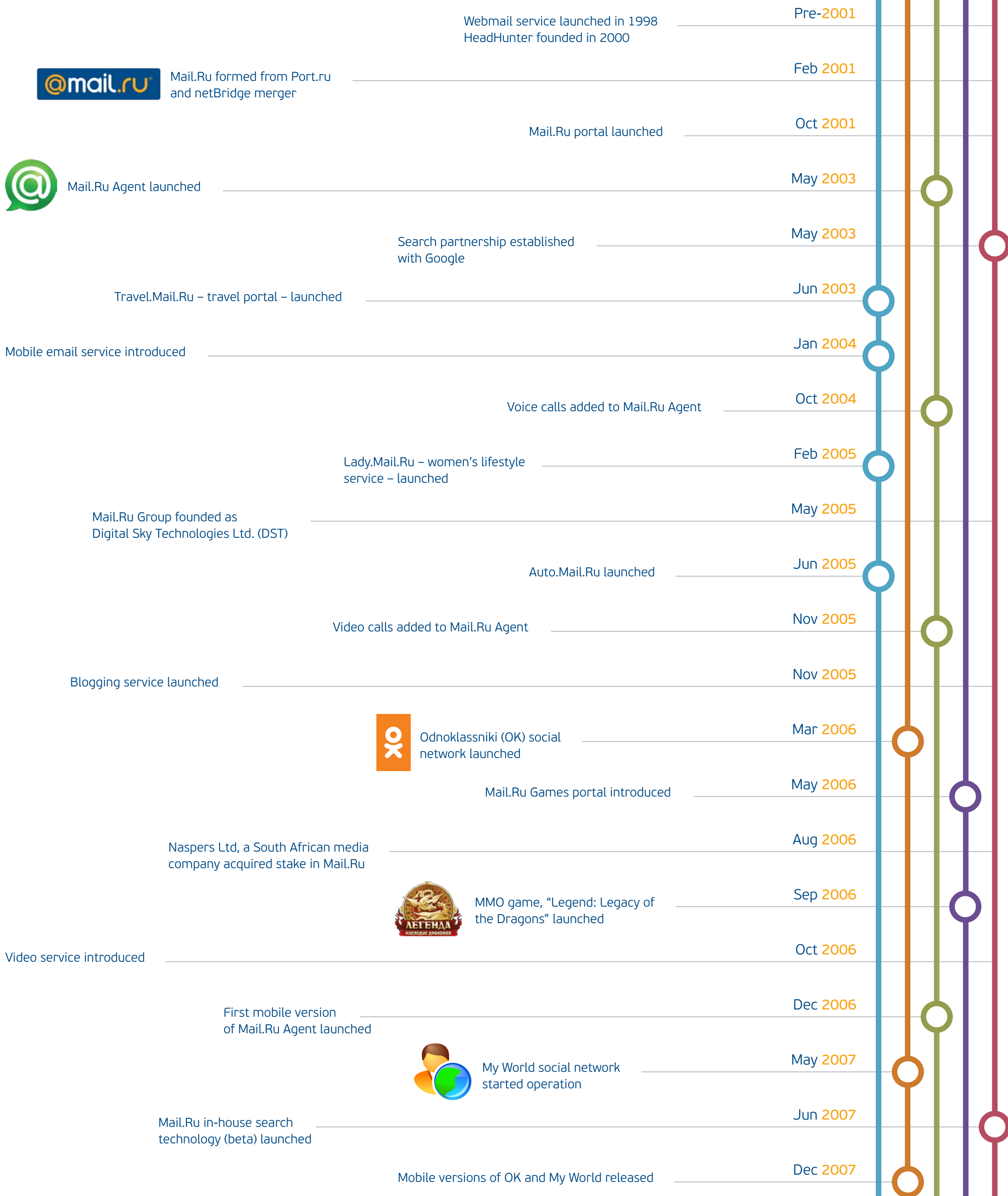
There are currently 55 million internet users in Russia. By 2014, this is projected to increase to 80 million[3].

Strategy

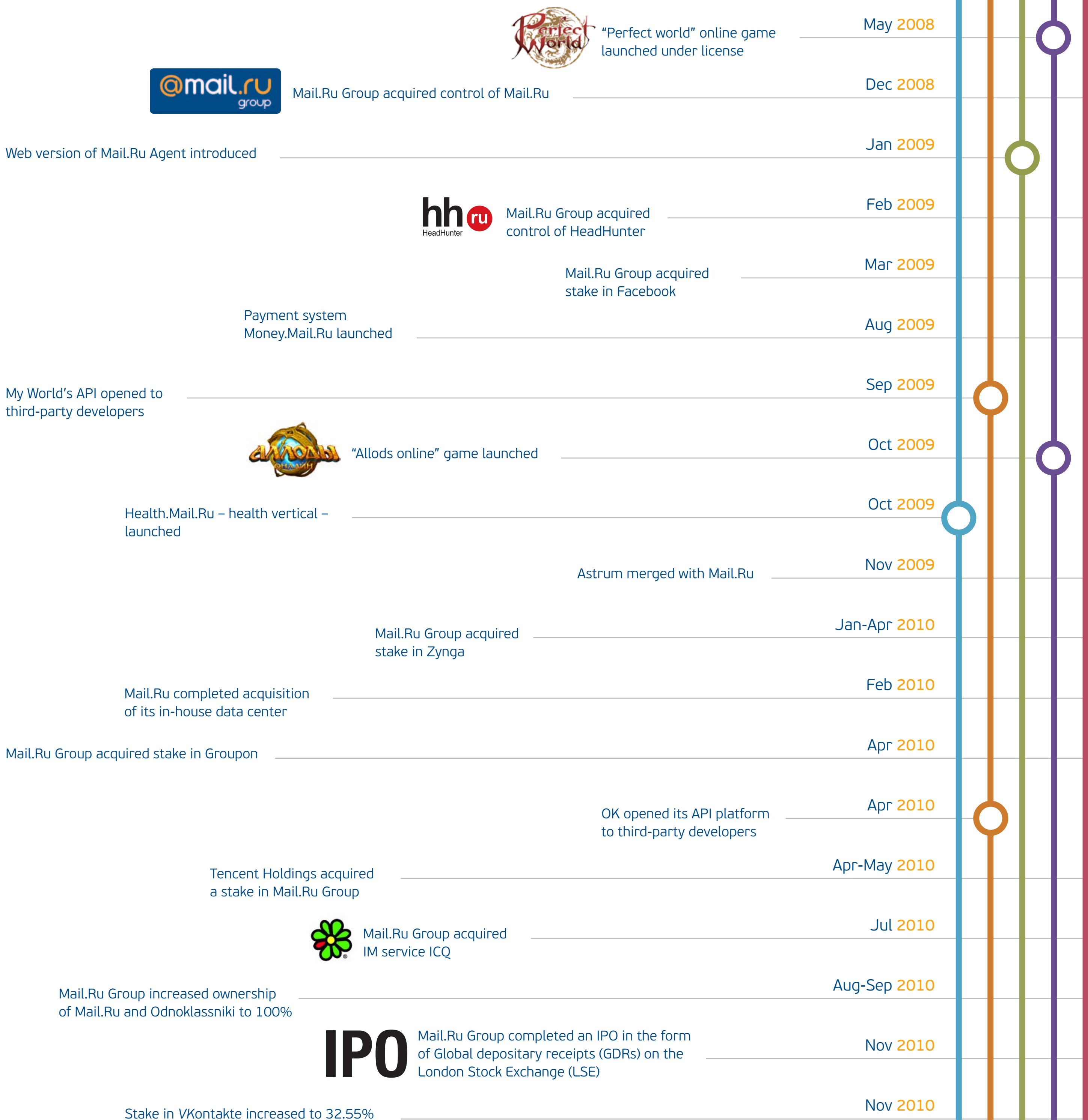


1 Source: Lewis, M. Paul (ed.), 2009. Ethnologue: Languages of the world, 16th ed
2 Source: Russian Federal State Statistics Service, 2011
3 Source: Public Opinion Foundation, 2011, population aged 18+

Corporate history



Corporate history continued



2011 key highlights

January
Our search product, Poisk.Mail.Ru, launches a new AJAX-based interface for image search

ICQ introduces the first mobile client for Symbian

February
Email service and My World introduce a range of SMS services, including notifications about new messages, verification of accounts and restoring passwords via SMS

My World introduced “VIP status” service

March
My World introduces a new publisher which allows users to attach multimedia content to status updates

ICQ releases the new version of client for Mac OS

New update for MMO game, Cross Fire

5 million registered users in Perfect World MMO game

April
Email service launches a significantly improved anti-spam system including a personal filter which utilizes the history of user’s spam reports

Odnoklassniki launches a video service in partnership with Rutube

Mail.Ru Games releases a browser-based MMO game, “Business Tycoon Online”, under license

Mail.Ru Group launches the All-Russian Cup in Programming – Russian Code Cup

May
New update for Allods Online MMO game

ICQ releases the first version of client for Linux

Mail.Ru Games launches a new browser-based MMO game, “Dandan Tang 2 (Boomz)”, under license

Mail.Ru Games launches games downloader GameCenter.Mail.Ru – a unified channel of games distribution

Mail.Ru Group launches the beta-version of Target, a self-service advertising service

June
Email service opens new office for the user support team in Nizhny Novgorod

Odnoklassniki introduces video-chat and music service

ICQ releases ICQ On-Site, a web plug-in for third-party sites

Our search product, Poisk.Mail.Ru, introduces new features including real-time search of new public comments and discussions

July
Mail.Ru Group exercises the option to acquire an additional 7.44% in *V*Kontakte, bringing our total stake in the social network to 39.99%

Co-operation agreement signed between email service and Microsoft enabling our users to view Microsoft Office documents directly in browser

Email service launches a new touch-friendly version of its mobile site for smartphones

My World introduces internal currency

Mail.Ru Group opens a new office in Rostov-on-Don

August
Email service introduces a new modern design and full AJAX interface

Email service signs agreement with Web of Trust, international websites rating system, to protect users from possible threats when clicking on untrustworthy links contained in incoming messages

Mail.Ru Agent launches instant-messaging support for Odnoklassniki via XMPP protocol

Payment system, Money.Mail.Ru, signs agreement with Sberbank which allows users to top-up Money.Mail.Ru accounts via ATMs and payment terminals

September
Active cross-product navigation launched, enabling users to see cross-product alerts and access email, social networks, games and other products from their current page

Mail.Ru Agent and ICQ launch interoperability feature allowing users to add friends between the two instant messengers without registering an extra account

Email service introduces a wide variety of customized interface themes

Email service becomes the fourth largest by daily active users worldwide, trailing only Hotmail, Yahoo! and Gmail (comScore)

Mail.Ru Games launches a new in-house browser-based MMO game, "RIOT"

Target, our self-serve advertising platform, launches auction and CPC mechanisms for advertisers

October
2011 Russian Code Cup finals – over 3,000 participants, 50 finalists from seven countries and three overall winners

Search product, Poisk.Mail.Ru, introduces a "quick facts" box that appears on the SERP (Search Engine Results Page) in response to certain searches including weather forecast and currency exchange queries

ICQ launches multi-instance support allowing users to be logged in simultaneously on several devices

Rabota.Mail.Ru (jobs vertical) integrates with HeadHunter

Mail.Ru Group opens new office in Krasnoyarsk

November
Mail.Ru Group opens technopark in co-operation with Bauman Moscow State Technical University (MSTU)

The second Technology Forum takes place in Moscow

Mail.Ru Group becomes a partner of Northeastern European Regional Contest, a part of the ACM International Collegiate Programming Contest (in co-operation with St. Petersburg National Research Institute of Information, Mechanics and Optics (ITMO))

ICQ releases new mobile clients for Android and iOS platforms

Email service introduces unique project for mass mail senders, Postmaster.Mail.Ru, which allows them to monitor, control and increase efficiency of their mailings

Odnoklassniki introduces Events feature

Money.Mail.Ru introduces service for direct transaction between bank accounts through card numbers

Our search product launches a new mobile version of the site

Mail.Ru Games starts Marathon promotion campaign – the previous event, during the summer, attracted c. 4.5 million participants

December
Odnoklassniki allows search engines to index users' public profiles

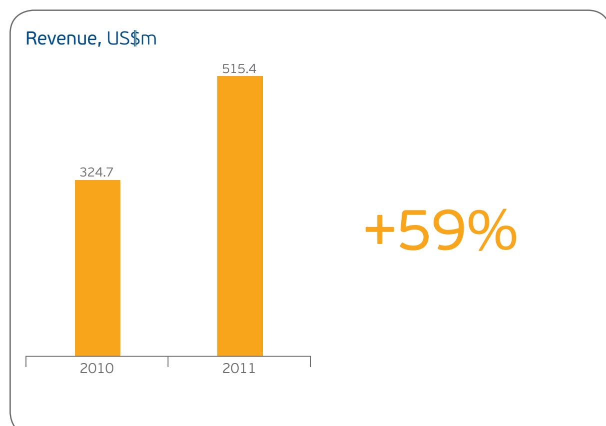
Odnoklassniki releases enhanced privacy settings tool, Privacy 2.0

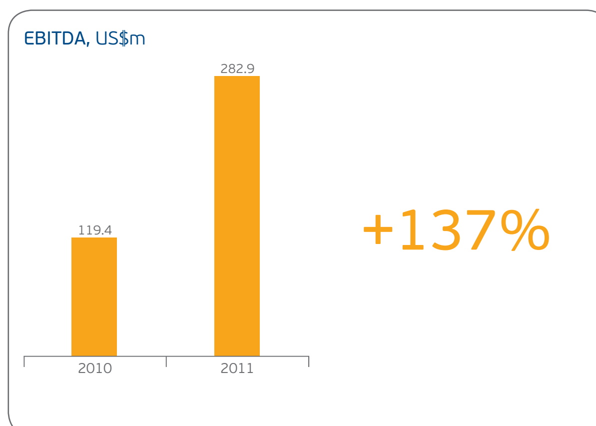
My World and Odnoklassniki give their users the ability to link profiles in both networks and cross-post content between them

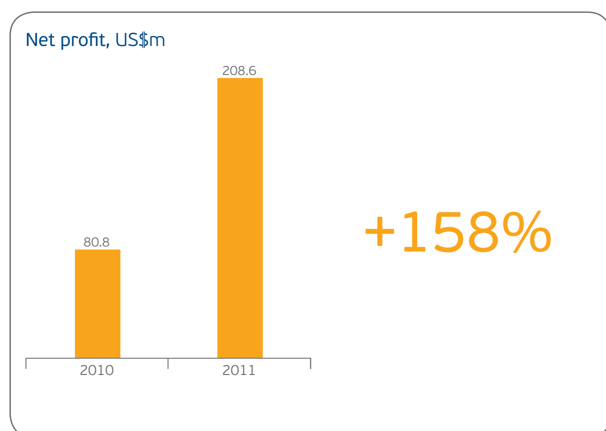
Mail.Ru Games launches two MMO games: Dofus (client-based, licensed) and Farm Kingdom (browser-based, in-house)

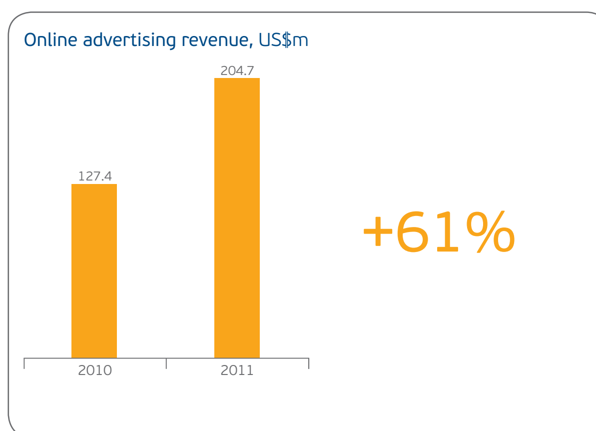
A completely redesigned version of Afisha.Mail.Ru launched

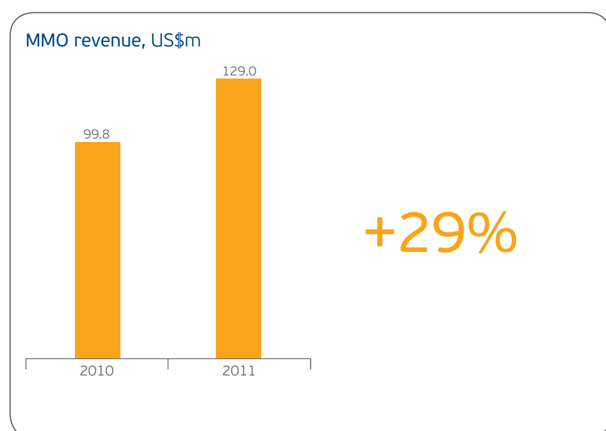
Financial highlights*

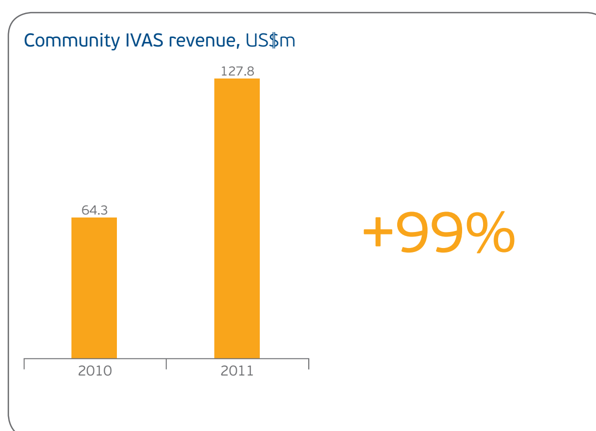












* The data is presented in conformity with operating segments note and as such differs from IFRS. Please refer to Note 5 of the financial statements for further detail

Chief Executive Officer's report

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

For Mail.Ru Group, 2011 was a year of integration and a continued upgrade of key products across both desktop and mobile platforms. We launched active cross-product navigation, significantly redesigned our email service and made significant steps in improving and integrating our social networks (OK and My World) and instant messengers (Mail.Ru Agent and ICQ). We also invested substantially in the development of mobile versions across all our core products.

Developing our business

Our primary focus remains enhancing the user experience and hence driving engagement. We are striving to create an integrated online environment for our users. We want to offer a place where they can communicate, store and exchange memorable events in their lives – all while having fun playing games. To achieve this goal we need to continually improve our products.

Design, speed, new useful features and entertainment value are under constant review. Last year, we launched active cross-product navigation. This unique feature allows users to see active alerts about activity on our other products (email, social networks, games, etc) without leaving their current page.

1 Source: Public Opinion Foundation, 2011, population aged 18+.

2 Source: comScore

We significantly redesigned Odnoklassniki. The changes mean it's a cleaner, faster and more convenient service. And we revamped our leading email product. It's now faster, with significant improvements to the anti-spam system.

Integrating our products was also high on the agenda for 2011. Aside from active cross-product navigation – which involves all of our key services – we took steps to integrate analogous products with each other. For example: our users are now able to "link" their Odnoklassniki and My World profiles. Linking profiles makes it easier to add friends and share key events across the two networks. We also made our ICQ and Mail.Ru Agent messenger services interoperable so that users can now add friends seamlessly between the two.

A developing market

Last year, we witnessed a long-expected, but very significant, event: Russia became the largest internet market in Europe. By the end of 2011, the number of internet users in the country had risen to 55 million. However, overall internet penetration is still only 47%[1]. This offers significant scope for expansion. What's more, another part of our core Russian-speaking market, CIS countries, have even lower internet penetration. With a combined population of approximately 100 million they offer even greater potential for user growth.

Russian internet users are spending more and more time surfing the web. During 2011, time spent online rose by 19%[2]. This was driven by increased overall internet penetration and better desktop and mobile broadband access, all made possible by the active investment of telecom operators.

Our core products enjoy high brand awareness. So they are often the first services used by those new to the internet. This puts us in a great position to capitalize on the growth of the Russian-speaking internet. Our goal for new users is the same as for existing ones: to provide the best communications and entertainment experience.

Strong performance

We generate the majority of our revenue from online advertising and IVAS. Last year, online advertising continued to gain share from traditional channels and, by spend, it is now the second largest advertising media in Russia. This development, coupled with overall advertising market growth, drove our online advertising revenue up by 60.7%, compared to 2010.

Our Community IVAS revenue increased dramatically. It was up 98.8% on the previous year. This was driven by the large increase in conversion of our social networking users to paid services, such as virtual gifts and social games.

The Russian online game market is becoming increasingly competitive, yet we have been delivering robust growth. Our MMO business demonstrated 29.3% growth in 2011, although this rate slowed in Q4.

Email & portal

In December 2011, Mail.Ru became the largest portal on the Russian internet (TNS), with 30.6 million monthly active users.

During the year, we introduced a major innovative feature: active cross-product navigation. This simplifies navigation between My World, Odnoklassniki, email, games, search, instant messaging and other services.

We significantly redesigned our market-leading email service, introducing full AJAX interface and eliminating the redundant email start page. There have been material improvements to our anti-spam system and algorithms. And we offered our users a range of customized themes for a more personalized experience.

In addition, we signed a cooperation agreement with Microsoft providing our users with the opportunity to view Microsoft Office documents attached to messages directly in browser. We also launched a new touch-friendly version of email mobile site for smartphone users.

Social networks

In 2011, we made significant progress in developing OK and My World, our social networks; and our efforts have started to pay off. OK's daily audience in December 2011 was 82% up on December 2010 (LiveInternet). This success means that Odnoklassniki is closing the gap on market leader, *V*Kontakte – growing from 69% of *V*Kontakte's daily users in December 2010 to 89% the following year (LiveInternet).

We added several new, important features to OK as part of our redesign. We launched video chat and music features. Profiles were also opened to search engines – although users do have the option to hide their profiles from indexation.

Mobile users comprised 34% of total OK users in December 2011. Mobile development is a major priority for us. With this in mind, we radically upgraded mobile applications of OK across the iOS, Android and WP7 platforms and developed mobile-browser versions of OK and My World. We also made the majority of OK services available on mobile, including some paid ones.

Integration of the two networks has progressed steadily. Our users can now link their OK and My World profiles and cross-post between the two social networks.

Instant messaging (IM)

In our IM business, we focused on mobile product development, integration and upgrading the desktop versions of Mail.Ru Agent and ICQ. We also introduced server-based interoperability between our two messengers.

The mobile versions of Mail.Ru Agent and ICQ experienced major growth. In December 2011, mobile monthly users of Mail.Ru Agent increased by 64% – while Russian authorized mobile monthly users of ICQ grew four times. This performance was driven by the overall progression in mobile internet services. Continuous improvement to the mobile versions of our instant messengers across iOS, Android, Symbian and Java platforms also played a key role.

We introduced support of several major social networks and other messengers through the XMPP protocol. Our users can now chat with their friends on social networks and other messengers.

We started the development of our in-house voice and video engine. We hired an expert team of engineers and expect to incorporate the new technology into our messaging products on mobile and desktop in the near future.

Online games

It was an eventful year for our market-leading online games business. The overall competition in MMO games has increased significantly. We have responded and saw a strong performance in core games, including Allods Online and Perfect World, and a selection of our social games.

However, some of our older games have been maturing. Inevitably, some titles experienced a slowdown in popularity, particularly in the second half of 2011.

We are retuning the strategy of our games business. There will be a greater focus on the quality of launched games, rather than the quantity. And we will be upgrading our core development and operating team. As expected, mobile gaming is becoming increasingly important – not only from a monetization perspective but also in terms of user engagement. Our online games business is unique and market leading, so we look towards 2012 with cautious optimism.

Search & e-commerce

By the beginning of 2012 our Russian search market share increased to 8.5% compared to 7.6% the year before (Liveinternet). This increase was primarily due to improved digital distribution and several improvements to our own search technology. For instance, we introduced a "quick facts" box, appearing upon certain search queries, and launched a new mobile version of the search product. We continue to use a hybrid of in-house developed and Google search technology, all monetized by the AdWords product.

The major driver in our e-commerce business has been online jobs. We integrated Mail.Ru jobs vertical, Rabota.Mail.Ru, with the number one Russian job site, HeadHunter. In 2011, HeadHunter posted an excellent year-on-year revenue growth of 66.9%.

Our people

Our main asset is our people and the technology-driven culture they are carrying. The Company's success is almost entirely dependent on our ability to attract, retain and motivate the best engineers in the market. Therefore, we aim to provide personal development opportunities and the best working environment possible. In 2010, we also introduced an important long-term stock-option plan.

Last year, we committed to enter into a long-term lease for a new, state-of-the-art building. This will facilitate expansion and create the best workspace in the competitive Russian market. We also began collaborating with two leading Russian universities – MSTU and ITMO. We have sponsored student development centers at these two universities.

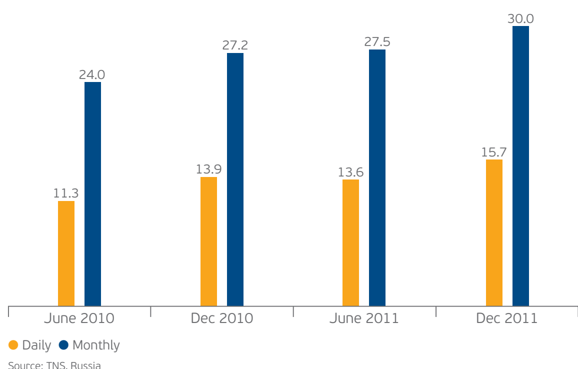
2011 was the year of our inaugural coding contest for Russian-speaking programers: the Russian Code Cup. We also held our Technology Forum in Moscow. The success of both events means we expect this to become a regular fixture in the Mail.Ru Group calendar.

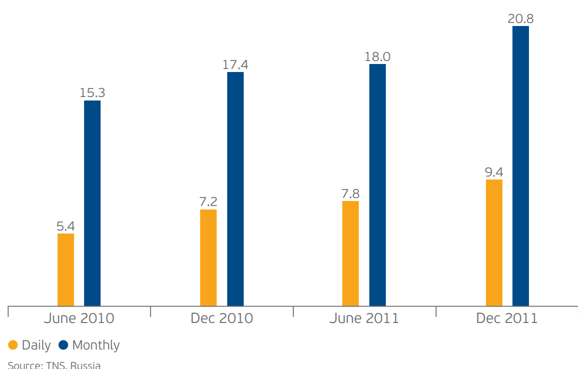
Looking ahead

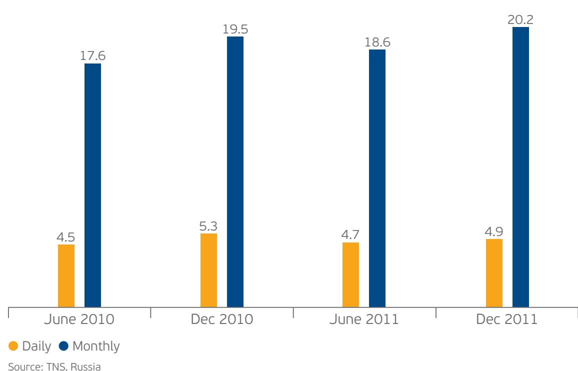
2012 will be an important year in our development. Mobile internet is becoming increasingly important and the competition in the Russian-speaking internet remains fierce. We have a very strong and motivated team, market-leading products and the proven monetization skills to maintain our position as the leading communication and entertainment business in the Russian-speaking internet.

