



**Offering of 32,925,783 Ordinary Shares
in the form of Global Depositary Receipts**

**Offer Price: US\$27.70
per Global Depositary Receipt**

This prospectus relates to an offering (the “**Offering**”) by the selling shareholders named herein (together, the “**Selling Shareholders**”), of 29,893,056 global depositary receipts (“**GDRs**”) representing ordinary shares, each with a nominal value of 0.000005 US dollars (“**Ordinary Shares**”), of Mail.ru Group Limited (formerly Digital Sky Technologies Limited) (the “**Company**”) and by the Company of 3,032,727 GDRs representing newly issued Ordinary Shares, with each GDR representing one Ordinary Share. The Company and the Selling Shareholders will grant to the Joint Bookrunners on behalf of the Underwriters an option (the “**Over-allotment Option**”) to acquire 3,292,579 additional GDRs representing Ordinary Shares at the Offer Price for the purposes of meeting over-allotments in connection with the Offering.

We are seeking the approval of the United Kingdom Financial Services Authority (the “**FSA**”) for this prospectus in accordance with the prospectus rules (the “**Prospectus Rules**”) of the FSA made under Section 73A of the Financial Services and Markets Act 2000, as amended (the “**FSMA**”) in relation to the GDRs. This document, upon approval by the FSA, comprises a prospectus relating to the Company prepared in accordance with the Prospectus Rules. Application has been made (1) to the FSA, in its capacity as competent authority (the UK Listing Authority, or “**UKLA**”) under the FSMA, for a listing of 86,218,362 GDRs, consisting of (i) 32,925,783 GDRs to be issued on or about November 10, 2010 (the “**Closing Date**”) and (ii) 3,292,579 additional GDRs to be issued in connection with the Over-allotment Option, and (iii) 50,000,000 additional GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with a custodian acting on behalf of Citibank, N.A., as depositary (the “**Depositary**”), to be admitted to the official list of the FSA (the “**Official List**”) and (2) to the London Stock Exchange plc (the “**London Stock Exchange**”) for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities through its International Order Book (the “**IOB**”), which is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). Conditional trading in the GDRs on the London Stock Exchange through the IOB is expected to commence on an “when and if issued” basis on or about November 5, 2010. Delivery and payment for the GDRs are expected to occur on November 10, 2010. Admission to the Official List and to unconditional trading on the London Stock Exchange (collectively, “**Admission**”) is expected to take place on or about November 11, 2010. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.** Trades in the GDRs executed on the IOB on a “when and if issued” basis on November 5, 2010 will settle on a T+4 basis on November 12, 2010. Otherwise, the GDRs will trade on the IOB on a T+3 settlement cycle. The Company’s GDRs will be traded on the Regulated Market under the symbol “MAIL”.

The GDRs are being offered in the United States to certain qualified institutional buyers (“**QIBs**”) as defined in, and in reliance on, Rule 144A (“**Rule 144A**”) under the US Securities Act of 1933, as amended (the “**Securities Act**”), and in the Russian Federation to certain qualified investors in accordance with Russian law and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S under the Securities Act (“**Regulation S**”). See “*Subscription and Sale*”.

Prior to the Offering, there has been no public market for the GDRs. Neither the Ordinary Shares nor any other class of shares in the Company are expected to be listed or traded on any market.

See “Risk Factors” beginning on page 10 to read about factors you should consider before buying the GDRs. The GDRs are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. In the Russian Federation, the GDRs will only be offered to certain qualified investors in accordance with Russian law. Neither the GDRs nor the Ordinary Shares have been or will be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except to persons reasonably believed to be QIBs in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act, or outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the GDRs, see “*Terms and Conditions of the Global Depositary Receipts*” and “*Selling and Transfer Restrictions*”.

The GDRs are offered by the Joint Bookrunners when, as and if delivered to and accepted by the Underwriters and subject to their right to reject orders in whole or in part. It is expected that delivery of the GDRs in global form will be made against payment therefor in US dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. See “*Settlement and Delivery*”.

Joint Global Coordinators

Goldman Sachs International

J.P. Morgan

Joint Bookrunners

**Goldman Sachs
International**

J.P. Morgan

Morgan Stanley

VTB Capital

Co-lead Manager

Pacific Crest Securities

Prospectus dated November 5, 2010

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

Each prospective investor, by accepting delivery of this prospectus, agrees that this prospectus is being furnished by the Company solely for the purpose of enabling a prospective investor to consider the purchase of the GDRs. Any reproduction or distribution of this prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Underwriters (as defined under “*Subscription and Sale*”) makes any representation or warranty, express or implied, nor accept any responsibility, as to the accuracy or completeness of any of the information in this prospectus. This prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Selling Shareholders or the Underwriters that any recipient of this prospectus should purchase the GDRs. Each potential purchaser of GDRs should determine for itself the relevance of the information contained in this prospectus, and its purchase of GDRs should be based upon such investigation, as it deems necessary.

This prospectus, including the financial information included herein, is issued in compliance with the Prospectus Rules of the FSA, which comply with the provisions of Directive 2003/71/EC (the “**Prospectus Directive**”) for the purpose of giving information with regard to the Company, the Selling Shareholders and the GDRs.

The Company accepts responsibility for the information contained in this prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of the Company’s knowledge, in accordance with the facts and contains no omissions likely to affect its import.

This prospectus is personal to each offeree and does not constitute an offer to any other person or to the public generally to purchase or otherwise acquire the GDRs. In making an investment decision regarding the GDRs, you must rely on your own examination of us and the terms of the Offering, including the merits and risks involved. You should rely only on the information contained in this prospectus. None of the Company, the Selling Shareholders or the Underwriters has authorised any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus is accurate only as of its date. Our business, financial condition, results of operations, prospects and the information set forth in this prospectus may have changed since the date of this prospectus.

We have included our own estimates, assessments, adjustments and judgments in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. While we believe that our own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by us approximately reflects the industry and the markets in which we operate, there is no assurance that our own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

The contents of the Company’s websites, or the websites of any member of the Group, do not form any part of this document.

You should not consider any information in this prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisers for legal, tax, business, financial and related advice regarding subscription or purchasing the GDRs. None of the Company, the Selling Shareholders or the Underwriters makes any representation to any offeree or purchaser of the GDRs regarding the legality of an investment in the GDRs by such offeree or purchaser under appropriate investment or similar laws.

The Underwriters are acting exclusively for the Company and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

In connection with the Offering, the Underwriters and any of their respective affiliates acting as an investor for its or their own account or accounts may subscribe for or purchase, as the case may be, GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account

or accounts in such securities, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this prospectus to the GDRs being issued, offered, subscribed, purchased or otherwise dealt with should be read as including any issue or offer to, or subscription, purchase or dealing by, the Underwriters and any of their respective affiliates acting as an investor for its or their own account or accounts. The Underwriters do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company and the Selling Shareholders may withdraw the Offering at any time, and the Company, the Selling Shareholders and the Underwriters reserve the right to reject any offer to purchase the GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the GDRs sought by such investor.

The distribution of this prospectus and the offer and sale of the GDRs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See “*Terms and Conditions of The Global Depositary Receipts*” and “*Subscription and Sale*” elsewhere in this prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the GDRs or possess or distribute this prospectus and you must obtain any consent, approval or permission required for your purchase, offer or sale of the GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of the Company, the Selling Shareholders or the Underwriters is making an offer to sell the GDRs or a solicitation of an offer to buy any of the GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

The information set forth in this document is only accurate as of the date on the front cover of this document. The Group’s business, financial condition, results of operations and prospects may have changed since that date. In making an investment decision, prospective investors must rely on their own examination of the Group and the terms of this document, including the risks involved.

STABILISATION

In connection with the Offering, Goldman Sachs International (the “Stabilising Manager”) (or persons acting on behalf of the Stabilising Manager) may (but will be under no obligation to), to the extent permitted by applicable law, over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a limited period after the issue date. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilising action. Such stabilising, if commenced, may be discontinued at any time, and may only be undertaken during the period beginning on the date on which adequate public disclosure of the price of the GDRs is made and ending at any time but no later than 30 calendar days thereafter (the “Stabilisation Period”). Save as required by law, neither the Stabilising Manager nor any person acting on behalf of the Stabilising Manager intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering. Any stabilisation action must be undertaken in accordance with applicable laws and regulations.

NOTICE TO CERTAIN INVESTORS

Notice to UK and other EEA Investors

This prospectus and the Offering are only addressed to and directed at persons in member states of the European Economic Area (the “EEA”), who are “qualified investors” (“**Qualified Investors**”) within the meaning of Article 2(1)(e) of the Prospectus Directive (including any relevant implementing measure in each relevant member state of the EEA). In addition, in the United Kingdom, this prospectus is only being distributed to and is only directed at Qualified Investors who are (1) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”) or (2) high net worth entities falling within Article 49(2)(a)-(d) of the Order (all such persons collectively being referred to as “relevant persons”). The GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

This prospectus has been prepared on the basis that all offers of the GDRs other than the offers contemplated in this prospectus in the United Kingdom following approval by the FSA will be made pursuant to an exemption under the Prospectus Directive, as implemented in the member states of the EEA, from the requirement to produce a prospectus for offers of the GDRs. Accordingly, any person making or intending to make any offer within the EEA of the GDRs should only do so in circumstances in which no obligation arises for us, the Selling Shareholders or any of the Underwriters to produce a prospectus for such offer. None of the Company, the Selling Shareholders or the Underwriters has authorised or authorises the making of any offer of the GDRs through any financial intermediary, other than offers made by the Underwriters which constitute the final placement of the GDRs contemplated in this prospectus.

In the case of any GDRs being offered to a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the GDRs acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any GDRs to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Underwriters has been obtained to each such proposed offer or resale. The Company, the Selling Shareholders, the Underwriters and their respective affiliates, and others will rely (and the Company and the Selling Shareholders each acknowledges that the Underwriters and their respective affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements. Notwithstanding the above, a person who is not a Qualified Investor and who has notified the Underwriters of such fact in writing may, with the consent of the Underwriters, be permitted to subscribe for or purchase GDRs.

For the purposes of this provision, the expression an “*offer to the public of any GDRs*” in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information of the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase any GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

The Underwriters may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

Notice to Investors in the Russian Federation

This prospectus should not be considered as a public offer or advertisement of the GDRs in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any GDRs in the Russian Federation. Neither the GDRs nor any prospectus or other document relating to them have been or will be registered with the Russian Federal Service for Financial Markets. The GDRs are not intended for “placement” or “circulation” in the Russian Federation, unless otherwise permitted under Russian law. Any information relating to the GDRs in this prospectus is intended for, and addressed only to, “qualified investors” (as defined under Russian law) or persons outside of the Russian Federation. The GDRs are not being offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

Notice to United States Investors

Because of the following restrictions, purchasers in the United States are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of GDRs or Ordinary Shares.

Neither the GDRs nor the Ordinary Shares have been or will be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons, except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or outside the United States in offshore transactions in reliance on Regulation S. Prospective investors are hereby notified that sellers of the Offered Shares may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

In addition, until 40 days after the commencement of the Offering of the GDRs, an offer or sale of GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

NEITHER THE US SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES NOR ANY OTHER US REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THE GDRs OR THE ORDINARY SHARES OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE GDRs OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Notice to New Hampshire Residents Only

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Statements

The Company's audited consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 (the "**Audited Financial Statements**") and the Company's unaudited interim condensed consolidated financial statements as of and for the six months ended June 30, 2010 (the "**Unaudited Interim Financial Statements**" and, together with the Audited Financial Statements, the "**Consolidated Financial Statements**") have been included in this prospectus beginning on page F-1. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board and the Unaudited Interim Financial Statements have been prepared on a basis consistent with the Audited Financial Statements.

The Company draws your attention to the emphasis of matter contained in the Independent Auditors Report on page F-3 of the prospectus in relation to the fact that the opinion of the Independent Auditors on page F-3 of the prospectus supercedes their previously issued opinion dated July 28, 2010.

Rounding

Certain amounts that appear in this prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Presentation of Third-Party Statistical Information

In addition to the internally generated statistical data included herein, this prospectus includes third-party statistical data and cites third-party estimates regarding the future growth of various segments of the Russian Internet industry. This third-party data is taken or derived from information published by a variety of third-party industry sources. The principal third-party statistical sources we cite in this prospectus, and the principal type of data cited, are summarised in the table below.

Type of Data (jurisdiction)	Source
Monthly unique users (Russia) Daily unique users (Russia)	TNS Gallup, July 2010
Monthly unique users (Global) Daily unique users (Global) Hours spent online (Russia) Page views (Russia)	ComScore, July 2009 - August 2010
Percentage of users outside Russia	LiveInternet.ru, 2010
Internet users in Russia Internet penetration rates in Russia MMO game statistics (Russia) Community IVAS statistics (Russia)	J'Son & Partners, September 2010
Broadband penetration (Russia) Cost of online advertising (Russia) ⁽¹⁾	GroupM, September 2010
Internet users (various countries other than Russia) Internet penetration (various countries other than Russia) Population statistics (various countries) Disposable income statistics (various countries other than Russia)	Euromonitor, August - September 2010
Education data (Russia) Average monthly income (Russia)	Rosstat, 2008 - September 2010

(1) Data provided gross of VAT.

In addition to these sources, we also cite a number of other third-party sources, including the Russian Census, Wireless Intelligence, MForum Analytics, ComNews Review, ZenithOptimedia, the International Game Developers Association, the Central Bank of Russia and the International Monetary Fund.

We believe that the statistical data and projections cited herein are useful in helping investors understand the major trends in the Russian Internet industry and differences between the Russian Internet market and similar markets in other countries. However, we have not independently verified these figures and the youth of the Internet industry, particularly in Russia, and its rapidly evolving nature make it difficult to obtain precise and accurate statistics. Such information, data and statistics may be approximations or estimates or use rounded numbers. In particular, paying user data aggregated across multiple sites may count the same users more than once if, for example, users utilise or pay for different services, make both SMS and non-SMS payments, or have more than one account in one or different services. Furthermore, usage statistics may be distorted by traffic generated by automated activity, such as spam accounts. In addition, different providers of statistics may provide different data for similarly-titled measures due to differences in terminology, research methodology or other factors. Because there is no single source for all of the statistics we present, we cite a variety of different sources. In some cases, to calculate percentages the numerator and denominator may come from different sources, or involve extrapolation from or combinations of multiple sources. The resulting figures are necessarily approximations. You should not place undue reliance on the statistical data cited in this prospectus. Similarly, the third-party estimates of future market growth cited herein are subject to significant risks and uncertainties that could cause actual data to differ materially from the projected amounts. No assurance can be given that the estimated figures will be achieved, and you should not place undue reliance on the third-party estimates we cite.

We confirm that the third party information included herein has been accurately reproduced and that as far as we are aware, and are able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. We note that neither these independent third party sources nor the Underwriters accept liability for the accuracy of any such information, and prospective investors are advised to consider such information with caution.

Certain Definitions

In this prospectus, we use certain defined terms, including the following:

- “Company” refers to Mail.ru Group Limited;
- “Group”, “we”, “our”, “us”, and similar expressions, unless the context otherwise requires, refer collectively to the Company and its consolidated subsidiaries. This term does not include equity method investments, available-for-sale investments or other entities that are not consolidated;
- “Daily unique users” refers to the number of users that visit a website at least once during a given day;
- “Daily active users” refers to the number of users that use IM or MMO and/or social games at least once during a given day;
- “IVAS” refers to Internet value-added services;
- “Mail.ru” refers to Mail.ru Internet N.V. and its consolidated subsidiaries;
- “MMO games” refers to massively multiplayer online games;
- “Monthly active users” refers to the number of users that use IM or MMO and/or social games at least once during a given month;
- “Monthly unique users” refers to the number of users that visit a website at least once during a given month;
- “Monthly paying users” refers to active users who paid for IVAS on the applicable site at least once during that month. Data for paying users of online games (both MMO and social) may include duplication: when the same user pays for more than one MMO and/or social game in a month, the user will be recorded in the data as multiple paying users;
- “Monthly peak concurrent users” refers to the maximum number of simultaneously connected users during a month; and
- “Page views” means a request to load a single page on an Internet site.

CURRENCIES AND EXCHANGE RATES

In this prospectus, references to “US dollars”, “USD” or “US\$” are to the currency of the United States, references to “Roubles” or “RUB” are to the currency of the Russian Federation and references to “Euro”, “EUR” or “€” are to the currency of the member states of the European Union participating in the European Monetary Union.

As a result of legislation in force in Russia relating to investments by foreign companies, Russian regulators may impose from time to time certain currency control limitations on the ability of the Group’s companies to convert Roubles into US dollars or other hard currencies or to convert US dollars or other hard currencies into Roubles.

The official currency of Russia, where most of our assets and operations are located, is the Rouble. The following tables show, for the periods indicated, certain information regarding the exchange rate between the Rouble and the US dollar, based on the official exchange rate quoted by the Central Bank of Russia. These rates differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this prospectus.

Years ended December 31,	Roubles per US dollar			
	High	Low	Average ⁽¹⁾	Period end
2007	26.58	24.26	25.58	24.55
2008	29.38	23.13	24.86	29.38
2009	36.43	28.67	31.72	30.24

Month ended	Roubles per US dollar	
	High	Low
January 2010	30.43	29.38
February 2010	30.52	29.88
March 2010	29.98	29.19
April 2010	29.50	28.93
May 2010	31.43	29.15
June 2010	31.78	30.73
July 2010	31.37	30.19
August 2010	30.90	29.80
September 2010	31.08	30.40
October 2010	30.80	29.63
November 2010 (through November 4, 2010)	30.79	30.77

(1) The average of the exchange rates for each business day during the year.