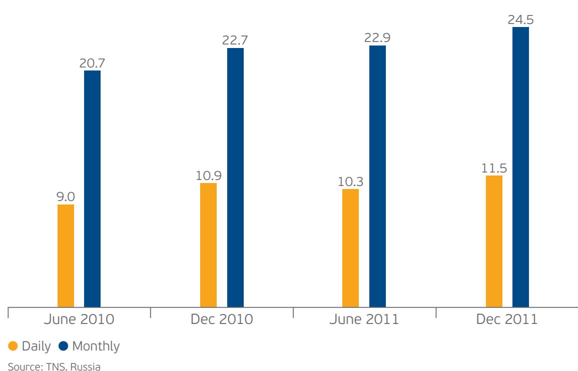
Dmitry Grishin
Co-founder, CEO and Chairman of the Board

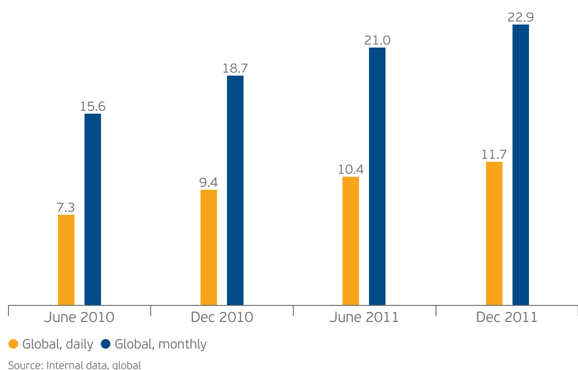
Key audience statistics

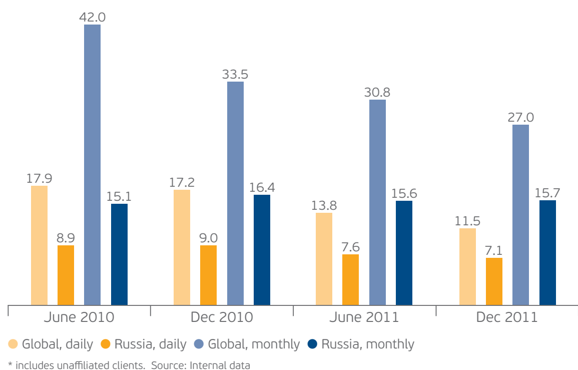


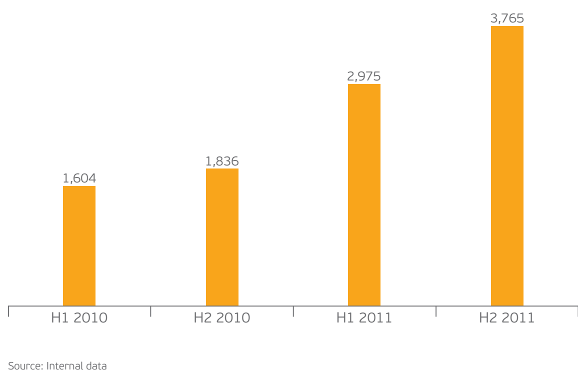


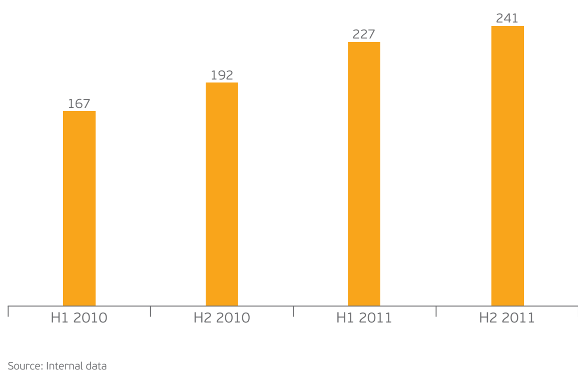












* The numbers combine paying users of Odnoklassniki, My World, Love.Mail.Ru and our own social games on third-party networks and include overlap.

** The numbers combine paying users of individual MMO games and include overlap.

Operating review

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

Email & portal

Email

Mail.Ru Group provides the largest email service in the Russian-speaking internet. In December 2011, our service had 24.5 million monthly active users and 11.5 million daily active users in Russia alone (TNS, Russia).

Worldwide, our email service has become the fourth largest by daily active users. As of September 2011, we now only trail Hotmail, Yahoo! and Gmail (according to comScore).

Our email service is integrated with many of the Group's other communications services. These include My World, Mail.Ru Agent and several others. Currently our email service delivers approximately 300 million messages a day and has a data storage capacity exceeding eight petabytes.

Revenue is generated through display and context advertising.

To provide the best user experience possible, we are constantly developing and improving our email service. In 2011, we totally redesigned our interface and implemented multiple performance improvements. In particular, we introduced a full AJAX interface and pre-caching of messages. As a result, the loading time of message lists and individual messages has become four times faster.

We also offered our users a wide variety of customized interface themes for the email service. These include seasonal and holiday offerings and partner themes. The collection of themes on offer is constantly being updated.

In April 2011, we made significant improvements to our antispam system and algorithms. In addition to general filters, all incoming messages are now passed through a personal antispam filter: messages are sent to spam folders based on the history of spam reports of the user.

We signed a cooperation agreement with Microsoft in July 2011. This enabled our users to view Microsoft Office documents attached to messages directly in their browser window.

As a leading email service in the Russian-speaking internet, we feel responsible for the continued development of the email market and take steps towards improving its user-friendliness and transparency. So in November 2011, we introduced Postmaster Mail.Ru (http://Postmaster.Mail.Ru). This is a set of tools for email mass-senders, which, among other things, provides them with various statistics about successful and unsuccessful email deliveries, users' complaints against their mailings and messages indicated or deleted as spam. Its goal is to increase the effectiveness of senders' email distribution and the convenience of the end users of our email service.

We also introduced the following features:

- SMS notifications about new emails. The service is available for all major Russian and several CIS mobile networks
- New search engine and improved search interface based on AJAX
- Full UTF-8 support enabling users to read and send emails with any encoding and language (Chinese, Japanese, etc.).

We completely redesigned the interface of our email service and launched active cross-product navigation

Mobile continued to be one of our primary focuses. A new touch-friendly version of our mobile site, m.Mail.Ru, along with new versions of Mail.ru Agent for major mobile platforms (iOS, Android, Java and Symbian) ensured an easy and seamless access to email account while on the go via various mobile devices: feature phones, smartphones and tablets.

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. Over the last year, we enabled our users to verify their accounts by adding and confirming their mobile numbers. They could also restore passwords via SMS. In addition, we reduced session hijacking by checking against browser identity and improving password recovery workflow.

In August 2011, we entered into a partnership with Web of Trust (WOT). This international system collects user ratings of websites from its community to determine whether or not they are trustworthy. Now, all links contained in our users' incoming messages are automatically checked against the extensive WOT reputation database and if a user clicks on an unsafe link, a warning box pops up informing him of the possible threat and gives him the option to cancel or confirm the click.

User support is an integral part of our email service. We take great care to ensure that any problems our users may encounter are promptly addressed and solved. In 2011, our user support functions were moved to a new office in Nizhny Novgorod and a new team was hired and trained. Our new user support system has a two-level structure. All user requests go through the first level and the simple ones are solved immediately. The more complicated requests are then passed to the second level and reviewed by more qualified employees. This new system has reduced our average response time.

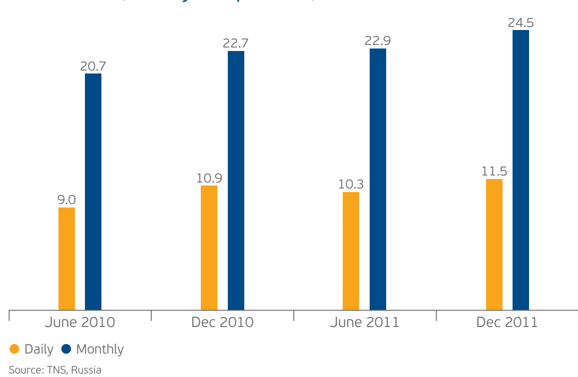
Main page and cross-product navigation

In 2011, we introduced active cross-product navigation. This simplifies navigation between email, Odnoklassniki, My World, games, search, instant messaging and other services. Our users can now conveniently access our products without having to leave the site or type a new address in their browser bar. It also allows users to see activity updates across different products, such as events on our social networks and email messages received.

The loading speed of our main page has been significantly increased. Its major components, such as email and navigation menu, are now displayed up to five times faster than before.

Furthermore, we have presented Odnoklassniki on the Mail.Ru main page by integrating it into the projects menu.

Mail.Ru email, average unique users, millions



Source: TNS, Russia

Verticals

The majority of our verticals hold leading positions in their respective categories. We maintain this leadership by focusing on the quality of their content and regularly offering special thematic projects. 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 vertical projects, primarily in the CIS countries.

Vertical projects generate revenue primarily through display advertising.

News

In 2011, we introduced "news stories" – a selection of news sorted by the "hot" topic. The sport section of the project started covering major sport events with live scores and comments, individual pages with standings, match schedules and results and profiles of teams and sportsmen. We also released local versions of our News project for Moldova, Estonia, Kyrgyzstan and seven regions in Russia.

Auto

Last year, we began offering our users exclusive photo and video content, including 3D tours of major auto shows (NAIAS, GMS, IAA), and were the first on the Russian internet to show 3D-panoramas of automobiles. Our editorial staff carried out over 100 test-drives, including 40 European and Russian premieres.

Lady

In 2011, we launched a mobile version of the project, m.Lady.Mail.Ru, and added unique author's content, such as cocktail menu and video tutorials, to the culinary category. We also realized several unique branded vertical projects for major advertisers such as Lacalut and Norge.

Afisha

Last year, we completely redesigned the Afisha project. New Afisha features simple and convenient events calendar accompanied by corresponding ratings and reviews, editorial selections of the major forthcoming events and an easy and flexible search tool for users.

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. In monthly audience terms, they are the two leading IM services in Russia and the CIS countries.

Users can access both networks from applications available on a range of popular operating systems, including Windows, Mac OS, Android and iOS. They provide all the "must-have" features of a modern messenger: users can chat in real time, make voice and video calls (currently on Windows only), be notified of new emails, transfer files and so on. Our instant messaging products' main contribution is to increase user engagement and loyalty to other products of the Group.

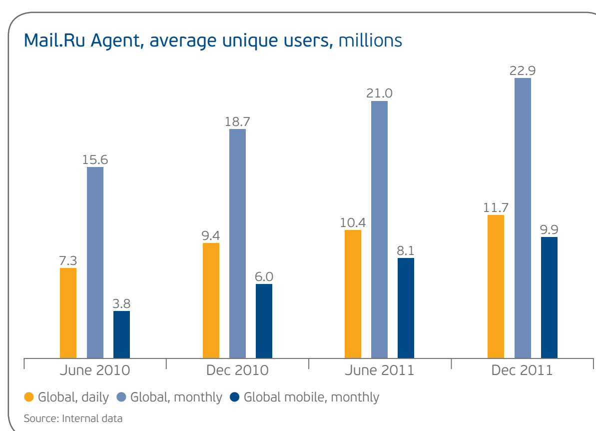
Last year we took two major steps towards integrating our instant messengers. First of all, we introduced server-based interoperability between Mail.Ru Agent and ICQ; secondly, we started developing an in-house voice and video engine.

Interoperability enables users of Mail.Ru Agent to add ICQ users, and vice versa, without creating an extra account. This improves communication between friend lists across the two instant messengers.

The second feature, the in-house voice and video engine, significantly increases the speed of connection setup between users and improves the quality of sound and video. It also lays the foundation for a unified technological platform for multimedia services among our instant messengers and potentially other Group projects.

Our voice and video engine is based on a considerably reworked open source of WebRTC project. It was first introduced on Mail.Ru Agent client for Windows. In the near future we are bringing it to other platforms, notably Android, iOS and Mac OS. It will also be introduced on our second messenger, ICQ.

In 2012, we expect to see both new features on major and growing mobile platforms. There will also be a focus on the gradual introduction of paid services.



Mail.Ru Agent

Launched in 2003, Mail.Ru Agent is Russia's largest IM service. By December 2010, it had 22.9 million monthly users. It can be used on eight different desktop and mobile operating systems: Windows, Mac OS, Android, iOS, Java, Symbian, Windows Mobile and Windows Phone. A web client is also available and is integrated with our portal's web services.

Given the rising popularity of social media in recent years, we are being proactive in making our messenger service more social. In 2011, we introduced support of major social networks (Odnoklassniki, Vk.com and Facebook) via XMPP protocol. This enabled our users to connect to their accounts in these networks and chat with their friends directly from Mail.Ru Agent. This feature is currently supported by Windows, Android, Symbian and Java clients.

We also continued to integrate Mail.Ru Agent with our own social networks. Users of the Windows client can now post statuses to and receive alerts from Odnoklassniki and listen to music from My World via an integrated player. There are also pop-up alerts of friends' new events from My World.

The other Mail.Ru Agent desktop client, for Mac OS, has gone through several updates over the year. It received a new user interface, conferencing support, pop-up alerts on friends' events and a new collection of emoticons.

Mobile remains Mail.Ru Agent's fastest-growing area. Although mobile users do not yet outnumber desktop users, their growth rate is significantly higher. Between December 2010 and December 2011, mobile users increased by 64%, while desktop users rose by 5%.

In 2011, we released new versions of Mail.Ru Agent for major mobile platforms: iOS, Android, Symbian and Java. They received the following new features to enhance our users' experience:

- redesign and user interface improvements to fit modern mobile devices
- new mail-API support
- push notifications
- conferencing support
- battery consumption and traffic compression improvements
- extended statuses and emoticons sets

The Mail.Ru Agent web client has been fully reworked and now delivers a significantly better user experience. This means, among other things, a faster startup, better response timing and pop-up alerts.

The improvements started to pay off. Mail.Ru Agent web client, like its mobile counterpart, has demonstrated a healthy growth in its audience. In December 2011, monthly active users were 64% higher than the previous year.

ICQ

ICQ was founded in 1996. One of Russia's largest IM networks, it is also a leading provider of IM services in Germany, Ukraine, Israel, the Czech Republic and Slovakia. Russia and Germany account for more than half its user base. In December 2011 it had 11.5 million daily users worldwide and 7.1 million in Russia.

ICQ, like Mail.Ru Agent, enables users to access its network through desktop, mobile and browser-based versions of its program. In addition, users may access ICQ's network through unaffiliated client applications. While users of unaffiliated applications do not generate banner ad views or search queries, they contribute to the size of ICQ's IM community and its overall "stickiness".

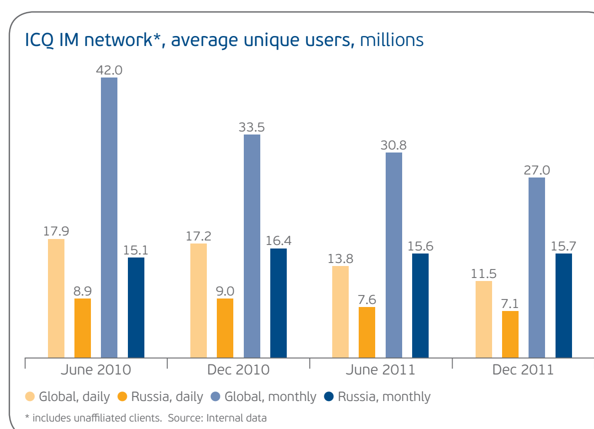
During 2011 we launched several upgrades for both desktop and mobile clients:

- multi-instance support – makes it possible for our users to be logged in simultaneously on several devices, allowing them to chat with friends virtually anywhere and anytime from whatever device is most convenient
- easy login – allows user to sign in to ICQ via a Facebook account or mobile phone number

Mobile clients also benefited from integration of their phonebook and ICQ contact list, as well as direct and convenient registration via mobile phone. As with Mail.Ru Agent, mobile is the fastest growing audience for ICQ; between December 2010 and December 2011, authorized mobile users increased by 64% globally and 337% in Russia.

In June 2011, we introduced ICQ On-Site. This web client gives our users the ability to chat with their friends from all supported networks, directly in their browser. Third parties can implement ICQ On-Site onto their sites by inserting a short Java Script code to the page source.

ICQ IM network*, average unique users, millions



* includes unaffiliated clients. Source: Internal data

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 sites include messaging services, status updates and photo 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.

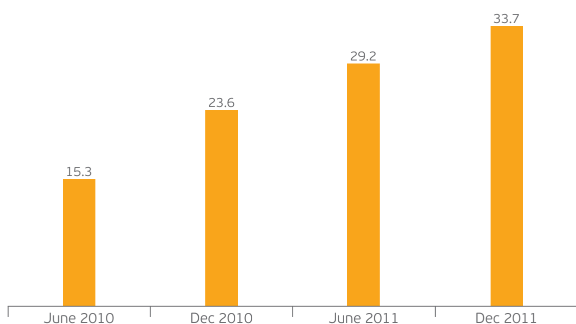
Odnoklassniki

Over the last year, Odnoklassniki experienced substantial growth in user engagement. Daily active users grew 82% year-on-year, reaching 26.7 million (December 2011 average, LiveInternet). The gap between OK and the market leader, Vk.com, decreased from 31% in December 2010 to 11% in December 2011 (as a percentage of Vk.com daily audience).

In 2011, approximately 37% of Odnoklassniki users were from outside Russia, primarily from the countries of the former Soviet Union.

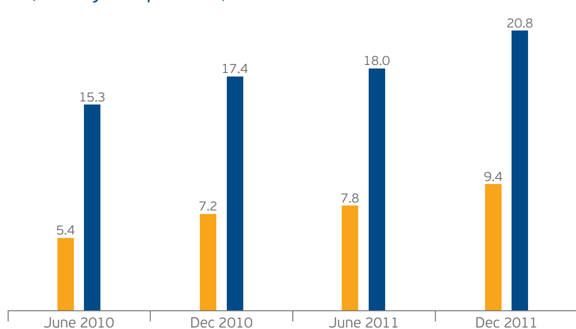
Our strategic goal is to create the best tools for communication. In line with this strategy, we were the first major social network in the world to introduce videochat, back in early 2011. And, unlike others, we were able to rely solely on Flash technologies, so that our users do not need to download or install any additional software. Several months later, we built on this development, adding videochat support to Odnoklassniki's iPhone application.

OK, monthly active users accessing by mobile, %



Source: Internal data

OK, average unique users, millions



Source: TNS, Russia

We offered our users videochat, music and video services on OK and allowed them to link their OK and My World profiles and cross-post between the two social networks

We also focused on media content in 2011. In April we started our video service in partnership with Russia's leading UGC video portal, RuTube. In June we opened our music service and in November we released "Events".

In December 2011, we entered in cooperation with search companies, by opening Odnoklassniki's user profiles to search engines. We believe that this move will increase traffic that Odnoklassniki gets from search companies. Users can hide their profiles from search engines – however, few of them actually do this.

We feel it is important that our users should be in full control of the information they give to social networks. With this in mind, last year we made multiple changes to our privacy rules. Our users can now set privacy settings for different types of content, as well as for individual pieces, such as statuses.

Paid services account for a significant proportion of IVAS revenue. Therefore, we are continually improving our payment mechanics, introducing new paid services and fine-tuning our promotional methods.

Mobile continues to be one of our primary focuses. Last year, we updated our applications for iPhone, Android and Windows Phone 7 mobile platforms. The majority of our web features, including paid services, were replicated to them. These steps, in conjunction with a global trend of increasing internet usage via mobile devices, supported continuing growth of the share of mobile users among the Odnoklassniki audience. In December 2011, it reached 34%, compared with 23% a year ago.

As part of the Group's product integration strategy, we gave our users the ability to link their profiles on Odnoklassniki and My World and cross-posting content between both networks. After the implementation of cross-product navigation, Odnoklassniki users can now receive notifications from our other projects (e.g. email, My World, games) without leaving the site.

My World

Launched in May 2007, My World is now Russia's third-largest social network, based on daily active users. Approximately 34% of the network's user base is outside Russia.

The network benefits significantly from its association with Mail.Ru's portal, Mail.Ru Agent, and email service. For example, as part of the registration process for an email account with Mail.Ru, 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.

We have now started to integrate My World with Odnoklassniki. Users can translate their statuses and photos to Odnoklassniki and see their friends from My World while being on the Odnoklassniki site.

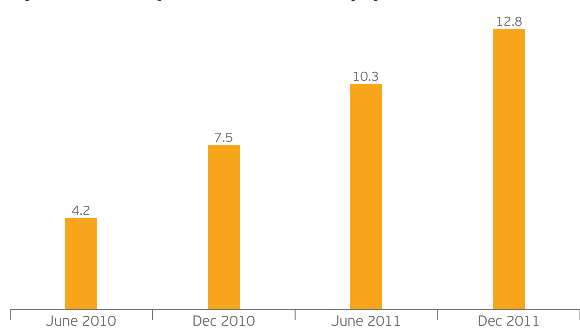
To enhance user experience, we continue to deliver new features. Our new publisher is one example that stands out. It allows users to attach multimedia content – such as images, video, music and links – to status updates. We have also fully reworked our notification system, making it more structured and informative.

Among our paid services, we offer our users the opportunity to get a VIP-status. This comes with a wide range of additional features including invisibility mode, VIP-gifts, distinctive name display and VIP tech support.

Over the year, we carried out multiple changes to our games platform and even introduced our own internal currency, "mailiki". Along with the single payment window and one-click option, this has streamlined user payment mechanics. In turn, this has increased revenue from games (before sharing with developers) fivefold. From January 1, 2012 we raised our revenue share in games from 30% to 50%.

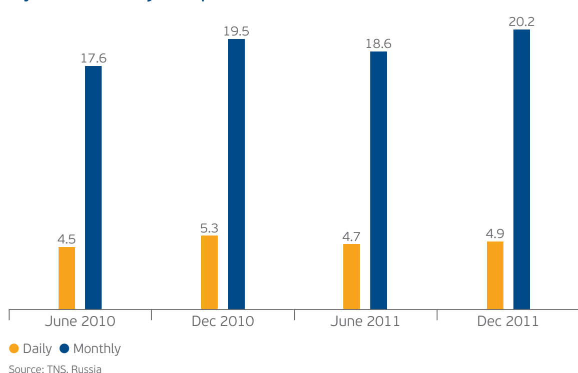
In keeping with the Group's overarching strategy of focusing on mobile, we have introduced a new mobile version of My World. It comes with AJAX features and a modern user-interface.

My World, monthly active users accessing by mobile, %



Source: Internal data

My World, average unique users, millions



Source: TNS, Russia

Online games

We operate the largest online games business in Russia. Last year, we launched 16 new games across all segments – MMO (client & browser), social and mobile. Our core games, including Allods Online and Perfect World, demonstrated continued growth while some of our more recent releases have yet to gain scale. In 2012, we intend to focus on the quality rather than the quantity of our games. This includes the launches of major gaming titles for which we secured licenses to operate in Russian-speaking territories as well as further international releases of Allods Online.

In the first half of 2011, an average of 620,000 monthly active users and 124,000 monthly paying users played our top-three MMO games. The average total of monthly paying users for all our MMO games was 227,000. In the second half of the year, monthly active users and monthly paying users of our top-three MMO games increased to 793,000 and 126,000 respectively. The total of monthly paying users increased to 241,000.

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 and Crossfire, licensed from third parties. Some of the MMO games we offer require players to install software on their computers (client-based), while others can be played without downloading any software (browser-based).

The games we offer on social networks are either developed internally or by third-party developers through APIs on the networks. Generally quicker and easier to play than MMO games, they are also usually cheaper to develop and maintain. They are all browser-based. We develop games for *V*Kontakte and Facebook, but our principal strategy is to focus on developing games for My World and OK.

We distribute MMO games through our Mail.Ru portal and social networks. The games are marketed through promotions and advertising on our own and third-party websites. Last year, over 50% of new players were engaged from our own services. In 2011, we fully revamped our Games.Mail.Ru portal, transforming it into the largest gaming portal on the Russian internet.

We also launched our games downloader, GameCenter.Mail.Ru, a unified channel for our games distribution. By the end of 2011, it had reached 500,000 peak concurrent users.

We have introduced a unified payment form for all of our games. Next we aim to introduce the same gaming currency for all our titles. In 2011, we ran Marathon Games.Mail.Ru promotion campaigns in summer and autumn. They reached over four million and seven million people respectively.

We received several industry awards. We received a Russian-speaking internet Award for the Best Game of 2011 (Legend: Legacy of the Dragons) and the Best Publisher award at KRI, the Russian conference for games developers.

Through our European subsidiary, we launched Juggernaut, Chinese Hero, RIOT and Farm Kingdom in several European countries in 2011.

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

We are re-tuning our strategy in games – we will aim to focus on quality rather than quantity of the games we release. In 2012, we aim to launch several top licensed game titles and to put a greater focus on mobile platforms.

Major MMO games launched in 2011

Game	Business model	Type	Launch date
Business Tycoon	Licensed	Browser	April 2011
Boomz	Licensed	Browser	May 2011
RIOT	In-house	Browser	September 2011
Dofus	Licensed	Client	December 2011
Farm Kingdom	In-house	Browser	December 2011

We introduced further improvements to our search technology for text, video and images and launched an iOS search application featuring search by voice

Search, e-commerce & other activities

Search

Our internet search services allow users to find web pages, photos, videos, products and services based on Russian and English search terms. We increased our Russian search market share to 8.5% as of January 2012.

To provide the best service possible, we use a combination of Google's search technology and our in-house search engine. Revenues are generated through context advertising via Google's AdWords product. In this auction-based program, advertisers bid to have their sponsored advertisements appear when specified search queries are entered. When a customer clicks on a sponsored ad, Google receives a fee from the advertiser and shares part of that with us.

Our strategy is to make our search results more socially and locally relevant. Sociability is achieved by using publicly available information on gender, age, friends and results of friends' searches gained from social networks. We aim to ultimately provide search results dependent on user location.

In 2011, we introduced further improvements in our search technology for text, video and images.

Users can submit search requests through the search box on the Mail.Ru website or the "Search" field on Sputnik toolbars. They can also set our search engine as the default when installing Mail.Ru Agent and ICQ desktop applications or our Internet.Mail.Ru web browser.

Toolbar

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

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 résumés, 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, Poisk.Mail.Ru, and monetized on a price-per-click basis.

Travel

Travel.Mail.Ru provides offers from travel agencies on a listing fee basis. Partner sites market tickets and hotel bookings for a commission. In 2011, we fully redesigned the project to increase its usability and enhance user experience.

Real estate

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

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.

Last year, we introduced money transfer from user accounts to credit card using card number – Visa Money Transfer and MasterCard Moneysend. We also launched the Money.Mail.Ru Wallet mobile application for iOS users.

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 in Moscow, which provide space and power to host our servers. The Company owns over 11,000 servers, with a total storage capacity of 11.6 petabytes. In 2011, their peak network traffic increased to 210 gigabit per second – up from 102 gigabit per second in 2010.

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 in different districts of Moscow. 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 2011, the Company had a total of 2,665 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 research and development effort. These activities help the Company to develop new products and enhance existing ones. During the 2011 financial year, our research and development activities have been primarily focused on communication products, online games and search.

In 2011, we continued to invest in our people and their development. We started working with several major Russian universities (Bauman Moscow State Technical University and St. Petersburg National Research University ITMO) on student development centers and also hosted the first major competition among Russian-speaking programers, the Russian Code Cup. Finally, we committed to enter into a new lease agreement for a Class A building in Moscow. Our new, state-of-the-art space will accommodate further expansion and help attract the best engineers.

Employees by function as at the end of 2011

Source: Internal data

Sales and marketing

We sell display and contextual advertising through our own sales force as well as through third parties, such as online advertising networks.

As of December 2011, we had an internal sales force for display advertising of 108 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 have also opened offices in Kiev, Ukraine, and work through partners in Europe and CIS countries.

As part of the integration of Odnoklassniki and ICQ into the Company, their advertising is sold directly by our sales force, rather than through third parties. Our largest advertising clients are generally major automobile manufacturers, consumer products companies, mobile telecommunications operators and financial firms.

In 2011, we launched a beta-version of our self-service advertising platform, Target.Mail.Ru, in Odnoklassniki and My World. The service allows advertisers to promote applications, groups, personal pages and external websites by targeting certain parameters, including sex, age, date/time, and location. Advertising agencies are able to use Target.Mail.Ru for campaigns.

We principally market our MMO games through the Mail.Ru portal and our social networks, Odnoklassniki and My World. We also promote our games through third-party advertising channels.

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 the past year. Full details can be found in the annual consolidated financial statements presented on pages 44 to 109 of this annual report.

Overview of consolidated results

The past financial year was characterized by continued overall growth in internet markets in Russia and the CIS, while we either maintained or gained market share in most core areas, including communication and social networks. These factors translated into significant growth in our revenues accompanied by an increase in margins resulting from the effects of scale and decrease in certain expenses (see "Operating segments performance").

Structure

Prior to December 2011, we had three major operating segments – Mail, OK and HeadHunter. With the exception of the HeadHunter segment, in which we increased our equity interest from 91.3% to 97.2% on a non-diluted basis in 2011, these segments are 100% owned. The Mail segment included the My World social network, Mail.Ru Agent and ICQ instant messaging services, email, games and the Mail.Ru portal; the OK segment comprised the Odnoklassniki social network; the HeadHunter segment consisted of HeadHunter, a leading online recruitment service in Russia.

In December 2011, as part of the integration process we changed our segment reporting structure in order to better reflect the way we currently manage our business. As a result, we now have four major reportable segments: "email, portal and IM", "social networks", "online games" and "search, e-commerce and other". The email, portal and IM segment includes email, Mail.ru Agent and ICQ instant messaging services and the Mail.ru portal; the social networks segment includes My World and OK social networks; the online games segment comprises our browser-based, client-based, mobile and social games. The search, e-commerce and other include 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. In our 2011 consolidated financial statements, we present the old segment structure as it existed before 2011 in order to provide comparative information with 2010, and we present the new segment structure for 2011 only in order to provide the basis and description for future segment reporting. Please refer to "Change in composition of segments in 2011" below for more details on changes in segment reporting and operating segments presentation in 2011.