The Rouble/US dollar exchange rate as quoted by the Central Bank of Russia on November 4, 2010 was RUB 30.77=US\$1.00.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

Our presence and that of the Selling Shareholders outside the United States and the United Kingdom may limit your legal recourse against us. Most of our directors and executive officers named in this prospectus reside, and many of their assets are located, outside the United States and the United Kingdom. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon us, the Selling Shareholders or our respective directors and executive officers or to enforce US or UK court judgments obtained against us, the Selling Shareholders or our respective directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or UK securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in Russia only (i) if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered, and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments. No such federal law has been passed and no such treaty exists between the United Kingdom and the Russian Federation or between the United States and the Russian

Federation for the reciprocal enforcement of foreign court judgments, and no relevant federal law on enforcement of foreign court judgments has been adopted in Russia. However, we are aware of at least one instance in which Russian courts have recognised and enforced an English court judgment on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties.

See “*Risk factors—Risks relating to the IPO and the GDRs—Investors may have limited recourse against the Selling Shareholders, the Company or the Company’s directors and executive officers because they generally conduct their operations outside the United States and United Kingdom and most of its current Directors and executive officers reside outside the United States and the United Kingdom*”.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are not historical facts and are “**forward-looking**” within the meaning of Section 27A of the Securities Act and Section 21E of the US Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe”, “expect”, “anticipate”, “intend”, “estimate”, “forecast”, “project”, “will”, “may”, “should” and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear in a number of places in this prospectus including, without limitation, “*Risk Factors*”, “*Business*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, and include statements regarding:

- strategies, outlook and growth prospects;
- future plans, expectations, projections and potential for future growth;
- plans or intentions relating to acquisitions;
- future revenues and performance;
- liquidity, capital resources and capital expenditures;
- economic outlook and industry trends;
- the impact of regulatory initiatives;
- our competitive strengths and weaknesses; and
- the strengths of our competitors.

The forward-looking statements in this prospectus are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and which are beyond our control, and we may not achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- competition in the marketplace;
- changes in customer preferences;
- the level of power, telecommunications and network infrastructure in the Russian Federation;
- the degree of Internet penetration and usage in the Russian Federation, and the level of spending on advertising and Internet value added services (“**IVAS**”) in the Russian Federation;
- concerns about the security of data on the Internet and third party claims for IP infringement;
- adverse media speculation about the Group and/or its beneficial owners;
- changes in political, social, legal or economic conditions in Russia, including significant declines in Russia’s gross domestic product (“**GDP**”);
- exchange rate fluctuations; and
- our success in identifying other risks relating to our business and managing the risks of the aforementioned factors.

The foregoing list is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Except to the extent required by law, neither we nor any of our agents, employees or advisers intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained in this prospectus.

AVAILABLE INFORMATION

For so long as any Rule 144A GDRs or the Ordinary Shares represented thereby are “**restricted securities**” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Rule 144A GDRs or to any prospective purchaser of such restricted Rule 144A GDRs designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

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PROSPECTUS SUMMARY

Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the EEA, no civil liability will attach to those persons who are responsible for this summary in any such member state solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus. Where a claim relating to the information contained in this prospectus is brought before a court in a member state of the EEA, the claimant may, under the national legislation of that member state, be required to bear the costs of translating this prospectus before legal proceedings are initiated.

The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this prospectus, including our financial statements and the accompanying notes beginning on page F-1 of this prospectus. Any decision to invest in the GDRs should be based on consideration of this prospectus as a whole, including the information discussed in “Cautionary Note Regarding Forward-looking Statements” and “Risk Factors,” and not solely on this summarised information.

Overview⁽¹⁾

We are the largest Internet company in the Russian-speaking world, one of the largest Internet companies in Russia, and the world’s seventh largest Internet business. Since our formation in 2005, and particularly since the end of 2008, we have moved rapidly to build an integrated communication and entertainment platform that allows us to attract and monetise one of Russia’s largest daily Internet audiences. We operate two of the three largest Russian language social networking sites and own a strategic minority equity stake in the third, and operate the two largest instant messaging (“**IM**”) networks in Russia, Russia’s leading email service, Russia’s second largest Internet portal and Russia’s largest online games company.

Our integrated communication and entertainment platform attracts millions of users each day, offering us a significant base for launching new services designed to further increase user engagement. We leverage our large daily user base to generate revenues from display and contextual advertising, as well as from user payments for a range of Internet value-added services (“**IVAS**”) including online games, virtual gifts and other services.

We offer a rich suite of communication tools and IVAS that promote user engagement, including:

- **Online Social Networking Sites.** We operate two of the largest Russian-language social networking sites—Odnoklassniki (“**OK**”), Russia’s second largest social networking site, and Moi Mir (“**My World**”), Russia’s third largest social networking site. We made our first minority investment in OK in 2007, and in August 2010, acquired 100%.
- **Instant Messaging.** We operate two IM networks—Agent (“**Agent**”) and ICQ (“**ICQ**”). Agent, launched in 2003, is Russia’s largest IM network. ICQ, acquired in July 2010, is Russia’s second largest IM network, one of the leading providers of IM services in Germany and Ukraine, and also a significant provider in Israel, the Czech Republic and Slovakia.
- **Email and other Communication Tools.** We are Russia’s largest email provider. We also offer users a suite of other communication tools, including photo sharing, video sharing, blogs and online dating services.
- **Online Games.** We are Russia’s leading online games company, focused on MMO games and online social networking games that we integrate with our social networking sites and portals and monetise primarily through a free-to-play revenue model, with users paying for in-game enhancements.
- **Mail.ru portal, Vertical sites and Search.** Our Mail.ru portal is Russia’s second largest website, allowing users to access a range of services, including thematic vertical sites monetised primarily through display advertising, and a search engine monetised through context-based advertising. Our Headhunter online recruitment service is Russia’s largest online recruiting services provider and monetises its services primarily through subscription fees.

In addition to these services, which we offer through our consolidated subsidiaries, we currently hold strategic equity stakes of 24.99% in vKontakte (“**VK**”), Russia’s largest social networking site, and 25.09%

(1) Market positions described in this summary are based primarily on unique user data provided by TNS Gallup and comScore and other third party statistical data.

in QIWI, formerly OE Investments (“**QIWI**”), one of Russia’s leading payment-processing companies. We have agreed to acquire an additional 7.5% interest in VK on a fully diluted basis promptly following the closing of this Offering, and have purchased an option to acquire an additional 7.5% interest in VK on a fully diluted basis.

We also hold small minority stakes in Facebook Inc. (“**Facebook**”) (2.38%), the world’s largest social networking site, Zynga Game Network Inc. (“**Zynga**”) (1.47%), one of the world’s largest social games businesses, and Groupon Inc. (“**Groupon**”) (5.13%), a leading provider of online group discounts, and a number of small Russian and Ukrainian venture capital investments.

Our Key Strengths

- ***The largest Internet company in the high-growth Russian-speaking Internet markets.*** We are the largest Internet company in the Russian-speaking world, one of the largest Internet companies in Russia, and the world’s seventh largest Internet business. In our core Russian markets, the Internet user base is projected by J’Son & Partners to grow to 93.2 million by 2013, at a compound annual growth rate (“**CAGR**”) of 15.0%. We also have a strong position outside Russia in other markets with a substantial Russian-speaking audience.
- ***An integrated communication and entertainment platform.*** We believe that integrating our IM, email and other communication services with our My World social network makes it easier for users to find and interact with large numbers of friends. Increasing the number of users’ friends helps increase the “stickiness” of our sites and enhances user engagement. We believe My World also benefits significantly from its association with our Mail.ru portal by leveraging Mail.ru’s reach to attract new users.
- ***A highly engaged user base.*** We believe the opportunities to connect with people that our platform provides, together with our content, encourages users to visit our sites more often and spend more time when they visit.
- ***A proven monetisation model.*** We have proven our ability to monetise the large daily and monthly audience generated by our sites through online advertising and IVAS generated from MMO and social games.
- ***A technology and product-driven culture.*** We benefit from a scalable IT infrastructure, an in-house team of over 460 developers with strong product development capabilities and technical expertise, our own data centre, with 5 petabytes of storage, and strong relationships with third-party server hosting providers.
- ***An attractive portfolio of Russian and international investments.*** We believe our investments in VK, QIWI, Facebook, Zynga and Groupon offer both potential financial return and attractive opportunities to share knowledge and gain insight into global market trends.
- ***An experienced management team with strong industry relationships and a proven track record.*** Most of our key operational managers have been running our Mail.ru business for over ten years, allowing them to accumulate valuable experience while building a track record of identifying and seizing growth opportunities in the rapidly evolving Internet environment, developing operational integration capabilities and establishing strong industry relationships.

Our Principal Strategic Goals

- ***Cultivate the social experience for our users to drive engagement and increase stickiness.***
 - Enhance friend finder tools and similar applications by leveraging users’ IM and email contacts and introduce peering, allowing users of our networks to communicate freely with one another without switching platforms.
 - Unify our communications products and encourage interaction among users by integrating our IM services, social networking sites and email and mobile applications.
 - Create compelling social content, encouraging users to spend more time on our platform.
- ***Leverage our large user base and exceptional reach to drive monetisation.***
 - Leverage our wide reach and attractive user demographics to drive advertising revenue.

- Create innovative advertising campaigns that leverage our social networks.
- Incentivise users to transition from traditional SMS payment systems to online payment methods.
- Expand our presence in underpenetrated Russian regions and other markets in the former Soviet Union.
- Capture a greater share of search revenue by leveraging our website traffic and continuing to enhance the relevance of our search results.
- Introduce social search features that leverage the power of our social networks.
- Develop and launch new and innovative IVAS.
- *Launch new products that scale when integrated into our communication and entertainment platform.*
 - Develop new mobile applications.
 - Explore opportunities to expand into new verticals such as e-commerce or e-payments.
 - Integrate our existing and recently acquired businesses and new products.

Risk Factors

Our business is exposed to a variety of risks that could have a material adverse effect on our business, results of operations and financial condition, including risks relating to:

- competition and our ability to successfully respond to developments in technology and user preferences;
- skilled personnel and our senior management;
- Internet infrastructure, capacity and penetration;
- growth in Internet penetration, online advertising and IVAS revenues;
- security and collection of personal data;
- user-generated content and intellectual property rights;
- third party suppliers and service providers;
- corporate governance matters;
- internal controls;
- negative media speculation;
- expansion of our business and integration of acquired businesses;
- our investments;
- potential impairments;
- the Russian Federation; and
- the IPO and GDRs.

The Offering

The Company	Mail.ru Group Limited.
The GDRs	Each GDR will represent one Ordinary Share deposited with Citibank International plc, as custodian for Citibank, N.A., as depositary.
The Offering	Offering of GDRs representing 32,925,783 Ordinary Shares, consisting of (i) 3,032,727 GDRs representing Ordinary Shares offered by the Company and (ii) 29,893,056 GDRs representing Ordinary Shares offered by the Selling Shareholders. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A and in the Russian Federation to qualified investors in accordance with Russian law and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S.
Over-allotment Option	3,292,579 additional GDRs representing Ordinary Shares at the Offer Price for the purposes of meeting over-allotments.
Offer Price	US\$27.70 per GDR.
Shares Outstanding Prior to the Offering	40,824,000 Ordinary Shares and 151,698,000 Class A Shares.
Shares Outstanding After the Offering	78,611,522 Ordinary Shares and 117,688,546 Class A Shares assuming no exercise of the Over-allotment Option. The Company has authorized 4,081,341 Ordinary Shares to be issued in connection with the Offering, which includes 745,341 Ordinary Shares to be issued on the Closing Date pursuant to options exercised on a cashless basis by senior managers and employees of the Company and sold in the Offering.
Voting	Each GDR carries the right to vote one Ordinary Share, subject to the provisions of the Deposit Agreements and applicable BVI law. Each Ordinary Share carries one vote. Each Class A Share carries 25 votes.
Use of Proceeds	The Company will use the net proceeds of its offering of GDRs representing new Ordinary Shares to fund a portion of its acquisition of an additional 7.5% interest in VK. The Company will receive no proceeds from the sale of GDRs by Selling Shareholders.
Listing and Trading	Application has been made for the GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities. Neither the Ordinary Shares nor the Class A Shares are listed or traded on any stock exchange.
Lock-up	Until 180 days after the Closing Date, applicable to the Company, the Selling Shareholders, the Senior Managers and certain non-selling shareholders, subject to certain exceptions. In addition, we have instructed the Depositary not to accept deposit of Ordinary Shares, or issue GDRs, for 180 days after the date hereof (other than in connection with this Offering), unless we otherwise instruct.

Major Shareholders and Related

Party Transactions Our three largest shareholder groups are (i) three companies controlled by Alisher Usmanov, (ii) MIH Russia Internet BV (part of the Naspers Group) and (iii) the Company's founders. Following the Offering and conversion of certain Class A Shares to Ordinary Shares, these shareholders will together beneficially own and control close to 98% of the votes cast at the general meeting.

No single shareholder will directly or indirectly control the Company immediately after Admission.

The Company has entered into a Relationship Agreement with its affiliate, DST Global ("DSTG") governing the relationship between the Company and DSTG. The Relationship Agreement includes tag-along rights in the event DSTG or any affiliated transferee sells certain shares in Facebook and Zynga.

Board of Directors and Senior

Managers The Board of Directors has nine members, eight elected by the shareholders, and one independent director appointed by the Board. The company plans to appoint a second independent director by April 30, 2011. The Chairman is Mr. Yuri Milner. All Directors have relevant experience.

The Company also has an experienced team of senior managers, most of whom have been with the Company, or one of its current subsidiaries, for a number of years.

Certain Directors and Senior Managers own shares in the Company. The Company has also granted options to certain Directors and Senior Managers.

Dividend Policy No cash dividends expected for the year ending December 31, 2010. Dividends for future periods will depend upon conditions then existing.

Transfer Restrictions The GDRs will be subject to certain transfer restrictions.

London Stock Exchange GDR

Trading Symbol MAIL

Security Codes Regulation S GDRs: CUSIP: 560317208
ISIN: US5603172082
Common Code: 055222126
Rule 144A GDRs: CUSIP: 560317109
ISIN: US5603171092
Common Code: 055648417

Summary Consolidated Financial and Operating Information

The following tables set forth, in summary form, consolidated financial data, segment financial data and other operating information relating to the Group. The financial data has been derived from the Group's financial statements prepared in accordance with IFRS. The reports of Ernst & Young LLC relating to the 2007, 2008 and 2009 financial statements and the interim condensed consolidated financial statements for the six months ended June 30, 2010 appear elsewhere herein.

Our Consolidated Financial Statements are significantly affected by changes in scope of consolidation and related accounting gains that make it difficult to evaluate trends in the underlying businesses. Investors are encouraged to review our consolidated financial information together with the related segment information below.

Consolidated Financial Statement Data

(in millions of US\$)

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(audited)			(unaudited)	
Income Statement Data					
Online advertising	—	—	62.8	24.5	38.6
IVAS	—	—	63.4	20.2	56.0
Payment processing services	16.6	—	—	—	—
Online recruitment services	—	—	17.5	8.2	11.4
Dividend revenue from venture capital investments	—	0.1	1.6	0.6	1.2
Other revenue	4.5	—	3.1	1.0	1.5
Total Revenues	21.0	0.1	148.3	54.6	108.7
Cost of revenues	(16.4)	—	(34.3)	(12.2)	(25.7)
Gross margin	4.7	0.1	114.0	42.4	83.0
Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities	(10.9)	(12.7)	1.5	1.2	1.6
Research and development expenses	—	—	(1.0)	—	(1.3)
Selling, general and administrative expenses ⁽¹⁾	(9.7)	(54.6)	(96.8)	(33.6)	(53.2)
Impairment of intangible assets	—	—	(1.8)	—	—
Depreciation and amortisation ⁽²⁾	(0.1)	—	(29.9)	(11.4)	(22.4)
Operating profit (loss)	(16.0)	(67.2)	(14.0)	(1.4)	7.7
Finance income	1.9	1.2	1.5	0.8	0.4
Finance costs	(3.4)	(3.3)	—	—	—
Net gain/(loss) on derivative financial assets and liabilities over the equity of strategic investees	0.3	0.5	(3.6)	(1.1)	(0.7)
Net gain on acquisition of control in strategic associates	—	91.9	14.8	14.8	—
Net gain/(loss) on disposal of shares in strategic associates	20.4	(0.1)	113.1	113.1	—
Net gain/(loss) on loss of control in subsidiaries	167.8	—	(7.1)	—	—
Net loss on disposals of intangible assets	(0.3)	—	—	—	0.7
Net foreign exchange gains/(losses)	(0.2)	34.7	13.5	12.1	10.7
(Impairment losses)/reversal of impairment losses related to associates and available for sales investments	—	(53.1)	46.7	—	—
Share of profit/(loss) of equity method investees	3.9	(16.5)	18.0	7.3	(12.4) ⁽³⁾
Gain on bargain purchase	—	—	—	—	0.7
Other gains/(losses)	—	—	0.1	—	(1.1)
Profit/(loss) before income tax expense	174.5	(11.9)	183.0	145.6	5.4
Income tax expense	(0.8)	(0.1)	(17.3)	(10.6)	(8.6)
Net profit/(loss)	173.7	(12.0)	165.7	135.1	(3.1)
Attributable to:					
Equity holders of the parent	173.2	(12.0)	168.6	137.4	(7.3)
Non-controlling interest	0.5	—	(2.9)	(2.4)	4.2

(1) Includes US\$— million, US\$32.2 million, US\$18.5 million, US\$3.8 million and US\$4.2 million of stock based compensation and DSTA option expense in 2007, 2008, 2009, the first half of 2009 and the first half of 2010, respectively.

(2) Includes US\$— million, US\$— million, US\$21.5 million, US\$7.7 million and US\$15.9 million related to amortisation of fair value adjustments to intangible assets acquired in acquisitions in 2007, 2008, 2009, the first half of 2009 and the first half of 2010, respectively.

(3) Includes a loss of US\$19.4 million representing the Group's share of a US\$25.6 million loss recorded by Forticom upon the lapse of Forticom's options over 13.87% of OK's shares upon the Group's acquisition of the underlying shares.

Selected Segment Data

We set forth below selected financial information for our Mail.ru, OK and Headhunter segments, which are the segments that (together with ICQ) will form the core of our consolidated operations after this Offering. Our segment financial data does not reflect certain IFRS adjustments and assumes a 100% ownership interest in and consolidation of all key subsidiaries and associates composing the segments in question. The line item “IFRS segment net profit attributable to the group” shows what segment net profit attributable to the group for the applicable segment would have been had all applicable IFRS adjustments been applied for the periods indicated.

Mail.ru Segment

The following table sets forth the Mail.ru segment income statement for the periods indicated. This segment includes 100% of the financial results of Mail.ru and its subsidiaries, including Astrum, for all periods presented. In contrast, our Consolidated Financial Statements consolidated these entities only from the respective dates at which we acquired control in 2009.

(in millions of US\$)	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(audited)			(unaudited)	
Revenue					
Online advertising:					
Display advertising	37.8	44.4	44.5	17.1	26.7
Context advertising	7.0	17.8	16.0	6.8	11.0
Total On-line advertising	44.8	62.2	60.5	24.0	37.8
IVAS:					
MMO Games	9.7	38.9	64.9	25.0	44.4
Community IVAS	1.6	3.6	7.1	3.0	9.3
Other IVAS	3.8	6.7	5.8	2.4	2.6
Total IVAS	15.1	49.3	77.9	30.5	56.4
Other revenue	0.7	—	—	—	—
Total revenue	60.5	111.5	138.4	54.5	94.2
Operating expenses					
Personnel expenses	10.1	29.8	37.1	16.7	26.9
Office rent and maintenance	1.7	7.0	6.5	3.5	3.5
Agent/partner fees	2.3	7.5	14.8	4.8	8.5
Marketing expenses	2.4	5.0	6.0	2.4	4.6
Server hosting expenses	0.7	2.8	5.9	2.9	3.8
Professional services	4.8	10.5	5.7	1.7	1.0
Other operating expenses, excluding amortisation and depreciation	2.7	3.3	3.5	1.2	2.1
Total operating expenses	24.8	65.8	79.5	33.2	50.3
EBITDA^(*)	35.8	45.6	58.9	21.3	43.9
Depreciation and amortisation	5.1	4.9	6.9	2.9	5.7
Share of profit of equity associates	0.4	(0.2)	—	—	—
Other non-operating income (expense), net	0.7	7.4	4.1	0.1	(1.1)
Profit before income tax	31.8	47.9	56.2	18.5	37.1
Income tax expense	6.0	13.4	12.1	4.0	6.9
Segment net profit	25.8	34.5	44.1	14.4	30.2
Segment net profit attributable to the group	25.8	35.1	44.1	13.8	30.2
Reconciling items	61.8	(41.1)	(13.4)	15.6	(15.8)
IFRS segment net profit attributable to the group	87.6	(6.0)	30.7	29.4	14.4

(*) Segment EBITDA is calculated by subtracting segment total operating expenses from segment total revenues. Because segment revenues and segment operating expenses are presented differently than under IFRS, investors should review the segment EBITDA figures carefully. Segment EBITDA may be calculated differently than similarly titled financial measures at other companies.

OK Segment

The following table sets forth the OK segment income statement for the periods indicated. Our OK segment includes OK and its subsidiaries for all periods presented, assuming 100% ownership. In contrast, OK is not consolidated in our historical IFRS financial statements because we acquired control after June 30, 2010.

(in millions of US\$)	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(audited)			(unaudited)	
Revenue					
Online advertising:					
Display advertising	1.2	14.4	13.0	6.0	8.0
Context advertising	0.3	2.1	1.6	0.9	0.8
Total On-line advertising	1.5	16.5	14.6	6.9	8.7
Community IVAS	—	4.2	29.7	12.9	21.5
Other revenue	—	0.3	—	—	—
Total revenue	1.5	20.9	44.3	19.8	30.2
Operating expenses					
Personnel expenses	0.6	2.9	2.2	1.0	1.3
Office rent and maintenance	0.2	1.0	0.9	0.4	0.5
Agent/partner fees	—	0.8	0.9	0.5	0.5
Marketing expenses	0.6	3.4	0.2	0.1	0.2
Server hosting expenses	0.3	2.3	6.3	2.2	4.1
Professional services	1.1	0.8	5.6	3.7	4.6
Other operating expenses, excluding amortisation and depreciation	0.2	4.4	3.4	0.7	0.5
Total operating expenses	3.1	15.6	19.4	8.8	11.5
EBITDA^(*)	(1.5)	5.3	24.9	11.0	18.7
Depreciation and amortisation	0.1	1.3	2.6	1.2	2.4
Share of profit of equity associates	—	—	—	—	—
Other non-operating income (expense), net	0.1	—	(0.4)	—	—
Profit before income tax	(1.6)	4.0	21.9	9.8	16.2
Income tax expense	—	1.5	4.8	2.2	3.5
Segment net profit	(1.6)	2.6	17.1	7.6	12.7
Segment net profit attributable to the group	(1.6)	2.6	17.1	7.6	12.7
Reconciling items	(0.1)	(5.7)	(2.2)	(1.2)	(2.7)
IFRS segment net profit attributable to the group	(1.6)	(3.2)	14.9	6.4	10.0

(*) Segment EBITDA is calculated by subtracting segment total operating expenses from segment total revenues. Because segment revenues and segment operating expenses are presented differently than under IFRS, investors should review the segment EBITDA figures carefully. Segment EBITDA may be calculated differently than similarly titled financial measures at other companies.

Headhunter Segment

Our Headhunter segment includes the operations of Newton Rose and its subsidiaries, which operate the Headhunter online recruitment business, assuming we held a 100% interest for all periods presented. Our Consolidated Financial Statements under IFRS consolidate Newton Rose only from February 2009, the date we acquired control.

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(audited)			(unaudited)	
<i>(in millions of US\$)</i>					
Revenue	9.1	25.3	16.7	6.7	12.3
EBITDA^(*)	(0.3)	4.6	3.4	1.7	3.1
Segment net profit	0.3	2.9	1.5	0.8	1.7
IFRS segment net profit attributable to the group	0.3	(3.1)	(9.6)	(2.6)	1.5

(*) Segment EBITDA is calculated by subtracting segment total operating expenses from segment total revenues. Because segment revenues and segment operating expenses are presented differently than under IFRS, investors should review the segment EBITDA figures carefully. Segment EBITDA may be calculated differently than similarly titled financial measures at other companies.

RISK FACTORS

An investment in our GDRs involves a high degree of risk. You should carefully consider the risks described below and the other information contained in this prospectus before making a decision to invest in the GDRs. Any of the following risks, individually or together, could adversely affect our business, financial condition and results of operations, in which case the trading price of our GDRs could decline and you could lose all or part of your investment.

We have described the risks and uncertainties that we believe are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties of which we are currently not aware or which we currently deem immaterial may also have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to our Business

Risks relating to competition and our ability to successfully respond to developments in technology and user preferences

If we are not able to effectively respond to competition in our markets, we may lose users to competitors, which could make us less attractive to advertisers and/or reduce the potential base of paying users for our IVAS.

We face significant competition in almost every aspect of our business, both from companies that seek to provide an integrated offering of Internet communication, entertainment and other services and from companies that focus on specific services we offer, such as social networks, IM or online games. In addition to competitors based in Russia, we increasingly face competition from a number of large international Internet companies that historically have had a smaller presence in Russia but have developed Russian-language versions of services that have been successful in other markets in an effort to access the Russian-speaking market. Some of our competitors, particularly our international competitors including Facebook and Google, may have considerably greater financial, technical or marketing resources than us. We may not be able to react as quickly as certain of our competitors to changing user and advertiser requirements, Internet technologies or standards. Similarly, the Russian government has proposed sponsoring a Russian language search engine, and any service the government develops in this area or in other areas could compete with one or more of our products and services. See “*Business—Competition*” for further details.

If we are not able to effectively respond to competition in our markets, our user base could decrease, which could make us less attractive to advertisers and/or reduce the base of paying users that purchase IVAS from us, which in turn could lead to lower revenues and net income. Similarly, we may be required to spend additional resources to promote or improve our services in order to compete effectively, which could require additional capital or adversely affect our profitability.

If we fail to continue to innovate and provide popular products and services, we may be unable to attract or retain a large user base for our services.

The Internet industry is characterised by constant and rapid change in technology, consumer preferences, the nature of services offered and business models. Many of our important services, such as social networking sites and online games, are relatively new. The popularity of such services may wane, and other more attractive and innovative services may emerge in the future. If we are unable to respond effectively to change and to continue to offer attractive and innovative products to our users, the popularity of our websites and services may decline, which could adversely affect our business in a number of ways, including through lower revenues from advertising and IVAS. Moreover, certain of our services, in particular our internally developed MMO games, require significant investment and can take several years to produce, and competitors may be faster to market with competing services or games that reduce the available market for our services. The popularity of online games and other Internet services is difficult to predict, and we cannot be certain that the games or services we develop or acquire under license will be popular with our users or sufficiently successful to offset the costs incurred to develop or license them. Failure to continue to innovate and provide popular products and services could have a material adverse effect on our business, results of operations and financial condition.

We may fail to successfully capture and retain a significant portion of the growing audience that accesses Internet services through mobile devices, and we may also lose users if we are unable to develop our products and services to be compatible with new mobile device technology.

Capturing a greater share of the growing number of users that access social networks and communication tools through smart phones and other mobile devices by developing new mobile

applications is an important element of our strategy. The lower resolution, functionality, and memory associated with some mobile devices make the use of our products and services through such devices more difficult and the versions of our products and services we develop for these devices may fail to prove compelling to users, manufacturers or distributors of alternative devices. Manufacturers or distributors may establish unique technical standards for their devices, and our products and services may not work or be viewable on these devices as a result. As new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our products and services for use on these devices and we may need to devote significant resources to the creation, support, and maintenance of such services. If we are unable to attract and retain a substantial number of mobile device users to our products and services, or if we are slower than our competitors in developing attractive services that are adapted for such devices, we may fail to capture a significant share of an increasingly important portion of the market for online services or lose existing users, either of which could have a material adverse effect on our business, results of operations and financial condition.

We have limited insurance coverage, and in the event of a material disruption to our business or significant losses, we may not be covered by insurance.

Although we maintain insurance for certain of our properties and other assets we do not have coverage for most of the risks to which our business is subject. We do not have specific coverage for disruptions to our businesses or losses generally. If we suffer damage to our businesses or our properties without adequate insurance coverage, it could have a material adverse effect on our business, results of operations and financial conditions.

Risks relating to skilled personnel and our senior management

We may have difficulty retaining or hiring the highly skilled personnel on whom our business depends.

Our performance and future success depend on the talents and efforts of a large number of highly skilled individuals within the Group. We will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organisation. Competition in the Internet industry, and in particular in Russia, for suitably qualified employees is high. As competition in the Internet industry in Russia increases, it may be more difficult for us to motivate, retain and hire highly skilled personnel. If we do not succeed in retaining or motivating existing personnel or attracting additional highly skilled personnel, our business and results of operations may be materially and adversely affected. In addition, even if sufficient numbers of highly skilled personnel can be retained, salaries may rise significantly due to competition within the Internet industry in Russia, increasing our costs, which could have a material adverse effect on our business, results of operations and financial condition.

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

Our future success depends heavily upon the continuing services of the members of senior management. Existing management and certain of the founders (particularly Yuri Milner and Gregory Finger) provide strategic direction for the Company, and have played an important role in the development of the Company. If one or more members of senior management are unable or unwilling to continue in their present positions, we may not be able to replace them easily. Competition for senior management in the Internet industry, particularly in Russia, is high, the pool of qualified candidates is limited, and we may not be able to attract and retain high-quality senior executives in the future. In addition, if a member of the Company's senior management team, the founders or any other important employee within the Group joins a competitor or forms a competing company, the Company or other members of the Group may lose users, know-how and personnel. While each of the members of senior management has entered into an employment agreement containing confidentiality provisions, no assurance can be given that these agreements would be enforceable in all material respects. In addition, Russian law prevents us from including non-compete provisions in our employment contracts, and accordingly we cannot prevent our competitors from approaching and hiring our personnel. A failure to retain senior management could have a material adverse effect on our business, results of operations and financial condition.

Risks relating to Internet infrastructure, capacity and penetration

Problems with our network infrastructure, information technology systems or the Moscow or Russian Internet, power or telecommunications infrastructure could impair our ability to provide our services.

Our ability to provide our services depends on the continuing operation and scalability of our network infrastructure and information technology systems, and on the performance and reliability of the Internet, power and telecommunications infrastructure in Moscow and Russia. The risks we face in this area include:

- the Internet infrastructure in Moscow and elsewhere in Russia may not support the demands associated with continued increase in Internet usage in general or in relation to our business specifically. In the event of a disruption to or fault in Moscow's or Russia's Internet infrastructure, we may not have access to alternative networks, and our services could be interrupted or our systems damaged;
- our systems are also potentially vulnerable to damage or interruption as a result of terrorist attacks, war, earthquakes, floods, fires, extreme temperatures, power loss, telecommunications failures, technical error, computer viruses, interruptions in access to our websites through the use of "denial of service" or similar attacks, hacking and similar events;
- we may encounter problems when upgrading our systems or services and undetected programming errors could adversely affect the performance of the software we use to provide our services. The development and implementation of software upgrades and other improvements to our Internet services is a complex process, and issues not identified during pre-launch testing of new services may only become evident when such services are made available to our large user base; and
- although we operate our own data centre, we also rely on network and server capacity provided by third parties, and the limited availability of third party providers with sufficient capacity to house additional network facilities and broadband capacity in Russia may lead to higher costs or, if we are unable to meet our needs through our own data centre, limit our ability to offer certain services or expand our business.

These and other events could lead to significant interruptions or degradation of our services or the permanent loss of user data and uploaded content, any of which could damage our reputation or relationships with our users or advertisers and result in a material adverse effect on our business, results of operations and financial condition.

Risks relating to growth in Internet penetration, online advertising and IVAS revenues

If penetration rates in Russia for Internet and broadband Internet access, including mobile Internet access, and adoption of online or mobile device payment methods, do not increase, our ability to expand could be materially and adversely affected.

Penetration rates in Russia for Internet and broadband Internet access, including mobile Internet access, are relatively low compared to those in more developed countries. Investment by telecom and cable operators or other providers of broadband Internet services in Russia will be required in order to increase penetration rates. In addition, penetration rates for adoption of online payment methods and SMS payments are relatively low in Russia, compared to those in more developed countries. If these penetration rates do not increase, our ability to expand our number of users, games and advertising and IVAS revenues could be limited, which could have a material adverse effect on our business, results of operations and financial condition.

If the level of spending on advertising in Russia, and in particular on Internet advertising, does not increase, our ability to increase revenue could be materially and adversely affected.

The level of spending on advertising in Russia is relatively low compared to more developed countries and, in particular, the use of the Internet as a marketing channel is at an early stage. The Russian advertising market may shrink or may not expand as quickly or as much as we expect. In addition, many of the current and potential advertisers working with us have not historically devoted a significant portion of their advertising budgets to online advertising and may continue to focus on traditional forms of advertising such as print and broadcast media. The share of advertising budgets devoted to online advertising in Russia may fail to increase as quickly as currently expected or may decline from current levels. We also may fail to respond adequately to changing trends in online advertising or advertiser demands or preferences, or may have less success in selling contextual advertising than we have historically

had in selling display advertising. If the online advertising market does not increase from current levels or we are unable to capture and retain a sufficient share of that market, our ability to maintain or increase our current level of online advertising revenues could be materially and adversely affected.

If the level of spending on IVAS in Russia does not increase or our IVAS lose popularity, our ability to increase or maintain our current level of IVAS revenues could be materially and adversely affected.

IVAS are a recent development in the Russian Internet industry, and although initial growth in IVAS revenues has been encouraging, there is no certainty that similar rates of growth can be sustained. Certain IVAS, particularly social games, are relatively new, and it is difficult to predict how the market for social games will develop over time or whether social games, on an individual basis or overall as a genre, will remain popular with customers. If the popularity of our MMO and social games were to wane and we were unable to replace them with new games with comparable popularity, our IVAS revenues could decline significantly, which could have a material adverse effect on our business, results of operations and financial condition.

Risks relating to security and collection of personal data

Concerns about the security of the Internet may reduce our ability to increase our IVAS revenues.

A significant barrier to financial transactions or other electronic payment processing platforms over the Internet in general has been public concern over the security of online payments. If these concerns are not adequately addressed, they may inhibit the growth of paid online services generally. We derive a significant proportion of our revenues from IVAS, which users purchase using a variety of payment methods, including through SMS payments. If a well-publicised Internet or mobile network breach of security affecting the payment methods used by us were to occur, users concerned about the security of their transactions could become reluctant to purchase our IVAS, which could limit our ability to continue to increase our revenues from these services. If concerns about the security of financial transactions on the Internet or mobile networks limit our ability to expand our IVAS or reduce our revenues from such services or advertising, it could have a material adverse effect on our business, results of operations and financial condition.

Concerns about collection and use of personal data could damage our reputation and deter current and potential users from using our products and services.

Concerns about our practices with regard to the collection, use or disclosure of personal information or other privacy related matters, even if unfounded, could damage our reputation and operating results. While we strive to comply with all applicable data protection laws and regulations, as well as our own posted privacy policies, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, or could cause us to lose users and customers, which could potentially have an adverse effect on our business. User and regulatory attitudes towards privacy are evolving, and future regulatory or user concerns about the extent to which personal information is shared with advertisers, IVAS providers or others may adversely affect our ability to share certain data with advertisers, which may limit certain methods of contextual advertising. Concerns about the security of personal data could also lead to a decline in general Internet usage, which could lead to lower user traffic on our websites. Any significant reduction in user traffic could lead to lower advertising revenues or lower IVAS revenues, which could have a material adverse effect on our business, results of operations and financial condition.