In addition, we hold strategic minority investments: 39.99% in Russia's largest social network Vk.com ("*VK*ontakte"); and 21.35% in Qiwi Limited ("Qiwi"), one of Russia's leading payment-processing companies. We also have strategic investments in international businesses: 2.25%[1] of Facebook Inc., the world's largest social network; 1.16%[1] of Zynga Inc., one of the world's largest social gaming businesses; and 4.21%[1] of Groupon Inc., a leading provider of online group discounts.

Acquisitions and disposals

In 2011, we exercised our option to acquire 7.44% in *VK*ontakte for a cash consideration of US$111.7 million, thereby bringing our equity stake in *VK*ontakte to 39.99%.

1 On a fully diluted basis, as at December 31, 2011

In addition, a non-controlling shareholder in HeadHunter exercised its right to convert its 5.9% shareholding in HeadHunter into 432,867 ordinary shares of the Company. As a result, our shareholding in HeadHunter increased to 97.2% on a non-diluted basis.

We did not effect any significant disposals in 2011.

Accounting impact of acquisitions and disposals

The acquisitions and disposals had a significant effect on our 2011 consolidated financial statements as summarized below:

	2011 US$m	2010 US$m
Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates and subsidiaries	(23.3)	(2.3)
Net gain on acquisition of control in strategic associates and available-for-sale investments	–	186.2
Net gain on disposal of shares in strategic associates	0.3	16.5
Net loss on loss of control in subsidiaries	–	(0.8)
Impairment losses related to strategic associates	(6.2)	(11.2)
Gain on bargain purchase of subsidiary	–	0.7

The net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates and subsidiaries in 2011 mainly results from the change in the fair value of the call option to acquire 7.44% in *VK*ontakte due to an early exercise of the option. The impairment losses related to strategic associates in 2011 result from the impairment of our investment in Molotok Holdings Limited ("Molotok").

In addition to the effects presented in the table above, there are several other effects on our 2011 earnings resulting from acquisitions and disposals in prior periods. These effects obscure our operational results and make it difficult to evaluate trends in our underlying business. As a result, management evaluates and manages our business and strategic associates on the basis of management accounts that do not reflect certain adjustments required under IFRS. The management accounts data is discussed in the section "Operating segments performance" below (see also Note 5 to the financial statements for further details).

In 2010, we acquired (i) Data Center M100 LLC ("Data Center"), (ii) ICQ LLC ("ICQ") and (iii) the Forticom group of companies and Odnoklassniki Limited (collectively "OK"), and the 2010 results of these subsidiaries are only included in our consolidated IFRS financial statements for 2010 starting from the respective acquisition dates. If we had acquired Data Center on January 1, 2010, the effect on our 2010 consolidated financial statements would have been insignificant.

ICQ did not maintain distinct and separate accounts necessary for the presentation of ICQ's financial statements prior to the acquisition date, and accordingly, it is impractical to calculate the effect of ICQ acquisition on our financial statements as if it had occurred on January 1, 2010. The effects of the OK acquisition as if it had occurred on January 1, 2010 are discussed under "Consolidated results of operations in accordance with IFRS" below.

Restatements and reclassifications of certain amounts in our 2010 consolidated financial statements

In our 2011 consolidated financial statements, we restated or reclassified certain amounts as of and for the year ended December 31, 2010.

First, we adopted an amendment to IFRS 3 Business Combinations (as revised in 2008) ("IFRS 3R") whereby 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 to be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets, while all other components are to be measured at their acquisition date fair value. We accounted for the amendment as a change in accounting policy starting from the date we adopted IFRS 3R, as required by the amended standard. Accordingly, we applied the amendment retrospectively to all business combinations starting from January 1, 2007. The application of the amendment affected the acquisition accounting for Port.ru (2008), OGH (2009) and HeadHunter (2009), as well as the subsequent transactions with non-controlling interests in these entities and Mail.ru Internet NV. The effects of the above change on our statement of financial position as of December 31, 2010 and our 2010 statement of comprehensive income are summarized in the table below.

Increase (decrease) in:	Consolidated statement of comprehensive income US$m	Consolidated statement of financial position US$m
Selling, general and administrative expenses (share-based payments)	(0.1)	
Operating income	**0.1**	
Profit before income tax expense	**0.1**	
Net profit	**0.1**	
Attributable to:		
Equity holders of the parent	0.1	
Non-controlling interest	–	
Other comprehensive income (exchange differences on translation of foreign operations: arising during the year)	(0.0)	
Total comprehensive income	**0.1**	
Attributable to:		
Equity holders of the parent	0.2	
Non-controlling interests	(0.1)	
Goodwill		14.9
Total non-current assets		**14.9**
Total assets		**14.9**
Share premium		14.2
Retained earnings		0.4
Accumulated other comprehensive income		0.1
Total equity attributable to equity holders of the parent		**14.7**
Non-controlling interests		0.2
Total equity		**14.9**

Second, in 2011 we finalized the accounting for ICQ acquisition that occurred in July 2010. In accounting for the business combination in our 2010 consolidated financial statements, we had provisionally determined the amounts of ICQ's intangible assets and deferred tax liabilities subject to the completion of tax planning with respect to ICQ intellectual property rights. The finalized acquisition accounting resulted in the following adjustments to our consolidated statement of financial position as of December 31, 2010 and our 2010 statement of comprehensive income:

Increase (decrease) in:	Consolidated statement of comprehensive income US$m	Consolidated statement of financial position US$m
Depreciation and amortization	(0.8)	
Operating income	**0.8**	
Profit before income tax expense	**0.8**	
Net profit	**0.8**	
Attributable to:		
Equity holders of the parent	0.8	
Non-controlling interest	–	
Other comprehensive income (exchange differences on translation of foreign operations: arising during the year)	0.0	
Total comprehensive income	**0.8**	
Attributable to:		
Equity holders of the parent	0.8	
Non-controlling interest	–	
Goodwill		8.7
Other intangible assets		(7.9)
Total non-current assets		**0.8**
Total assets		**0.8**
Retained earnings		0.8
Accumulated other comprehensive income		0.0
Total equity attributable to equity holders of the parent		**0.8**
Total equity		**0.8**

Finally, certain corresponding information presented in our 2010 consolidated financial statements was reclassified in order to achieve comparability with the presentation used our 2011 consolidated financial statements.

Significant reclassifications are summarised in the table below:

	As at December 31, 2010 US$m	As at January 1, 2010 US$m
Increase/(decrease) in		
Trade accounts payable	(5.0)	(1.0)
Other payables, provisions and accrued expenses – Other current payables and provisions	5.0	1.0

Goodwill

We account for business combinations by applying the acquisition method under IFRS 3R. As a result, we record goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized 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 US$1,024.0 million as at December 31, 2011 (2010 (restated): US$1,081.8 million).

In 2011, we reorganized our reporting and management structure (as described in "Structure" above and "Change in composition of segments in 2011" below) and accordingly, we changed the composition of the cash-generating units ("CGUs") to which goodwill is allocated. We reallocated goodwill to new groups of CGUs – "email, portal and IM", "search", "online games", "social networks" and "e-commerce and other" – according to the reporting structure implemented in 2011. The reallocation was performed using a relative value approach whereby goodwill was allocated to the new groups of CGUs in proportion to their respective values in use determined using appropriate valuation techniques. Please see Note 11 to our consolidated financial statements for further details.

Consolidated results of operations in accordance with IFRS

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

	2011 US$m	2010 US$m
Revenues	505.9	275.3
Cost of revenues	(125.3)	(66.5)
Gross profit	**380.6**	**208.8**
Operating income/(loss)	**111.0**	**(9.0)**
Profit before income tax expense	**82.7**	**180.9**
Income tax expense	(51.6)	(23.7)
Net profit	**31.2**	**157.2**
Attributable to:		
Equity holders of the parent	30.1	153.7
Non-controlling interest	1.0	3.5

Consolidated revenue

In 2011 our consolidated revenue from continuing operations increased by 83.8% to US$505.9 million (2010: US$275.3 million) primarily due to the effect of a full year of revenues in 2011 from subsidiaries acquired in the course of 2010 and organic growth. If we had consolidated OK starting from January 1, 2010, our 2010 consolidated revenue would have increased by US$40.3 million, and our 2011 revenue growth rate would have been 60.3%. The drivers of organic growth are described in the Section "Operating segments performance" below.

Consolidated gross profit

Gross profit from continuing operations increased by 82.3% to US$380.6 million (2010: US$208.8 million) and gross margin decreased slightly to 75.2% in 2011 (2010: 75.9%) as a result of cost of revenue growing at a faster pace than revenues mainly due to increased digital distribution costs and share-based payment expense, partially offset by the effect of the acquisition of OK, whose gross margin was higher than the Group average. The share-based payment expense resulted from the issuance of options over the shares of the Company to our production personnel in 2011 and late in 2010. The total increase in cost of revenues of 88.5% is due to the effect of a full year of cost of revenues in 2011 generated by subsidiaries acquired in the course of 2010 and organic growth. If we had consolidated OK starting from January 1, 2010, our 2010 consolidated cost of revenue would have increased by US$6.7 million, resulting in a 76.8% consolidated gross margin in 2010, and our 2011 cost of revenue growth rate would have been 71.2%. The effects on the cost of revenues resulting from organic growth are presented in the section "Operating segments performance" below.

Consolidated operating income

Operating income from continuing operations amounted to US$111.0 million as compared to an operating loss of US$9.0 million in 2010. The principal items affecting the operating income apart from gross profit are selling, general and administrative ("SG&A") expenses, depreciation and amortization ("D&A") and impairment of intangible assets.

SG&A expenses increased by 5.5% primarily due to an increase in SG&A personnel expenses of US$57.9 million (108.3% vs 2010), and an increase in marketing expenses of US$3.1 million (17.8% vs 2010), partially offset by a decrease in advisory fees from US$51.7 million in 2010 to nil in 2011. SG&A personnel expenses grew as a consequence of an almost five-fold increase in share-based payments and an increase in payroll by 28.6%. The increase in share-based payment expense was primarily due to the implementation of the 2010 Option Plan and the resulting issuance of options to key management and certain other employees in our corporate functions, including Sales, Marketing, HR, Legal and Finance. The increase in payroll is mainly due to inclusion of a full year of payroll expense in 2011 from subsidiaries acquired in the course of 2010 and organic growth. If we had consolidated OK starting from January 1, 2010, our 2010 consolidated payroll would have increased by US$3.3 million, and our 2011 payroll growth rate would have been 19.8%. The drivers of organic SG&A growth are presented in the section "Operating segments performance" below.

Advisory fees in 2010 consisted of fees paid to DST Advisors Limited ("DSTA"), which was our related party prior to November 2010, and share-based payment expense in respect to options granted to DSTA employees and consultants prior to the IPO (see Note 25 to our consolidated financial statements). In November 2010, the agreement with DSTA was terminated and accordingly, we did not incur any advisory fees in 2011.

The growth in marketing expenses as compared to 2010 is mainly organic (see section "Operating segments performance" below for more information), the effect of the OK acquisition being insignificant.

D&A expenses increased due to the effect of a full year of expenses in 2011 from subsidiaries acquired in the course of 2010 and organic growth. The total amortization of fair value adjustments to intangible assets recognized in business combinations amounted to US$56.0 million (US$39.0 million in 2010). The effects of organic growth, excluding the effects of acquisition accounting in the past years, are presented in section "Operating segments performance" below.

Impairment of intangible assets increased more than four times to US$7.1 million in 2011 from US$1.7 million in 2010. The impairment is entirely related to online games and includes

impairment of fair value adjustments in the amount of US$2.5 million. The effect of impairment related to fair value adjustments to intangible assets was immaterial in 2010.

Equity accounted results
The share in net profits of associates amounted to US$0.5 million (share in net losses of US$9.1 million in 2010). The aggregate profits in *VK*ontakte, Qiwi and Haslop Company Limited ("Mamba") in the amount of US$8.7 million in our share were partially offset by our share in losses of Molotok and Nikita Management Limited ("Nikita") of US$7.8 million and US$0.5 million respectively. 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 by 54.3% to US$82.7 million (2010: US$180.9 million) primarily reflecting lower M&A related gains and higher M&A related charges in 2011 than in 2010. This impact more than offset the significant increase in operating income in 2011.

Net profit for the year decreased by 80.2% to US$31.2 million as a result of the decrease in profit before tax and increase in income tax expense. If we had acquired OK on January 1, 2010, income tax expense would have increased by 59.9%. The increase in income tax expense is mainly due to an increase in taxable income arising from our operating subsidiaries mainly based in Russia accompanied by a decrease in M&A related gains and an increase in share-based payment expense, both incurred in tax-free jurisdictions. These effects were partially offset by the discontinuation in November 2010 of advisory fees to DSTA incurred in a tax-free jurisdiction and lower tax charges on dividend payments within the Group in 2011 as compared to 2010. 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, in our view, obscure 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, amortization 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.

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

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.

Segment presentation prior to December 2011
Prior to December 2011, we had three major operating segments – Mail, OK and HeadHunter. With the exception of HeadHunter segment, in which we increased our equity interest from 91.3% to 97.2% on a non-diluted basis in 2011, these segments are 100% owned. The Mail segment included the My World social network, Mail.Ru Agent and ICQ instant messaging services, email, games and the Mail.Ru portal; the OK segment comprised the Odnoklassniki social network; the HeadHunter segment consisted of HeadHunter, a leading online recruitment service in Russia.

Change in segment presentation in December 2011
In 2011, we continued the integration of acquired businesses and aligned our organizational, management and reporting structure with our product offering, instead of the previously existing legal entity-based structure. Accordingly, the set of operating segments indentified for presentation of our segment financial information to the CODM was modified to reflect these changes.

Starting from December 2011, we have identified 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 based on the respective applications' (including social games) 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 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 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.

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

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

We made several other changes to the presentation of segment information to the CODM, mainly driven by the change in operating segments. The changes affected the presentation and calculation of each segment's items of comprehensive income reviewed by the CODM. Starting from 2011, the CODM reviewed each segment's revenue and EBITDA (as defined above), while net profit was only presented to the CODM on a consolidated basis and was not used to assess the performance of each operating segment. Prior to 2011, the CODM reviewed each segment's revenue, EBITDA and net income, and the segments' EBITDA or net income did not include any allocation of our corporate expenses, which were separately shown under 'Corporate, eliminations and other'.

The comparative segment information for 2010 was not presented to conform to current year presentation as described above, because the required information is not available, and we consider that the cost to retrospectively develop such information would be excessive. Accordingly, in addition to the 2011 presentation as described above, we also present the 2011 segment information in accordance with the segment identification principles used in 2010 for comparability purposes.

Additionally, in 2011, the calculation of net profit, as presented to the CODM, was adjusted to include or exclude certain items as compared to the 2010 presentation:

- net profit, as presented to the CODM in 2011, excludes the tax effect of the foreign exchange gains and losses excluded from the net income calculation; and
- net profit, as presented to the CODM in 2011, includes dividend income from financial investments in associates and available-for-sale investments.

We present the respective comparative information for the year ended December 31, 2010 accordingly to conform to the current year presentation, as described in the preceding paragraph.

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

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 quarter 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 2011 results compared with 2010

The discussion that follows is based on a comparison of the 2011 segment information presented in accordance with the segment identification principles used in 2010 for comparability purposes. As noted above under "Basis of Preparation", this information is presented in a manner that differs in certain significant respects from information presented in accordance with IFRS.

Group aggregate segment financial information

	2011 US$m	% of revenue	2010 US$m	% of revenue	YoY, %
Group aggregate segment revenue[1]					
Display advertising	147.6	28.6%	94.5	29.1%	56.2%
Context advertising	57.1	11.1%	32.9	10.1%	73.7%
Total online advertising	**204.7**	**39.7%**	**127.4**	**39.2%**	**60.7%**
MMO games	129.0	25.0%	99.8	30.7%	29.3%
Community IVAS	127.8	24.8%	64.3	19.8%	98.8%
Total IVAS	**256.7**	**49.8%**	**164.0**	**50.5%**	**56.5%**
Other revenue*	54.1	10.5%	33.4	10.3%	62.0%
Total Group aggregate segment revenue	**515.4**	**100.0%**	**324.7**	**100.0%**	**58.7%**
Group aggregate segment operating expenses					
Personnel expenses	116.4	22.6%	83.8	25.8%	38.9%
Office rent and maintenance	11.5	2.2%	10.4	3.2%	10.2%
Agent/partner fees	43.3	8.4%	21.3	6.5%	103.7%
Marketing expenses	18.8	3.7%	17.6	5.4%	6.7%
Server hosting expenses	16.8	3.3%	15.9	4.9%	5.3%
Professional services	8.3	1.6%	43.2	13.3%	(80.8)%
Other operating (income)/expenses, excluding amortization and depreciation	17.4	3.4%	13.0	4.0%	34.3%
Total Group aggregate segment operating expenses	**232.5**	**45.1%**	**205.3**	**63.2%**	**13.3%**
Group aggregate segment EBITDA[2]	**282.9**	**54.9%**	**119.4**	**36.8%**	**136.9%**
Depreciation and amortization[3]	39.6	7.7%	23.5	7.2%	68.4%
Share of profit (loss) of key strategic associates[4]	11.1	2.1%	11.5	3.5%	(3.5)%
Other non-operating income (expense), net	8.3	1.6%	3.6	1.1%	128.8%
Profit before income tax[5]	**262.7**	**51.0%**	**111.0**	**34.2%**	**136.6%**
Income tax expense[6]	54.0	10.5%	30.2	9.3%	78.9%
Group aggregate net profit[7]	**208.6**	**40.5%**	**80.8**	**24.9%**	**158.2%**

* Other revenue includes Other IVAS

(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. This information may also differ from the proportionate core revenue presented in the operating segments notes to our interim consolidated financial statements as of and for the six months ended June 30, 2010. Group aggregate segment revenue numbers for the periods after July 2010 include the revenues of ICQ.

(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 amortization) of the Group's operating segments with Group corporate expenses and eliminating intra-segment and inter-segment expenses. Prior to the Group IPO in November 2010 the Group Corporate expenses included an advisory fee paid to DST Advisors ("DSTA"). Group aggregate segment EBITDA includes ICQ EBITDA from the date of acquisition.

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

(4) Group share of net profit from associates includes the Group's share of net profit from *VKontakte* and Qiwi as calculated based on the ownership percentage as of the date hereof (i.e. 39.99% and 21.35%, 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 the Group's consolidated operations, i.e. do not include certain adjustments which would be required under IFRS. See "Presentation of Segment Financial Information."

(5) Profit before tax is calculated by deducting from Group aggregate segment EBITDA Group aggregate depreciation and amortization 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, release of certain accruals 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 the Group's 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 amortization 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. See "Presentation of Segment Financial Information." Group aggregate segment net profit includes the impact of ICQ for the periods after July 2010.

Operating segments performance – 2010 (US$m)

	Mail	OK	HH	Total segments	Corporate, eliminations and other	Group
Revenue						
External revenue	227.3	68.9	28.5	324.7	–	324.7
Intersegment revenue	0.4	–	0.3	0.7	(0.7)	–
Total revenue	**227.7**	**68.9**	**28.7**	**325.4**	**(0.7)**	**324.7**
Total operating expenses	120.8	23.5	22.0	166.3	39.0	205.3
EBITDA	**107.0**	**45.4**	**6.8**	**159.2**	**(39.7)**	**119.4**
EBITDA margin	**47.1%**	**65.9%**	**23.7%**	**49.0%**		**36.8%**
Net profit	**71.4**	**31.5**	**3.7**	**106.6**	**(25.8)**	**80.8**
Net profit margin	**31.4%**	**45.7%**	**12.9%**	**32.8%**		**24.9%**

Operating segments performance – 2011 (2010 segments structure) (US$m)

	Mail	OK	HH	Total segments	Corporate, eliminations and other	Group
Revenue						
External revenue	332.2	135.4	47.8	515.4	–	515.4
Intersegment revenue	3.3	–	0.2	3.5	(3.5)	–
Total revenue	**335.5**	**135.5**	**48.0**	**518.9**	**(3.5)**	**515.4**
Total operating expenses	164.9	32.7	31.1	228.8	3.7	232.5
EBITDA	**170.6**	**102.7**	**16.9**	**290.2**	**(7.2)**	**282.9**
EBITDA margin	**51.3%**	**75.8%**	**35.3%**	**56.3%**		**54.9%**
Net profit	**114.5**	**77.9**	**11.6**	**203.9**	**4.7**	**208.6**
Net profit margin	**34.5%**	**57.5%**	**24.3%**	**39.6%**		**40.5%**

Operating segments performance – 2011 (current segments structure) (US$m)

	Email, Portal and IM	Social Networks	Online Games	E-commerce, Search and Other	Eliminations	Group
Revenue						
External revenue	122.1	159.6	142.8	90.9	–	515.4
Intersegment revenue	–	–	–	4.9	(4.9)	–
Total revenue	**122.1**	**159.6**	**142.8**	**95.9**	**(4.9)**	**515.4**
Total operating expenses	39.9	44.2	101.8	51.6	(4.9)	232.5
EBITDA	**82.2**	**115.4**	**41.0**	**44.3**	**–**	**282.9**
EBITDA margin	**67.3%**	**72.3%**	**28.7%**	**48.7%**		**54.9%**
Net profit						**208.6**
Net profit margin						**40.5%**

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 2011, we generated revenue of US$147.6 million (2010: US$94.5 million) from display advertising. Our display advertising revenue increased by 56.2% vs 2010 primarily as a consequence of growth in overall of the market size as advertisers continued to shift larger portions of their advertising budgets to internet advertising. The growth was also driven by modest market share gains as large advertisers tend to allocate their advertising budgets to large properties with significant reach like the majority of our projects. The strong performance in 2011 also reflected the integration of our sales force at the end of 2010 that enabled us to sell our display advertising inventory in a consolidated manner. The strong performance overall was partially offset by trends in ICQ display advertising revenue which, albeit contributing to growth in H1 2011 (whereas consolidation of ICQ started from July 2010), declined in H2 2011 vs H2 2010 as we reduced the monetization rate at ICQ in order to improve the user experience.

Context advertising

Context advertising revenue is mainly earned through partnerships with third parties – principally Google. 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. 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. In the first half of 2011 we launched our own self-service context advertising technology, Target.Mail.Ru ("Target") on the 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.

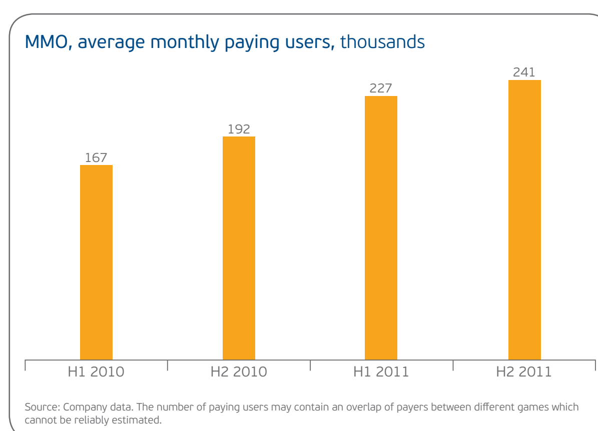
In 2011, we earned revenue of US$57.1 million (2010: US$32.9 million) from context advertising representing growth of 73.7%. The significant increase in our context advertising revenue is due to an increase in search (particularly due to successful digital distribution, including our Sputnik toolbar) and other context revenue as well as revenues from Target. The strong performance was partially offset by ICQ context revenue which, albeit contributing to growth in H1 2011 (whereas consolidation started from July 2010), declined in H2 2011. Growth in our search context revenue has been primarily driven by growth in the overall context advertising market.

IVASs

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

MMO games

Approximately half 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 recognized net of any commissions to distributors or SMS operators. In 2011, we generated revenues from MMO games of US$129.0 million (2010: US$99.8 million). The increase in MMO revenues of 29.3% vs 2010 is primarily due to an increase in annual average monthly MMO paying users of circa 30.4% vs 2010. MMO paying users data is presented in the chart below:



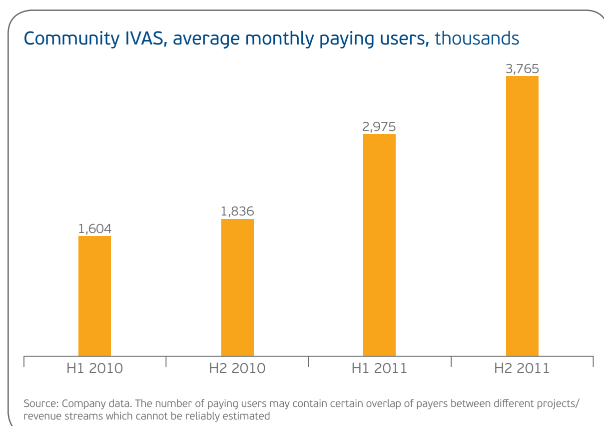
Source: Company data. The number of paying users may contain an overlap of payers between different games which cannot be reliably estimated.

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 recognized net of commission paid to distributors or SMS operators.

Aggregate segment Community IVAS revenue increased by 98.8% to reach US$127.8 million (2010: US$64.3 million). The growth was achieved primarily through an increase in annual average monthly paying users in OK by c. 148% vs 2010, driven by overall growth in user engagement. A 3% increase in paying Community IVAS users of the Mail segment also contributed to the growth, albeit to a lesser extent. In addition, the 2011 performance was impacted by the fact that revenue sharing with developers through OK's API was introduced in April 2010, as well as the fact that our share of revenue from API on My World increased from 0.01% to 30% effective February 2011.

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



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

Other revenue

Other revenue is primarily generated through subscriptions to the résumé database on HeadHunter, our online recruitment site. The increase of 62.0% in Other revenue was primarily driven by overall macroeconomic environment and HeadHunter's leadership in the online jobs market.

Costs and margins

Our principal cost items include personnel expenses, agent/partner fees, marketing expenses, server hosting expenses, office expenses and professional services.

Personnel expenses increased by 38.9% to US$116.4 million (2010: US$83.8 million). The majority of the increase was driven by headcount growth, primarily in our core IT and product personnel. The increase in average headcount was c. 26%, 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 control over the number and quality of people that we hire. Agent/partner fees increased by 103.7% to US$43.3 million (2010: US$21.3 million). The increase in agent/partner fees was primarily driven by digital distribution costs, growth in fees for games licensed from other countries and increase in expenses that we incur on outsourcing certain design and programming works to third-party contractors. Digital distribution represents arrangements whereby we pay third-party websites for distributing our toolbar, our main page and search service to users. Marketing expenses increased by 6.7% to US$18.8 million (2010: US$17.6 million). The main driver of the increase was online marketing of our games. Server hosting expenses increased by only 5.2% to US$16.8 million (2010: US$15.9 million) demonstrating a considerable scale effect. A major one-off driver of such effect was consolidation of all of our hosting activity under common management, and, as a result, savings due to use of own data center and negotiation of more favourable commercial terms with service providers.

Professional fees decreased by 80.8% to US$8.3 million (2010: US$43.2 million). The key reason for the decrease is the discontinuation of the advisory fees paid to DSTA. The advisory fees are no longer a separate line item affecting our financial results as the agreement with DSTA was terminated upon IPO in November 2010 followed by migration to us of certain DSTA employees and functions and, accordingly, the related costs (primarily represented by personnel expenses and costs associated with running the Company as a publicly traded entity) (see Note 25 to our consolidated financial statements).

Our aggregate segment EBITDA margin increased to 54.9% (2010: 36.8%) as a result of operating leverage primarily derived from personnel expenses, office rent and maintenance expenses, server hosting expenses, marketing expenses and decline in professional services expenses partially mitigated by an increase in agent/partner fees.

Key strategic associates[2]

The decrease in share in net income of key strategic associates by 3.5% to US$11.1 million (2010: US$11.5 million) is due to a decrease in net profit attributable to the equity holders of the parent of Qiwi by 19.6%, partially offset by an increase in net profit attributable to the equity holders of the parent of *V*Kontakte by 7.3%. The net profit of *V*Kontakte increased as a result of growth in revenues of 27.2% partially compensated by a decrease in margins driven by considerable investment in the team and infrastructure. Qiwi's revenues grew by 24.2%, but net profit decreased as the company experienced pressure on margins and made significant investment in international development, partially offset by growth in online products.