Spammers and malicious applications may make our services less user-friendly, and distort the data used for advertising purposes, which could reduce our ability to attract advertisers.

Spammers use our networks and services to send targeted and untargeted spam messages to users, which may embarrass users and make usage of our services and networks more time consuming and less user-friendly. As a result, our users may use our services less or stop using them altogether. As part of fraudulent spamming activities, spammers typically create multiple user accounts, such as accounts being set-up for the purposes of sending spam messages. We do not validate information provided during the registration process and thus such registration is difficult to control. Inaccurate data with respect to the number of unique individuals registered and actively using our services may cause advertisers to reduce the amount spent on advertising through our websites. Also, spammers can succeed in manipulating our search results in a way that makes the results less relevant causing us to lose search users, which may discourage advertisers from placing advertisements on our websites. Similarly, use of applications that permit users to

block advertisements may become widespread, which could make online advertising less attractive to advertisers. Any such activities could have a material adverse effect on our business, results of operations and financial condition.

Risks relating to user-generated content and intellectual property rights

We may be held liable to third parties for information or content displayed on, retrieved from or linked to our websites, or distributed to website users.

As we publish and distribute user-generated content or allow users to upload images, videos, music and other content on our websites, we may face liability for copyright, defamation, libel, negligence, patent or trademark infringement and other claims based on the nature and content of the materials that are published on our websites or delivered or shared through our services, if appropriate licences and/or third party consents have not been obtained.

We could be subject to claims based upon content that is posted by users on message boards, blogs, email, chat rooms, or video or image sharing websites or hypertext links to third-party websites that infringe the intellectual property of others. Although we have guidelines and procedures designed to reduce the likelihood that user content might be used without proper licences or third party consents, these guidelines and procedures may not be effective in preventing the unauthorised posting of copyrighted material. Moreover, although we could seek to recover any losses resulting from the unauthorised posting of copyrighted material from the infringing users, it may be impractical for us to recover losses from such users.

We are regularly approached and asked to remove content uploaded by users on the grounds of alleged copyright infringement. In such cases, we investigate the claims and any uploads that appear to be infringing intellectual property rights of a third party are removed as a matter of policy. Although we remove such material when it is brought to our attention, it is not possible to review all content uploaded onto our websites and the risk of infringement of third party intellectual property rights remains. The amount of such claims may increase due to recent amendments to the Civil Code, signed by the President of the Russian Federation on October 4, 2010, coming into legal force on October 19, 2010, that introduce additional limitations on any reproduction of the content without a copyright owner's consent and with no remuneration to the owner. See "*Regulation—Regulation of the Russian Internet Industry*" for further details.

Although there have been a number of recent court proceedings concerning the unauthorised posting by users of copyrighted content on websites, there is no legislation or settled court practice in Russia that provides clear guidance as to whether or under what circumstances hosting providers and administrators of web space and Internet portals can be held liable for the unauthorised posting by users of copyrighted material. See "*Regulation of the Russian Internet Industry*" for further details.

We are currently defending several lawsuits brought against one of our subsidiaries that seeks to recover damages allegedly caused by the unauthorised posting of audio and video on our websites. In addition, VK, in which we have a minority non-controlling investment, has been and is subject to similar claims, and has been held liable on at least one occasion. Although the damages claimed in the actions against us are not material and we intend to defend the claims vigorously, publicity resulting from the actions could lead to similar claims by other copyright owners alleging higher damages, and if we were held liable, the risk of similar claims would further increase. We may incur significant costs in investigating and defending ourselves against such claims, and may suffer damage to our reputation, even if they do not result in liability. Any resulting liability or expenses, or changes required to our websites to reduce the risk of future liability, could have a material adverse effect on our business, results of operations and financial condition.

If users utilise our services for illegal purposes, it could have a material adverse effect on our reputation, business, results of operations and financial condition.

Although our user agreements prohibit the use of our services for illegal purposes, it may not be possible for us to comprehensively screen, monitor or prevent the use of our services for such purposes. We, or users of our websites, may be subject to investigation by the Russian government or other regulatory bodies in Russia or elsewhere if our websites and communications services are suspected of being used for unlawful purposes, such as the posting of pornography, terrorist propaganda or other illegal content.

We may incur significant costs in investigating and defending ourselves against any resulting government investigations. Moreover, if an investigation resulted in liability for us, a court could impose fines, order us to cease offering the service containing the illegal content, and/or require that our business cease operating. Any of these scenarios could have a material adverse effect on our reputation, business, results of operations and financial condition.

We may be exposed to infringement claims by third parties, or may have our own intellectual property rights infringed, which could materially and adversely affect our business and results of operations.

We 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 our services. If we are found liable for infringement, we may be required to pay significant damages, and if we are unable to license or develop non-infringing technology on a timely basis, we may be unable to continue offer the affected services without risk of liability.

Similarly, third parties may obtain and use our intellectual property without authorisation. In addition, our employees have access to our intellectual property and contractual protections may not in every case sufficiently protect our intellectual property rights. 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 us to protect our intellectual property, which could have a material adverse effect on our business, results of operations and financial condition.

Risks relating to third party suppliers and service providers

We purchase our servers and some other computer hardware from several Russian companies, most of which import equipment into Russia, and in some cases directly from manufacturers outside Russia. If these companies are prevented from importing the servers and such other computer hardware into Russia, or are unable to supply the servers and such other computer hardware to us for any other reason, our business and results of operations could be materially and adversely affected.

The servers and some other computer hardware used by us in order to store data of our users and connect to the Internet are manufactured outside Russia and are purchased either from companies who import such hardware into Russia, or directly from the manufacturers. If these companies are prevented from importing such hardware into Russia, or if they are unable to supply such hardware to us for any other reason, or if the price of such hardware is greatly increased by the manufacturers or importers due to increased customs or other charges for any reason, we may not be able to expand our business or maintain our operations at all or without incurring significant increased costs. Any of these scenarios could have a material adverse effect on our business, results of operations and financial condition.

We rely on third parties to provide a number of important services in connection with the business, and any disruption to the provision of these services to us could materially and adversely affect our business and results of operations.

Our business is to a significant extent dependent upon services provided by third parties. In particular, we indirectly outsource the sale of much of our context advertising to third parties such as Google, and rely on third parties to sell display advertising for ICQ. Many of our online games are developed by third parties, and if we are unable to obtain or extend licenses to such content, we could be required to devote greater internal resources and time to the production of such content. Although we have our own data centre, many of our servers, particularly for recently acquired businesses are still hosted by third party providers, and we will depend heavily on AOL for certain transition services and support in connection with our acquisition of ICQ during the transition period, which is expected to take at least a few months. If the third parties on which we rely fail to provide their services effectively, or terminate the related service or license agreements, we could suffer service diminution or interruptions, data loss, lower revenues or increased costs, any of which could have a material adverse effect on our business. In certain cases these third party service providers could be difficult and costly to replace, and any disruption to the provision of these services to us could have a material adverse effect on our business, results of operations and financial condition.

Risks relating to corporate governance matters

The Company's dual share capital structure, combined with the concentration of voting rights, will result in the control of the Company by its major shareholders.

The Company's Ordinary Shares represented by GDRs are each entitled to one vote per share at shareholders' meetings, whereas the Company's Class A Shares are entitled to twenty five votes per share at shareholders' meetings. After Admission, we anticipate that New Media and Technology Investment LP and its affiliates ("NMT"), MIH Russia Internet BV ("MIH") and the founders and entities they control will together beneficially own and control all of the Company's Class A Shares and over 20% of our Ordinary Shares, together representing in aggregate close to 98% of the voting power of the Company's issued share capital. Furthermore, the Articles of Association provide that Class A Shares automatically convert to Ordinary Shares upon transfer, subject to certain exceptions. Any transfer of Class A Shares that results in a conversion to Ordinary Shares will have, among other things, the effect of further concentrating voting power in the Company in the hands of non-transferring holders of Class A Shares. Accordingly, holders of our Class A Shares will control the Company for the foreseeable future, including having the power to appoint and dismiss the Board of Directors and to approve significant transactions. Moreover, eight of the nine members of the current Board of Directors of the Company are representatives of NMT, MIH or the founders, and, through cumulative voting and the holding of Class A Shares, these parties are expected to continue to be able to elect at least a majority of the Board of Directors for the foreseeable future. The voting power of the holders of Class A Shares will be substantially greater than their economic interest in the Company, and the ability of GDR holders to influence the conduct of the Company will be limited.

Furthermore, the Articles of Association of the Company provide that no non-Russian shareholder shall be entitled to cast votes in excess of 35% at shareholders' meetings. In addition, the aggregate vote cast by non-Russian shareholders must not exceed 45%. Accordingly, there are limits on the ability of non-Russian shareholders to influence the Company.

Certain actions of the Company require a 75% resolution of the shareholders or can be invoked by holders of 25% or more of the voting rights of the Company, and following the Offering, NMT and MIH will each control in excess of 25% and will together control in excess of 75% of the voting power of the Company.

The Articles of Association of the Company require a 75% shareholders' resolution for a number of actions, including amending the constitutional documents of the Company, winding-up the Company, removing the Board of Directors, issuing new Class A Shares and authorising any Substantial Transactions (as defined herein) of the Company or any core Consolidated Subsidiary, among other matters. The Company's Board of Directors has also resolved that any shareholder holding (together with its affiliates) 25% or more of the voting rights in the Company as of the date of the resolution may cause the Company to repurchase GDRs under certain circumstances. See "*Management's Discussion of Financial Conditions and Results of Operations—Liquidity and Capital Resources—Share buybacks*". NMT and MIH each control more than 25% of the voting rights in the Company, and accordingly each can veto any resolution requiring a 75% shareholder vote or invoke the buyback provision, including in order to maintain their proportionate interests in the Company. See "*Corporate Governance—General Shareholders' Meeting*". NMT and MIH taken together will control in excess of 75% of the voting power of the Company following the Offering, which will allow them together to control the outcome of matters requiring a 75% shareholder vote.

The Relationship Agreement entered into between the Company and DSTG does not prevent DSTG from taking advantage of investment opportunities that might otherwise be available to the Company.

The Company has entered into a Relationship Agreement with DST Global ("DSTG"), a related party to the Company, and certain shareholders or executives of the Company are also shareholders or executives of DSTG. Whilst the Relationship Agreement provides tag-along rights to the Company in the event of sales by DSTG or any affiliated transferee of certain Facebook and Zynga shares, it does not prevent DSTG from taking advantage of investment opportunities that might otherwise be available to the Company. See "*Material Contracts—Relationship Agreement*".

We have engaged and may continue to engage in transactions with related parties that may present conflicts of interest.

We have engaged in transactions with related parties, including our Directors, management and beneficial owners, and companies controlled by such persons, and we may continue to do so in the future.

The Articles of Association provide for decisions to enter into such transactions, above a specified threshold, to be approved by disinterested members of the Board of Directors or shareholders (see “*Corporate Governance—Related Party Transactions*”). Nonetheless, conflicts of interest may arise, potentially resulting in transactions on terms not determined on an arm’s length or market basis.

The mandatory offer requirements in the Articles of Association of the Company do not apply to any existing shareholder of the Company as of August 27, 2010, do not preclude a shareholder from holding a majority of the voting rights in the Company, and do not preclude a shareholder from holding 75% or more of the voting rights in the Company if such threshold is crossed through accretion rather than acquisition, and accordingly in such cases do not provide protection for minority shareholders.

The Articles of Association of the Company contain a mandatory tender offer provision that requires a third party acquiror that acquires, together with parties acting in concert, 75% or more of the voting rights in the Company, to make a tender offer to all other shareholders in the Company at the highest price paid for shares in the Company by that third party (or parties acting in concert) in the preceding 12 months (see “*Corporate Governance—Mandatory offer requirements*”). However, the provision does not apply to any existing shareholder in the Company as of the August 27, 2010, which means such shareholders (including NMT, MIH and the founders, and their respective affiliates) can acquire more than 75% of the voting power without making a tender offer. Similarly, the provision does not apply to accretions, so an existing holder or a third party that acquires less than 75% of the voting power but accretes above that level without acquiring additional shares, for example due to conversion of high voting Class A Shares held by others to Ordinary Shares upon transfer, would not be required to make a tender offer. Furthermore, because the trigger is set at 75%, a third party or an existing shareholder could acquire a majority of the voting rights without making a tender offer, and that majority position would allow such shareholder to control the outcome of decisions that require only a simple majority vote.

Accordingly, the mandatory tender offer provision in the Articles of Association does not apply in a number of scenarios in which a shareholder, together with parties acting in concert if applicable, may have control over the Company.

Corporate governance standards in BVI and the Russian Federation are not of the same standard as those in Western Europe and the United States.

There is no corporate governance code or corporate governance regime in the BVI, and the Company is not required to comply with the UK Corporate Governance Code. Accordingly, there are fewer protections for investors than would otherwise be the case were the Company to comply with the UK Corporate Governance Code principles on corporate governance or similar standards of other European Union member states or the United States. Similarly, in relation to affiliates of the Company incorporated in the Russian Federation, corporate governance standards in the Russian Federation are not of the same standard as those in Western Europe and the United States, which may provide the Company, as equity holder in such Russian entities, and, indirectly, the shareholders of the Company, with less protection than corporate governance requirements that would apply in Western Europe or the United States.

Risks relating to Internal Controls

Certain material weaknesses have been identified in our internal controls.

In the course of the audit of our financial statements for the year ended December 31, 2009, material weaknesses in our internal controls were identified and our independent auditor also communicated these weaknesses to our Board of Directors. Under International Standards on Auditing, a material weakness is a weakness in the design or operation of one or more internal control components that does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the consolidated financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Three areas of material weaknesses were identified in our internal controls, some of which resulted in significant adjustments as part of the audit and review of our financial statements:

- A lack of sufficient resources in our IFRS reporting function.
- Material weaknesses in the internal controls of certain of our strategic minority investments accounted for under the equity method relating to adequacy of IFRS resources.

- Weaknesses in the financial statement close process used to transform the management accounts into IFRS financial statements. In particular, we do not have a comprehensive automated accounting system for IFRS transformation, consolidation and other entries.

Since the identification of these weaknesses in early 2010, we have moved rapidly to develop and begin the implementation of a remediation plan. We have taken and intend to take a series of steps in 2010 and 2011 designed to remediate the identified material weaknesses. As a first step, to address the weaknesses relating to our IFRS reporting function, we have hired additional personnel with IFRS expertise. To address the weaknesses at our non-controlled investees, we are working with our investees to expand their IFRS reporting teams and improve their IFRS reporting processes. To address the lack of an automated system for preparing our financial statements, we are in the process of setting up an implementation team and defining the implementation scope for such a system, which we target to have operational by the time of the audit of our 2011 accounts. Although we believe our remediation plan is reasonably designed to allow us to address all of the identified material weaknesses, these steps may take longer or prove more expensive than anticipated, and in some cases, they will depend on the cooperation of investees we do not control.

Pending implementation of an automated system and full remediation by our investees of their IFRS reporting function weaknesses, to ensure that we are able to produce IFRS financial statements and meet our obligations as a listed company from the date of Admission, we have enhanced, and plan to continue to enhance, the reliability of our manual financial statement close process and related review of investee IFRS information by implementing a more robust multi-level management review process and allocating the additional resources represented by our newly-expanded IFRS reporting team to carry out a more detailed review and verification of our IFRS financial statements and those of our investees.

Accordingly, notwithstanding that the remediation plan will not be fully implemented, the Company believes, from Admission, it can and will comply with its continuing obligations as a company with securities admitted to the Official List.

Risks relating to negative media speculation

Negative media speculation or other negative public statements could adversely affect our reputation, which in turn could adversely affect our business and the trading price of our GDRs.

The media and others have speculated negatively from time to time about us and certain of the Company's beneficial owners, which could adversely affect our reputation, potentially disrupting our ability to do business with counterparties who give weight to media comment, distracting our senior executive officers from their management responsibilities, and adversely affecting the trading price of our GDRs. For example, the press has in the past speculated, and may in the future speculate, about the background of Mr. Alisher Usmanov, who, via his control of NMT and Ardoe Finance Limited, is one of the Company's largest shareholders. Mr. Usmanov spent six years in an Uzbek jail after he had been convicted in 1980 of fraud and embezzlement. In 1989, however, a Soviet court removed his criminal record, and, in 2000, the Supreme Court of Uzbekistan found that the original conviction was based on ill-founded and circumstantial evidence, and vacated the judgment of 1980 and terminated the case due to the absence of the constituent elements of a crime. Nonetheless, media and others have speculated negatively about Mr. Usmanov in the past and may do so in the future.

Risks relating to expansion of our business and integration of acquired businesses

Our business and operations are experiencing rapid growth. If we fail to sustain our growth or manage it effectively, our business and operating results could be harmed.

We have experienced rapid growth in our operations, which has placed, and will continue to place, significant demands on our management, operational and financial infrastructure. If we do not effectively manage our growth, the quality of our products and services could suffer, which could negatively affect our brand and operating results. In addition, we may not be able to sustain our revenue growth rate and anticipate that there will be downward pressure on our operating margin. To sustain or manage this growth effectively, we will need to continue to improve our operational, financial and management controls, and our reporting systems and procedures. In particular, we recognise that improvements to our internal controls and procedures are required in order to address certain weaknesses identified during our audit process. Failure to implement these improvements could hurt our ability to manage our growth and could have a material adverse effect on our business, results of operations and financial condition.

Ongoing integration of acquired businesses has resulted in, and may continue to result in, operating difficulties and other harmful consequences.

We have made significant acquisitions over the last several years, including Astrum, OK and ICQ, and the process of integrating, and continuing to integrate, these businesses has created, and may continue to create, unforeseen operating difficulties and expenditures. In the case of OK, such issues may include technological challenges in combining and integrating the products and services of OK with the various Group platforms. In addition, integration of OK's accounting, management information and other administrative systems with our systems may involve some difficulties. We cannot assure that there will not be similar issues with the process of integrating ICQ with the Group. Difficulties in integrating acquired businesses could adversely affect our ability to expand the business, and could have a material adverse effect on our business, results of operations and financial condition.

Our acquisition of ICQ may be affected by the investigation of the transaction by the Committee on Foreign Investment in the United States.

Subsequent to our acquisition of ICQ, the Committee on Foreign Investment in the United States ("CFIUS") commenced an investigation of the transaction under Section 721 of Title VII of the United States Defense Production Act of 1950, as amended, and the rules and regulations thereunder (the "Exon-Florio Amendment"). Pursuant to the Exon-Florio Amendment, the President of the United States is authorized to prohibit or suspend acquisitions, mergers or takeovers by foreign persons of persons engaged in interstate commerce in the United States if the President determines, after investigation, that there is credible evidence that such foreign persons in exercising control of such acquired persons might take action that threatens to impair the national security of the United States and that other provisions of existing law do not provide adequate authority to protect national security.

Although we have not been informed by CFIUS of any U.S. national security concern posed by our acquisition of ICQ, if CFIUS determines that there is such a concern, it has power to seek a presidential order requiring a broad range of remedies, from the unwinding of the acquisition to conditioning our retention of control of ICQ on the adoption of such mitigation measures as CFIUS may suggest to address its concerns. Until CFIUS completes its investigation of the acquisition, we cannot be certain that we will be able to continue to retain our interest in ICQ or that CFIUS will not impose conditions on our retention of control of ICQ (which could include restrictions on ICQ's operations, security agreements or other forms of mitigation) that increase our costs or limit our ability to realize the expected benefits of the acquisition. The investigation by CFIUS, as well as any finding by CFIUS that the transaction presents a national security concern, could lead to adverse publicity and require us to divert management resources to resolving CFIUS' concerns or restructuring or unwinding the transaction. If we are not able to retain ICQ or if CFIUS requires the implementation of measures that interfere with our ability to integrate ICQ as planned, we may not be able to realize the expected benefits from the acquisition, or may be able to do so only at significantly increased cost.

Risks relating to our investments

We do not control the management of, and in certain cases have limited governance rights in, a number of our significant investments, which exposes us to certain risks.

We do not control the management of the number of significant investments we have made, including VK, QIWI, Facebook, Zynga and Groupon. As a result, they may take actions or adopt strategies with which we do not agree, or that are harmful to our interests or reputation or offer services that compete with services provided by us. We have identified in the past, and may identify in the future, weaknesses in the internal controls of certain of our investees. Because we do not control these companies, our ability to influence the internal controls of these entities is limited, which may increase the risk that material misstatements of the financial information provided by these entities for use in preparing our financial statements, may not be detected and corrected on a timely basis. Similarly, each of these companies is subject to a variety of business and regulatory risks that could harm its businesses, some of which are similar to the risks faced by us, and others which may be more specific to their business. For example, proposed regulatory developments affecting the payment processing and online payments business or adverse changes in the relationship between QIWI and its agents and merchants could adversely affect the business of QIWI.

We do not control these companies, and as a result we have limited ability to influence their response to the risks they face, and some of these risks could have a material adverse effect on their businesses.

While some of our investments, such as our investments in QIWI and VK, carry governance rights such as veto provisions or the right to appoint members to the governance bodies of the companies in question, these rights are not sufficient to give us control over such entities and this will continue to be true at VK even after the acquisition of an additional 7.5% interest in VK on a fully diluted basis promptly following closing, and the potential purchase of a further 7.5% interest in VK pursuant to the option purchased. Some of our largest minority investments, including our investments in Facebook, Zynga and Groupon, are in companies in which we have no governance rights and no seats on the board of directors. Actions by any of these companies, over which we have no control, could have a material adverse effect on our business, results of operations and financial condition.

The return on our available-for-sale investments will depend largely on our ability to realise gains on the sale of the related equity interests, which may lose value or be difficult to sell on acceptable terms.

Several of our available-for-sale investments, including Facebook, Zynga and Groupon, have never paid dividends and we do not expect them to pay dividends in the near future. Accordingly, with respect to such investments, the return on our investment will depend largely upon increases in the value of the securities we hold. Our investments in these companies may lose value, and we may be unable to dispose of them on terms that are acceptable to us. These investments are in private companies for which no liquid market exists for their securities, or where there is an illiquid over the counter market, and some of our stakes are subject to transfer restrictions or other contractual limitations that could limit or impose restrictions on our ability to dispose of such interests. Such risks could have a material adverse effect on our business, results of operations and financial condition.

We may be classified as a passive foreign investment company, which could result in adverse US federal income tax consequences to US investors.

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. See “Taxation—US Federal Income Tax Considerations—Passive Foreign Investment Company Rules” for further details.

If we become an investment company under the U.S. Investment Company Act of 1940, we may be effectively precluded from offering additional securities in the United States for so long as we remain an investment company, which could limit our access to financing and preclude U.S. holders of GDRs from exercising pre-emptive rights. Investment Company Act concerns could also limit our flexibility in structuring or completing future acquisitions of non-controlling investments, including the potential exercise of our option to acquire an additional non-controlling stake in VK after the Offering.

The definition of an investment company in the U.S. Investment Company Act of 1940 (the “**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. As of the date hereof, the Company does not exceed the 40% threshold, but holds investment securities having a value determined under and for the purposes of the Investment Company Act exceeding the 30% level. Although we do not exceed the 40% threshold at the time of this Offering, it is possible we will exceed it in the future if the value of our non-controlled investments increases sufficiently relative to the value of our controlled businesses. Should we exceed this threshold, we will be deemed an investment company unless we are able to qualify for an available exemption or are able to qualify for a temporary exemption as a transient investment company by reducing the share of our total assets represented by investment securities below the applicable threshold pursuant to an approved plan within one year of becoming an investment company. Any such plan, if one is adopted, would be determined and approved at such time (no such plan exists at the date hereof), and could involve the disposal of interests in one or more investees or the acquisition of control of investees in which we currently have non-controlling investments.

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 were 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 (“QPs”) or that we have, and will have as a result of any offering, fewer than 100 US holders. In connection with the Offering, we have not implemented transfer restrictions and other mechanisms to give us reasonable assurance that our US holders are QPs or to limit the number of our US holders. Accordingly, it is unlikely that we will be able to avail ourselves of these exemptions in the event we become an investment company, which would prevent us from offering our debt or equity securities in the United States on a private placement basis for so 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. We may be unable to avoid investment company status without disposing of assets or acquiring control of non-controlled investments, and investment company concerns could limit our flexibility in structuring future acquisitions of non-controlling interests in other companies. For example, we may be unable to exercise our option to acquire an additional 7.5% non-controlling stake in VK after the Offering without becoming, or increasing the risk that we will become, an investment company, which could limit our flexibility in exercising the option. Investment Company Act considerations could place us at a disadvantage relative to competitors who are not subject to such considerations. 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 object were to become 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 purposes of the UKLA listing rules, and the GDRs would cease to be eligible for the Official List.

Risks relating to potential impairments

We may be required to record a significant charge to earnings if our goodwill, amortisable intangible assets, or investments in equity interests become impaired.

We are required under IFRS to test goodwill for impairment at least annually and to review our amortisable intangible assets and investments in equity interests for impairment when events or changes in circumstance indicate the carrying value may not be recoverable. Factors that could lead to impairment of goodwill and amortisable intangible assets include significant adverse changes in the business climate and declines in the financial condition of our business. Factors that could lead to impairment of investments in equity interests include a prolonged period of decline in the stock price or operating performance of, or an announcement of adverse changes or events by, any company in which we have invested. We have recorded and may be required in the future to record additional charges to earnings if a portion of our goodwill, amortisable intangible assets, or investments in equity interests becomes impaired. Any such charge would adversely impact our financial results.

Risks relating to the Russian Federation

Substantially all of its assets are located in, and most of its revenues are derived from, Russia. There are certain risks associated with conducting business in Russia.

Political and social risks

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

Political conditions in Russia were highly volatile in the 1990s, as the national government sought to manage the difficult transition from a planned economy to a market economy and surrendered authority to the regions, but the political situation has stabilised since 2000. While the current government has generally continued recent policies, significant changes in the economic and political environment could still occur. Shifts in governmental policy and regulation in Russia could negatively affect the Russian economic and political environment in the near term, and accordingly have a negative adverse effect on our business and the value of investments in the GDRs.

Unlawful, selective or arbitrary government action may have an adverse effect on our business and financial condition.

Russian regulatory authorities have a high degree of discretion and at times appear to exercise their discretion selectively, without hearing or prior notice. Selective governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. We may from time to time be required to grant law enforcement authorities conducting investigations or regulatory inspections access to users' personal data, mailboxes and other account information. In addition, as an Internet company reaching a substantial portion of Russia's population, we may be of special concern to the Russian government. Finally, the possibility of unlawful, selective or arbitrary government action also enhances opportunities for official corruption, which is widely reported to be very high in Russia.

The use of governmental power against particular companies or persons, for example through tax, environmental or prosecutorial authorities, could adversely affect Russia's economic climate and, if directed against us, our executive officers or shareholders, could have a material adverse effect on our business, results of operations and financial condition. Russian authorities have recently challenged some Russian companies and prosecuted their executive officers and shareholders on tax evasion and related charges. In some cases, the results of such prosecutions and challenges have been significant claims against companies for unpaid taxes and the imposition of prison sentences on individuals. Some observers have speculated that in certain cases these challenges and prosecutions were intended to punish, and deter, opposition to the government or the pursuit of disfavoured political or economic agendas.

The involvement of the Russian Federation in any future economic and military conflicts could adversely affect our business and the value of investments in the GDRs.

Over the last several years, Russia has been involved in conflicts, both economic and military, with other countries, including former members of the Soviet Union. On several occasions, this has resulted in the deterioration of Russia's relations with other members of the international community, including the United States and various countries in Europe. For example, a military conflict in August 2008 between Russia and Georgia has resulted in the deterioration of Russia's relations with certain other countries. The Russian stock exchanges experienced heightened volatility and significant overall price declines following these events. The emergence of new or escalated tensions between Russia and other countries, including any escalation of such conflicts, or the imposition of economic or other sanctions in response to the tensions, could negatively affect economies in the region, including the Russian economy. In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict and terrorist attacks. For example, the conflict in Chechnya brought normal economic activity within Chechnya to a halt for a period of time and also had a negative effect on the economic and political situation in neighbouring regions. Violence and attacks relating to the conflicts in the North Caucasus region also spread to other parts of Russia and resulted in terrorist attacks in Moscow and in various other places in Russia. In the future, such tensions, military conflicts or terrorist activities could have significant economic and political consequences in the Russian Federation, and accordingly have a negative adverse effect on our business and the value of investments in the GDRs.

Economic risks

Economic instability in Russia could have an adverse effect on our business.

The Russian economy has been subject to abrupt downturns in the past. For example, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its Rouble-denominated securities, the Central Bank of Russia (the “CBR”) stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events.

From 2000 through the first half of 2008, Russia experienced rapid growth in its GDP, higher tax collections and increased stability of the Rouble, a reduction in inflation and positive capital and current account balances resulting in part from rising prices in world markets for the crude oil, gas and metals that Russia exports. In addition, the Russian government achieved budget surpluses and accumulated a sizeable “stabilisation fund,” providing a certain degree of economic soundness. The Russian economy has been adversely affected, however, by the global financial and economic crisis that began in the second half of 2008 and led to extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP around the world. The impact of the global financial and economic crisis on the Russian economy led to, among other things, a reduction in the disposable income of the general population, a crisis of bank liquidity, a significant depreciation of the Rouble against the US dollar and Euro and the rise of unemployment. The amount spent on advertising, for example, dropped 42% in dollar terms, and 26.3% in Rouble terms, in 2009 compared to 2008. There can be no assurance that the measures adopted by the Russian government to ameliorate the effect of the financial and economic crisis will result in a sustained recovery of the Russian economy. Moreover, any future deterioration of the international economic situation may lead to a worsening of the economic situation in Russia, and, as a result, is likely to adversely affect the profitability of our business.

In addition, since Russia produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in world commodity prices, which reached record high levels in mid-2008 and have since experienced significant decreases, particularly in the price of crude oil, which decreased by approximately 70% in the second half of 2008, only to recover approximately 117% in the second half of 2009. A sustained decline in the price of crude oil, natural gas and other commodities could further disrupt the Russian economy.

In July and August 2010, a series of fires broke out across Western Russia and around Moscow, covering at one stage over 193,000 hectares. The fires, combined with a summer of drought and record high temperatures, have resulted in a decline in the Russian harvest, and accordingly an increase in demand for imported grain, reported to be Russia’s largest import demand for over 10 years. The costs associated with controlling and reducing the fires, containing environmental concerns and repairing the damage caused by the fires may have an adverse impact on the Russian economy.

Any deterioration in the general economic conditions in Russia could adversely influence the level of consumer demand for the various services rendered by us and decrease advertiser demand, and therefore could have a material adverse effect on our business, results of operations and financial condition.

Changes in currency exchange rates and currency swings could materially adversely affect our business, financial condition and results of operations.

Foreign currency markets have been marked by periods of high volatility and the Rouble has experienced sharp depreciation in the past. The Rouble has depreciated in real terms in recent years, and the Rouble has been depreciating against the US Dollar in the last two years, and there is no guarantee that the Rouble will not continue to depreciate in real terms or depreciate further against the US Dollar or other major currencies in the future. Changes in the value of the US Dollar against the Rouble can have a significant impact on our financial statements. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” for further details.

Inflation could increase our costs.

The Russian economy has been characterised by high rates of inflation, including an annual inflation rate of 84.4% in 1998. According to Rosstat, the annual inflation rate in Russia was approximately 11.9%

in 2007, 14.1% in 2008 and 11.7% in 2009, as measured by the consumer price index. Our costs (in particular salaries) are sensitive to rises in the general price level in Russia. As a result, high rates of inflation could increase our costs, and there can be no assurance that we will be able to maintain or increase our margins.

Emerging markets such as Russia are generally subject to greater risks than more developed markets, and global financial or economic crises or even turmoil in any large emerging market country, could have an adverse effect on our business and the value of the GDRs.

Global financial or economic crises or even financial turmoil in any large emerging market country tend to adversely affect prices in equity markets of most or all emerging market countries as investors move their money to more stable, developed markets. The Russian equity markets were highly volatile beginning in the second half of 2008, principally due to the impact of the global financial and economic crises on the Russian economy. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, businesses that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Potential investors are urged to consult with their own legal and financial advisers before making an investment in the GDRs.

Legislative and legal risks

Weaknesses relating to the Russian legal system and Russian laws create an uncertain environment for investment and business activity in Russia and thus could have an adverse effect on our business.

Risks associated with the Russian legal system include, to varying degrees, the following:

- inconsistencies among: (i) federal laws; (ii) decrees, orders and regulations issued by the President, the government and federal ministers; and (iii) regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting the laws as well as a lack of sufficient commentaries on judicial rulings and legislation;
- the relative unavailability of Russian legislation and court decisions in an organised manner that facilitates understanding of such legislation and court decisions;
- the relative inexperience of lawyers, judges and courts in interpreting newly-adopted legislation and complex commercial arrangements;
- substantial gaps in the legal framework due to the delay or absence of implementing regulations for certain legislation;
- a lack of judicial independence from political, social and commercial forces;
- alleged corruption within the judiciary and the governmental authorities;
- problematic, time-consuming and unpredictable enforcement of both Russian and non-Russian judicial orders and international arbitration awards;
- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary government action; and
- bankruptcy procedures that are not well-developed and are subject to abuse.

There are currently few laws or regulations applicable to commercial online services or the Internet in Russia, and commercial activities via the Internet are mainly regulated by Russian general civil legislation. The current regulatory environment for Internet industry is uncertain. Due to the specific nature of Internet related activities, application of general legislation results in different interpretations of the courts and regulatory agencies and gives rise to legal uncertainty. Potential amendments to current legislation, addressing specific aspects of Internet-related activities and increase of the regulatory framework may require further investments, lead to changes to the business models for some of our activities or render them unprofitable. Regulatory and court authorities may disagree with our interpretations of existing laws or regulations or the applicability of such laws or regulations to our business, or they may alter their views on the activities of certain of our companies due to changes in the applicable regulatory framework, interpretations of existing laws or regulations or otherwise. If we fail to comply with existing or future

regulatory or other legal requirements, it could have a material adverse effect on our business, results of operations and financial condition.

Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayers, and we therefore may be subject to a greater than expected tax burden that could materially adversely affect our business and results of operations.

Generally, taxes payable by Russian companies are both substantial and numerous. These taxes include, among others, corporate income taxes, VAT, and contributions to social security funds, corporate property tax and other taxes.

The tax environment in Russia has historically been complicated by the fact that various authorities have often issued contradictory pieces of tax legislation.

Although Russia's tax climate and the quality of tax laws have generally improved with the introduction of the Russian Tax Code, the possibility exists that Russia may impose arbitrary or onerous taxes and penalties in the future. In practice, Russian tax authorities often have their own interpretation of the tax laws that rarely favours taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation, are subject to review and audit by a number of authorities, each of which may impose fines, penalties and interest charges.