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

Depreciation and amortization (including impairment of intangible assets) increased by 68.4% to US$39.6 million (2010: US$23.5 million) primarily driven by further investment in gaming licenses and hardware, as well as accelerated amortization and impairment of certain slower performing games in the amount of US$6.2 million. The write-off mainly resulted from the re-tuning of our strategy in the online games segment, as we decided to focus more on the quality of our games, rather than quantity.

Other non-operating income increased by 128.3% to US$8.3 million (2010: US$3.6 million) primarily driven by increase in dividends from venture capital investments and interest income.

Income tax expense increased by 78.9% to US$54.0 million (2010: US$30.2 million) primarily driven by an increase in taxable profits by 136.6% to US$262.7 million (2010: US$111.0 million), partially offset by a decrease in the effective tax rate to 20.6% (2010: 27.2%) as a consequence of discontinuation of the advisory fees to DSTA incurred in a tax-free jurisdiction and lower tax charges on dividend payments within the Group in 2011 as compared to 2010.

Net income increased by 158.2% to US$208.6 million (2010: US$80.8 million) driven by an increase in profit before tax and a decrease in effective tax rate.

2 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). The revenue of *V*Kontakte is presented on a gross basis, i.e. including advertising commissions and payment channel costs, consequently neither revenues, nor margins are comparable with other operating segments data.

Reconciliation to IFRS

	2011 US$m	2010 US$m
Total revenue, as presented to CODM	**515.4**	**324.7**
Adjustments to reconcile revenue as presented to CODM to consolidated net profit under IFRS:		
Effect of operations disposed of and difference in dates of acquisition of control in subsidiaries		(40.3)
Differences in timing of revenue recognition	(15.1)	(13.7)
Barter revenue	2.1	1.6
Dividend revenue from venture capital investments	3.6	2.5
Other		0.4
Consolidated revenue under IFRS	**505.9**	**275.3**

	2011 US$m	2010 US$m
Total EBITDA, as presented to CODM	**282.9**	**119.4**
Adjustments to reconcile EBITDA as presented to CODM to consolidated operating income (loss) under IFRS:		
Impairment of intangible assets	(7.1)	(1.7)
Depreciation and amortisation	(90.7)	(57.5)
Share-based payments	(64.5)	(30.0)
Non-recurring consulting services	–	(8.4)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries and associates	–	(23.4)
Net gain on venture capital investments and associated derivative financial assets and liabilities	1.3	2.6
Differences in timing of revenue recognition	(15.1)	(13.7)
Dividend revenue from venture capital investments	3.6	2.5
Other	0.7	1.1
Consolidated operating income (loss) under IFRS	**111.0**	**(9.0)**

	2011 US$m	2010 US$m
Total net profit, as presented to CODM	**208.6**	**80.8**
Adjustments to reconcile net profit as presented to CODM to consolidated net profit under IFRS:		
Share-based payment expense	(64.5)	(30.0)
Differences in timing of revenue recognition	(15.1)	(13.7)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries and associates	(0.6)	1.9
Amortisation of fair value adjustments to intangible assets and impairment thereof	(61.3)	(43.1)
Loss on financial instruments at fair value through profit or loss	(22.0)	(27.3)
Fair value adjustments related to acquisitions and disposals	0.3	201.9
Non-recurring consulting services	–	(8.4)
Impairment of investments in strategic associates	(6.2)	(11.2)
Net foreign exchange gains (losses)	(4.4)	9.0
Share in financial results of non-core associates	(5.6)	(0.5)
Other	(1.0)	(0.4)
Tax effect of the adjustments and tax on unremitted earnings	2.9	(1.7)
Consolidated net profit under IFRS	**31.2**	**157.2**

Analysis of H2 2011 aggregate segment results in comparison with H2 2010*

	H1 2010	H2 2010	H1 2011	H2 2011	H2 YoY, %
Group aggregate segment revenue					
Display advertising	35.8	58.7	58.9	88.7	51.0%
Context advertising	11.8	21.0	26.0	31.1	47.7%
Total online advertising	**47.6**	**79.8**	**84.9**	**119.7**	**50.1%**
MMO games	44.4	55.3	63.7	65.3	18.0%
Community IVAS	31.3	32.9	54.5	73.3	122.4%
Total IVAS	**75.7**	**88.3**	**118.2**	**138.5**	**56.9%**
Other revenue*	13.9	19.5	25.1	28.9	48.4%
Total Group aggregate segment revenue	**137.2**	**187.6**	**228.2**	**287.2**	**53.1%**
Group aggregate segment EBITDA	**53.7**	**65.7**	**116.6**	**166.4**	**153.2%**
Group aggregate segment EBITDA margin	39.2%	35.0%	51.1%	57.9%	
Group aggregate net profit	**39.5**	**41.3**	**84.7**	**123.9**	**200.0%**

* Other revenue includes Other IVAS

In the second half of 2011 we continued to demonstrate considerable growth by increasing total revenue by 53.1% vs H2 2010 and by 25.9% vs H1 2011. Most of the growth was concentrated in Community IVAS (122.4% vs H2 2010) and online advertising (50.1% vs H2 2010). The growth in Community IVAS was primarily driven by an increase in paying users in the Odnoklassniki social network. The online advertising revenue growth was mainly driven by expanding market size.

Aggregate segment EBITDA increased by 153.2% in H2 2011 vs H2 2010 due to an increase in revenues and significant operating leverage effects in personnel, office rent and maintenance, marketing and server hosting expenses as well as decrease in professional services expenses. This was partially offset by an increase in agent/partner fees. As a result, EBITDA margin grew to 57.9% in H2 2010 vs 35.0% in H2 2010.

Aggregate net profit increased by 200.0% to US$123.9 million (H2 2010: US$41.3 million) primarily as the consequence of growth in EBITDA and taxable income.

Financial position

Liquidity and capital resources

Throughout the year our financial position remained healthy. The total cash balance as at December 31, 2011 amounted to US$124.7 million (2010: US$118.4 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 2011, had no outstanding debt. Consolidated operations have been cash flow positive since 2009. In 2011, net cash provided by operating activities amounted to US$215.7 million (2010: US$73.8 million).

Net cash provided by operating activities grew by 192.2% in 2011 vs 2010, primarily due to the effect of a full year of operating cash flows in 2011 from subsidiaries acquired in the course of 2010, organic growth and higher cash conversion: the ratio of net cash provided by operating activities to consolidated revenues grew to 42.6% in 2011 (2010: 26.8%).

Capital expenditure to acquire property and intangible assets increased by 44.4% to US$42.4 million, primarily as a consequence of the effect of a full year capital expenditures in 2011 from subsidiaries acquired in the course of 2010 and organic growth driven primarily by expansion of our infrastructure and acquisition of gaming licenses as well as development of new games.

Cash used in investing activities in 2011 also included US$111.7 million paid to acquire a further 7.44% in *V*Kontakte.

Issue of equity and GDR buying program

The majority of our acquisitions have, in the past, been financed through the issue of equity. The net proceeds of the issue of Ordinary Shares in the IPO have been used to fund a portion of the purchase price of an additional 7.5% stake in *V*Kontakte in 2010.

In 2011, the Company only issued equity upon exercise of options and conversion rights and did not issue any equity for cash. Moreover, in October 2011, the we commenced through Mail.Ru Employee Benefit Trustees Limited (the "Trustee"), a GDR buying program of up to US$35 million in order to cover a part of the employee and Director options of the 2010 Option Plan. Under the GDR buying program, we acquire GDRs representing shares of the Company and will 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 next four years.

As of December 31, 2011 we acquired a total of 651,534 GDRs on the market for an aggregate consideration of US$20.5 million. We account for GDRs repurchased as treasury shares.

Management

Board of Directors

Dmitry Grishin, age 33
Co-Founder, CEO (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 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 Moscow State Technical University with an Honors degree in Computer-aided Design.

Gregory Finger, age 46
Director
Gregory Finger is a founding member of the Company and has been a Director since December 2006. He has played a key role in many of the Company's high-profile investments. Gregory graduated with honors, in 1988, from the Moscow Institute of Chemical Engineering with a specialization in automated control systems. From 1992 to 2005, he headed the Moscow office of New Century Holdings – the largest Western financial investor in the Russian-speaking and Eastern Europe markets. Here, he worked with more than 15 investment funds, one of which had US$3 billion in assets under management. Gregory began investing in the internet sector in 1999 and made New Century Holdings' first internet investment – an early stake in Mail.Ru.

Marcos Galperin, age 41
Independent Director
Marcos Galperin was appointed to the Board in October 2010. As a founder and CEO of MercadoLibre – Latin America's leading e-commerce technology company – he has an extensive knowledge of the internet industry. From 1994 to 1997 Marcos was a Futures and Options Associate, managing currency and oil derivatives programs for YPF S.A., an integrated oil company in Argentina. He graduated with honors from the Wharton School of the University of Pennsylvania in 1994 and received an MBA from Stanford University in 1999. Marcos is a member of the Management Board of Stanford Graduate School of Business and is also a Director of the Board of Endeavor.

Matthew Hammond, age 37
Managing Director
Matthew Hammond was appointed to the Board in May 2010 and became Managing Director in April 2011. Matthew graduated from Bristol University, UK, in 1996, with a degree in Economics and History. From 1997 to 2009, he was a technology analyst at Credit Suisse and was ranked number 1 in the Extell and Institutional Investor Survey eight times. Matthew is a non-executive director of Nautilus Minerals Inc., Strike Resources and Puricore.

Sang Hun Kim, age 48
Independent Director
Sang Hun Kim was appointed to the Board in February 2011. He has been Chief Executive of South Korea's NHN Corporation since April 2009 and was previously its 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.

Charles St. Leger Searle, age 48
Director
Charles Searle is currently Chief Executive Officer of MIH Internet Listed Assets. He serves on the boards of a number of companies that are associated companies with MIH, including Tencent Holdings Ltd. Prior to joining the MIH 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 42
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. 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 MIH Group. From 2007 he was General Manager for Business Development Pay Television at MIH in The Netherlands and from 1997 to 2007, was CFO at Thai listed pay TV operator UBC. He graduated with a Bachelor of Commerce degree from the University of Witwatersrand, South Africa, and is an Honours Bachelor in Accounting Science from the University of South Africa. He is a registered member of the South African Institute of Chartered Accountants.

Mark Remon Sorour, age 50
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 Company's M&A, corporate finance and capital-market fundraising activities. Mark's 16 years' experience in internet, technology and pay TV businesses includes business development in Africa, the Middle East, Thailand, China, Europe, the USA and South-East Asia. He graduated from Selborne College, East London, South Africa, and the University of Natal.

Vladimir Streshinsky, age 42
Director
Vladimir Streshinsky was appointed to the Board in August 2008. He has been CEO of Telecominvest since 2008. Vladimir also serves as a member of the Board of Directors of MegaFon, DST Global, New Media Technologies Capital Partners, UTH Russia and Kommersant Holding Company as well as a Financial Advisor to Metalloinvest Trading. He graduated with honors in applied mathematics from Moscow Physics and Technology Institute in 1992.

Ivan Tavrin, age 35
Director
Ivan Tavrin was appointed to the board in April 2011. Ivan is currently the CEO of Megafon, one of the largest mobile networks in Russia with over 62 million active subscribers and 2011 revenues of over US$8 billion. He is also Chairman of the Board and a shareholder in UTH, one of the largest commercial media holding companies in Russia (MUZ-TV and Disney Channel). In 2009, Ivan Tavrin received "Russia's Media Manager of the Year" award. In 1997 he founded "Construct-Region" and developed it into the largest agency in the regional advertising market. Ivan was involved in establishing a number of successful Russian media companies, including Regional Media Group, Media One Holding, Vyberi Radio Group and TV-3. He is also a member of the Executive Board of the National Association of TV and Radio Broadcasters. He is a graduate of the Moscow State Institute of International Relations (MGIMO).

Senior management

Dmitry Grishin, age 33

Co-Founder, CEO (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 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 Moscow State Technical University with an Honors degree in Computer-aided Design.

Verdi Israelian, age 36

Chief Financial Officer, Chief Operating Officer (Russia)

Verdi Israelian joined an affiliate of Mail.Ru in 2009 and was appointed COO (Russia) of Mail.Ru Group in November 2010 and CFO in August 2011. He 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 37

Managing Director

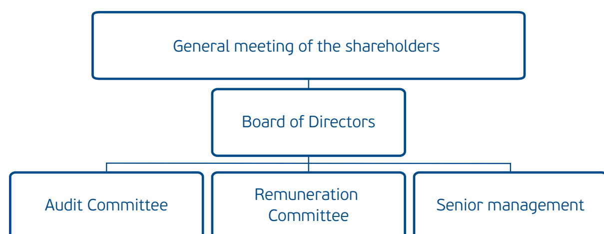
Matthew Hammond was appointed to the Board in May 2010 and became Managing Director in April 2011. Matthew graduated from Bristol University, UK, in 1996, with a degree in Economics and History. From 1997 to 2009, he was a technology analyst at Credit Suisse and was ranked number 1 in the Extell and Institutional Investor Survey eight times. Matthew is a non-executive director of Nautilus Minerals Inc., Strike Resources and Puricore.

Corporate governance

The Company is incorporated in the British Virgin Islands with the principal office in Dubai.

Governance structure

In accordance with the Articles of Association of the Company 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

Authorized and issued share structure of the Company as of the date hereof:

Class of share	Authorized shares	Issued shares
Class A (US$0.000005 par value each)	10,000,000,000	108,068,000
Ordinary (US$0.000005 par value each)	10,000,000,000	101,008,501

Both classes of shares are in registered form. In the case of Ordinary Shares, Global Depositary Receipts representing interests in them 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 the Company's shares:

- Options for 40,000 Ordinary Shares outstanding with an exercise price of US$13.21 which are fully vested
- Options for 6,423,842 Ordinary Shares granted to the Mail.Ru Employee Benefit Trust on November 11, 2010 with an exercise price of US$27.70. Out of these options, 5,095,668 options are currently allocated for the benefit of employees and consultants of the Company. They have a vesting period of four years, ending December 31, 2014. Out of 786,920 options allocated for the benefit of the members of the Board 455,022 are currently outstanding and have a vesting period of two years, ending December 31, 2012
- 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. Out of these options, 2,455,000 options are currently allocated for the benefit of employees and consultants of the Company

During the 2011 financial year, the Company itself did not acquire any of its own shares. However, the Mail.Ru Employee Benefit Trust undertook a GDR buying program during Q4, spending US$20.5 million on 651,534 GDRs at an average price of US$31.50. All of the GDRs purchased during this period are held by the Mail.Ru Employee Benefit Trust and will be used over the lifetime of the option program.

Annual General Meeting of shareholders

The shareholders' meeting is the Company'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 the Company.

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

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

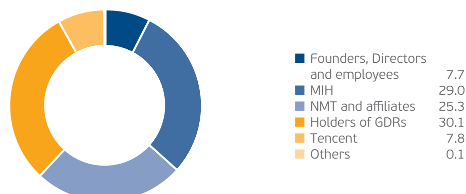
i) no later than a week before the meeting

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

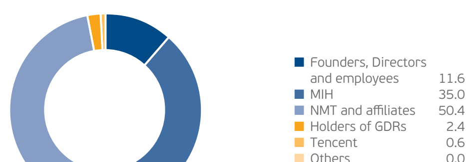
Restrictions on transfer

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, %



Shareholders' voting interest, %



Voting rights

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

Board of Directors

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

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

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

Any shareholder, or group of shareholders, who holds, in aggregate, 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 the Company's Memorandum and Articles of Association)
- The approval of the annual budget and annual financial statements of the Company
- The declaration of any dividend
- The convening of any shareholders' meeting
- The appointment of the Company's auditors
- The appointment of any committee of the Board of Directors, including the Company's Audit Committee and Remuneration Committee (see below)
- The exercise of all rights of the Company in relation to ICQ LLC
- The approval of any proposal under which the Company or any subsidiary of the Company 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 the Company, or any Officers or Directors of any direct subsidiary of the Company (including but not limited to any 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 the Company'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.

Name	Position	Date of appointment	Expiry of term
Dmitry Grishin	Chairman	March 14, 2012	2013 AGM
Gregory Finger	Elected Director	December 14, 2006	2013 AGM
Matthew Hammond	Elected Director	May 19, 2010	2013 AGM
Vladimir Streshinskiy	Elected Director	August 3, 2008	2013 AGM
Charles Searle	Elected Director	February 16, 2012	2013 AGM
Mark Remon Sorour	Elected Director	August 27, 2010	2013 AGM
Ivan Tavrin	Elected Director	April 21, 2011	2013 AGM
Vasileios Sgourdos	Elected Director	October 18, 2010	2013 AGM
Marcos Galperin	Independent Director	October 22, 2010	2013 AGM
Sang Hun Kim	Independent Director	February 7, 2011	2013 AGM

Senior management

Name	Position	Appointment
Dmitry Grishin	Chief Executive Officer, Russia	November 2010
Verdi Israelian	Chief Operating Officer, Russia;	November 2010
	Chief Financial Officer	August 2011
Matthew Hammond	Managing Director	April 2011

Committees of the Board of Directors

The Company has an Audit Committee and a Remuneration Committee.

Audit Committee

The Audit Committee is appointed by the Company's Board of Directors and meets on a regular basis – no less than once every six months.

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

- The quality and integrity of the Company's integrated reporting including its financial statements
- The Company's compliance with key applicable legal and regulatory requirements relating to its financial reporting
- The quality and independence of the Company's external auditors
- The performance of the Company's internal audit function and the external auditors
- The adequacy and effectiveness of internal control measures, accounting practices, risk management, information systems and audit procedures
- Monitoring compliance with the Company'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
- Reviewing procedures to ensure that the requirements of the United Kingdom Listing Authority (UKLA) and the London Stock Exchange (LSE) are complied with

Members of the committee
Vasileios Sgourdos, Chairman
Vladimir Streshinskiy
Gregory Finger

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. They meet on an appropriate basis accordingly.

Members of the committee
Ivan Tavrin, Chairman
Charles Searle
Gregory Finger
Dmitry Grishin

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

Internal control is exercised by the Board of Directors, Executive and Regulatory Bodies, officers and other employees of the Company. Their aim is to secure the achievement of goals set by the Group in the following areas:

- Efficiency and effectiveness of business activity of the Company
- Reliability and credibility of the Company's reporting
- 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 Group'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 the Group's subsidiaries
- Assessing the effectiveness of the internal control systems of the Company, 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 Company and its subsidiaries and associates on appropriate corrective action plans flowing from internal audits

In 2011, we successfully implemented the SAP ERP accounting system in our major operating subsidiaries and the SAP FC consolidation system across the Group.

Corporate governance code

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

However, the Company 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 the Company'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 the Company in all material respects.

Policies and other details of the Company's corporate governance practices can be found at http://Corp.Mail.Ru/en/IR/CorpGovernance.

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 27 to the financial statements for further details).

Financial risk management structure

The Board of Directors intends to develop risk management policies which will cover the following major aspects: identification and analysis of the risks the 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 Group's risk management practices and procedures when these will be developed and approved by the Board of Directors. Management is currently considering different options of risk management framework, 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 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 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

The Board maintains a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, share premium, retained earnings and non-controlling interests of the Group.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The market risks the 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 the majority of the Group's 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 2011, the Group recorded a loss of US$4.4 million (2010: a gain of US$8.9 million). Similarly, because our financial statements are reported in US dollars, changes in the US$/RUB exchange rate can have a significant effect on the US dollar equivalents of amounts earned or incurred in roubles. 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 unlisted equity securities are susceptible to market price risk arising from uncertainties about the future value of the investment securities. The financial instruments that are exposed to equity price risk include financial investments in associates and available-for-sale equity investments. The 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.

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 Group 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 Group is entitled to such a presence.

Cash flow risk
The Company does not, in relation to its use of financial instruments, believe it has 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.

In 2011, the principal operating risks and uncertainties facing the Group were:

Operating environment of the Company
Most of our operations are in Russia. Russia continues with its economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

Taxation
Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. As such, significant additional taxes, penalties and interest may be assessed.

Competition
The development by domestic and large international internet companies of Russian language versions competing with the services we provide could decrease our user base and make us less attractive to advertisers.

Increased competition could result in a reduction in the number of users who buy our IVAS – including games – which, in turn, would result in lower revenue.

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

Intellectual property rights
The Group may be subject to infringement claims from third parties in the future resulting from the technology and intellectual property used in the provision and marketing of its services. If the Group is found liable for infringement, it may be required to pay significant damages, and if it is unable to license or develop non-infringing technology on a timely basis, it may be unable to continue to offer the affected services without risk of liability. Similarly, third parties may obtain and use the Group's intellectual property without authorization. The validity, application, enforceability and scope of protection of intellectual property rights for many internet-related activities are uncertain and still evolving, which may make it more difficult for the Group to protect its intellectual property, which could have a material effect on its business, results of operations and financial condition.

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

Regulation
New laws and regulations, or new interpretations of existing laws and regulations, could require us to invest in restructuring certain services or could lead to a reduction in their take-up by users, with a resulting effect on revenue and profitability.

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

Infrastructure and capacity
If the infrastructure in Russia were not able to support increased demand, our services could be interrupted or our systems damaged. A limited availability of third-party providers of network and server capacity could limit our ability to offer certain services or to expand. Network or power failures could result in the loss of data.

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

Risk of classification as PFIC

We do not expect to be classified as a "passive foreign investment company," or "PFIC," for US federal income tax purposes for our current taxable year. However, the determination of whether we are a PFIC is a factual determination made annually based on the composition of our assets and income on certain dates. Furthermore, the valuation of some of our assets may be difficult to ascertain, and there is therefore a risk that the IRS may challenge the valuations of some of our assets. Therefore, there can be no assurance that we will not be classified as a PFIC for our current taxable year or any future taxable year. If we are classified as a PFIC, materially adverse US federal income tax consequences could apply to US investors.

Risk of classification as an investment company

If we become an investment company under the US Investment Company Act of 1940 (the "Investment Company Act"), we may be effectively precluded from offering additional securities in the United States for as long as we remain an investment company, which could limit our access to financing and preclude US holders of GDRs from exercising pre-emptive rights.

The definition of an investment company in the US Investment Company Act extends not only to companies that hold themselves out as being primarily engaged in investment activities, but also to companies that own or propose to acquire investment securities having a value exceeding 40% of value of their total assets (excluding government securities and cash items) on an unconsolidated basis.

Under the Investment Company Act, a foreign investment company is not permitted to offer securities to the public in the United States without an SEC order permitting its registration. Such orders are generally not granted and we would not expect to seek such an order. As a result, if we are deemed to be an investment company we could not offer our debt or equity securities to the public in the United States, whether by way of a pre-emptive rights offering to existing US holders of GDRs or otherwise. Our ability to offer our debt or equity securities in the United States on a private placement basis depends on our ability to demonstrate that all United States persons (within the meaning of the Securities Act) who beneficially own our securities are qualified purchasers or that we have, and will have as a result of any offering, fewer than 100 US holders. In light of these restrictions, if we become an investment company, we anticipate that we would likely be unable to offer our debt or equity securities in the United States on a private placement basis for as long as we were to remain an investment company.

An inability to access the US market in future securities offerings could have a material adverse effect on our ability to raise sufficient capital to pursue opportunities that require significant funding, such as significant acquisitions or other investments, or to raise such funds on attractive terms. An inability to offer our securities in the United States could also have an adverse effect on our US GDR holders by preventing them from participating in pre-emptive rights offerings.

In addition, although the Company has no intention to cease operating its business primarily through majority-owned subsidiaries, if the Company in the future were to take steps to significantly expand its minority investments in other companies, such that its primary objective was to be investing and managing its assets with a view to spreading or otherwise managing investment risk, the Company could become classified as an investment entity for the purposes of the UKLA listing rules, and the GDRs would cease to be eligible for the Official List.

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 its subsidiaries 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 38.

Interests of members of our Board of Directors and our employees

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

The aggregate beneficial interest in the Company (excluding options granted over Ordinary Shares) held by senior managers, the Company Secretary and employees of the Company (including Dmitry Grishin and Matthew Hammond) as of the date hereof is 2.7%.

Incentive scheme

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

By the end of 2011, the scheme comprised options over an aggregate of 10,706,403 Ordinary Shares. On the IPO date, the Company 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. As of the date hereof, 5,095,668 of these options remain allocated for the benefit of certain employees and consultants of the Company (including options allocated for Dmitry Grishin and Matthew Hammond as senior managers of the Company). 455,022 options remain allocated for the benefit of the members of the Board (including options allocated for Matthew Hammond as a Director of the Company), 160,596 of which were assigned by three Directors to MIH Russia Internet B.V., a shareholder that nominated such Directors. The options vest over a four-year period (except for the options that have been allocated for the Directors of the Company and have a two-year vesting period).

Subsequently, in December 2011 the Company decided to assign 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. As of the date hereof, options for 2,455,000 of these Ordinary Shares have been allocated for the benefit of certain employees and consultants of the Company (including options allocated for Dmitry Grishin and Matthew Hammond as senior managers of the Company). The options vest over a four-year period.

Compensation

Directors of the Company

In 2011, the total remuneration of the Directors of the Company amounted to US$1,439 thousand (excluding remuneration of Matthew Hammond and Dmitry Grishin as senior managers of the Company). It was US$163 thousand for part of the year in 2010. In addition to the cash remuneration in 2011, Directors of the Company were granted options to acquire 786,920 Ordinary Shares at the exercise price of US$27.7 (excluding options allocated for Dmitry Grishin and Matthew Hammond as senior managers of the Company). The share-based payment expense recognized by the Group with respect to Directors' options was US$91 thousand in 2010 and US$9,783 thousand in 2011.

Key Management of the Company

Total remuneration of the key management of the Company amounted to US$14,885 thousand in 2011 (including remuneration of Matthew Hammond and Dmitry Grishin as senior managers of the Company). In addition to the cash remuneration, as of the date hereof, key management of the Group (including Matthew Hammond and Dmitry Grishin as senior managers of the Company) were granted and are holding options to acquire 3,914,716 Ordinary Shares of the Company at the exercise price of US$27.7 and options to acquire 2,455,000 Ordinary Shares of the Company at the exercise price of US$25.6. The corresponding share-based payment expense amounted to US$1,010 thousand in 2010 and US$42,056 thousand in 2011.

	Class A shares (direct and indirect)	Ordinary shares (direct and indirect)	Total % of Company's issued share capital represented by oustanding shares	Ordinary shares on which options are granted
Dmitry Grishin	–	3,720,169	1.8%	2,500,000
Gregory Finger[1]	12,000,000	–	5.7%	53,532
Marcos Galperin	–	–	–	53,532
Matthew Hammond	–	27,239	0.01%	319,482
Sang Hun Kim	–	–	–	53,532
Charles Searle	–	–	–	–
Vasileios Sgourdos	–	–	–	–
Mark Remon Sorour	–	–	–	–
Vladimir Streshinskiy	–	–	–	53,532
Ivan Tavrin	–	31,000	0.01%	53,532

1 Gregory Finger has an economic interest in the performance of the shares in the Company held by New Media and Technology Investment LP and its affiliates ("NMT").