Our Russian subsidiaries are subject to periodic tax inspections that may result in tax assessments and additional amounts being claimed from such subsidiaries for prior tax periods. Generally, tax declarations of our Russian subsidiaries remain open and subject to audit by tax and/or customs authorities for three calendar years immediately preceding the year in which the decision to conduct an audit is taken. The Customs Code of Customs Union (effective in Russia as of July 2010) provides for the possibility to establish by law the longer term for customs audit but it may not be more than five years. However, the fact that a particular year has been reviewed by tax authorities does not preclude that year from further review or audit during the eligible three-year limitation period by a superior tax authority. On March 17, 2009, the Constitutional Court of the Russian Federation issued a decision preventing the Russian tax authorities from carrying out a subsequent tax audit for the same tax period as an initial audit if the court decision which was taken in respect of the tax dispute between the relevant taxpayer and the relevant tax authority covered taxation matters raised during the initial tax audit has not been revised or discharged. It is currently unclear how this decision will be applied and followed in practice by the Russian tax authorities. In addition, on July 14, 2005 the Russian Constitutional Court issued a decision allowing the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax inspection. Moreover, amendments to the first part of the Tax Code, effective January 1, 2007, provide for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because none of the relevant terms are defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed", "hindered" or "created insurmountable obstacles" in respect of an inspection and to ultimately seek review and possibly apply penalties beyond the three-year term, and there is no guarantee that the tax authorities will not review our compliance with applicable tax law beyond the three-year limitation period. Moreover, in some instances, new tax regulations have been given retroactive effect.

It is possible for changes to be made to the results of a prior tax audit if a repeat tax audit takes place. Repeat tax audits may be carried out by: (i) the higher tax authorities monitoring the activities of the tax authorities which have performed the tax audit; or (ii) the tax authorities who carried out the tax audit if a revised tax return for a lower amount of taxes is filed. Under the current tax legislation of Russia the limitation period for a repeat tax audit is three years immediately preceding the year in which the decision to conduct a repeat tax audit is taken. Therefore, repeat tax audits for the years 2007, 2008 and 2009 may be conducted by the Russian tax authorities in 2010, 2011 or 2012 respectively. Tax audits may result in additional costs to us if the relevant authorities conclude that we did not satisfy our tax obligations in any given year. They may also impose additional burdens on us by diverting the attention of our management. The outcome of these audits may result in significant fines, penalties and enforcement measures which may have a material adverse effect on our business, results of operations and financial condition.

On October 12, 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53 formulating the concept of "unjustified tax benefit", which is described in the ruling by reference to specific circumstances, such as an absence of business purpose or transactions where the form

does not match the substance, and which could lead to the disallowance of tax benefits resulting from the transaction or the re-characterisation of the transaction. There has been very little further guidance on the interpretation of this concept by the tax authorities or courts, but it is likely that the tax authorities will actively seek to apply this concept when challenging tax positions taken by taxpayers in Russian courts. While the intention of this Ruling might have been to combat abuse of tax laws, in practice there is no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitration Court.

Financial statements of Russian companies are not consolidated for tax purposes under Russian law. As a result, each entity in the Group pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in the Group, which may result in higher taxes for us than if taxes were assessed on a consolidated basis. Inter-company dividends are subject to a withholding tax of 9%, if being distributed to Russian residents, subject to new provisions of the tax law described below, and 15%, if being distributed to non-Russian residents that are legal entities and organisations as well as to individuals who are not Russian tax residents, subject to benefits under double tax treaties. Although the Group will seek to claim treaty protection to benefit from applying the reduced rates of withholding income tax in Russia, there is a risk that the applicability of the reduced rates may be challenged by the Russian tax authorities. As a result, there can be no assurance that the Group would be able to avail itself of the reduced withholding income tax rate in practice. Specifically, the Group may incur the 15% withholding income tax at source on dividend payments from the Russian subsidiaries if the treaty clearance procedures are not duly performed at the date when the dividend payment is made. In this case the Group may seek to claim as a refund the difference between the 15% tax withheld and the applicable reduced rate. However, there can be no assurance that such taxes would be refunded. Moreover, a draft law has become publicly available envisaging the introduction of the concept of an “actual recipient of income” to the Russian Tax Code. Although the draft law neither uses the term “beneficial owner” nor defines the term “actual recipient of income” (which is generally used in the Russian versions of double taxation treaties), it is likely that the intent of the proposed amendments is to introduce a concept of beneficial ownership in the domestic tax legislation and to combat the abuse of double taxation treaties where the beneficiary of income resides in a jurisdiction which does not have double taxation treaty with Russia. The draft law, if enacted as currently drafted, would add to the existing uncertainty and instability in the application of tax treaties in Russia, and may result in the inability for foreign entities of the Group to claim double taxation treaty benefits in Russia. It is currently uncertain if and when the discussed draft law will be enacted.

With effect from January 2008, the dividend income of Russian entities is subject to tax at the 0% tax rate provided that the recipient owns not less than 50% of the shares of the subsidiary paying the dividends entitling the recipient to at least 50% of the total amount of dividends for a period of not less than 365 calendar days as at the date the dividends are declared and provided that the consideration paid for the shares in the dividend paying company exceeded RUB 500 million. In December 2009, legislation was passed abolishing the RUB 500 million requirement, which comes into effect from January 1, 2011 and applies to profits earned in 2010 and subsequent years. In the case of foreign subsidiaries, the 0% tax rate applies only if the subsidiary’s jurisdiction of tax residency is not included in the list of offshore jurisdictions published by the Ministry of Finance of the Russian Federation. For the 0% tax rate to apply, certain filing requirements need to be met. These tax requirements could impose additional tax burdens and costs on our operations, including management resources.

The Russian government, in its “Major Trends in Tax Policy for 2009 and 2010-2011 Planning Period”, has proposed the introduction of consolidated tax reporting to enable the consolidation of the financial results of Russian taxpayers that are part of one group for corporate income tax purposes. At this stage, it is impossible to predict whether, when or how such consolidated tax reporting principles will be enacted.

The uncertainty relating to Russian tax laws exposes us to significant fines and penalties and to enforcement measures, despite our best efforts at compliance, and could result in a greater than expected tax burden. In addition to our substantial tax burden, these conditions, risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and could have a material adverse effect on our business, results of operations and financial condition.

Foreign companies of the Group may be exposed to taxation in Russia if treated as having a Russian permanent establishment

The Russian Tax Code contains the concept of permanent establishment in Russia as a means for taxing foreign legal entities which carry on regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. Russia's double tax treaties with other countries, including the Netherlands and Cyprus, also contain a similar concept. However, the practical application of the concept of permanent establishment under Russian domestic law is not well developed and so foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international norms, may be at risk of being treated as having a permanent establishment in Russia and hence being liable to Russian taxation.

Although the Group intends to conduct its affairs so that its non-Russian entities are not treated as having a permanent establishment in Russia, no assurance can be given that such entities will not be treated as having such a permanent establishment. If such entities were treated as having a permanent establishment in Russia, they would be subject to Russian taxation in a manner broadly similar to the taxation of a Russian legal entity.

Only the part of the income of a foreign entity that is attributable to a permanent establishment should be subject to taxation in Russia. The Russian Tax Code contains some attribution rules which are not sufficiently developed. There is, therefore, a risk that the tax authorities might seek to assess Russian tax on the entire income of a foreign company. Having a permanent establishment in Russia may also have other adverse tax implications, including challenging a reduced withholding tax rate under an applicable double tax treaty, potential effect on VAT and property tax obligations. There is also a risk that penalties could be imposed by the tax authorities for failure to register a permanent establishment with the Russian tax authorities.

Recent events in the Russian Federation suggest that the tax authorities may more actively be seeking to investigate and assert that foreign entities operate through a permanent establishment in Russia. Any such taxes or penalties could have a material adverse effect on the Group's business, operating results, financial condition or prospects and the trading price of the GDRs.

Government regulation of the Internet, and requirements related to data protection, could adversely affect our business.

The Internet and its associated technologies are subject to government regulation. As an example, we collect, store, and transfer personal data, and accordingly fall within the scope of the Russian Law on Personal Data, which requires us to notify the appropriate governmental authority, Roscomnazor, of our intent to process such data, and to comply with specific provisions of that law including obtaining user consent to the use of certain data, implementation of certain security requirements designed to protect such data.

New laws and regulations, or new interpretations of existing laws and regulations, may be adopted with respect to the Internet or other online services we provide. As an example, we and QIWI provide certain electronic payment services that are currently the subject of proposed legislation. If the proposed legislation were adopted in its current form, it could limit the issuance of electronic money and electronic money transfers to regulated credit institutions, which could require the restructuring of these services to comply with the applicable regulations, which could require further investments, lead to changes to the business model for this activity or render it unprofitable. Moreover, to the extent the additional cost or compliance requirements associated with such payments makes it more difficult or more expensive for users to purchase fee-based services, it could lead users to reduce such purchases. Similarly, the application of existing laws, including anti-gambling laws and other legislation, to new Internet services may be uncertain or open to different interpretations, which could expose us to increased compliance risks. We, and our third-party providers, may also be subject to the laws and regulations of other jurisdictions where our, and our third-party providers', products and services are available.

Our failure, or the failure of our third party providers, to accurately anticipate the application of laws and regulations affecting our products and services and the manner in which we deliver them, or any other failure to comply, could create liability for us, result in adverse publicity, or could otherwise have a material adverse effect on our business, results of operations and financial condition.

Certain companies of the Group may be qualified as “strategic enterprises” in the Russian Federation in the future.

In April 2009, the Russian Ministry of Communications and Mass Media discussed developing criteria for the purposes of determining enterprises of strategic importance to the defence and security of the Russian Federation. If the criteria were to be implemented and come into force in Russia, certain of our businesses may be treated as strategic enterprises. The consequence of being classified as such is that the enterprise in question would be required to comply with the Federal law “On Procedures for Carrying out Foreign Investments into Enterprises which Have Strategic Importance for Ensuring Defence and Security of the State” No. 57-FZ dated April 29, 2008 (the “**Law on Strategic Enterprises**”), which places restrictions on certain transactions involving the direct or indirect investment by foreign investors in the enterprise (including the notification of FAS and/or prior approval of the State Government Committee headed by the Prime Minister of the Russian Federation). See “*Regulation of the Russian Internet Industry*” for further details. Transactions made in violation of the Law on Strategic Enterprises may be void under Russian law, and foreign investors could be disenfranchised at shareholders’ meetings as a consequence, or board resolutions by the enterprise in question invalidated.

If the criteria are developed and adopted it could affect certain transactions made by us, reduce our ability to obtain foreign investment, and accordingly restrict our business operations and/or lead to increased costs arising from compliance with the new legal requirements, which could have a material adverse effect on our business, results of operations and financial condition.

Russian tax legislation in effect as of the date of this prospectus does not contain a concept of corporate tax residency based on a “management and control” test (rather, Russian domestic legislation recognises the concept of a taxpayer).

Russian legal entities are taxed on their worldwide income whilst foreign legal entities are taxed in Russia on income attributable to their permanent establishment and on Russian source income, received by these foreign legal entities. The Russian government, in its “Major Trends in Tax Policy in the Russian Federation for 2008-2010”, has proposed the introduction to the domestic tax law of a new concept of tax residency for legal entities, which is more aligned with international tax concepts. According to the proposals, a non-Russian entity would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. No assurance can be given as to whether and when these amendments will be enacted, their exact nature, their interpretation by the tax authorities and their possible impact on us. We cannot rule out the risk that, as a result of the introduction of these changes to the Russian tax legislation, certain Group companies might be deemed to be Russian tax residents and be subject to Russian taxes, which could have a material adverse effect on our business, results of operations and financial condition.

Russian transfer pricing legislation may require pricing adjustments and impose additional tax liabilities with respect to controlled transactions.

Russian transfer pricing rules give Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities with respect to all “controlled” transactions, where the transaction price differs from the market price by more than 20%. “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and any transactions with significant price fluctuations (i.e., if the price of such transactions differs from the prices for similar transactions by more than 20% within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities or derivatives.

The Russian transfer pricing rules are vaguely drafted and subject to differing interpretations by Russian tax authorities and courts. The imposition of additional tax liabilities under the Russian transfer pricing legislation could have a material adverse effect on our business, results of operations and financial condition.

In 2009, the Russian Ministry of Finance published a bill under which the Russian tax authorities would have greater ability to control prices for tax purposes. The bill has been approved in the first reading by the Russian Parliament, adoption in the second and third readings is expected in October-November 2010 and, if adopted by the Russian Parliament, the relevant changes to the Russian tax system may take place with effect from 2011.

The Company's earnings may be subject to taxation at a higher effective rate than the rate borne by comparable businesses.

Although the Company historically has not conducted any business activities in the United States, a significant proportion of the Company's assets are owned through a subsidiary organized under U.S. law. Earnings derived through this subsidiary will be subject to corporate income tax not only in Russia but also (when the earnings are remitted or deemed remitted to the United States) in the United States. The U.S. subsidiary will generally be able to reduce its U.S. tax payment obligations by claiming credits for Russian taxes on the same income, with the practical consequence that earnings derived by the U.S. subsidiary will be subject to taxation at the greater of the Russian and U.S. rates. In addition, distributions by the U.S. subsidiary will be subject to U.S. withholding tax at a 30% rate unless the subsidiary qualifies for the benefit of a grandfather rule adopted in August of 2010 in connection with the repeal of a generally applicable withholding tax exemption for U.S. companies with predominantly foreign businesses. The Company believes that its U.S. subsidiary should qualify for the benefit of this grandfather rule, but the need to monitor compliance with the requirements of the rule, and avoid conduct that could jeopardize the availability of a withholding tax exemption, could impose practical constraints on the direct or indirect activities of the U.S. subsidiary.

Risks relating to the IPO and GDRs

The trading price of the GDRs may be highly volatile and an active and liquid market for the GDRs may not develop.

The global stock markets have experienced extreme price and volume fluctuations, especially since the beginning of the recent financial and economic crises. Prior to the Offering, there has been no public trading market for the GDRs. Although an application has been made for the GDRs to be admitted to trading on the London Stock Exchange, an active, liquid trading market may not develop or be sustained after the Offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. In addition, there will be a limited public float of the GDRs, which can lead to increased price volatility. Consequently, the trading prices of the GDRs may be subject to wide fluctuations in response to a number of factors, including:

- variations in our operating results;
- variations in national and industry growth rates;
- changes in governmental legislation or regulation;
- general economic conditions within our business sectors or in Russia; and
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges.

Moreover, the market price of the GDRs may decline below the Offer Price, which has been determined based on the results of the bookbuilding exercise conducted by the Underwriters. The Offer Price has been determined by negotiation between the Company, the Selling Shareholders and the Underwriters and may not be indicative of the price at which the GDRs will trade following completion of the Offering. After the Offering, the GDRs could be subject to significant fluctuation and investors may not be able to resell the GDRs at or above the Offer Price.

Future sales or buybacks of GDRs may adversely affect the market price of the GDRs.

Sales, or the possibility of sales, of substantial numbers of GDRs in the public markets following the Offering could have an adverse effect on the trading prices of the GDRs and could affect our ability to obtain further capital through an offering of equity securities. We and the Selling Shareholders and our Senior Managers (as defined under “*Corporate Governance—Management—Senior Managers*”) who own Class A Shares and/or Ordinary Shares have undertaken not to offer, issue or sell any securities that are substantially similar to the Class A Shares, Ordinary Shares, GDRs or any other class of shares in the Company for a specified period after the GDR Closing Date, subject to certain limited exceptions. See “*The Offering—Lock-up*” for further details. Sales of such securities by any of these persons following the end of this period or the waiver of these restrictions could have an adverse effect on the trading prices of the GDRs. Further, subsequent equity offerings may reduce the percentage ownership of our existing shareholders.

In addition, the Company's Board of Directors has resolved that any shareholder holding (together with its affiliates) 25% or more of the voting rights in the Company as of the date of the resolution may cause the Company to repurchase GDRs representing up to 1.25% per year of the fully diluted share capital of the Company in each of the seven years starting from 2011. The exercise of this right could reduce the number of GDRs outstanding or adversely affect the liquidity in GDRs, which could have an adverse effect on the trading prices of the GDRs. It could also require the Company to expend its resources to repurchase GDRs rather than pursuing other alternatives or returning cash to shareholders on a pro rata basis, which could adversely affect the Company's working capital position or liquidity. NMT and its affiliates and MIH each control more than 25% of the voting rights in the Company, and accordingly each can invoke this buyback provision, including in order to maintain their proportionate interests in the Company.

The Ordinary Shares underlying the GDRs are not listed and may be illiquid.

Unlike many other global depositary receipts offerings traded on the London Stock Exchange, the Ordinary Shares are neither listed nor traded on any stock exchange and we do not intend to apply for the listing or admission to trading of the Ordinary Shares on any stock exchange. As a result, a withdrawal of Ordinary Shares by a holder of GDRs will result in that holder obtaining securities that may be significantly less liquid than the GDRs and any price obtained for those Ordinary Shares may be discounted as a result of such withdrawal.

Investors may have limited recourse against the Selling Shareholders, the Company or the Company's directors and executive officers because they generally conduct their operations outside the United States and the United Kingdom and most of its current directors and executive officers reside outside the United States and the United Kingdom.

The Company's and the Selling Shareholders' presence outside the United States and the United Kingdom may limit the legal recourse of investors against them. All of the Company's current directors and executive officers reside outside the United States and only one of the Company's current directors resides in the United Kingdom. All or a substantial portion of the Company's and the Selling Shareholders' assets and the assets of the Company's current directors and executive officers are located outside the United States and the United Kingdom. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon the Company or its directors and executive officers or the Selling Shareholders or to enforce US or UK court judgments obtained against the Company or its directors and executive officers or the Selling Shareholders in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or UK securities laws. Similarly, there is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive you of effective legal recourse for claims related to your investment in the GDRs.

THE OFFERING

The Company	Mail.ru Group Limited, a limited liability company incorporated under the laws of the British Virgin Islands on May 4, 2005, with its registered office at Trident Trust Company (B.V.I.) Limited, Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands (655058). Mail.ru Group Limited changed its name from Digital Sky Technologies Limited on October 1, 2010.
The Selling Shareholders	The Selling Shareholders listed under “ <i>Principal and Selling Shareholders</i> ”.
The Offering	The Offering comprises an offering of 3,032,727 Ordinary Shares by the Company and 29,893,056 Ordinary Shares by the Selling Shareholders in the form of GDRs. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A and in the Russian Federation to certain qualified investors in accordance with Russian law and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S.
Offer Price	US\$27.70 per GDR.
Share Capital	<p>Prior to the Offering, our issued share capital consisted of 151,698,000 Class A Shares and 40,824,000 Ordinary Shares, each with a nominal value of US\$0.000005, which are fully paid and issued. The Company has authorised 4,081,341 Ordinary Shares to be issued on the Closing Date in connection with the Offering, which includes 745,341 Ordinary Shares relating to options under our 2007 option plan which will be exercised on a cashless basis by senior managers and employees of the Company and sold in the Offering.</p> <p>Our Class A Shares and Ordinary Shares are subject to applicable provisions of the laws of the British Virgin Islands and our Memorandum and Articles of Association, and have the rights described under “<i>Description of Share Capital and Certain Requirements of BVI Law</i>”.</p>
Over-allotment Option	The Company and the Selling Shareholders will grant pro-rata to the number of shares being sold by each of them, to the Joint Bookrunners on behalf of the Underwriters an Over-allotment Option to acquire 3,292,579 additional Ordinary Shares in the form of GDRs at the Offer Price for the purposes of meeting over-allotments in connection with the Offering. The Over-allotment Option is exercisable in whole or in part on one or more occasions by the Underwriters upon written notice from the Joint Bookrunners to the Company and the Selling Shareholders on behalf of the Underwriters at any time during the Stabilisation Period. If the Over-allotment Option is exercised, the Company and the Selling Shareholders will be obligated to issue/sell, and each Underwriter will be severally obligated, subject to the conditions contained in the Underwriting Agreement among the Company, the Selling Shareholders and the Underwriters, to purchase or procure purchasers for, a number of additional Ordinary Shares in the form of GDRs proportionate to that Underwriter’s initial underwriting commitment.

The GDRs	<p>Each GDR will represent one Ordinary Share on deposit with Citibank International plc (the “Custodian”), as custodian for the Depositary. The GDRs will be issued pursuant to one of two separate deposit agreements, one relating to the Rule 144A GDRs (the “Rule 144A Deposit Agreement”) and one relating to the Regulation S GDRs (the “Regulation S Deposit Agreement”) and, together with the Rule 144A Deposit Agreement, the “Deposit Agreements”), among us and the Depositary. The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR Certificate and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR Certificate, each to be issued pursuant to the relevant Deposit Agreement. Pursuant to the Deposit Agreements, the Ordinary Shares represented by the GDRs will be held by the Custodian, for the account of the Depositary and for the benefit of the holders and beneficial owners of GDRs.</p> <p>From time to time the Depositary may deduct per-GDR fees and other fees and expenses from dividend distributions and may otherwise assess other per-GDR fees and other fees and expenses to the GDR holders. See “<i>Terms and Conditions of The Global Depositary Receipts—Fees and Charges</i>”.</p> <p>Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDR Certificates. Subject to the terms of the Deposit Agreements, interests in the Master Regulation S GDR Certificate may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR Certificate, and vice versa. See “<i>Terms and Conditions of The Global Depositary Receipts</i>” and “<i>Settlement and Delivery—Global Clearance and Settlement Procedures</i>”.</p>
Listing and Trading	<p>Application has been made to (i) the FSA, in its capacity as a competent authority (the “UKLA”) for a block listing of 86,218,362 GDRs, consisting of 32,925,783 GDRs to be issued on the Closing Date, 3,292,579 additional GDRs to be issued in connection with the Over-allotment Option and 50,000,000 additional GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with a custodian on behalf of the Depositary, to be admitted to the Official List and (ii) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities. Conditional trading in the GDRs through the IOB is expected to commence on an “when and if issued” basis on or about November 5, 2010. Delivery and payment for the GDRs are expected to take place on or about November 10, 2010, and admission to the Official List of the UK Listing Authority and to unconditional trading through the IOB is expected to take place on or about 8:00 a.m., UK time, on November 11, 2010. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. Trades in the GDRs executed on the IOB on a “when and if issued” basis on November 5, 2010 will settle on a T+4 basis on November 12, 2010. Otherwise, the GDRs will trade on the IOB on a T+3 settlement cycle. Neither the Ordinary Shares nor the Class A Shares are expected to be listed or traded on any stock exchange.</p>

Closing Date	Expected to be on or about November 10, 2010.
Use of Proceeds	The net proceeds of the offering will be used by the Company to fund a portion of its acquisition of an additional 7.5% interest in VK on a fully diluted basis.
Dividend Policy	The Company does not expect to pay any cash dividends for the year ending December 31, 2010. Any recommendation as to payment of future dividends will depend upon the conditions then existing, including the Company's earnings, financial condition and requirements, availability of distributable reserves, future growth prospects, business conditions and other relevant factors.
Depository	Citibank, N.A., 388 Greenwich Street, New York, New York 10013.
Lock-up	The Company, the Selling Shareholders, the Senior Managers and certain non-selling shareholders have each agreed not to, without the consent of the Joint Bookrunners, issue, offer, sell, lend, mortgage, assign, pledge, charge, contract to sell or issue or grant any option, rights or warrants to purchase or otherwise transfer or dispose of, or to publicly announce any such action, directly or indirectly any Ordinary Shares or any Class A Shares, any other class of shares in the Company or securities convertible or exchangeable into or exercisable therefor for a period of 180 days after the Closing Date. The lock-up does not apply to the Offer and Sale of the GDRs pursuant to the Underwriting Agreement, arrangements with Tiger relating to the loan of securities to the Stabilising Manager in connection with over-allotments, and as regards the Selling Shareholders and the Senior Managers, GDRs purchased in the market after Admission. The Company is also permitted to grant options under the option plan, issue shares pursuant to options granted under its option plan or issue shares pursuant to existing options granted, provided such shares are subject to the lock-up. In addition, we have agreed to instruct the Depository not to accept any deposit of any Ordinary Shares, or issue any GDRs, for 180 days after the date of this prospectus (other than in connection with this offering), unless we otherwise instruct, such that all existing shareholders even if they are not Selling Shareholders shall be unable to deposit their Ordinary Shares against the issue of GDRs during the lock-up period. See " <i>Subscription and Sale—Lock-up Arrangements</i> ".
Voting	<p>Under the Deposit Agreements, each GDR carries the right to vote one Ordinary Share, subject to the provisions of the Deposit Agreements and applicable BVI law.</p> <p>The Depository will endeavour to exercise, on behalf of holders of GDRs, at any meeting of holders of the Ordinary Shares of which the Depository receives timely notice, the voting rights relating to the Ordinary Shares underlying the GDRs in accordance with instructions it receives from holders of GDRs. We will notify the Depository of any resolution(s) to be proposed at any general meeting. See "<i>Terms and Conditions of The Global Depositary Receipts—Voting Rights</i>".</p>
Taxation	For a discussion of certain US, UK and BVI tax consequences of purchasing and holding the GDRs, see " <i>Taxation</i> ".

Transfer Restrictions	The GDRs will be subject to certain restrictions on transfer as described under “ <i>Terms and Conditions of The Global Depositary Receipts—Transfer Restrictions</i> ” and “ <i>Selling and Transfer Restrictions</i> ”.						
Settlement Procedures	<p>Payment for the GDRs is expected to be made in US dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. The Company has applied to DTC to have the Rule 144A GDRs accepted for clearance through DTC and to have the Regulation S GDR, accepted for clearance through the systems of Euroclear and Clearstream. Upon acceptance by DTC, a single Master Rule 144A GDR Certificate will be issued and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR Certificate will be registered in the name of Citivik Nominees Limited, as nominee for Citibank Europe plc, as common depositary for Euroclear and Clearstream. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR Certificates only through DTC, Euroclear or Clearstream, as applicable.</p> <p>Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See “<i>Settlement and Delivery—Global Clearance and Settlement Procedures</i>”.</p>						
Security Codes	<p>The security identification numbers for the GDRs offered hereby are as follows:</p> <table> <tr> <td>Regulation S GDRs:</td><td> CUSIP: 560317208 ISIN: US5603172082 Common Code: 055222126 </td></tr> <tr> <td>Rule 144A GDRs:</td><td> CUSIP: 560317109 ISIN: US5603171092 Common Code: 055648417 </td></tr> <tr> <td>London Stock Exchange GDR trading symbol:</td><td>MAIL</td></tr> </table>	Regulation S GDRs:	CUSIP: 560317208 ISIN: US5603172082 Common Code: 055222126	Rule 144A GDRs:	CUSIP: 560317109 ISIN: US5603171092 Common Code: 055648417	London Stock Exchange GDR trading symbol:	MAIL
Regulation S GDRs:	CUSIP: 560317208 ISIN: US5603172082 Common Code: 055222126						
Rule 144A GDRs:	CUSIP: 560317109 ISIN: US5603171092 Common Code: 055648417						
London Stock Exchange GDR trading symbol:	MAIL						
Risk Factors	Prospective investors should consider carefully certain risks discussed under “ <i>Risk Factors</i> ”.						

USE OF PROCEEDS

The gross proceeds from the Offering to the Company of the offering of GDRs representing newly issued Ordinary Shares are expected to be US\$84,006,538, assuming no exercise of the Over-allotment Option. The net proceeds of the Offering by the Company are expected to be approximately US\$72,646,276 after deducting from the gross proceeds estimated offering expenses of US\$8 million to be borne by the Company and underwriting commissions relating to the primary portion of the Offering.

The net proceeds of the Offering will be used to fund a portion of the cash consideration for its acquisition of a further 7.5% interest in VK.

The Company will not receive any proceeds from the sale of GDRs by the Selling Shareholders. The Company believes the Offering will provide its shareholders with liquidity and transparency as to the value of their holdings.

CAPITALISATION

The following table sets forth our cash and cash equivalents and capitalisation at June 30, 2010.

You should read this section in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements included in this Prospectus.

<i>(in US\$ millions)</i>	June 30, 2010⁽³⁾⁽⁴⁾
	(unaudited)
Cash and cash equivalents⁽¹⁾	292
Issued capital ⁽²⁾	0.001
Share premium ⁽²⁾	1,183
Retained earnings	551
Accumulated other comprehensive income/(loss)	28
Total equity attributable to equity holders of the parent⁽²⁾	1,762
Non-controlling interests	127
Total equity⁽²⁾	1,889
Total capitalisation⁽²⁾	1,889

(1) Does not reflect cash flows from investing and financing activities relating to transactions subsequent to June 30, 2010, which include, among others:

- cash consideration of US\$187.5 million paid in connection with the acquisition of ICQ;
- the cash portion (US\$25 million) of the consideration for the acquisition of the remaining minority stake in Forticom;
- cash consideration of US\$35 million paid in connection with acquisition of the remaining stake in OK;
- cash consideration received for the issuance of new shares of the Company for US\$50 million as a part of the acquisition of the non-controlling interest in Mail.ru Internet NV net of cash consideration of US\$26.5 million paid to minority shareholders of Mail.ru Internet NV; and
- estimated net cash proceeds from the Offering of US\$72.6 million. See “Use of Proceeds”.

(2) Does not reflect:

- the issuance of an aggregate of 21,561 (pre-stock split) Class A Shares to MIH in August 2010 in connection with the acquisition of MIH’s non-controlling interest in Mail.ru Internet NV and primary investment in the Company, resulting in an estimated increase in share premium of US\$162.8 million;
- the acquisition of non-controlling interest in Mail.ru Internet NV in exchange for a cash payment of US\$26.5 million and 2,871 (pre-stock split) Ordinary Shares to the other non-controlling shareholders of Mail.ru Internet NV in August 2010, resulting in an estimated decrease in share premium of US\$7 million;
- the issuance of 778 (pre-stock split) Ordinary Shares in August 2010 in exchange for the remaining outstanding shares of Forticom, resulting in an estimated increase in share premium of US\$30 million;
- share-based payments of the Company and its subsidiaries in July-November 2010, resulting in an estimated increase in share premium of US\$16.3 million;
- the issuance of an aggregate of 4,081,341 Ordinary Shares in connection with this Offering (including 745,341 Ordinary Shares that will be issued upon exercise of outstanding options under the 2007 Option Plan and sold by the holders thereof in the Offering) and exercise of outstanding options under the 2007 Option Plan; or
- any adjustment for 17,828,000 options that will remain outstanding with an average exercise price of US\$12.28 per Ordinary Share and that are exercisable at any time up to December 2015, the options over 6,423,842 Ordinary Shares that will be granted on the date of Admission under our new option plan with an exercise price equal to the Offer Price or any other Ordinary Shares issuable pursuant to the new option plan.

(3) Does not reflect the accounts of any entities acquired or consolidated after June 30, 2010, including OK and ICQ. At June 30, 2010, OK had cash and cash equivalents of US\$16.0 million.

(4) Does not reflect payments of US\$123.8 million to be made promptly following the closing of the Offering to purchase an additional 7.5% of VK’s shares on a fully diluted basis and an option to purchase an additional 7.5% of VK’s shares on a fully diluted basis, or a related additional \$5.0 million pro rata investment in VK.

Except as discussed above, there have not been any significant changes in our capitalisation since June 30, 2010. We did not have any long-term indebtedness at June 30, 2010.

All estimated amounts are based on management’s preliminary assumptions and may materially differ from the final amounts that will be reported in our consolidated financial statements for the year ended December 31, 2010.

DIVIDEND POLICY

The Company has never declared any cash dividends on its share capital and the Company does not expect to pay any cash dividends for the year ending December 31, 2010. Any recommendation as to payment of future dividends will depend upon the conditions then existing, including the Company's earnings, financial condition and requirements, availability of distributable reserves, future growth prospects, business conditions and other relevant factors.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth, in summary form, consolidated financial statement data, segment financial data and other operating information relating to the Group. The financial information has been derived from the financial statements of the Group prepared in accordance with IFRS. The reports of Ernst & Young LLC relating to the financial statements for the years ended December 31, 2007, 2008 and 2009 and the interim condensed consolidated financial statements for the six months ended June 30, 2010 appear elsewhere in this prospectus. The information presented below should be read in conjunction with such financial statements, report and *“Management’s Discussion and Analysis of Financial Condition and Results of Operations”*.

Our Consolidated Financial Statements are significantly affected by changes in scope of consolidation and related accounting gains that make it difficult to evaluate trends in the underlying businesses of the Group. In light of the difficulty of analyzing operating trends based on the Group’s IFRS financial statements, our management manages our business and equity method investments on the basis of management accounts that do not reflect certain adjustments required under IFRS and assume a 100% ownership interest in and consolidation of all the key subsidiaries and associates composing the segments in question. This information is presented as part of the segment footnote in the Consolidated Financial Statements of the Group. Investors are encouraged to review the discussion of our consolidated results of operations that follows together with the segment information that appears below.

Consolidated Financial Statement Data

	Year ended December 31,			Six months ended June 30,	
(in millions of US\$)	2007	2008	2009	2009	2010
	(audited)			(unaudited)	
Income Statement Data					
Online advertising	—	—	62.8	24.5	38.6
IVAS	—	—	63.4	20.2	56.0
Payment processing services	16.6	—	—		
Online recruitment services	—	—	17.5	8.2	11.4
Dividend revenue from venture capital investments	—	0.1	1.6	0.6	1.2
Other revenue	4.5	—	3.1	1.0	1.5
Total Revenues	21.0	0.1	148.3	54.6	108.7
Cost of revenues	(16.4)	—	(34.3)	(12.2)	(25.7)
Gross margin	4.7	0.1	114.0	42.4	83.0
Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities	(10.9)	(12.7)	1.5	1.2	1.6
Research and development expenses	—	—	(1.0)	—	(1.3)
Selling, general and administrative expenses ⁽¹⁾	(9.7)	(54.6)	(96.8)	(33.6)	(53.2)
Impairment of intangible assets	—	—	(1.8)	—	—
Depreciation and amortisation ⁽²⁾	(0.1)	—	(29.9)	(11.4)	(22.4)
Operating profit (loss)	(16.0)	(67.2)	(14.0)	(1.4)	7.7
Finance income	1.9	1.2	1.5	0.8	0.4
Finance costs	(3.4)	(3.3)	—	—	—
Net gain/(loss) on derivative financial assets and liabilities over the equity of strategic investees	0.3	0.5	(3.6)	(1.1)	(0.7)
Net gain on acquisition of control in strategic associates	—	91.9	14.8	14.8	—
Net gain/(loss) on disposal of shares in strategic associates	20.4	(0.1)	113.1	113.1	—
Net gain/(loss) on loss of control in subsidiaries	167.8	—	(7.1)	—	—
Net loss on disposals of intangible assets	(0.3)	—	—	—	0.7
Net foreign exchange gains/(losses)	(0.2)	34.7	13.5	12.1	10.7
(Impairment losses)/reversal of impairment losses related to associates and available for sales investments	—	(53.1)	46.7	—	—
Share of profit/(loss) of equity method investees	3.9	(16.5)	18.0	7.3	(12.4) ⁽³⁾
Gain on bargain purchase	—	—	—	—	0.7
Other gains/(losses)	—	—	0.1	—	(1.1)
Profit/(loss) before income tax expense	174.5	(11.9)	183.0	145.6	5.4
Income tax expense	(0.8)	(0.1)	(17.3)	(10.6)	(8.6)
Net profit/(loss)	173.7	(12.0)	165.7	135.1	(3.1)
Attributable to:					
Equity holders of the parent	173.2	(12.0)	168.6	137.4	(7.3)
Non-controlling interest	0.5	—	(2.9)	(2.4)	4.2

(1) Includes US\$— million, US\$32.2 million, US\$18.5 million, US\$3.8 million and US\$4.2 million of stock based compensation and DSTA option expense in 2007, 2008, 2009, the first half of 2009 and the first half of 2010, respectively.