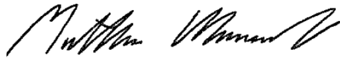
Responsibility statement

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
Director, Managing Director
Mail.Ru Group Limited

26 April 2012

Consolidated Financial Statements

For the year ended December 31, 2011

Contents

46 Independent auditors' report

Consolidated Financial Statements:

47 Consolidated Statement of Financial Position
48 Consolidated Statement of Comprehensive Income
49 Consolidated Statement of Cash Flows
51 Consolidated Statement of Changes in Equity
53 Notes to Consolidated Financial Statements

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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, 2011 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, 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 26, 2012

A member firm of Ernst & Young Global Limited

Consolidated Statement of Financial Position

As of December 31, 2011
(in thousands of US dollars)

	Notes	As at December 31, 2011	As at December 31, 2010 (Restated)	As at January 01, 2010 (Restated)
ASSETS				
Non-current assets				
Investments in strategic associates	6, 10	283,216	203,279	442,178
Goodwill	2, 6, 7, 11	1,023,999	1,081,762	481,482
Other intangible assets	6, 7	365,984	439,317	243,981
Property and equipment	8	36,004	40,256	8,543
Available-for-sale financial assets	26	2,155,515	1,453,518	220,049
Financial assets at fair value through profit or loss	26	25,472	22,404	113,174
Deferred income tax assets	22	1,335	1,933	556
Other non-current assets	15	15,184	3,791	3,421
Total non-current assets		**3,906,709**	**3,246,260**	**1,513,384**
Current assets				
Trade accounts receivable	12	69,739	48,091	21,528
Loans receivable		87	–	1,875
Prepaid income tax		2,895	1,534	24
Prepaid expenses and advances to suppliers		7,314	6,156	9,737
Financial assets at fair value through profit or loss	26	–	17,793	–
Other current assets	15	3,689	2,996	1,304
Short-term time deposits	13	27,423	2,232	960
Cash and cash equivalents	13	124,703	118,417	147,915
Total current assets		**235,850**	**197,219**	**183,343**
Total assets		**4,142,559**	**3,443,479**	**1,696,727**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Issued capital	14	1	1	1
Share premium	2	1,561,222	1,495,018	878,650
Treasury shares	14	(20,577)	–	–
Retained earnings	2	742,412	712,302	558,590
Accumulated other comprehensive income (loss)	2	1,634,346	1,031,517	(91,447)
Total equity attributable to equity holders of the parent		**3,917,404**	**3,238,838**	**1,345,794**
Non-controlling interests	2	314	(311)	145,844
Total equity		**3,917,718**	**3,238,527**	**1,491,638**
Non-current liabilities				
Financial liabilities at fair value through profit or loss	26	4,510	1,111	101,895
Deferred income tax liabilities	22	82,837	92,889	51,005
Total non-current liabilities		**87,347**	**94,000**	**152,900**
Current liabilities				
Trade accounts payable		25,754	17,521	5,897
Income tax payable		3,224	7,563	4,324
VAT and other taxes payable		25,745	16,800	9, 418
Deferred revenue and customer advances		53,689	38,859	16,853
Other payables, provisions and accrued expenses	16	29,082	30,209	15,697
Total current liabilities		**137,494**	**110,952**	**52,189**
Total liabilities		**224,841**	**204,952**	**205,089**
Total equity and liabilities		**4,142,559**	**3,443,479**	**1,696,727**

* Certain numbers shown here do not correspond to the 2010 financial statements and reflect adjustments made as detailed in Note 2.2.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2011
(in thousands of US dollars, except per share information)

	Notes	2011	2010 Restated
Revenues	17	**505,931**	**275,306**
Cost of revenues	18	(125,337)	(66,483)
Gross profit		**380,594**	**208,823**
Net gain on venture capital investments and associated derivative financial assets and liabilities	26	1,266	2,614
Research and development expenses	19	(5,279)	(2,347)
Selling, general and administrative expenses	20	(167,731)	(158,977)
Impairment of intangible assets	7	(7,114)	(1,691)
Depreciation and amortization		(90,701)	(57,464)
Operating income/(loss)		**111,035**	**(9,042)**
Finance income	21	4,101	1,385
Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates and subsidiaries	26	(23,297)	(2,283)
Net gain on acquisition of control in strategic associates	6, 10	–	104,992
Net gain on acquisition of control in available-for-sale investments	6, 26	–	81,162
Net gain on disposal of shares in strategic associates	6, 10	315	16,486
Net loss on loss of control in subsidiaries	6	–	(754)
Net foreign exchange gains/(losses)		(4,365)	8,935
Impairment losses related to strategic associates	10	(6,177)	(11,207)
Share of profit/(loss) of strategic associates	10	484	(9,084)
Gain on bargain purchase of subsidiary	6	–	749
Other income		1,313	–
Other expenses		(663)	(456)
Profit before income tax expense		**82,746**	**180,883**
Income tax expense	22	(51,587)	(23,682)
Net profit		**31,159**	**157,201**
Attributable to:			
Equity holders of the parent		30,110	153,712
Non-controlling interest		1,049	3,489
Other comprehensive income			
Exchange differences on translation of foreign operations:			
Differences arising during the year		(246,242)	(16,956)
Accumulated exchange differences reclassified to earnings upon disposal of foreign operations		–	34,034
Available-for-sale financial assets:			
Gains arising during the year		849,047	1,117,460
Reclassification adjustments for gains included in profit or loss		–	(14,553)
Total other comprehensive income, net of tax effect of 0		**602,805**	**1,119,985**
Total comprehensive income, net of tax		**633,964**	**1,277,186**
Attributable to:			
Equity holders of the parent		632,939	1,276,676
Non-controlling interest		1,025	510
Earnings per share, in US dollars:			
Basic earnings for the year attributable to ordinary equity holders of the parent	23	0.14	0.99
Diluted earnings for the year attributable to ordinary equity holders of the parent	23	0.14	0.96

* Certain numbers shown here do not correspond to the 2010 financial statements and reflect adjustments made as detailed in Note 2.2.

Consolidated Statement of Cash Flows

For the year ended December 31, 2011
(in thousands of US dollars)

	Notes	2011	2010 Restated
Cash flows from operating activities			
Profit before income tax		82,746	180,883
Adjustments for:			
Depreciation and amortization	7, 8	90,701	57,464
Bad debt expense/(reversal)	12	(615)	1,414
Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic investees and subsidiaries	26	23,297	2,283
Net loss on loss of control in subsidiaries	6	–	754
Net gain on acquisition of control in strategic associates	6, 10	–	(104,992)
Net gain on acquisition of control in available-for-sale investments	6, 26	–	(81,162)
Net gain on disposal of shares in strategic associates	6, 10	(315)	(16,486)
Loss on disposal of property and equipment		401	–
Loss on disposal of Intangible assets		147	–
Finance income	21	(4,101)	(1,385)
Dividend revenue from venture capital investments	17	(3,578)	(2,539)
Share of (profit)/loss of strategic associates	10	(484)	9,084
Gain on bargain purchase of subsidiary	6	–	(749)
Impairment losses related to intangible assets	7	7,114	1,691
Impairment losses related to associates and available-for-sale investments	10	6,177	11,207
Net foreign exchange (gains)/losses		4,365	(8,935)
Share-based payment expense	28	64,486	25,920
Other non-cash items		(306)	45
(Increase)/decrease in accounts receivable		(26,499)	(13,275)
Increase/(decrease) in advances received		(1,629)	(668)
(Increase)/decrease in inventories		(341)	–
(Increase)/decrease in other assets		22	5,179
Increase in accounts payable, provisions and accrued expenses		24,437	14,230
Increase/(decrease) in other non-current assets		(6,696)	–
Increase in deferred revenue		18,521	20,405
Increase in venture capital financial assets designated as at fair value through profit or loss	26	(5,695)	(3,981)
Increase in derivative financial liabilities over the equity of venture capital financial assets designated as at fair value through profit or loss	26	–	(1,814)
Operating cash flows before interest and income taxes		**272,155**	**94,573**
Dividends received from venture capital investments		3,045	2,516
Interest received, net of related bank commissions paid		3,027	380
Income tax paid	22	(62,541)	(23,647)
Net cash provided by operating activities		**215,686**	**73,822**

* Certain numbers shown here do not correspond to the 2010 financial statements and reflect adjustments made as detailed in Note 2.2.

Consolidated Statement of Cash Flows (continued)

For the year ended December 31, 2011
(in thousands of US dollars)

	Notes	2011	2010 Restated
Cash flows from investing activities:			
Cash paid for available-for-sale investments and assets related to Class C shares	26	–	(149,412)
Cash paid for derivative financial instruments over the equity of strategic associates	6, 26	–	(18,865)
Cash paid for investments in strategic associates	6, 10	(111,717)	(109,869)
Cash paid for property and equipment		(15,433)	(16,593)
Cash paid for intangible assets		(26,996)	(12,794)
Cash paid for acquisitions of subsidiaries, net of cash acquired	6	(2,657)	(233,882)
Dividends received from strategic associates and investments designated as available-for-sale financial assets		6,193	5,436
Proceeds from disposal of shares in strategic associates	6, 10	–	24,123
Proceeds from disposal of subsidiaries, net of cash disposed of	6	–	(252)
Issuance of loans		(4,095)	(1,998)
Collection of loans		4,374	–
Proceeds from sales of short-term and long-term deposits		2,159	1,580
Acquisition of short-term and long-term deposits		(37,942)	(988)
Net cash used in investing activities		**(186,114)**	**(513,514)**
Cash flows from financing activities:			
Cash paid for non-controlling interests in subsidiaries	6	–	(29,121)
Proceeds from issuance of common stock, net of share issuance costs paid	14	–	438,573
Proceeds from exercise of share options over the shares of the Company		–	3,038
Cash paid for treasury shares	14	(20,577)	–
Dividends paid by subsidiaries to non-controlling shareholders	29	(400)	(3,472)
Net cash provided by/(used in) financing activities		**(20,977)**	**409,018**
Net increase in cash and cash equivalents		**8,595**	**(30,674)**
Effect of exchange differences on cash balances		(2,309)	1,176
Cash and cash equivalents at the beginning of the period		118,417	147,915
Cash and cash equivalents at the end of the period		**124,703**	**118,417**

* Certain numbers shown here do not correspond to the 2010 financial statements and reflect adjustments made as detailed in Note 2.2.

Consolidated Statement of Changes in Equity

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

	Notes	Share capital		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
		Number of shares issued and outstanding	Amount							
Balance at January 1, 2010		**62,670**	**1**	**878,873**	**–**	**558,367**	**(91,447)**	**1,345,794**	**130,846**	**1,476,640**
Changes in accounting policies	2	–	–	(223)	–	223	–	–	14,998	14,998
Balance at January 1, 2010 (Restated)		**62,670**	**1**	**878,650**	**–**	**558,590**	**(91,447)**	**1,345,794**	**145,844**	**1,491,638**
Profit for the period		–	–	–	–	153,712	–	153,712	3,489	157,201
Other comprehensive income:										
Foreign currency translation		–	–	–	–	–	20,057	20,057	(2,979)	17,078
Unrealized holding gains on available-for-sale financial assets	26	–	–	–	–	–	1,102,907	1,102,907	–	1,102,907
Total other comprehensive income		–	–	–	–	–	1,122,964	1,122,964	(2,979)	1,119,985
Total comprehensive income		–	**–**	**–**	**–**	**153,712**	**1,122,964**	**1,276,676**	**510**	**1,277,186**
Shares issued for cash	14	9,466	–	349,992	–	–	–	349,992	–	349,992
Shares issued in business combinations	6	778	–	29,989	–	–	–	29,989	–	29,989
Exercise of option over shares of the Company (pre share split)	28	267	–	3,038	–	–	–	3,038	–	3,038
Acquisitions of non-controlling interests in existing subsidiaries	6	23,080	–	122,157	–	–	–	122,157	(149,274)	(27,117)
Share-based payment transactions	28	–	–	23,085	–	–	–	23,085	2,142	25,227
Exercise of options over the shares of subsidiaries	26	–	–	(2,053)	–	–	–	(2,053)	3,553	1,500
Split of Shares	14	192,425,739	–	–	–	–	–	–	–	–
Shares issued in IPO	14	3,336,000	–	92,407	–	–	–	92,407	–	92,407
Exercise of options over shares of the Company (post share split)	28	12,663,603	–	–	–	–	–	–	–	–
Share in other changes in equity of associates	10	–	–	756	–	–	–	756	83	839
Share-based payment transactions by strategic associates	10, 28	–	–	976	–	–	–	976	–	976
Share issuance costs accounted for as a deduction from equity		–	–	(3,979)	–	–	–	(3,979)	–	(3,979)
Dividends by subsidiaries to non-controlling shareholders	28	–	–	–	–	–	–	–	(3,169)	(3,169)
Balance at December 31, 2010 (Restated)		**208,521,603**	**1**	**1,495,018**	**–**	**712,302**	**1,031,517**	**3,238,838**	**(311)**	**3,238,527**

* Certain numbers shown here do not correspond to the 2010 financial statements and reflect adjustments made as detailed in Note 2.2.

Consolidated Statement of Changes in Equity (continued)

For the year ended December 31, 2011 (Restated)*
(in thousands of US dollars, except per share information)

		Share capital								
	Notes	Number of shares issued and outstanding	Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at December 31, 2010 (Restated)		**208,521,603**	**1**	**1,495,018**	**–**	**712,302**	**1,031,517**	**3,238,838**	**(311)**	**3,238,527**
Profit for the period		–	–	–	–	30,110	–	30,110	1,049	31,159
Other comprehensive income:										–
Foreign currency translation		–	–	–	–	–	(246,218)	(246,218)	(24)	(246,242)
Unrealized holding gains on available-for-sale financial assets	26	–	–	–	–	–	849,047	849,047	–	849,047
Total other comprehensive income		–	–	–	–	–	602,829	602,829	(24)	602,805
Total comprehensive income		**–**	**–**	**–**	**–**	**30,110**	**602,829**	**632,939**	**1,025**	**633,964**
Share-based payment transactions	28	–	–	64,486	–	–	–	64,486	–	64,486
Exercise of options over the shares of the Company	28	105,502	–	–	–	–	–	–	–	–
Excercise of conversion right by non-controlling shareholder in a subsidiary	6	432,867	–	–	–	–	–	–	–	–
Acquisition of treasury shares	14	(651,534)	–	–	(20,577)	–	–	(20,577)	–	(20,577)
Share-based payment transactions by strategic associates	10, 28	–	–	192	–	–	–	192	–	192
Dividends by subsidiaries to non-controlling shareholders	29	–	–	–	–	–	–	–	(400)	(400)
Other changes in net assets of strategic associates	10	–	–	2,201	–	–	–	2,201	–	2,201
Other changes in share premium		–	–	(675)	–	–	–	(675)	–	(675)
Balance at December 31, 2011		**208,408,438**	**1**	**1,561,222**	**(20,577)**	**742,412**	**1,634,346**	**3,917,404**	**314**	**3,917,718**

* Certain numbers shown here do not correspond to the 2010 financial statements and reflect adjustments made as detailed in Note 2.2.

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 December 31, 2011 were authorized for issue by the directors of the Company on April 26, 2011.

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

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

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

2 Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis, except for financial assets and liabilities designated as at fair value through profit or loss, derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The consolidated financial statements are presented in US dollars ("USD") and all values are rounded to the nearest thousand (USD '000) except per share information and unless otherwise indicated.

2.1 Statement of compliance

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

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

2.2 Application of new and amended IFRS and IFRIC

The 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, 2011:

- IAS 24 Related Party Disclosures (amendment) effective January 1, 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective February 1, 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective January 1, 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)

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

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have this type of instruments.

2 Basis of preparation (continued)

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

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Group is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

Improvements to IFRSs

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

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

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

As of January 1, 2010:

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

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

Increase in goodwill: USD 14,883
Increase in non-controlling interest: USD 220
Increase in share premium: USD 14,205
Increase in retained earnings: USD 370
Net increase in other comprehensive income: USD 88

The related effect on earnings per share for 2010 was an increase of USD 0.01 per share.

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

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

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Unreplaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements

2 Basis of preparation (continued)

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

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 Customer Loyalty Programs (determining the fair value of award credits)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Reclassifications

Certain corresponding information presented in the consolidated financial statements for the year ended December 31, 2010 has been reclassified in order to achieve comparability with the presentation used in these consolidated financial statements.

Significant reclassifications are summarized in the table below:

Increase/(decrease) in:	As of December 31, 2010	As of January 01, 2010
Trade accounts payable	(5,000)	(1,023)
Other payables, provisions and accrued expenses – Other current payables and provisions	5,000	1,023

All other reclassification adjustments were insignificant, individually and in the aggregate.

2.3 New accounting pronouncements

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

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment only affects presentation and therefore has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

IAS 12 Income Taxes (amended) – Deferred Tax: Recovery of Underlying Assets

The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. The Group expects that the adoption of the amended standard will not have a significant impact on its financial position or performance in the period of initial application. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the amendments. The amendments become effective for annual periods beginning on or after January 1, 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment only affects disclosure and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

2 Basis of preparation (continued)

2.3 New accounting pronouncements (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 11 Joint Arrangements

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 must be accounted for using the equity method. The application of this new standard will not impact the financial position or the performance of the Group. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously included in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

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 Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

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, 2011 and for the year then ended.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests at the end of reporting period represent the non-controlling interest shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the non-controlling interests' portion of movements in equity since the date of the combination.

Non-controlling interest is presented in the statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. Acquisitions and disposals of non-controlling interests are accounted for as equity transactions.

Written put options over non-controlling interests are recognized as a financial liability at acquisition date, with an offset *"Share premium"*. The financial liability is measured at the fair value of its redemption amount. All subsequent changes in the carrying amount of the financial liability are recognized 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 derecognizes the financial liability and recognizes 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"*.

3.2 Business combinations and goodwill

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

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another.

3 Summary of significant accounting policies (continued)

3.2 Business combinations and goodwill (continued)

The Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced in the business combination.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

A contingent liability of the acquiree is recognized 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.

The Group measures NCI either at fair value or at its proportionate interest in the identifiable net assets of the acquiree. Only components of NCI constituting a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation 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.

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

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 ("CGU") 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 CGU 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 reorganizes its reporting structure in a way that changes the composition of one or more CGUs 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 CGU, unless some other method better reflects the goodwill associated with the reorganized units.

3.3 Investments in associates

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

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

3.3.1 Financial investments in associates

Financial investments, or venture capital investments, are the Group's investments in start-up Internet ventures. They form the Group's venture capital portfolio and are monitored and managed exclusively on the basis of their fair values. The Group's involvement in the operating management of the investees is limited, and the possibility of the Group maintaining a specific financial investment in its investment portfolio in the long run is remote. Financial investments are carried in the statement of financial position at fair value even though the Group may exert significant influence over those companies. This treatment is permitted by IAS 28 Investments in Associates, which allows investments held by venture capital organizations 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 recognized in the profit or loss in the period of the change. Accounting policies of the Group with respect to financial investments in associates are discussed in more detail under 3.13 below as part of the Group's accounting policies with respect to financial assets.

3.3.2 Investments in strategic associates

Investments in strategic associates are regarded by the Group as its key investments. The Group participates in the operating management of the associates and intends to stay involved in their operations in a long-term perspective. Strategic associates are accounted for using the equity method. Under the equity method, the investments in associates are carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Distributions received from an investee reduce the carrying amount of the investment. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

3 Summary of significant accounting policies (continued)

3.3 Investments in associates (continued)

3.3.2 Strategic investments in associates (continued)

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 recognized directly in the equity of the associates, the Group recognizes its share of any changes in the investment balance and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Dividends received from strategic associates are shown in investing activities in the statement of cash flows.

The share of profit of strategic associates is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the associates and therefore is profit after tax of the associates and after non-controlling interests in the subsidiaries of the associates. The Group's share of movements in reserves is recognized 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 recognize 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 recognize 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 recognizes 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 recognized 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 recognized as goodwill as part of the investment in strategic associates.

Upon loss of significant influence over a strategic associate, the Group measures and recognizes 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 recognized in profit or loss.

3.4 Property and equipment

3.4.1 Property and equipment

Property and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment. Interest costs on borrowings to finance the construction of property and equipment are capitalized, 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 labor, 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 capitalized 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 recognized net under *"Other income"* or *"Other expenses"* in the statement of comprehensive income.

The cost of replacing part of an item of property and equipment is recognized 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 derecognized.

3 Summary of significant accounting policies (continued)

3.4 Property and equipment (continued)

3.4.2 Depreciation and useful life

Depreciation is calculated on property and equipment on a straight-line basis from the time the assets are available for use, over their estimated useful lives as follows:

	Estimated useful life (in years)
Servers and computers	3–5
Furniture	7
Office IT equipment	2–3
Leasehold improvements	Lesser of useful life or life of lease

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

3.5 Intangible assets other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization 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 recognized 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 capitalized 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 capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred.

Subsequent expenditure is capitalized 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 recognized in profit or loss as incurred.

3.5.2 Useful life and amortization 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, 2011 and 2010.

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

Amortization 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 amortization 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
Capitalized software costs	3
Domain names	10
Games	3–9
Customer base	3–15
Licenses	3–5
Software	1.5–3

3.6 Cash and cash equivalents

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

3 Summary of significant accounting policies (continued)

3.7 Employee benefits

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

Under provisions of the Russian legislation, social contributions are made through social insurance payments calculated by the Group by the application of a 34% rate to the portion of the annual gross remuneration of each employee not exceeding RUR 463 thousand (approximately USD 16) and a rate of 0% to the portion exceeding this threshold.

The Group's Israeli subsidiary operates a defined benefit plan for severance pay pursuant to Israel's Severance Pay Law. Under the law, Israeli resident employees are entitled to receive severance pay upon involuntary termination of employment, or upon retirement, which is calculated based on the most recent monthly salary at the time of termination, multiplied by the number of years of employment. Actuarial gains and losses are recognized in profit or loss in the period in which they occur. The present value of defined benefit obligation as of December 31, 2011 amounted to USD 1,391 (December 31, 2010: USD 1,733, January 1, 2010: nil). Pursuant to the Israeli law, the Group makes current deposits in respect of its liabilities to pay compensation to certain of its employees in pension funds and insurance companies (the "plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group. The severance pay liability recognized in the Statement of Financial Position represents the present value of the defined benefit obligation, reduced by the fair value of plan assets. Total severance expenses for the year ended December 31, 2011 amounted to USD 621 (2010: USD 264).

3.8 Provisions

Provisions are recognized 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 recognized 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 recognized as an interest expense.

3.9 Revenue recognition

Revenue is recognized 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 recognized in the period when services are rendered.

3.9.1 Internet value-added services ("IVAS")

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

3.9.1.1 Revenue from online games

The Group operates its games mainly under the free-to-play game model. The Group derives its online game revenue from in-game virtual items representing additional functionality and features for the game players' characters purchased by game players to play its MMO games and social 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 recognized as revenues and are credited to deferred revenue. They are then converted by the players into the in-game points. In-game points are used to purchase in-game items. Under the item-based revenue model, revenues are recognized 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 recognized. The estimated life span of in-game items is determined based on historical player usage patterns and playing behavior. The average estimated life of in-game items varies from 30 to 100 days.

The Group enters into licensing arrangements with overseas licensees to operate the Group's games in other countries and regions. These licensing agreements provide two separate elements, each having commercial substance: the initial non-refundable fees and the usage-based royalty fees. The initial non-refundable payment represents the license of the game and is recognized 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 recognized when they are earned, provided that the collection is probable.

3.9.1.2 Listing fees

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

3 Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

3.9.1 Internet value-added services ("IVAS") (continued)

3.9.1.3 Other IVAS

The Group derives other IVAS revenues through certain communication products, where users pay a fee for the paid content and online services, mainly through social networking web sites and through the commission from third party developers of 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. The mobile network operators collect fees for such services from their customers, usually through mobile short message services ("SMS"), and pass such fees to the Group. These services are recognized as revenue as the services are provided on a gross basis, net of commission to mobile operators and any portion attributable to the developer of the application. If the amount of revenue is measured based on third party data, such amounts of revenue are recorded based on the best available data at the date of issuance of the financial statements.

3.9.2 Online advertising

3.9.2.1 Display advertising

Banner advertising space for display advertising is sold on a static basis (i.e. a function of time that an advertisement lasts) or a dynamic basis (i.e. according to the number of page views on an advertisement). The Group has standard rates for online advertisements that depend on several factors, including the specific web page on which the banner appears, the length of the contract, the season, and the format, size and position of the advertisement. Display advertising revenue is recognized 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 recognized net of any portion attributable to the third parties.

3.9.2.1.1 Barter transactions

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

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

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 and expense recognized from advertising barter transactions was USD 2,313 and USD 1,691 for the years ended December 31, 2011 and 2010, respectively.

3.9.2.2 Context advertising

The Group earns revenues for context advertising through partnerships with third parties. Once a user carries out a search on certain of the Group's websites, search results and advertisement links are displayed on the webpage based on relevancy to the search topic and other known user parameters. When clicked on by the user, the advertisement links lead to sites owned by the third parties' advertising customers, for which the third party receives a fee, a portion of which it shares with the Group. Context advertising revenue is recognized 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 recognized upon click-through, while revenue from pay-per-view advertisements is recognized as the advertisements are viewed.

3.9.3 Dividend revenue

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

3.9.4 Online recruitment revenue

Online recruitment revenues primarily consist of the following:

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

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

3 Summary of significant accounting policies (continued)

3.9.4 Online recruitment revenue (continued)

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 recognizes revenues related to these services in the period when the services are rendered.

3.9.5 Other revenues

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

3.10 Finance income

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

3.11 Income taxes

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

The Group is also subject to taxation in Russia, the United States of America and some other jurisdictions its subsidiaries operate in (see also Note 22).

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 recognized directly in Other Comprehensive income is recognized in Other Comprehensive income and not in profit or loss.

Deferred income tax

Deferred tax is recognized 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 recognized 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 recognized 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 realized simultaneously.

A deferred tax asset is recognized 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 utilized. 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 realized.

3.12 Share-based payment transactions

Employees (including senior executives) of the Group and its associates, as well as certain entities providing services to the Group and its associates, and employees of such entities (each of which a "share-based payment recipient"), may receive remuneration in the form of share-based payment transactions, whereby share-based payment recipients render services as consideration for equity instruments ("equity-settled transactions").

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.

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 recognized, 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 recognized 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 recognized in profit or loss represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized 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.

3 Summary of significant accounting policies (continued)

3.12 Share-based payment transactions (continued)

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the share-based payment recipient as measured at the date of modification.

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

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

3.13 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 recognized 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 recognized initially at fair value and, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial assets include cash and cash equivalents, short-term time deposits, trade and other receivables, available-for-sale investments in non-listed equity instruments, financial investments in associates (as defined under 3.3.1), and derivative financial assets over equity instruments of the Group's associates. The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative 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.

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 recognized 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"*;
- 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 amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognized in the statement of comprehensive income under *"Bad debt expense/(reversal)"* in *"Selling, general and administrative 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 deposits with Russian banks with contractual terms less than one year.

3 Summary of significant accounting policies (continued)

3.13 Financial instruments (continued)

3.13.2 Subsequent measurement (continued)

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 unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is recognized in the statement of comprehensive income under *"Impairment losses"* and removed from the available-for-sale reserve.

3.13.2.4 Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in *"Finance income"* in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in *"Impairment losses"*. The Group did not have any held-to-maturity investments during the years ended December 31, 2011 and 2010.

3.13.2.5 Loans and borrowings and other financial liabilities

After initial recognition, interest bearing loans and borrowings and other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in *"Finance costs"* in the statement of comprehensive income.

3.13.3 Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized 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 derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

3.13.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize 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 organized 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 26.

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 has 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 amortized cost

For financial assets carried at amortized 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 reorganization 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.

3 Summary of significant accounting policies (continued)

3.13 Financial instruments (continued)

3.13.6 Impairment of financial assets (continued)

3.13.6.1 Financial assets carried at amortized cost (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss as a *"Bad debt expense/(reversal)"* in *"Selling, general and administrative expenses"*.

Trade accounts receivable are recorded at the invoiced amount and are non-interest bearing. Credit is only granted to customers after a review of credit history. The Group maintains an allowance for doubtful accounts to reserve for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided at differing rates, based upon the age of the receivable. In determining these percentages, the Group analyzes 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 realiztic prospect of future recovery and all collateral has been realized 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 recognized, the previously recognized 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/(reversal)"* in *"Selling, general and administrative expenses"*.

Interest revenue on impaired financial assets is recognized 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 recognized in earnings – is removed from other comprehensive income and recognized in earnings. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

3.14 Foreign currency translation

The consolidated financial statements are presented in US dollars (USD), which is the Group's presentation currency, and all values are rounded to the nearest thousand (USD '000) except per share information and unless otherwise indicated. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Group's Russian subsidiaries and associates as well as the Company itself is the Russian Rouble ("RUR"). The Group has elected to present its financial statements in USD because such presentation is required by the shareholders of the Company.

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

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Foreign currency translation (continued)

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 recognized 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 only the entire cumulative amount of the exchange differences recognized 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 recognized 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 recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized 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 recognized. 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 amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in earnings.

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

3.15.1 Goodwill

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

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

In 2011 the Group revised the composition of its CGUs due to the changes in business structure (see Note 11).

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 3.13.6, those investments are tested for impairment in a manner similar to non-financial assets. Whenever application of the requirements in IAS 39 indicates that the investment may be impaired, the entire carrying amount of the investment is tested for impairment by comparing its recoverable amount (the higher of value in use and fair value less costs to sell) with its carrying amount. In determining the value in use of the investment, an entity estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds from the ultimate disposal of the investment.

When determining the value in use of an investment in a strategic associate, the Group regards its investment in the associate as a single CGU, rather than "drilling down" into the separate CGUs determined by the associate itself for the purposes of its own financial statements. If the Group concludes that the associate is impaired, the impairment is not allocated to the underlying assets or goodwill recognized 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 recognized by the Group as part of the respective strategic associates. A previously recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in earnings.

3.16 Earnings per share

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

3 Summary of significant accounting policies (continued)

3.16 Earnings per share (continued)

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which may comprise share options granted to employees of the Group and its associates, as well as certain entities providing services to the Group and its associates, and employees of such entities. Additionally, certain subsidiaries and associates of the Group have issued instruments to the Company and to other parties that are convertible into ordinary shares of the respective subsidiary or associate. If these instruments have a dilutive effect on the basic EPS of the Group, they are included in the calculation of diluted 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. Unallocated items mainly comprise corporate expenses.

In 2011 the Group revised the composition of its segments due to the changes in business structure and resulting changes in internal management reporting (see Note 5).

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 recognized 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 Company 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 Functional currency of the Company

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

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

4.1.3 Consolidation of a special purpose 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 28). 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.

4.1.4 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 a wide discretion over the way of settlement of options issued under the 2010 Option Plan (as defined in Note 28) and determines the accounting treatment of the options based on whether the Group has a present obligation to settle in cash. The Group determined that it did not have such obligation as of December 31, 2011 based on a history of prevailing net share (GDR) settlement of the options as of the date of these financial statements and the Group's intent to settle most of the options in the form of GDRs in the future. Accordingly, the Group's option awards to employees and directors are treated as equity-settled share-based payments.

4 Significant accounting judgments, estimates and assumptions (continued)

4.2 Estimates and assumptions

Significant estimates and assumptions reflected in the Company's financial statements include, but are not limited to the following:

- revenue recognition;
- fair value of financial instruments;
- useful lives of intangible assets;
- software development costs;
- impairment of intangible assets, goodwill and investments in associates;
- fair value of assets and liabilities in business combinations; and
- share-based payments.

Actual results could materially differ from those estimates.

The key assumptions concerning the future events and other key sources of estimation uncertainty at the reporting date that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.2.1 Revenue recognition – in-game items life span

Deferred revenue is recognized 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 behavior. 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 26 and 27.

4.2.3 Useful life of intangible assets

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

4.2.4 Software development costs

Software development costs are capitalized in accordance with the accounting policy described in Note 3.5.1. Initial capitalization 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 capitalized management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

4 Significant accounting judgments, estimates and assumptions (continued)

4.2 Estimates and assumptions (continued)

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

Identification of indicators of impairment of non-financial assets and investments in strategic associates involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on the analysis of a significant number of factors such as changes in current competitive environment, increase in the cost of capital, future changes in borrowing capacity, technological obsolescence, termination of services, current replacement cost and other changes in circumstances which are indicators of impairment. Calculation of the recoverable amount level requires that management estimates be applied. Calculation of the value in use involves methods which are based on the valuation of expected discounted future cash flows and require the Company to assess these cash flows on an asset level or cash-generating unit level, as applicable, as well as to choose an appropriate discount rate for the purpose of calculating the present value of cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment.

4.2.6 Fair value of assets and liabilities in business combinations

At the acquisition date the Company recognizes separately the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation methods that require considerable judgment in forecasting future cash flows and developing other assumptions. Please refer to Note 6 for the amounts of fair values assigned in business combinations.

4.2.7 Share-based payments

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

4.3 Changes in estimates – Revenue deferral in certain online games

In 2011, the Group changed its estimates with respect to some assumptions used in calculating deferred revenue from certain MMO and social games, including expected usage pattern of certain virtual in-game items and users' virtual currency balances in certain MMO games and expected remaining useful lives of certain social games. The changes resulted from (1) new information becoming available due to additional technical features introduced into the billing of a licensed MMO game by the third-party developer, (2) accumulated historical information on in-game items usage patterns, and (3) reassessment by management of certain social games' remaining useful lives based on relevant recent operational statistics. The changes in estimates were recorded prospectively starting from January 1, 2011 and resulted in an increase in revenue and a decrease in deferred revenue estimated at USD 2,120.

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 analyzed 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, amortization 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.

Accordingly, the operating segment information presented below includes ICQ (as defined in Note 6) starting from July 7, 2010, while OK (as defined in Note 6.1.3) and Data Center (as defined in Note 6.1.1) are included starting from January 1, 2010.

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.

5 Operating segments (continued)

Starting from December 2011, 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 (including social games), 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 amortization (EBITDA). Segment EBITDA is calculated as the respective segment's revenue less operating expenses (excluding depreciation and amortization 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 information about the breakdown of revenue from external customers by the customers' country of domicile and non-current assets by country is not available to the management of the Group, and it considers that the cost to develop such information would be excessive.

Change in presentation of segments in 2011

In 2011, the Group continued the integration of acquired businesses and aligned its organizational, management and reporting structure with its product offering, instead of the previously existing legal entity-based structure. Accordingly, the set of operating segments identified for presentation of the Group's segment financial information to the CODM was modified to reflect these changes.

The Group made several other changes to the presentation of segment information to the CODM, mainly driven by the change in operating segments identification basis. The changes affected the presentation and calculation of each segment's income statement items reviewed by the CODM. Starting from December 2011, the CODM reviewed each segment's revenue and EBITDA (as defined above), while net profit was only presented to the CODM on an aggregated basis for the Group and was not used to assess the performance of each operating segment. Prior to December 2011, the CODM reviewed each segment's revenue, EBITDA and net income, and the segments' EBITDA or net income did not include any allocation of Group corporate expenses, which were separately shown under "*Corporate, eliminations and other*".

The comparative segment information for 2010 was not presented to conform to current year presentation as described above, because the required information is not available, and management considers that the cost to retrospectively develop such information would be excessive. Accordingly, in addition to the 2011 presentation as described above, the 2011 segment information was also presented in accordance with the segment identification principles used in 2010 for comparability purposes.

5 Operating segments (continued)

Change in presentation of segments in 2011 (continued)

Additionally, in 2011, the calculation of net profit, as presented to the CODM, was adjusted to include or exclude certain items as compared to the 2010 presentation:

- net profit, as presented to the CODM in 2011, excludes the tax effect of the foreign exchange gains and losses excluded from the net income calculation; and
- net profit, as presented to the CODM in 2011, includes dividend income from financial investments in associates and available-for-sale investments.

The respective comparative information for the year ended December 31, 2010 was presented accordingly to conform to the current year presentation.

The income statement items for each segment and the Group for the year ended December 31, 2011, 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	122,075	159,615	142,822	90,912	–	515,424
Intersegment revenue	–	–	–	4,948	(4,948)	–
Total revenue	**122,075**	**159,615**	**142,822**	**95,860**	**(4,948)**	**515,424**
Total operating expenses	39,912	44,168	101,774	51,598	(4,948)	232,504
EBITDA	**82,163**	**115,447**	**41,048**	**44,262**	**–**	**282,920**
Net profit	**–**	**–**	**–**	**–**	**–**	**208,632**

The income statement items for each segment for the year ended December 31, 2011, presented in accordance with the segment identification principles used in 2010, are presented below:

	Mail	OK	HH	Total segments	Corporate, eliminations and other	Group
Revenue						
External revenue	332,199	135,440	47,774	515,413	11	515,424
Intersegment revenue	3,294	17	202	3,513	(3,513)	–
Total revenue	**335,493**	**135,457**	**47,976**	**518,926**	**(3,502)**	**515,424**
Total operating expenses	164,926	32,732	31,107	228,765	3,739	232,504
EBITDA	**170,567**	**102,725**	**16,869**	**290,161**	**(7,241)**	**282,920**
Net profit	**114,474**	**77,873**	**11,597**	**203,944**	**4,688**	**208,632**

The income statement items for each segment for the year ended December 31, 2010, presented in accordance with the segment identification principles used in 2010, are presented below:

	Mail	OK	HH	Total segments	Corporate, eliminations and other	Group
Revenue						
External revenue	227,323	68,940	28,481	324,744	–	324,744
Intersegment revenue	422	–	267	689	(689)	–
Total revenue	**227,745**	**68,940**	**28,748**	**325,433**	**(689)**	**324,744**
Total operating expenses	120,755	23,536	21,991	166,282	39,018	205,300
EBITDA	**106,990**	**45,404**	**6,757**	**159,151**	**(39,707)**	**119,444**
Net profit	**71,405**	**31,528**	**3,677**	**106,610**	**(25,798)**	**80,812**

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, 2011 and 2010 is presented below:

	2011	2010
Total revenue, as presented to CODM	**515,424**	**324,744**
Adjustments to reconcile revenue as presented to CODM to consolidated net profit under IFRS:		
Effect of operations disposed of and difference in dates of acquisition of control in subsidiaries	–	(40,298)
Differences in timing of revenue recognition	(15,145)	(13,694)
Barter revenue	2,057	1,645
Dividend revenue from venture capital investments	3,578	2,539
Other	17	370
Consolidated revenue under IFRS	**505,931**	**275,306**

A reconciliation of EBITDA, as currently presented to the CODM, to IFRS consolidated operating income (loss) of the Group for the years ended December 31, 2011 and 2010 is presented below:

	2011	2010
Total EBITDA, as presented to CODM	**282,920**	**119,444**
Adjustments to reconcile EBITDA as presented to CODM to consolidated operating income (loss) under IFRS:		
Impairment of intangible assets	(7,114)	(1,691)
Depreciation and amortization	(90,701)	(57,464)
Share-based payments	(64,486)	(30,030)
Non-recurring consulting services	–	(8,433)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries and associates	–	(23,379)
Net gain on venture capital investments and associated derivative financial assets and liabilities	1,266	2,614
Differences in timing of revenue recognition	(15,145)	(13,694)
Dividend revenue from venture capital investments	3,578	2,539
Other	717	1,052
Consolidated operating income (loss) under IFRS	**111,035**	**(9,042)**

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, 2011 and 2010 is presented below:

	2011	2010
Total net profit, as presented to CODM	**208,632**	**80,812**
Adjustments to reconcile net profit as presented to CODM to consolidated net profit under IFRS:		
Share-based payments	(64,486)	(30,030)
Differences in timing of revenue recognition	(15,145)	(13,694)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries and associates	(644)	1,861
Amortization of fair value adjustments to intangible assets and impairment thereof	(61,266)	(43,051)
Loss on financial instruments at fair value through profit or loss	(22,031)	(27,270)
Fair value adjustments related to acquisitions and disposals	315	201,886
Non-recurring consulting services	–	(8,433)
Impairment of investments in strategic associates	(6,177)	(11,207)
Net foreign exchange gains (losses)	(4,365)	8,935
Share in financial results of non-core associates	(5,602)	(519)
Other	(975)	(403)
Tax effect of the adjustments and tax on unremitted earnings	2,903	(1,686)
Consolidated net profit under IFRS	**31,159**	**157,201**

6 Acquisitions and disposals of shares in subsidiaries and strategic associates

6.1 Acquisitions and disposals of 2010

6.1.1 Data Center

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

As part of a single arrangement, the Group signed several agreements – a purchase contract for the 50% share in Data Center; a put option contract (for the Group to sell the acquired stake back to the seller at a fixed price – see Note 26); a call option contract conditional on certain tax and legal claims to Data Center and an indemnification (see also below). The purchase price for all of the above was USD 10,038 (300 million roubles). Upon consummation of the transaction, the Group paid USD 5,030 (150 million roubles) in cash and agreed to pay the remainder of the consideration in two installments of 75 million roubles each payable in September 2010 and March 2011.

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

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

The Group's put option in respect of Data Center's shares does not form part of the net assets of Data Center but rather represents the Group's financial asset which was recognized separately from the business combination. Accordingly, the respective portion of consideration for the put option was excluded from the consideration transferred for the acquisition of Data Center. More details on the put option are disclosed below under Note 26.3.2.

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

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

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

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

The gain on bargain purchase of USD 749 was immediately recognized in the statement of comprehensive income.

The cash flows on acquisition were as follows:

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

Additionally, in September 2010 and March 2011, the Group paid the second and third installments of the purchase price for Data Center in the amount of USD 2,471 and USD 2,657 respectively (included in cash flows from investing activity).

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

6.1 Acquisitions and disposals of 2010 (continued)

6.1.2 ICQ

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

In accounting for the business combination in the consolidated financial statements for the year ended December 31, 2010, the Group had previously provisionally determined the amounts of ICQ's intangible assets and deferred tax liabilities subject to the completion of tax planning with respect to ICQ intellectual property rights. The tax planning and acquisition accounting were finalized in 2011. Accordingly, the Group recalculated the fair values of the identifiable intangible assets of ICQ and related deferred tax liabilities.

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

	Fair value
Property and equipment (Note 8)	953
Intangible assets (Note 7)	20,018
Other non-current assets	337
Deferred tax assets (Note 22)	148
Current tax assets	276
Trade and other receivables	2,620
Prepaid expenses	17
Cash	3,346
Total assets	**27,715**
Other long-term liabilities	25
Deferred income	166
Trade and other payables	476
Provisions	1,760
Total liabilities	**2,427**
Total net assets	**25,288**

Goodwill on the transaction was calculated as the excess of:

(a) the consideration transferred by the Group measured at fair values:

Cash paid	187,500
Consideration transferred by the Group	**187,500**

over

(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3R	25,287
Goodwill (Note 11)	**162,213**

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

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

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

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

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

6.1 Acquisitions and disposals of 2010 (continued)

6.1.2 ICQ (continued)

The cash flows on acquisition were as follows:

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

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

6.1.3 Forticom/OK

As of January 1, 2010, the Forticom group of companies ("Forticom") held a 64.73% equity method investment in Odnoklassniki Limited ("OK"), the operator of a leading Russian social networking web site www.odnoklassniki.ru, and provided web site development and support services to OK. In addition, Forticom operated www.nasza-klasa.pl, a leading social network in Poland, as well as Lithuanian social network www.one.lt (until December 2010) and a Latvian social network www.one.lv. Forticom's equity stake did not enable Forticom to control OK due to the non-controlling shareholders' veto rights set out in the shareholders' agreement of OK. As of January 1, 2010, the Group owned 75.74% of Forticom but did not control Forticom because the non-controlling shareholders retained their participating rights set out in the shareholders' agreement of Forticom requiring at least 85% of votes on certain significant operating decisions. Accordingly, the Group accounted for Forticom under the equity method as of January 1, 2010.

In April 2010, the Group acquired 13.87% in OK for a cash consideration of USD 16,645 and classified the investment as an available-for-sale financial asset (see also Note 26).

In August 2010, the Group acquired all outstanding shares of Forticom, thus bringing its ownership to 100%, for the consideration consisting of the following:

- Cash payment of USD 25,011; and
- 778 ordinary shares of the Company (pre share split), fair valued at USD 29,989 based on a recent cash transaction

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

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

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

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

	Fair value
Intangible assets (Note 7)	206,105
Property and equipment (Note 8)	11,794
Deferred tax asset (Note 22)	881
Loans provided	1,250
Other non-current assets	111
Trade accounts receivable, net	10,265
Tax receivable	3,030
Loans provided	2,609
Cash and cash equivalents	19,115
Other current assets	2,222
Total assets	**257,382**
Deferred tax liability (Note 22)	43,795
Accounts payable	5,006
Income tax payable	1,267
Other taxes payable	2,814
Loans received	5,656
Deferred revenue	1,479
Other payables and accrued expenses	1,454
Total liabilities	**61,471**
Total net assets	**195,911**

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

6.1 Acquisitions and disposals of 2010 (continued)

6.1.3 Forticom/OK (continued)

Goodwill on the transaction was calculated as the excess of:

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

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

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

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

The cash flows on acquisition were as follows:

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

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

In December 2010, the Group disposed of Forticom's Lithuanian subsidiary UAB Forticom for no consideration.

The net assets of the subsidiary as of the date of disposal attributable to the Group were USD 754.

As a result of the disposal the Group recognized a loss in the amount of USD 754 recorded under "Net loss on loss of control in subsidiaries" in the statement of comprehensive income.

The cash flows on disposal were as follows:

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

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

6.1 Acquisitions and disposals of 2010 (continued)

6.1.4 Mail.Ru Internet NV

In August-September 2010, the Group increased its ownership in its subsidiary Mail.Ru Internet NV from 53% to 100% in a series of transactions for a consideration consisting of (i) 20,209 Class A shares of the Company (pre share split), (ii) 2,871 ordinary (low voting) shares of the Company (pre share split) and (iii) USD 28,673 in cash. Management options over 1.23% of Mail.Ru Internet NV shares were exercised and the resulting shares were acquired by the Group as part of the transactions. The remaining management options over Mail.Ru Internet NV shares were converted into options to acquire 1,323 ordinary shares of the Company (pre share split) at an exercise price of USD 13,813.16. In addition, as part of the arrangements, the Group issued 1,352 Class A shares of the Company to one of the selling parties for a cash consideration of USD 49,988.

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

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

The conversion of options was accounted for by the Group as a modification (see Note 28 for more details).

6.1.5 Metajob

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

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

6.1.6 VKontakte

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

The Group allocated USD 92,192 to goodwill as part of the equity method investment, USD 14,901 to intangible assets as part of the equity method investment and USD 2,776 to the acquired share in other net assets of *VK*ontakte. The intangible assets mainly represent *VK*ontakte's trademark and customer base and are amortized over the useful lives of 7 to 11 years.

As part of the same transaction, the Group also purchased a call option to acquire an additional 7.44% of *VK*ontakte for a cash consideration of USD 18,865. Please refer to Note 26 for more details of the option.

6.1.7 Qiwi

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

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

6.2 Acquisitions and disposals of 2011

6.2.1 VKontakte option execution

In July 2011 the Company exercised its option to acquire a further 7.44% in its strategic associate *VK*ontakte (as defined in Note 10) for a cash consideration of USD 111,717. Please refer to Note 26 for more details of the option. The completion of this transaction brought the Group's total equity stake in *VK*ontakte to 39.99%.

The Group allocated USD 95,413 to goodwill as part of the equity method investment, USD 15,960 to intangible assets as part of the equity method investment and USD 344 to the acquired share in other net assets of *VK*ontakte. The intangible assets mainly represent *VK*ontakte's trademark and customer base and are to be amortized over the useful lives of 7 to 11 years.

6.2.2 HeadHunter conversion right execution

The shareholders' agreement of the Group's subsidiary HeadHunter Group Limited ("HeadHunter") provided one of the non-controlling shareholders of HeadHunter with the ability to exchange its 5.89% of share capital of HeadHunter to 432,867 ordinary shares of the Company in the last three months of 2011. In October 2011, the non-controlling shareholder executed its conversion right and as a result, the Group's shareholding in HeadHunter increased to 97.2%. The effect of the transaction on the Group's consolidated financial statements was immaterial.

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

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

The effects of the business combinations on the Group's revenue and net income for 2010 are presented below:

	Revenue	Net profit
The Group, excluding entities acquired in 2010	235,112	151,514
Contributed by acquired entities:		
OK/Forticom, September-December	27,732	3,735
ICQ, July-December (Restated)	12,462	1,952
Total contributed by acquired entities	40,194	5,687
The Group	**275,306**	**157,201**
Effect of OK/Forticom acquisition as if occurring on January 1, 2010	40,298	(3,495)
The Group, as if the acquisition of OK/Forticom occurred on January 1, 2010	**315,604**	**153,706**

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

7 Intangible assets

	Goodwill	Trademark	Customer base	Game software and software development costs	Other software, licenses and other	Total
Cost						
At January 1, 2010 (Restated)	**481,482**	**79,958**	**25,018**	**156,429**	**10,821**	**753,708**
Additions	–	4	–	12,330	8,461	20,795
Additions due to acquisition of subsidiaries (Note 6) (Restated)	598,007	63,768	154,682	–	7,673	824,130
Disposals	–	–	–	(809)	(17)	(826)
Disposal of subsidiary (Note 6)	–	–	–	–	(193)	(193)
Translation adjustment	2,273	279	883	(1,441)	77	2,070
At December 31, 2010 (Restated)	**1,081,762**	**144,009**	**180,583**	**166,509**	**26,821**	**1,599,684**
Additions	–	81	–	12,249	13,593	25,923
Transfer	–	41	(305)	(507)	771	–
Disposals	–	(52)	–	(83)	(1,985)	(2,120)
Translation adjustment	(57,763)	(8,001)	(9,627)	(9,640)	(2,122)	(87,153)
At December 31, 2011	**1,023,999**	**136,078**	**170,651**	**168,528**	**37,078**	**1,536,334**
Accumulated amortization and impairment						
At January 1, 2010	**–**	**(8,028)**	**(3,334)**	**(14,080)**	**(2,803)**	**(28,245)**
Charge for the year (Restated)	–	(10,727)	(8,338)	(23,326)	(6,395)	(48,786)
Disposals	–	–	–	53	–	53
Impairment	–	–	–	(1,691)	–	(1,691)
Disposals due to disposals of subsidiaries (Note 6)	–	–	–	–	30	30
Translation adjustment	–	(21)	(37)	101	(9)	34
At December 31, 2010 (Restated)	**–**	**(18,776)**	**(11,709)**	**(38,943)**	**(9,177)**	**(78,605)**
Charge for the year	–	(16,495)	(18,470)	(27,084)	(11,619)	(73,668)
Disposals	–	15	–	122	1,835	1,972
Transfer	–	(4)	137	402	(535)	–
Impairment	–	(10)	–	(7,104)	–	(7,114)
Translation adjustment	–	2,513	2,120	5,288	1,143	11,064
At December 31, 2011	**–**	**(32,757)**	**(27,922)**	**(67,319)**	**(18,353)**	**(146,351)**
Net book value						
At January 1, 2010	**481,482**	**71,930**	**21,684**	**142,349**	**8,018**	**725,463**
At December 31, 2010	**1,081,762**	**125,233**	**168,874**	**127,566**	**17,644**	**1,521,079**
At December 31, 2011	**1,023,999**	**103,321**	**142,729**	**101,209**	**18,725**	**1,389,983**

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

7 Intangible assets (continued)

Games represent separable CGUs and the analysis of impairment was performed at the level of each game, where either impairment was previously recognized or current operating performance was below the original forecasts. The analysis included the comparison of the value in use determined based on discounted future cash flows to the carrying amount. The value in use calculation uses cash flow projections from financial budgets approved by senior management covering a period limited to the useful life of the respective game, ranging from 3 to 7 years.

Based on such analysis in 2011 and 2010 the Group recorded an impairment loss in the amount of USD 7,114 and USD 1,691 respectively related to game software. The impairment entirely belongs to the Online Games operating segment.

The principal factors leading to the impairment losses recorded by the Group were reductions in the projected future cash flows of certain online games related to delays in games' launch or lower-than-expected actual cash inflows. The revision of the expected profitability of the games affected the future cash flow projections at December 31, 2011 and 2010. Although the Group continues to project future long-term growth in cash flows, such growth is lower for the impaired games than was estimated at the time the games were launched or the businesses operating the games were acquired.

Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based approach. The cash flows employed in the discounted cash flow ("DCF") analysis are based on the Group's most recent budget and, for years beyond the budget, the Group's estimates, which are based on assumed growth rates. The discount rates used in the DCF analysis are intended to reflect the risks inherent in the future cash flows of the respective CGUs. The pre-tax discount rates used in the DCF models as of December 31, 2011 range from 21.06% to 23.20% (2010: 21.71%).

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

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

8 Property and equipment

	Servers and computers	Leasehold improvements	Furniture, office equipment and motor vehicles	Assets under construction	Other property and equipment	Total
Cost						
At January 1, 2010	**9,706**	**1,225**	**680**	**1**	**400**	**12,012**
Additions due to acquisition of subsidiaries (Note 6)	9,936	4,174	744	6,293	3,340	24,487
Additions and transfers	12,715	5,243	1,420	(3,496)	619	16,501
Disposals	(698)	–	(37)	–	–	(735)
Disposals due to disposals of subsidiaries (Note 6)	(225)	(1)	(31)	–	–	(257)
Translation adjustment	(16)	(72)	431	(17)	(39)	287
At December 31, 2010	**31,418**	**10,569**	**3,207**	**2,781**	**4,320**	**52,295**
Additions and transfers	15,140	409	846	(1,276)	246	15,365
Disposals	(829)	(188)	(239)	(13)	–	(1,269)
Translation adjustment	(1,794)	(557)	(1,511)	306	(467)	(4,023)
At December 31, 2011	**43,935**	**10,233**	**2,303**	**1,798**	**4,099**	**62,368**

8 Property and equipment (continued)

	Servers and computers	Leasehold improvements	Furniture, office equipment and motor vehicles	Assets under construction	Other property and equipment	Total
Accumulated depreciation and impairment						
At January 1, 2010	**(2,860)**	**(424)**	**(185)**	**–**	**–**	**(3,469)**
Charge for the year	(6,757)	(865)	(640)	–	(410)	(8,672)
Disposals	725	–	7	–	–	732
Disposals due to disposals of subsidiaries (Note 6)	43	1	1	–	–	45
Translation adjustment	(109)	(73)	(484)	–	(9)	(675)
At December 31, 2010	**(8,958)**	**(1,361)**	**(1,301)**	**–**	**(419)**	**(12,039)**
Charge for the year	(14,518)	(1,449)	(599)	–	(817)	(17,383)
Disposals	749	40	108	–	6	903
Translation adjustment	1,081	218	801	–	55	2,155
At December 31, 2011	**(21,646)**	**(2,552)**	**(991)**	**–**	**(1,175)**	**(26,364)**
Net book value						
At January 1, 2010	**6,846**	**801**	**495**	**1**	**400**	**8,543**
At December 31, 2010	**22,460**	**9,208**	**1,906**	**2,781**	**3,901**	**40,256**
At December 31, 2011	**22,289**	**7,681**	**1,312**	**1,798**	**2,924**	**36,004**

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, 2011 and 2010 and January 1, 2010 are listed below:

		Ownership %*		
Subsidiary	Main Activity	December 31, 2011	December 31, 2010	January 1, 2010
Mail.Ru Internet NV (Netherlands)	Holding entity	100.0%	100.0%	53.0%
Mail.Ru Coöperatief UA (Netherlands)	Holding entity	100.0%	100.0%	100.0%
Port.ru Inc. (USA)	Holding entity	100.0%	100.0%	53.0%
NetBridge Limited (Cyprus)	Holding entity	100.0%	100.0%	53.0%
Mail.Ru, LLC (Russia)	Online portal services	100.0%	100.0%	53.0%
Mail.Ru, LLC (Ukraine)	Online portal services	100.0%	100.0%	53.0%
Money.Mail.Ru, LLC (Russia)	Internet payment system	99.0%	99.0%	52.5%
New Trinity Investment, LLC (Russia)	Online portal services	100.0%	100.0%	53.0%
Port.ru Msk, LLC (Russia)	Online portal services	100.0%	100.0%	53.0%
Astrum Online Entertainment Limited (BVI) (renamed from DST Entertainment Limited and Aquaflow Limited)	Holding entity	100.0%	100.0%	N/A
Benstar Limited (BVI)	Holding entity	100.0%	100.0%	53.0%
Nessly Holdings Limited (Cyprus)	Holding entity	100.0%	100.0%	53.0%
Mail.Ru GMBH (renamed from Astrum Online Entertainment GMBH) (Germany)	Development and support of online games	100.0%	100.0%	53.0%
Astrum Nival, LLC (Russia)	Development and support of online games	N/A**	100.0%	53.0%
Dark Joker, LLC (Ukraine)	Development and support of online games	100.0%	100.0%	53.0%
Express Gold, LLC (Russia)	Internet payment system	100.0%	75.0%	39.8%
IT Territory Nord, LLC (Russia)	Development and support of online games	N/A**	100.0%	27.1%
Mail.Ru Games LLC (renamed from IT Territory, LLC) (Russia)	Development and support of online games	100.0%	100.0%	53.0%
Online Games Holding Limited (BVI)	Development and support of online games	100.0%	100.0%	53.0%
Time Zero, LLC (Russia)	Development and support of online games	N/A**	100.0%	53.0%
HeadHunter Group Limited (BVI) (renamed from Newton Rose Limited)	Holding company	97.2%	91.3%	91.3%
HeadHunter LLC (Russia)	Online recruiting services	97.2%	91.3%	91.3%
HeadHunter LLC (Ukraine)	Online recruiting services	49.6%	46.6%	46.6%
HeadHunter KZ LLC (Kazakhstan)	Online recruiting services	64.2%	60.3%	55.7%
Metajob LLC (Russia)	Online recruiting services	97.2%	91.3%	46.6%
CV Keskus AS (Estonia)	Online recruiting services	97.2%	91.3%	91.3%
Odnoklassniki LLC (Russia)	Social network	100.0%	100.0%	N/A

9 Consolidated subsidiaries (continued)

Subsidiary	Main Activity	Ownership %*		
		December 31, 2011	December 31, 2010	January 1, 2010
Odnoklassniki Ltd (UK)	Holding company	100.0%	100.0%	N/A
Radikal LLC (Russia)	Photo hosting	80.0%	80.0%	N/A
Forticom Group Limited (BVI)	Holding company	100.0%	100.0%	N/A
SIA Forticom (Latvia)	Development and support of social network	100.0%	100.0%	N/A
ICQ LLC (USA)	Holding company	100.0%	100.0%	N/A
ICQ Ltd (Israel)	Online messaging services company	100.0%	100.0%	N/A
Data Center M100 LLC (Russia)	Hosting services	100.0%	100.0%	N/A

* The ownership percentages above represent the Company's effective indirect ownership in each subsidiary. Although the effective indirect ownership in some subsidiaries is below 50%, the Group exerts control as it owns a majority of the voting power on every level of the respective shareholding chain.
** In August 2011, Astrum Nival, IT Territory Nord and Time Zero were merged into Mail.Ru Games.

10 Investments in strategic associates

The Group has investments in strategic associates involved in operating popular Internet websites and providing various services over the Internet, as well as a strategic investment in an associate providing electronic payment processing services. Although the Company held over 50% in some of its strategic associates in 2010, it accounted for these entities under the equity method based on the provisions of the respective shareholders' agreements containing significant participating rights of other shareholders.

Investments in strategic associates at December 31, 2011 and 2010 and January 1, 2010 comprised the following:

Associate	Main activity	Voting shares			Carrying value		
		December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Qiwi Limited (renamed from OE Investments Limited) (Cyprus) and subsidiaries ("QIWI")	Operation of electronic online payment systems in Russia, in the CIS, China and other countries, and the selling of electronic payment terminals and fiscal modules	21.35%	21.35%	25.09%	35,719	37,156	42,246
VK.com (renamed from Doraview Limited) (BVI) and subsidiaries ("VKontakte")	Develops and maintains, via Russian subsidiaries, social networking websites (www.vkontakte.ru, www.vkadre.ru, www.vshtate.ru) for communication, information sharing and personnel recruiting service purposes	39.99%	32.55%	24.99%	221,560	130,088	16,667
Forticom Group Limited (BVI), including subsidiaries and associates	Operates, via subsidiaries, social networks in the Baltic countries www.one.lt (until December 2010) and www.one.lv, as well as a leading social network in Poland www.nasza-klasa.pl (until August 2010) and holds a non-controlling stake in Odnoklassniki group, to which it provides development and support services	N/A	N/A	75.74%	N/A	N/A	326,306
Molotok Holdings Limited (Cyprus) and subsidiary OOO E-Commerce Group (Russia) ("Molotok")	Provides online auction services to Internet customers through its www.molotok.ru website	49.90%	49.90%	49.90%	3,090	12,857	27,658
Haslop Company Limited (Cyprus) and Russian subsidiaries (collectively, "Mamba")	Provides content for www.love.mail.Ru, a vertical of the www.mail.Ru portal operated by a subsidiary of Mail.Ru Internet NV	31.34%	31.50%	31.50%	20,211	19,948	17,962
Data Center M100 LLC (Russia)	Provides hosting services	N/A	N/A	50%	N/A	N/A	7,593
Nikita Management Limited (BVI)	Holds 100% in OOO Fun Factory (Russia) engaged in online gaming services	50%	50%	50%	2,636	3,230	3,746
Total					**283,216**	**203,279**	**442,178**

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

10 Investments in strategic associates (continued)

Movement in investments in strategic associates for the years ended December 31, 2011 and 2010 is presented below:

	2011	2010
Investments in strategic associates at January 1	**203,279**	**442,178**
Acquisition of shares in associates	111,717	109,869
Contributions to associates	1,759	–
Effect of acquisition of control in associates	–	(311,709)
Disposals of shares in associates	(79)	(6,471)
Share in net profits (losses) of associates	484	(9,084)
Share in equity-settled share-based payments of associates	192	976
Foreign currency translation	(25,775)	(6,325)
Dividends from associates	(4,385)	(5,787)
Share in other changes in capital of associates	2,201	839
(Impairment losses)/reversal of impairment of investments in associates	(6,177)	(11,207)
Investments in strategic associates at December 31	**283,216**	**203,279**

In 2011 and 2010, the Group recorded impairment of USD 6,177 and USD 11,207 with respect to its investment in Molotok. Molotok's performance in 2011 and 2010 was below management's forecasts, which led the management to reconsider Molotok's revenue growth projections. The recoverable amount of Molotok was determined based on value-in-use calculations using cash flow projections covering a ten-year period. The pre-tax discount rate used in the respective DCF model was 22.34% (December 31, 2010: 23.82%). The terminal growth rate used was 5.0% (December 31, 2010: 5.7%). Apart from discount and terminal growth rates, the cash flow projections are most sensitive to revenue compound annual growth rates ("CAGR") and EBITDA margin. The impairment of Molotok was not allocated to any of the Group's reportable segments, as the financial information related to Molotok is not reviewed by the Group's CODM in analyzing the operational performance of the Group and allocating resources and, accordingly, is not included in the presentation of the Group's operating segments.

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

	December 31, 2011	December 31, 2010	January 1, 2010
The Group's share of the associates:			
Total assets	170,252	146,486	342,863
Total liabilities	(110,403)	(95,487)	(96,891)
Net assets	**59,849**	**50,999**	**245,972**
Net assets attributable to non-controlling interests in associates' subsidiaries	709	(217)	(2,289)
Net assets attributable to equity holders of associates	**60,558**	**50,782**	**243,683**
Goodwill as part of investments in strategic associates	222,658	152,497	198,495
Aggregate carrying amount of investments	**283,216**	**203,279**	**442,178**

	2011	2010	2009
The Group's share of the associates:			
Revenue	107,537	90,504	95,288
Net profit	484	(9,084)	17,991

11 Impairment testing of goodwill

At December 31, 2010, goodwill acquired through business combinations was allocated to *"Mail.Ru"* (arising from 2010, 2009 and 2008), *"OK"* (arising from 2010) and "HeadHunter" (arising from 2009), groups of CGUs for impairment testing.

At December 31, 2011, the Group revised its segment reporting (see Note 5) in a way that changed the composition of the CGUs to which goodwill had been allocated, and management reallocated goodwill to new groups of individual CGUs – *"Email, Portal and IM"*, *"Social Networks"*, *"Online Games"*, *"Search"* and *"E-Commerce and Other"* – according to the new reporting structure implemented as of that date. The reallocation was performed using a relative fair value approach whereby goodwill was allocated to the new groups of CGUs in proportion to their respective fair values determined using appropriate valuation techniques.

The table below shows movements in goodwill per groups of CGUs for each of the years ended December 31, 2011 and 2010:

	Mail.Ru	HeadHunter	OK	Portal and IM	Social Networks	Online Games	Search	E-commerce and Other	Total
Cost at January 1, 2010 (restated)	**420,145**	**61,337**	**–**	**–**	**–**	**–**	**–**	**–**	**481,482**
Acquisition of ICQ (restated) (Note 6)	162,213	–	–	–	–	–	–	–	162,213
Acquisition of OK/Forticom	–	–	435,794	–	–	–	–	–	435,794
Translation adjustment	66	(468)	2,675	–	–	–	–	–	2,273
Cost at December 31, 2010 (restated)	**582,425**	**60,869**	**438,469**	**–**	**–**	**–**	**–**	**–**	**1,081,762**
Translation adjustment	(31,100)	(3,250)	(23,413)	–	–	–	–	–	(57,763)
Reallocation due to change in reporting structure	(551,324)	(57,619)	(415,056)	254,429	573,811	60,616	77,523	57,620	–
Cost at December 31, 2011	**–**	**–**	**–**	**254,429**	**573,811**	**60,616**	**77,523**	**57,620**	**1,023,999**

The recoverable amount of goodwill has been determined based on value in use calculation as of December 31, 2011 and based on fair value less cost to sell as of December 31, 2010.

Value in use

At December 31, 2011, value in use was determined using cash flow projections from financial budgets approved by senior management covering a ten-year period. The ten-year period was taken as the basis because the Group expects that the growth rates of the Russian IVAS market will exceed the terminal growth rates in the five-year period following the first five years of forecast.

Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based approach. The cash flows employed in the DCF analysis are based on the Group's most recent budget and, for years beyond the budget, the Group's estimates, which are based on assumed growth rates. The discount rates used in the DCF analysis are intended to reflect the risks inherent in the future cash flows of the respective cash-generating units.

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

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

The major assumptions used in the DCF models at December 31, 2011 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	17.28%	17.13%	17.60%	17.22%	17.35%

Fair value less cost to sell

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

No impairment of goodwill was recognized in 2011 and 2010, and reasonably possible changes in any valuation parameters would not result in impairment of goodwill.

12 Trade accounts receivable

As of December 31, 2011 and 2010 and January 1, 2010 trade receivables comprised the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade accounts receivable, gross	71,511	50,243	22,393
Provision for impairment of trade receivables	(1,772)	(2,152)	(865)
Total trade receivables, net	**69,739**	**48,091**	**21,528**

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

Balance as of January 1, 2010	**(865)**
Charge for the year	(1,414)
Translation adjustment	127
Balance as of December 31, 2010	**(2,152)**
Reversal	615
Translation adjustment	(235)
Balance as of December 31, 2011	**(1,772)**

Trade receivables past due but not impaired as of December 31, 2011 and 2010 and January 1, 2010 are presented below:

	Ageing of receivables (days)				
	Total	<90	90-180	180-360	>360
As of December 31, 2011					
Trade accounts receivable	69,739	60,728	6,726	1,712	573
As of December 31, 2010					
Trade accounts receivable	48,091	44,922	2,092	847	230
As of January 1, 2010					
Trade accounts receivable	21,528	18,847	1,215	1,091	375

The accounts receivable balances as of December 31, 2011 and 2010 and January 1, 2010 mainly represented the amounts due from online electronic payment systems and advertising customers.

The trade receivables are settled in RUR in 40–90 days. 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, 2011 and 2010 and January 1, 2010.

13 Cash and cash equivalents and short-term deposits

As of December 31, 2011 and 2010 and January 1, 2010 cash and cash equivalents comprised of the following:

	Currency	December 31, 2011	December 31, 2010	January 1, 2010
Current accounts and cash on hand:	USD	5,463	9,388	1,759
	RUR	29,440	37,157	9,881
	EUR	1,169	1,190	17,352
	Other	2,804	2,946	333
Total current accounts and cash on hand		**38,876**	**50,681**	**29,325**
Deposit accounts with an original maturity of three months or less:	USD	15,247	54,478	102,436
	RUR	68,490	13,258	–
	Other	2,090	–	–
Total deposit accounts with an original maturity of three months or less		**85,827**	**67,736**	**102,436**
Short-term investments in money market funds	USD	–	–	16,154
Total cash and cash equivalents		**124,703**	**118,417**	**147,915**
Short-term deposit accounts with an original maturity of over three months	RUR	26,510	1,525	960
	EUR	913	707	–
Total short-term deposits		**27,423**	**2,232**	**960**
Total cash and cash equivalents and short-term deposits		**152,126**	**120,649**	**148,875**

14 Share capital

14.1 Charter capital and share issues

The charter capital of the Company consisted of 99,298,972 ordinary shares and 109,761,000 Class A shares with USD 0.000005 par value each as of December 31, 2011, while the number of authorized 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 651,534 shares of the Company were held in treasury by the Group as of December 31, 2011.

The charter capital of the Company consisted of 92,157,603 ordinary shares and 116,364,000 Class A shares with USD 0.000005 par value each as of December 31, 2010, while the number of authorized shares of the Company as of the same date consisted of 10,000,000,000 ordinary shares and 10,000,000,000 Class A shares.

The charter capital of the Company consisted of 61,887 ordinary shares, 783 Class B shares and 9,333 Class C shares with USD 0.01 par value each as at January 1, 2010 while the number of authorized shares of the Company as of the same date consisted of 5,000,000 ordinary shares, 8,374 Class B shares and 1,000,000 Class C shares.

As of December 31, 2011 and 2010 and January 1, 2010 all issued shares were fully paid.

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

A reconciliation of the number of shares outstanding as of December 31, 2011 and 2010 and January 1, 2010 is presented in the statement of changes in equity.

Rights attached to the share classes as of December 31, 2011 and 2010

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

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

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

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

14 Share capital (continued)

14.1 Charter capital and share issues (continued)

Rights attached to the share classes as of January 1, 2010

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

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

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

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

As of January 1, 2010, the holders of Class C shares of the Company were entitled, on a proportionate basis, to all economic rights attaching to 2,935,542 Series E preferred shares and 1,805,685 common shares of Facebook, Inc. the operator of www.facebook.com, the world's largest social network ("Facebook"), collectively representing, on a fully diluted basis, approximately 1.01% economic interest in Facebook ("Assets related to Class C shares"), including dividends and proceeds from sale, but were not entitled to exercise any other shareholders' rights in Facebook, including voting and selling the Facebook shares. Class C shares of the Company were also entitled to a liquidation preference in the amount of the initial investment and accrued but unpaid dividends or proceeds from sale of Facebook shares. Class C shares of the Company were not entitled to any other shareholders' rights.

Based on the above facts and circumstances, the management determined that Class C shares were not an equity instrument but rather represented a financial liability with respect to 1.01% of Facebook (on a fully diluted basis). The financial liability and Assets related to Class C shares are described in more detail under Note 26.6 and 26.2 respectively.

In April 2010, Tencent Holdings Limited represented by its subsidiary TCH Holdings Limited subscribed for 8,114 ordinary shares of the Group for a cash consideration of USD 300,004. Prior to this transaction, the Company's members decided to convert all then outstanding ordinary shares into Class A shares, and all then outstanding Class B shares into ordinary shares. Additionally, all options issued or issuable under the 2007 Option Plan (as defined in Note 28) were converted into options over ordinary shares.

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

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

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

For additional details on the options over the shares of the Company outstanding as of December 31, 2011 and 2010 and January 1, 2010, refer to Note 28.

14.2 GDR buying program

Starting from October 2011, the Trustee commenced a GDR buying program of up to USD 35 million in order to cover a part of the employee and director options of the 2010 Option Plan. Under the GDR buying program, the Trustee acquired 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.

As of December 31, 2011 the Trustee acquired a total of 651,534 GDRs on the market for an aggregate consideration of USD 20,577. The Group accounts for GDRs repurchased as treasury shares.

15 Other assets

The table below represents other non-current assets:

	December 31, 2011	December 31, 2010	January 1, 2010
Long-term deposits	7,266	–	1,580
Loans receivable	–	2,009	915
Long-term deposit under future lease contract	6,261	–	–
Other non-current assets	1,657	1,782	926
Total other non-current assets	**15,184**	**3,791**	**3,421**

The following table represents other current assets:

	December 31, 2011	December 31, 2010	January 1, 2010
Inventory	399	92	111
VAT receivable	1,420	1,254	229
Interest receivable	64	3	5
Other current assets	1,806	1,647	959
Total other current assets	**3,689**	**2,996**	**1,304**

16 Other payables, provisions and accrued expenses

Other payables, provisions and accrued expenses consist of:

	December 31, 2011	December 31, 2010	January 1, 2010
Payables to personnel	13,356	10,576	5,478
Accrued vacations	9,742	6,827	4,546
Payables to shareholders	–	–	592
Payable for Data Center acquisition	–	2,461	–
Accrued professional consulting expenses	3,207	6,377	2,707
Other current payables and provisions	2,777	3,968	2,374
Total other payables, provisions and accrued expenses	**29,082**	**30,209**	**15,697**

17 Revenues

	2011	2010
IVAS	250,044	127,422
Online advertising	206,724	117,226
Online recruitment services	42,407	26,432
Dividend revenue from venture capital investments	3,578	2,539
Other revenue	3,178	1,687
Total revenues	**505,931**	**275,306**

18 Cost of revenues

	2011	2010
Agent/partner fees	43,312	23,079
Personnel expenses:		
Payroll	55,927	33,014
Share-based payments	8,287	–
Server hosting expenses	16,766	9,906
Other costs	1,045	484
Total cost of revenues	**125,337**	**66,483**

19 Research and development expenses

	2011	2010
Payroll	3,346	2,347
Share-based payments	1,933	–
Total research and development expenses	**5,279**	**2,347**

20 Selling, general and administrative expenses

	2011	2010 (restated)
Personnel expenses:	111,314	53,442
Payroll	57,048	44,365
Share-based payments (Restated)	54,266	9,077
Office rent and maintenance	11,493	9,325
Marketing expenses	20,778	17,637
Advisory fees	–	51,727
Other professional fees	8,383	15,122
Bank charges	498	573
Security	767	485
Other tax expenses	1,464	928
Telecommunication and internet expenses	1,060	1,327
Bad debt expense/(reversal)	(615)	1,414
IT systems and software maintenance costs	724	243
Corporate events	1,433	154
Other expenses	10,433	6,600
Total selling, general and administrative expenses	**167,731**	**158,977**

For further details in respect of *Advisory* fees please refer to Note 25.1.

21 Finance income

	2011	2010
Interest and similar income from cash and cash equivalents, net of related bank commissions	3,021	976
Dividend income from available-for-sale investment	1,080	409
Total finance income	**4,101**	**1,385**

22 Income tax

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

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

Cyprus
The Group's subsidiaries and associates incorporated in Cyprus are subject to a 10% corporate income tax applied to their worldwide income. Capital gains derived on sale of securities are tax exempt (except for capital gains realized in connection with sale of shares in companies deriving their value or the greater part of their value from immovable property located in Cyprus). Dividend income is also tax exempt.

Germany
The Group's subsidiaries and associates incorporated in Germany are subject to corporate income tax at the standard rate of 30% applied to their taxable income.

Ukraine
The Group's subsidiaries and associates incorporated in the Ukraine are subject to corporate income tax at the standard rate of 23% applied to their taxable income. The income tax rate was reduced in 2011 from 25%, effective April 1, 2011.

22 Income tax (continued)

British Virgin Islands

The Company and its subsidiaries and associates incorporated in the British Virgin Islands are exempt from all taxes under the respective laws.

The United Kingdom

The Group's subsidiaries registered in the United Kingdom are subject to corporate income tax at a standard rate of 26% rate applied to their worldwide income. The income tax rate was reduced in 2011 from 28%, effective April 1, 2011.

Estonia

The Company's subsidiaries incorporated in Estonia are not subject to pay income tax on their profits. Rather, they are subjected to income tax on the paid dividends. The dividends and profit distributed in any other forms are subject to income tax with the tax rate of 21/79 applied to the actual distribution.

The Netherlands

The Group's subsidiaries incorporated in the Netherlands are subject to corporate income tax at a standard rate of 25.5% applied to their taxable income. Dividend income and capital gains received by the Dutch subsidiaries are exempt from the corporate income (participation exemption).

The reconciliation between tax expense and the product of accounting profit multiplied by BVI's domestic tax rate for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Profit before taxation	**82,746**	**180,883**
BVI statutory income tax rate at 0%		
Foreign tax rate differential	(37,175)	(5,603)
Non-deductible share option expense	–	(1,150)
Other non-deductible expenses	(5,886)	(6,844)
Unrecognized deferred tax assets	(394)	(1,192)
Utilization of previously unrecognized tax loss	269	–
Tax accruals, penalties and interest	–	(374)
Tax on unremitted earnings	(8,890)	(8,519)
Tax refund	489	–
Total income tax expense	**(51,587)**	**(23,682)**

Deferred income tax assets and liabilities as of December 31, 2011 and 2010 and January 1, 2010 were as follows:

	Consolidated statement of financial position			Consolidated statement of comprehensive income	
	December 31, 2011	December 31, 2010	January 1, 2010	2011	2010
Deferred tax liabilities arising from:					
Intangible assets book basis in excess of tax basis	(62,969)	(76,643)	(43,163)	10,920	7,745
Basis of investment in associate in excess of tax basis	(4,203)	(4,440)	(4,474)	–	–
Unremitted earnings of subsidiaries	(26,361)	(19,260)	(7,951)	(8,890)	(8,519)
Other	(693)	20	(200)	(842)	(12)
Total deferred tax liabilities	(94,226)	(100,323)	(55,788)	1,168	(786)
Deferred tax assets arising from:					
Tax credit carryforwards	211	–	623	230	(670)
Deferred compensation and accrued employee benefits	2,372	2,851	1,888	(394)	843
Accrued expenses	425	170	207	267	76
Revenue recognition	7,697	5,059	2,071	3,399	2,285
Unrealized intercompany profit	778	578	284	(56)	294
Other	1,241	709	266	355	132
Total deferred tax assets	12,724	9,367	5,339	3,801	2,960
Net deferred tax assets/(liabilities)	(81,502)	(90,956)	(50,449)	4,969	2,174

Management's assessment of the realization 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 recognized an additional deferred tax asset of USD 394 in 2011 (2010: 1,192).

22 Income tax (continued)

As of December 31, 2010 and 2011, deferred tax liability has been provided for US and Russian withholding taxes on unremitted retained earnings of Mail.Ru Internet NV subsidiaries, because in 2009 those subsidiaries started to pay dividends to their shareholders and the Company expects this practice to continue in future. Additionally, as of December 31, 2011, deferred tax liability has been provided for Russian withholding taxes on unremitted retained earnings of OK, because the Company expects OK to start paying dividends to its shareholders in 2012. Apart from the above, management of the Group estimates that tax liabilities on unremitted earnings of the Group's associates and other subsidiaries as of December 31, 2010 and 2011 was immaterial.

Changes in net deferred tax liability from January 1, 2010 to December 31, 2011 were as follows:

	2011	2010
Total deferred income tax liability, net at January 1	**(90,956)**	**(50,449)**
Effect of acquisitions (Note 6)	–	(42,766)
Translation reserve	4,485	85
Deferred tax benefit/(expense)	4,969	2,174
Total deferred income tax liability, net at December 31	**(81,502)**	**(90,956)**

	2011	2010
Current income tax expense	(56,556)	(25,856)
Deferred income tax (expense)/benefit	4,969	2,174
Total income tax expense	**(51,587)**	**(23,682)**

23 EPS

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

23.1 Basic EPS

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

	2011	2010
Net profit attributable to equity holders of the Company (Restated)	**30,110**	**153,712**
Weighted average number of ordinary shares in issue	208,605,536	155,429,689
Basic EPS (USD per share)	**0.14**	**0.99**

23.2 Diluted EPS

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS).

For share options, a calculation is done to determine the number of shares that would have been issued assuming the exercise of the share options. The above number is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to the net profit attributable to ordinary shareholders of the Company (numerator).

As discussed in more detail in Notes 6 and 28, the Company issued certain call options and conversion rights over its shares in 2011 and in prior years.

All instruments potentially convertible into the shares of the Company had a dilutive effect on the earnings per share for the years ended December 31, 2011 and 2010 and, accordingly, were taken into account when calculating the diluted EPS for those years.

In addition to the options and conversion rights over the shares of the Company, Mail.Ru Internet NV, HeadHunter, Forticom 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 2011 or 2010. In calculating the dilution effect of these instruments, the effect of the exercise of the options on the earnings attributable to equity holders of the Company (numerator) was assessed. Some options were considered anti-dilutive if either the average market price of the underlying shares was below the exercise price of the options or if the effect of their assumed exercise decreased the Group's diluted EPS.

Out of the options issued by the Group's subsidiaries and associates, none were found to have a dilutive effect of at least one cent per share in the year ended December 31, 2011, and options issued by Mail.Ru Internet NV were found to have a dilutive effect in the year ended December 31, 2010. Accordingly, the effects of their potential exercise are included in the calculation of diluted EPS in 2010.

23 EPS (continued)

23.2 Diluted EPS (continued)

As of January 1, 2010, 1,570,260 Mail.Ru Internet NV options were outstanding (corresponding to 62,810 options post 25:1 reverse share split effected by Mail.Ru Internet NV in February 2010). As discussed in Note 6 above, in August 2010, options over 19,952 shares were exercised and the resulting shares were acquired by the Group as part of the acquisition of non-controlling interest in Mail.Ru Internet NV. The dilutive effect of these options was accounted for in the calculation of the Group's diluted EPS as an adjustment to "*Net profit attributable to equity holders of the Company*" below. The remaining options over 42,858 shares of Mail.Ru internet NV were converted into options to acquire 1,323 shares of the Company (pre share split). The replaced options were found to have anti-dilutive effect on the Group's EPS, while the dilutive effect of the replacement options was accounted for in the calculation of the Group's diluted EPS as an adjustment to "*Weighted average number of ordinary shares in issue*" below.

Forticom had 1,964 dilutive options outstanding as at January 1, 2010. The dilutive effect of these options was accounted for in the calculation of the Group's diluted EPS as an adjustment to "*Net profit attributable to equity holders of the Company*" below.

Additionally, the right to convert shares of HeadHunter into shares of the Company issued by the Company as part of the HeadHunter acquisition in February 2009 and exercised by the holder in October 2011 was found to have a dilutive effect on the Group's EPS in 2010. The conversion right is described in more detail in Note 6.

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

	2011	2010
Net profit attributable to equity holders of the Company (Restated)	**30,110**	**153,712**
Adjustment for assumed exercise of Mail.Ru Internet NV share options	–	(40)
Effect of conversion right issued to a shareholder of HeadHunter	–	245
Adjusted net profit attributable to equity holders of the Company	**30,110**	**153,917**
Weighted average number of ordinary shares in issue	208,605,536	155,429,689
Effect of equity-settled share-based payments of the Company	29,168	5,048,958
Effect of conversion right issued to a shareholder of HeadHunter	–	432,867
Total diluted weighted average number of shares	**208,634,704**	**160,911,514**
Diluted EPS (USD per share)	**0.14**	**0.96**

24 Commitments, contingencies and operating risks

24.1 Operating environment of the Group

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

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

24.2 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 2010 and 2011 some of the Company's associates and subsidiaries accrued provisions for tax risks related to their operations. It is reasonably possible that relevant governmental authorities in Russia may attempt to assess additional income and non-income taxes against those associates and subsidiaries. The extent of potential assessments and the ultimate success thereof are not currently estimable. However, should the relevant governmental authorities question the management approach to the taxation of its operations and prove successful in their claim, they would be entitled to recover the amounts of the tax provisions. Management of the Group and its associates will vigorously defend its positions if such claims are assessed.

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

24 Commitments, contingencies and operating risks (continued)

24.2 Taxation (continued)

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.

In 2011, tax authorities assessed a USD 1.4 million tax claim on our subsidiary. The Group intends to dispute the claim, and believes that the unfavorable outcome is not probable.

24.3 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.

24.4 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 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.

24.5 Private information

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

24.6 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 authorization. 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.

24.7 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.

24.8 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.

24.9 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.

24.10 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.

24 Commitments, contingencies and operating risks (continued)

24.11 Operating lease commitments – the Group as a lessee

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

	2011	2010
	Minimum lease payments	Minimum lease payments
Less than 1 year	5,990	8,967
From 2 to 5 years	2,114	7,539
More than 5 years	1,973	2,380
Total	**10,077**	**18,886**

The Group mainly leases office premises. In 2011 operating lease expense included in selling, general and administrative expenses in the consolidated statement of comprehensive income amounted to USD 9,126 (2010: USD 8,527).

In November 2011, the Group committed to enter into a long-term lease for office space subject to certain conditions that management estimates will be fulfilled in the first six months of 2013. The Group expects to pay an aggregate of USD 310 million in 2012-2019 under and in connection with the agreement, including payments for leasehold improvements, furniture and related professional fees.

25 Balances and transactions with related parties

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year other than DST Advisors Limited, directors and key management of the Group (see below). All related party transactions were made in accordance with contractual terms and conditions agreed between the parties.

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
2011				
Strategic associates	8,338	3,580	4,636	88
Other entities	175	–	642	9
2010				
Strategic associates	5,841	1,318	3,753	73
Other entities	–	–	388	–
2009				
Shareholders of the Group	–	–	–	592
Strategic associates	3,789	–	2,732	–
Other entities	131	11	–	43

Sales to strategic associates consist of the following:

	2011	2010
Sales to Mamba	4,607	4,173
Sales to *VK*ontakte	1,620	1,017
Other	2,111	651
Total	**8,338**	**5,841**

Amounts owed by strategic associates consist of the following:

	2011	2010
Loan receivable from Molotok	–	1,621
Accounts receivable from Mamba	931	823
Accounts receivable from *VK*ontakte	74	440
Accounts receivable from QIWI	3,349	733
Other	282	136
Total	**4,636**	**3,753**

25 Balances and transactions with related parties (continued)

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

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

The Group's loan to Molotok was issued in June 2010 and was payable in five years. The loan bears interest at 3.35% p.a. until December 31, 2010 and at 1-month USD LIBOR plus 3% thereafter.

25.1 Investment advisor – DST Advisors Limited – other related party

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

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

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

These options are described in more detail in Note 28.

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

	2010
Advisory fees	34,885
Share-based payment expense	16,842
Total	**51,727**

In November 2010 upon IPO of the Company the agreement with DSTA was terminated. At the same time the management function of the Group migrated to the key management of the Company and the operating entities of the Group, consisting of more than 20 executives who supervise the major business areas and activities of the Group as a whole. The remuneration of key management of the Group is presented in Note 25.4 below.

25.2 The ultimate parent

The Company has no ultimate parent.

25.3 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 USD 1,439 for the year ended December 31, 2011 (2010: USD 163). In addition to the cash remuneration in 2011, Directors were granted options to acquire 733,388 ordinary shares of the Company at the exercise price of USD 27.7 (in addition to options over 53,532 shares of the Company granted late in 2010). The Board of Directors approved the grant on April 11, 2011. The corresponding share-based payment expense amounted to USD 9,783 in 2011(2010: USD 91).

25.4 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to USD 14,885 for the year ended December 31, 2011 (2010: 2,449). In addition to the cash remuneration in 2011, key executive employees of the Group were granted options under the 2010 Option Plan (as defined in Note 28) to acquire 1,189,954 ordinary shares of the Company at the exercise price of USD 27.7 (in addition to options over 3,130,000 shares of the Company granted late in 2010, out of which options over 250,000 were forfeited and 46,000 were cancelled in 2011). The corresponding share-based payment expense amounted to USD 42,056 for the year ended December 31, 2011 (2010: USD 1,010).

26 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of December 31, 2011 and 2010 and January 1, 2010 and are presented by category of financial instruments in the table below:

	Category*	December 31, 2011	December 31, 2010	January 1, 2010
Financial assets				
Assets related to Class C shares	FAFVPL	–	–	97,363
Financial investments in associates	FAFVPL	23,870	19,716	15,799
Derivative financial assets over the equity of investees	FAFVPL	1,602	20,481	12
Available-for-sale equity investment	AFSFA	2,155,515	1,453,518	220,049
Trade accounts receivable	LR	69,739	48,091	21,528
Loans and interest receivable	LR	151	2,009	915
Short-term time deposits	LR	27,423	2,232	960
Cash and cash equivalents	LR	124,703	118,417	147,915
Total financial assets		**2,403,003**	**1,664,464**	**504,541**
Current		222,015	186,533	170,403
Non-current		2,180,988	1,477,931	334,138
Total derivative financial assets		**1,602**	**20,481**	**12**
Current		–	17,793	–
Non-current		1,602	2,688	12
Financial liabilities				
Class C shares	FLFVPL	–	–	97,363
Derivative and other financial liabilities over the equity of investees	FLFVPL	4,510	1,111	4,532
Short-term payables and accrued expenses	FLAC	54,836	45,269	21,839
Total financial liabilities		**59,346**	**46,380**	**123,734**
Current		54,836	45,269	21,839
Non-current		4,510	1,111	101,895
Total derivative financial liabilities		**4,510**	**1,111**	**4,532**
Current		–	–	–
Non-current		4,510	1,111	4,532

* Financial instruments used by the Group are included in one of the following categories:
- FAFVPL – financial assets at fair value through profit or loss;
- AFSFA – available-for-sale financial assets;
- LR – loans and receivables;
- FLFVPL – financial liabilities at fair value through profit or loss; or
- FLAC – financial liabilities at amortized cost.

As of December 31, 2011, the Group's investments in listed securities were limited to its investments in shares of Zynga, Inc. ("Zynga") and Groupon, Inc. ("Groupon"), both of which went public late in 2011. These investments are classified as available-for-sale financial assets and are discussed in more detail under 26.4 below. As of December 31 and January 1, 2010, the Group did not have any financial instruments traded in active markets.

Except as discussed in the preceding paragraph, none of the Group's investees are public companies and none of the Group's financial instruments are traded in active markets. Accordingly, fair values of the Group's financial assets and liabilities at fair value through profit or loss and a significant portion of the Group's available-for-sale financial assets are determined using valuation techniques, including discounted cash flow models, comparison to similar instruments for which observable market prices exist, option pricing models and other relevant valuation models. Such valuation techniques require management to make certain assumptions about model inputs, including credit risk and volatility. If changing one or more of those assumptions to reasonably possible alternate assumptions would change fair value significantly, the effect of those changes is disclosed below.

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

26 Financial instruments (continued)

26.1 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 based on net assets value, depending on which valuation technique produced more reliable results. The DCF models use cash flow projections from financial budgets approved by senior management covering a ten-year period, which is the horizon typically used by the Group's management for strategic planning purposes. The main assumptions used in the DCF models as of December 31, 2011 and 2010 and January 1, 2010:

	December 31, 2011	December 31, 2010	January 1, 2010
Terminal growth rate	5.0%	5.0%–5.7%	5.0%
Discount rates	30%–35%	25%–35%	25%–35%

The Group has recognized a gain of USD 1,266 in 2011 (2010: USD 2,771) 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"*.

26.2 Assets related to Class C shares

In May and August 2009, as part of the acquisition of Facebook shares, the Company acquired Assets related to Class C shares with the proceeds from issuance of Class C shares in the amount of USD 93,330. Although the Group's investment in Facebook shares, other than Assets related to Class C shares, was classified as an available-for-sale financial asset, the management designated Assets related to Class C shares as a financial asset at fair value through profit or loss upon initial recognition, consistent with the designation of Class C shares as a financial liability at fair value through profit or loss (see Note 14 and Note 26.6 for the description of Class C shares and the corresponding financial liability).

The fair value of Assets related to Class C shares as of January 1, 2010 was determined based on recent cash transaction.

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

The Group recognized a gain of USD 70,485 from the changes in fair value of Assets related to Class C shares in 2010. The gain was offset by a loss on Class C shares in the same amount (see Note 26.6 below).

26.3 Derivative financial assets over the equity of investees

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

	December 31, 2010	December 31, 2010	January 1, 2010
Purchased call options to acquire *VK*ontakte shares	–	17,793	–
Purchased call options to acquire shares in a financial investee	–	–	12
Purchased put options to sell Data Center shares	1,602	2,688	–
Total derivative financial assets over the equity of investees	**1,602**	**20,481**	**12**

26.3.1 Purchased call option to acquire VKontakte shares

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

The fair value of the option at December 31, 2010 and at acquisition date was determined using the binomial model with the following assumptions:

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

In July 2011, the Company exercised the option (see also Note 6.2) and recognized a loss of USD 19,157 in 2011 (2010: USD 1,278) due to the change in its fair value. The loss was recorded in the statement of comprehensive income under *"Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates and subsidiaries"*.

26 Financial instruments (continued)

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

26.3.2 Purchased put option to sell Data Center shares

As part of the Group's acquisition of Data Center (see Note 6.1.1), the Group acquired a contract that gives the Group an option to sell 50% of Data Center share back to the Seller at the Group's discretion until December 31, 2014 for USD 8,348 (250 million roubles). The put option is exercisable subject to certain conditions, which the Group believes it will fulfill with a high degree of certainty. The put option was fair valued at USD 1,602 (51.56 million roubles), USD 2,688 (81.73 million roubles) and USD 3,126 (93.61 million roubles) at December 31, 2011 and 2010 and at acquisition date, respectively, using the Black-Sholes-Merton option pricing formula with the following inputs:

	December 31, 2011	December 31, 2010	February 25, 2010
Stock price (in million roubles)	338	284	228
Exercise price (in million roubles)	250	250	250
Grant date	25.02.2010	25.02.2010	25.02.2010
Expiry date	31.12.2014	31.12.2014	31.12.2014
Expected life in days '000	1.10	1.46	1.77
Annualized volatility	60.90%	71.83%	74.5%
Annual dividend rate	–	–	–
Discount rate – bond equivalent yield	7.17%	6.93%	7.67%
Put Option value (in million roubles)	**51.56**	**81.73**	**93.61**

The Group recognized a loss in the amount of USD 1,026 due to the change in fair value of the put option contract in 2011 (2010: USD 391). The loss was recorded in the statement of comprehensive income under *"Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates and subsidiaries"*.

26.4 Available-for-sale financial assets

The Group holds 2.25% in Facebook Inc. ("Facebook"), the world's largest social network; 4.21% in Groupon Inc. ("Groupon"), a leading online group discount site; and 1.16% in Zynga Inc. ("Zynga"), a leading social games developer and operator. The Group also holds a 15% stake in OJSC Center of Economic Development ("CED"), a major provider of Internet platforms for e-commerce between businesses in Russia and other countries of the CIS. Even though the Group regards this investment as strategic and participates in the operating and financial management of CED via the Group's representation in the board of directors of CED, the Group does not have the legal ability to appoint its candidates to the board of directors of CED. Therefore, the Group does not exert significant influence over CED and, accordingly, classified the investment as an available-for-sale financial asset.

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

	Fully diluted shareholding			Carrying amount		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Investment in CED	15%	15%	15%	7,910	5,311	3,476
Investment in Facebook*	2.25%	2.33%	2.32%	1,666,399	1,163,911	216,573
Investment in Groupon	4.21%	4.63%	N/A	401,494	219,738	–
Investment in Zynga	1.16%	1.41%	N/A	79,712	64,558	–
Total				**2,155,515**	**1,453,518**	**220,049**

* Excluding assets related to Class C shares.

The fair values of the Group's available-for-sale investments in Facebook, Zynga and Groupon as of January 1 and December 31, 2010, as well as the fair value of the Group's investment in Facebook as of December 31, 2011, were determined based on recent cash transactions. The fair values of the Group's investments in Zynga and Groupon as of December 31, 2011 were determined based on the quoted prices of the respective shares, adjusted for liquidity discounts to reflect restriction on sale of respective shares. The liquidity discounts were determined using observable market inputs. The valuation assumptions for the Group's investments in Groupon and Zynga as of December 31, 2011 are summarized in the table below:

	Groupon	Zynga
Share price, USD per share	20.63	9.41
Liquidity discount	30.54%	18.59%

26 Financial instruments (continued)

26.4 Available-for-sale financial assets (continued)

The fair value of the Group's available-for-sale investment in CED as of December 31, 2011 and 2010 and January 1, 2010 were estimated using a DCF model based on cash flow projections from financial budgets approved by senior management covering a ten-year period. The main assumptions used in the DCF model are summarized in the table below:

	December 31, 2011	December 31, 2010	January 1, 2010
Terminal growth	2.75%	2.6%	2.5%
Discount rate	19.4%	19.3%	18.1%

Following the change in valuation method, the Group's investments in Groupon and Zynga were reclassified from Level 3 to Level 2 in the fair value hierarchy (see 26.8 below).

26.5 Financial assets classified as loans and receivables

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

26.6 Class C shares

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

The fair value of Class C shares as of January 1, 2010 was determined based on recent cash transactions.

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

The Group recognized a loss of USD 70,485 from the changes in fair value of Class C shares in 2010 (2009 – nil). The loss was offset by a gain on Assets related to Class C shares in the same amount (see 26.2 above).

26.7 Derivative and other financial liabilities over the equity of investees

Derivative and other financial liabilities over the equity of the Group's investees as of December 31, 2011 and 2010 and January 1, 2010 are summarized as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Derivative financial liability over the equity of a financial investee	–	–	1,694
Written put option by HeadHunter to sell shares in Metajob	–	–	2,546
Written put option to sell HeadHunter shares	4,510	1,111	292
	4,510	**1,111**	**4,532**

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

26.7.1 Derivative financial liability over the equity of a financial investee

The fair value of the liability as of January 1, 2010 was calculated as a difference between the fair value of the payable and the fair value of the put option to sell the shares acquired. The fair value of the put option was estimated using the Black-Scholes-Merton formula with the following assumptions:

	January 1, 2010
Dividend yield, %	0%
Expected volatility, %	61%
Risk-free interest rate, %	0.47%
Expected term, years	1.00
Share price (USD)	86,590.4

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

26 Financial instruments (continued)

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

26.7.2 Written put option by HeadHunter to sell shares in Metajob

As of January 1, 2010 the Group had a written put option to acquire starting from December 31, 2011 49% of Metajob at a multiple of Metajob's revenue deemed to approximate the fair market price. In September 2010 the Group acquired 49% of Metajob shares for USD 300 and financial liability in respect the put option was derecognized. Please refer to Note 6 for the details of the accounting for this transaction by the Group.

26.7.3 Written put option to sell HeadHunter shares

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

The fair value of the written put options as of December 31, 2011 and 2010 and January 1, 2010 was estimated at the present value of the redemption amount. The effect of reasonably possible changes in the valuation assumptions on the fair value of the liability is immaterial.

The Group has recognized losses of USD 3,789 and USD 836 due to the change in fair value of written put options in HeadHunter during 2011 and 2010 respectively. The gain and loss were recorded in the statement of comprehensive income under *"Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates and subsidiaries"*.

26.8 Fair value hierarchy

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

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

26 Financial instruments (continued)

26.8 Fair value hierarchy (continued)

As at December 31, 2011 and 2010 and January 1, 2010 the Group held the following financial instruments measured at fair value:

	December 31, 2011	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in associates	23,870	–	–	23,870
Derivative financial assets over the equity of investees, non-current	1,602	–	–	1,602
Total financial assets at fair value through profit or loss	**25,472**	**–**	**–**	**25,472**
Available-for-sale equity investment	2,155,515	–	481,206	1,674,309
Total financial assets measured at fair value	**2,180,987**	**–**	**481,206**	**1,699,781**
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	(4,510)	–	–	(4,510)
Total financial liabilities measured at fair value	**(4,510)**	**–**	**–**	**(4,510)**

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

	January 1, 2010	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Assets related to Class C shares	97,363	–	–	97,363
Financial investments in associates	15,799	–	–	15,799
Derivative financial assets over the equity of investees	12	–	–	12
Total financial assets at fair value through profit or loss	**113,174**	**–**	**–**	**113,174**
Available-for-sale equity investment	220,049	–	–	220,049
Total financial assets measured at fair value	**333,223**	**–**	**–**	**333,223**
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – Class C shares	(97,363)	–	–	(97,363)
Financial liabilities at fair value through profit or loss – derivative and other financial liabilities over the equity of investees	(4,532)	–	–	(4,532)
Total financial liabilities measured at fair value	**(101,895)**	**–**	**–**	**(101,895)**

26 Financial instruments (continued)

26.8 Fair value hierarchy (continued)

The balance of Level 3 measurements as of January 1, 2010 is reconciled to the balance of those measurements as of December 31, 2011 as follows:

	Balance as of January 1 2011	Purchases	Realized gains/(losses)	Unrealized gains/(losses)	Gain/(loss) recognized in other comprehensive income	Reclassification to level 2	Translation adjustment	Balance as of December 31, 2011
Financial assets measured at fair value								
Financial assets at fair value through profit or loss:								
Financial investments in associates	19,716	4,429	–	1,266	–	–	(1,541)	23,870
Derivative financial assets over the equity of investees	20,481	–	(20,183)	–	–	–	1,304	1,602
Total financial assets at fair value through profit or loss	**40,197**	**4,429**	**(20,183)**	**1,266**	**–**	**–**	**(237)**	**25,472**
Available-for-sale equity investments	1,453,518	–	–	–	849,047	(481,206)	(147,050)	1,674,309
Total financial assets measured at fair value	**1,493,715**	**4,429**	**(20,183)**	**1,266**	**849,047**	**(481,206)**	**(147,287)**	**1,699,781**
Financial liabilities measured at fair value								
Financial liabilities at fair value through profit or loss – derivative and other financial liabilities over the equity of investees	(1,111)	–	–	(3,789)	–	–	390	(4,510)
Total financial liabilities measured at fair value	**(1,111)**	**–**	**–**	**(3,789)**	**–**	**–**	**390**	**(4,510)**

The Group's available-for-sale investments in Groupon and Zynga were reclassified from Level 3 to Level 2 following the IPOs of Groupon and Zynga in 2011 and the corresponding change in valuation methodology, whereby the fair values of these investments as of December 31, 2011 were determined using observable market inputs.

26 Financial instruments (continued)

26.8 Fair value hierarchy (continued)

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

The gain realized on available-for-sale equity investments in 2010 relates to the acquisition of control in OK (see Note 6).

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 27 below.

26 Financial instruments (continued)

26.9 Contingent contractual arrangements over the equity of certain investees

As of January 1, 2010, the Group was a party to contingent contractual arrangements over the equity of certain strategic associates and subsidiaries that qualified as financial instruments; however, the fair values of those financial instruments could not be reliably determined.

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

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

As of December 31, 2010 all the aforementioned arrangements were terminated. There were no such arrangements in the year ended December 31, 2011.

27 Financial risk management objectives and policies

27.1 Introduction

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

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

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

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

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

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

The Group's senior management is responsible for identifying and controlling risks. These activities are supervised by the Board of Directors, the Group's governing body that is ultimately responsible for the Group's overall approach to risk management. The Board of Directors 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 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.

27 Financial risk management objectives and policies (continued)

27.2 Liquidity and financial resources

The Group uses cash from shareholders contributions, has sufficient cash and did not have any outstanding loans as of December 31, 2011 and 2010 and January 1, 2010. Trade and other payables are due on demand.

27.3 Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

Financial assets, which potentially subject the Company and its subsidiaries and associates to credit risk, consist principally of cash and cash equivalents, short-term time deposits and short-term receivables. The total of these account balances represents the Group's maximum exposure to credit risk.

The Group places its cash and cash equivalents with highly rated financial institutions, which are considered at the time of deposit to have minimal risk of default. The Group does not require collateral or other security to support the financial instruments subject to credit risk. The Group does not enter into master netting arrangements to mitigate the credit risk of financial instruments, except for barter transactions for which there is no cash settlement. Accounts receivable from the largest customer represented 6% of total trade accounts receivable of the Group as of December 31, 2011, 7% as of December 31, 2010 and 10% as of January 1, 2010. 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.

27.4 Capital management policy

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, share premium, retained earnings and non-controlling interests of the Group.

27.5 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 analysis in sections 27.6 and 27.7 relate to the position as at December 31, 2011 and 2010 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.

27.6 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 summarized in the table below.

	RUR:USD	
Change in rate 2011	12.5%	-12.5%
Increase (decrease) in profit before tax	1,915	(1,915)
Change in rate 2010	10%	-10%
Increase (decrease) in profit before tax	(6,387)	6,387

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

27.7 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 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.

27 Financial risk management objectives and policies (continued)

27.7 Equity price risk (continued)

At the reporting date, the Group's exposure to unlisted equity securities at fair value through profit or loss, listed and unlisted available-for-sale investments and derivative financial instruments was equal to the carrying amounts of the respective financial instruments as of the reporting date. A 10% decrease in the overall earnings stream of the valuations performed for the Group's unlisted investments could have a negative impact of approximately USD 1,657 (2010: USD 1,632) on the Group's pre-tax income. A 500 basis point increase in the discount rate used in the valuation models could result in a negative impact of USD 2,697 (2010: USD 2,664) on the Group's pre-tax income. The effect of a 100 basis point increase in risk-free rate on the Group's pre-tax income is not significant in all periods presented in these consolidated financial statements.

28 Share-based payments

28.1 Share-based payment arrangements of the Company

28.1.1 Option plans

During 2011 and 2010, the Company had the following outstanding option plans:

	2007 Option Plan	DSTA Options	Options over the Company's shares resulting from modification of option plan of a subsidiary ("Modified option plan")	2010 Option Plan
Adoption date	May 2007	December 2008	July 2010	November 2010
Type of shares	Ordinary shares	Class B shares, converted into ordinary shares in 2010	Ordinary shares	Ordinary shares
Number of options reserved	736 pre share split (1,472,000 on a post share split basis)	7,591 pre share split (15,182,000 on a post share split basis)	1,323 pre share split (2,646,000 on a post share split basis)	10,706,403 post share split
Exercise price	No less than USD 11,378.83 (pre share split basis)	USD 26,426.89 (pre share split basis)	USD 13,813.63 (pre share split basis)	The fair market price at the date of grant provided that the fair market price of the options granted in connection with the IPO shall be the IPO offering price of USD 27.7 (post share split basis)
Exercise basis	Gross share basis only	Gross or net share basis	Gross or net share basis	Prior to November 2011 – net share basis only Since November 2011 – net share basis or cash at the Group's discretion*
Expiration date	May 2014	December 2015	December 2015	December 2018
Other major terms	• The options are not to be issued to any member of the Company's Management Board, or any related party thereof; • The options have to be exercised in the event of an IPO, change in control or winding up of the Company; • The options are not transferable; • All other terms of the options under the 2007 Option Plan are to be determined by the Company's Management Board.	• The options vested immediately upon grant; • The options can be either exercised by DSTA or reassigned by DSTA at its discretion to any employee, officer, director, consultant of the Company, DSTA, any investee of the Company where the Company holds at least 15%, or any company managing the assets of the Company.	• The options vested immediately upon grant	• The options are not 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.

* 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.

28 Share-based payments (continued)

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

28.1.2 Changes in outstanding options

The table below summarizes the changes of outstanding options in 2011 and 2010:

	2007 Option Plan	DSTA Options	Modified Option Plan	2010 Option Plan[3]	Total
Outstanding as of January 1, 2010	**331**	**7,591**	**–**	**–**	**7,922**
Exercisable as of January 1, 2010	211	7,591	–	–	7,802
Available for grant as of January 1, 2010	405	–	–	–	405
Granted during the year before share split	112[1]	–	1,323[2]	–	1,435
Exercised during the year before share split	267	–	–	–	267
Cancelled during the year before share split	3	–	–	–	3
Share split	345,827	15,174,409	2,644,677	–	18,164,913
Granted during the year after share split	592,000	–	–	4,276,832	4,868,832
Exercised during the year after share split	938,000	14,962,000	2,646,000	–	18,546,000
Outstanding as of December 31, 2010	**–**	**220,000**	**–**	**4,276,832**	**4,496,832**
Exercisable as of December 31, 2010	–	220,000	–	–	220,000
Available for grant as of December 31, 2010	–	–	–	6,429,571	6,429,571
Granted during the year	–	–	–	2,038,294	2,038,294
Exercised during the year	–	155,000	–	–	155,000
Cancelled during the year	–	–	–	46,000	46,000
Forfeited during the year	–	–	–	314,100	314,100
Outstanding as of December 31, 2011	**–**	**65,000**	**–**	**5,955,026**	**6,020,026**
Exercisable as of December 31, 2011	–	65,000	–	–	65,000
Available for grant as of December 31, 2011	–	–	–	4,751,377	4,751,377

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

(2) 1,323 options were granted in exchange for cancellation of 42,858 options over the shares of Mail.Ru Internet NV as part of acquisition by the Group of substantially all non-controlling interest in Mail.Ru Internet NV (see Note 28.2). In addition to the issuance of 1,323 options the Group paid USD 1,500 to the option holder as part of modification. The excess of the fair value of the replacement award, including the cash portion, over the fair value of the replaced award in the amount of USD 3,141 was recognized under "Selling, general and administrative expenses" in the statement of comprehensive income.

(3) On the IPO date the Company decided to assign to the 6,423,842 options the exercise price equal to the IPO price of USD 27.70. In 2010, 4,223,300 options out of these 6,423,842 were granted to the employees and consultants of the Group and 53,532 to one of the Group's Directors. In 2011, a further 1,304,906 of these options were granted to the Group's employees and an additional 733,388 were granted to the Group's Directors. 46,000 of the options granted to employees were cancelled and 314,100 options were forfeited by employees in 2011. The options vest in 4 equal tranches on January 2, 2012, December 31, 2012, 2013 and 2014. On December 22, 2011, the remaining 4,282,561 options were assigned an exercise price of USD 25.6, which was the closing price of the Group's GDR on that date. None of these options were granted in 2011.

The weighted-average share price was USD 36,204.27 for options exercised in 2010 prior to the share split and USD 37.58 for options exercised in 2010 after the share split. The weighted-average share price was USD 41.59 for options exercised in 2011.

28 Share-based payments (continued)

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

28.1.2 Changes in outstanding options (continued)

The fair values of all options granted during 2011 and 2010 are summarized in the table below:

Option plan/Grant date	Number of options	Dividend yield %	Volatility %	Risk-free interest rate %	Expected term years	Share price (USD)	Fair value, total (USD '000)	Fair value per option (USD)	Valuation method
2010									
2007 Option Plan – July 2010 (pre share split)	112	0%	56%	1.40%	N/A	36,970.15	2,987	26,670.08	Binomial
2007 Option Plan – November 2010 (post share split)	592,000	N/A	N/A	N/A	0	27.70	13,030	22.01	Intrinsic value (immediately exercised)
Modified Option Plan – August 2010 (pre share split)	1,323	0%	53%	1.42%	N/A	36,958.81	32,197	24,336	Binomial
2010 Option Plan – December 2010* (post share split)	4,276,832	0%	53%	2.02%–3.06%	N/A	35.83	92,647	21.66	Binomial
2011 (2010 Option Plan)									
March 2011	49,500	0%	50%	2.84%	N/A	32.29	901	18.19	Binomial
April 2011	733,388	0%	49%	3.08%	N/A	32.30	13,334	18.18	Binomial
June 2011	64,700	0%	49%	2.45%	N/A	33.30	1,196	18.49	Binomial
September 2011	871,100	0%	48%	1.45%	N/A	33.00	15,144	17.38	Binomial
October 2011	62,652	0%	48%	1.60%	N/A	34.45	1,163	18.57	Binomial
November 2011	256,954	0%	48%	1.43%	N/A	32.72	4,411	17.17	Binomial

* The data in respect of share price and fair value per option is presented as weighted average of the corresponding numbers for each grant.

The expected volatility was determined by reference to peer companies' historical volatility, because the Company only became public in November 2010. The actual forfeiture rate was not taken into account, because management considers that the Group does not have sufficient history of forfeitures.

The expense recognized by the Group with respect to the options over the shares of the Company described above amounted to USD 64,486 (2010: USD 21,320). In 2011, the expense was included in *"Personnel expenses"* under *"Cost of revenues"*, *"Research and development expenses"* and *"Selling, general and administrative expenses"* in the statement of comprehensive income in the amounts of USD 8,287, USD 1,933 and USD 54,266 respectively. In 2010, the expense was included in the *"Advisory fees"* and *"Personnel expenses"* as part of *"Selling, general and administrative expenses"* in the statement of comprehensive income in the amounts of USD 16,842 and USD 4,478 respectively.

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

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

	2011	2010 (restated)
Mail.Ru Internet NV	–	4,554
HeadHunter	–	46
Total	**–**	**4,600**

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

	2011	2010
Forticom	–	3,107
Mamba	192	–
Total	**192**	**3,107**

Mail.Ru Internet NV Options

As of January 1, 2010, there were the following options outstanding over the shares of Mail.Ru Internet NV:

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

28 Share-based payments (continued)

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

Tranches 1 and 2 had vested as of January 1, 2010. 227,700 of the options in Tranche 3 had vested as of January 1, 2010 with the remaining part to become vested at January 1, 2011 in 13 equal installments.

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

In August-September 2010 as part of the acquisition of non-controlling interest in Mail.Ru Internet NV the Tranche 1 options were exercised. The total exercise price amounted to USD 1,500. The exercise of Tranche 1 options resulted in an increase in non-controlling interest of USD 3,553. Simultaneously the Tranches 2 and 3 options were converted in full into 1,323 options over the Company's shares (see Note 28.1).

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

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

29 Dividends paid by subsidiaries to non-controlling shareholders

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

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

In May 2011, HeadHunter declared a dividend out of which USD 400 was attributable to non-controlling shareholders. The dividend declared was fully paid in 2011.

30 Events after the reporting period

30.1 Change of the Chairman of the Board

On February 14, 2012 the Group announced a change of the Chairman of the Board of Directors. Yuri Milner stepped down from the Board of Directors. Dmitry Grishin was elected to the Board of Directors and appointed as Chairman of the Board while retaining his CEO position.

30.2 Investment in a financial associate

In March 2012, the Group acquired a non-controlling stake in an Internet startup business for a cash consideration of USD 8 million. The Group designated the investment as at fair value through profit or loss, because the investment will be managed exclusively based on its fair value as part of the Group's venture capital operations.

30.3 Decline in Groupon's share price

Groupon's closing share price was USD11.96 per share on April 24, 2012, down from USD20.63 per share as of December 31, 2011.

30.4 Changes in taxation

New Federal Law No. 379-FZ *"On changes to certain legislation acts on insurance contributions to the pension fund of Russian Federation"* dated December 3, 2011, decreased Social tax rate from 34% to 30% starting January 1, 2012 and introduced additional 10% insurance contribution into the pension fund of Russian Federation for compensation paid to the employees and consultants who earn less than a fixed annual maximum (which is RUR 512,000 in 2012). The Group expects respective increase in its personnel costs as a result of this change.

Cautionary statements

Forward-looking statements

The Mail.Ru Group Limited Annual Report and Accounts for 2011 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 Verdi Israelian as Chief Operating Officer (COO) means reference to his position as Chief Operating Officer (COO), Russia.