(2) Includes US\$— million, US\$— million, US\$21.5 million, US\$7.7 million and US\$15.9 million related to amortisation of fair value adjustments to intangible assets acquired in acquisitions in 2007, 2008, 2009, the first half of 2009 and the first half of 2010, respectively.

(3) Includes a loss of US\$19.4 million representing the Group's share of a US\$25.6 million loss recorded by Forticom upon the lapse of Forticom's options over 13.87% of OK's shares upon the Group's acquisition of the underlying shares.

Selected Segment Data

We set forth below selected financial information for our Mail.ru, OK and Headhunter segments, which are the segments that (together with ICQ) will form the core of our consolidated operations after this Offering. For more information concerning the composition of our different segments and the presentation of the segment financial information, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Segment Analysis*”. In that section, we also provide information concerning our VK and QIWI segments, which correspond to our strategic minority stakes in VK and QIWI.

In accordance with IFRS 8, we present our segment information based on the information presented to our senior management. In light of the difficulty of analyzing operating trends based on the Group’s IFRS financial statements as a result of the large number of acquisitions and equity method investments and in light of the entities that today form our core consolidated operations, our management manages our business and equity method investments on the basis of management accounts that do not include certain adjustments required under IFRS and assume a 100% ownership interest in the companies composing the segments in question. Management believes this information provides a useful basis for understanding the underlying operational trends in our businesses. The line item “IFRS segment net profit” in the tables below shows what segment net profit for the applicable segment would have been had all applicable IFRS adjustments been applied for the periods indicated. We describe the relevant adjustments in greater detail and provide a more detailed reconciliation under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Segment Analysis*” below.

Mail.ru Segment

The following table sets forth the Mail.ru segment income statement for the periods indicated. This segment includes 100% of the financial results of Mail.ru and its subsidiaries, including Astrum, for all periods presented. In contrast, our Consolidated Financial Statements consolidated these entities only from their respective dates of acquisition in 2009 and treated them for prior periods as associates accounted for under the equity method, with only our share in their net operating results recorded in our income statement.

(in millions of US\$)	Year ended December 31,			Six months ended June 30,	
	2007	2008 (audited)	2009	2009 (unaudited)	2010 (unaudited)
Revenue					
Online advertising:					
Display advertising	37.8	44.4	44.5	17.1	26.7
Context advertising	7.0	17.8	16.0	6.8	11.0
Total On-line advertising	44.8	62.2	60.5	24.0	37.8
IVAS:					
MMO Games	9.7	38.9	64.9	25.0	44.4
Community IVAS	1.6	3.6	7.1	3.0	9.3
Other IVAS	3.8	6.7	5.8	2.4	2.6
Total IVAS	15.1	49.3	77.9	30.5	56.4
Other revenue	0.7	—	—	—	—
Total revenue	60.5	111.5	138.4	54.5	94.2
Operating expenses					
Personnel expenses	10.1	29.8	37.1	16.7	26.9
Office rent and maintenance	1.7	7.0	6.5	3.5	3.5
Agent/partner fees	2.3	7.5	14.8	4.8	8.5
Marketing expenses	2.4	5.0	6.0	2.4	4.6
Server hosting expenses	0.7	2.8	5.9	2.9	3.8
Professional services	4.8	10.5	5.7	1.7	1.0
Other operating expenses, excluding amortisation and depreciation	2.7	3.3	3.5	1.2	2.1
Total operating expenses	24.8	65.8	79.5	33.2	50.3
EBITDA^(*)	35.8	45.6	58.9	21.3	43.9
Depreciation and amortisation	5.1	4.9	6.9	2.9	5.7
Share of profit of equity associates	0.4	(0.2)	0.0	—	—
Other non-operating income (expense), net	0.7	7.4	4.1	0.1	(1.1)
Profit before income tax	31.8	47.9	56.2	18.5	37.1
Income tax expense	6.0	13.4	12.1	4.0	6.9
Segment net profit	25.8	34.5	44.1	14.4	30.2
Segment net profit attributable to the group	25.8	35.1	44.1	13.8	30.2
Reconciling items	61.8	(41.1)	(13.4)	15.6	(15.8)
IFRS segment net profit attributable to the group	87.6	(6.0)	30.7	29.4	14.4

(*) Segment EBITDA is calculated by subtracting segment total operating expenses from segment total revenues. Because segment revenues and segment operating expenses are presented differently than under IFRS, investors should review the segment EBITDA figures together with the discussion under “—Net Profit calculated in accordance with IFRS” below, which details the adjustments from the IFRS presentation. Segment EBITDA may be calculated differently than similarly titled financial measures at other companies.

OK Segment

The following table sets forth the OK segment income statement for the periods indicated. Our OK segment includes OK and its subsidiaries for all periods presented, assuming 100% ownership. In contrast, OK is not consolidated in our historical IFRS financial statements because we acquired control after June 30, 2010.

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
(in millions of US\$)	(audited)			(unaudited)	
Revenue					
Online advertising:					
Display advertising	1.2	14.4	13.0	6.0	8.0
Context advertising	0.3	2.1	1.6	0.9	0.8
Total On-line advertising	1.5	16.5	14.6	6.9	8.7
Community IVAS	—	4.2	29.7	12.9	21.5
Other revenue	—	0.3	—	—	—
Total revenue	1.5	20.9	44.3	19.8	30.2
Operating expenses					
Personnel expenses	0.6	2.9	2.2	1.0	1.3
Office rent and maintenance	0.2	1.0	0.9	0.4	0.5
Agent/partner fees	0.0	0.8	0.9	0.5	0.5
Marketing expenses	0.6	3.4	0.2	0.1	0.2
Server hosting expenses	0.3	2.3	6.3	2.2	4.1
Professional services	1.1	0.8	5.6	3.7	4.6
Other operating expenses, excluding amortisation and depreciation	0.2	4.4	3.4	0.7	0.5
Total operating expenses	3.1	15.6	19.4	8.8	11.5
EBITDA^(*)	(1.5)	5.3	24.9	11.0	18.7
Depreciation and amortisation	0.1	1.3	2.6	1.2	2.4
Share of profit of equity associates	—	—	—	—	—
Other non-operating income (expense), net	0.1	—	(0.4)	—	—
Profit before income tax	(1.6)	4.0	21.9	9.8	16.2
Income tax expense	—	1.5	4.8	2.2	3.5
Segment net profit	(1.6)	2.6	17.1	7.6	12.7
Segment net profit attributable to the group	(1.6)	2.6	17.1	7.6	12.7
Reconciling items	(0.1)	(5.7)	(2.2)	(1.2)	(2.7)
IFRS segment net profit attributable to the group	(1.6)	(3.2)	14.9	6.4	10.0

(*) Segment EBITDA is calculated by subtracting segment total operating expenses from segment total revenues. Because segment revenues and segment operating expenses are presented differently than under IFRS, investors should review the segment EBITDA figures together with the discussion under “—Net Profit calculated in accordance with IFRS” below, which details the adjustments from the IFRS presentation. Segment EBITDA may be calculated differently than similarly titled financial measures at other companies.

Headhunter Segment

Our Headhunter segment includes the operations of Newton Rose and its subsidiaries, which operate the Headhunter online recruitment business, assuming we held a 100% interest for all periods presented. Our Consolidated Financial Statements under IFRS consolidate Newton Rose only from February 2009, the date we acquired control.

(in millions of US\$)	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(audited)			(unaudited)	
Revenue	9.1	25.3	16.7	6.7	12.3
EBITDA^(*)	(0.3)	4.6	3.4	1.7	3.1
Segment net profit	0.3	2.9	1.5	0.8	1.7
IFRS segment net profit attributable to the group	0.3	(3.1)	(9.6)	(2.6)	1.5

(*) Segment EBITDA is calculated by subtracting segment total operating expenses from segment total revenues. Because segment revenues and segment operating expenses are presented differently than under IFRS, investors should review the segment EBITDA figures together with the discussion under “—*Net Profit calculated in accordance with IFRS*” below, which details the adjustments from the IFRS presentation. Segment EBITDA may be calculated differently than similarly titled financial measures at other companies.

MANAGEMENT'S DISCUSSION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are the largest Internet company in the Russian-speaking world and one of the largest Internet companies in Russia based on monthly unique users. Since our formation in 2005, and particularly since 2008, we have moved rapidly to build an integrated communication and entertainment platform that allows us to attract and monetise one of Russia's largest daily Internet audiences. We operate two of the three largest Russian-language online social networks and own a strategic minority equity stake in the third, and operate the two largest IM networks in Russia, Russia's leading email service, Russia's second largest Internet website based on daily and monthly unique users and Russia's largest online games company.

Our integrated communication and entertainment platform attracts millions of users each day, which we believe offers us an attractive base for launching new services to further enhance user engagement. We leverage our large daily user base to generate revenues from display and contextual advertising and user payments for a range of IVAS including online games, virtual gifts and other services.

Group Structure and Formation

Our historical financial statements are significantly affected by the structure of the Group and the changes in the scope of consolidation that have occurred since the beginning of 2007. Prior to December 2008, we accounted for most of the companies that form our Group today under the equity method. We did not consolidate any of our current consolidated subsidiaries for income statement purposes until January 1, 2009, and we began consolidating several of our important subsidiaries (OK and ICQ, each as defined below) only after June 30, 2010. As a result, our historical consolidated financial statements under IFRS include only eighteen months or less of operations of our Mail.ru and Headhunter segments. The series of acquisitions we have made to assemble the Group have also generated significant accounting gains and goodwill, as described in greater detail below.

To assist investors in understanding the financial performance of the activities that now form the core of our business, and in accordance with IFRS 8, our financial statements include segment financial information based on the management accounts our senior management uses to manage our business. In light of the difficulty of analyzing operating trends based on the Group's IFRS financial statements as a result of the large number of acquisitions and equity method investments, our senior management manages our business and equity method investments on the basis of management accounts that do not include certain adjustments required under IFRS and assume a 100% ownership interest in and consolidation of all the key subsidiaries and associates composing the segments in question. See “—*Segment Analysis*” below. We believe this information is helpful for understanding the financial history and trends of the business segments that will make up the core of our operations after the offering. We describe the relevant adjustments in greater detail under “—*Results of Operations*” below.

The following chart summarises the activities and revenue streams of our five principal operating segments and summarises the evolution of our equity stake and the related accounting treatment of these entities since 2007. This chart should be read together with “—*Group Formation*”, which discusses the principal stages in the formation of our group, and “—*Segment Presentation*”, which summarises the composition of our segments and the presentation of the segment financial information. Three of our segments, Mail.ru, OK and Headhunter, will (together with the newly acquired ICQ) form the core of our consolidated operations after the offering, and two, VK and QIWI, will constitute our two strategic minority associates. Substantially all of the business of our other segment, Forticom, was disposed of in August 2010 and its small remaining operations were subsequently merged into OK. It will not be presented as a separate segment going forward. Accordingly we have not included it in the chart below and do not discuss its historical financial information in detail.

Segment	Services	Revenue Generation	1/1/2007		12/31/2007		12/31/2008		12/31/2009		6/30/2010		Closing Date for the Offering	
			Fully Diluted Equity Interest*	Acctg Ttmt	Fully Diluted Equity Interest*	Acctg Ttmt	Fully Diluted Equity Interest*	Acctg Ttmt	Fully Diluted Equity Interest*	Acctg Ttmt	Fully Diluted Equity Interest*	Acctg Ttmt	Fully Diluted Equity Interest*	Acctg Ttmt
Core Consolidated Operations														
Mail.ru ⁽¹⁾	Social Networks IM Networks Online Games Email Portals and Search	IVAS Advertising	41%	Equity Method	36%	Equity Method	53%	Equity Method ⁽³⁾	51%	Consolidated (from Jan 2009 ⁽³⁾)	51%	Consolidated	100%	Consolidated
OK	Social Network	IVAS Advertising	—	None	33% ⁽⁴⁾	Equity Method (from Nov 2007)	49% ⁽⁴⁾	Equity Method	57% ⁽⁴⁾	Equity Method ⁽⁵⁾	61% ⁽⁵⁾	Equity Method, Available-for-sale ⁽⁶⁾	100%	Consolidated (from August 2010)
Headhunter	Recruitment Services	Other	—	None	23%	Equity Method (from Mar 2007)	35%	Equity Method	89% ⁽⁷⁾	Consolidated (from Feb 2009)	91% ⁽⁸⁾	Consolidated	91% ⁽⁸⁾	Consolidated
Strategic Minority Investments														
VK	Social Network	IVAS Advertising Other	—	None	24.99%	Equity Method (from July 2007)	24.99%	Equity Method	24.99%	Equity Method	24.99%	Equity Method	32.49% ⁽⁹⁾	Equity Method
QIWI ⁽²⁾	Payment Processing	Payment Processing Advertising Other	72%	Consolidated	25.09%	Equity Method (from July 2007)	25.09%	Equity Method	25.09%	Equity Method	25.09%	Equity Method	25.09%	Equity Method

* Unless specifically indicated otherwise

- (1) For periods prior to the combination of Port.ru Inc. (“**Port.ru**”) and Astrum Online Entertainment Limited (“**Astrum**”) to form Mail.ru Internet NV (“**Mail.ru**”) in 2009, refers to Port.ru. Astrum was accounted for under the equity method from November 2007 through March 2009, when we acquired control and began consolidating it, and it was combined with Port.ru to form Mail.ru in November 2009. Prior to November 2007, Astrum was consolidated and wholly-owned, but had no operations other than the holding of equity method investments in other gaming companies. The Group’s segment financial information for Mail.ru includes Astrum as if it had been consolidated at January 1, 2007. For more information see “—*Segment Information*.” Although we are still evaluating the manner in which ICQ will be presented for financial statement purposes for the second half of 2010, we expect to present it in 2011 and subsequent periods as part of our Mail.ru segment.
- (2) For periods prior to July 2007, refers to E-Port group of companies (“**E-Port**”). QIWI (formerly OE Investments Limited) (“**QIWI**”) was formed in July 2007 from the combination of our E-port business and the payment processing assets of OSMP in a transaction that gave us a 25.09% interest in QIWI.
- (3) Control of Port.ru was acquired in mid-December 2008, and we began consolidating it for balance sheet purposes from December 31, 2008 but for income statement purposes only from January 1, 2009 given the proximity of the closing date to year end.
- (4) Represents our effective shareholding in Odnoklassniki Limited (“**OK**”), including: the sum of (i) shares in OK held by Forticom Group Limited (“**Forticom**”) or over which Forticom held options, multiplied by our shareholding in Forticom; and (ii) shares in OK held directly.
- (5) In April 2009, we contributed our stake in OK to Forticom in exchange for shares of Forticom and did not hold any shares in OK directly until our acquisition of a separate 14% stake in April 2010. Although the Company owned more than a majority of the equity interest in Forticom, it did not gain control of the investment due to restrictions in the applicable shareholders agreement. Following the acquisition of Forticom and the remaining minority interests in OK in August 2010, OK is consolidated in our financial statements from that date.
- (6) The investment in OK held through Forticom was accounted for as part of the equity method investment in Forticom. In April 2010, the company acquired a separate 14% direct equity stake in OK, which was accounted for as an available-for-sale investment.
- (7) Assumes the exercise of call options over the shares of Headhunter granted to management of Headhunter. See Note 28 to our Consolidated Financial Statements and Note 17 to our Unaudited Interim Financial Statements for more information about the outstanding options.
- (8) Based on the number of shares issued and outstanding (excludes all options). See Note 28 to our Consolidated Financial Statements and Note 17 to our Unaudited Interim Financial Statements for more information about the outstanding options.
- (9) Based on the number of shares issued and outstanding (excludes all options). Assumes the acquisition of an additional 7.5% interest promptly following Closing.

Group structure

We provide our Internet services through our core consolidated subsidiaries described below and hold strategic minority investments in two companies that we account for under the equity method. We also have available-for-sale investments in several leading international Internet companies and a portfolio of other Russian and Ukrainian investments that we account for at fair value through the profit and loss statement. See “*Business*” for a simplified structure chart showing these entities.

Core consolidated subsidiaries

Mail.ru. We provide most of our Internet services through our consolidated subsidiary Mail.ru and its subsidiaries. Mail.ru operates our My World social network, our Astrum online games business, our Agent IM services and our Mail.ru portal. We acquired control of Port.ru, the company that operates the Mail.ru portal, social networking and IM businesses, in mid-December 2008 and control of Astrum Online Entertainment and the other companies that today comprise Mail.ru’s online games business in March and April 2009. Prior to the acquisition of control, these entities were accounted for under the equity method. Mail.ru’s operations are not consolidated in our financial statements for income statement purposes for periods prior to 2009.

Odnoklassniki. We provide our OK social network services through our subsidiary OK. We acquired control in OK in August 2010. Prior to April 2009, we held an effective economic interest of 49% directly and through an equity method investment in Forticom. From April 2009 to August 2010, we held most of our interest in OK through an equity method investment in Forticom, which in turn held an equity method investment in OK. Beginning in April 2010, we also held 14% of OK directly, and accounted for that investment as an available-for-sale investment. As part of the August 2010 transactions, we acquired control of Forticom, which concurrently transferred its principal operations other than OK to a third party,

and subsequently merged the small remaining operations into OK. Because we did not acquire control of OK until after June 30, 2010, the historical financial statements included in this prospectus do not consolidate its results, and instead account for it either under the equity method or as an available-for-sale investment. OK will be consolidated in our financial statements for periods after August 31, 2010.

ICQ. We provide our ICQ IM service through ICQ, which we acquired in July 2010. Because we acquired ICQ after the June 30, 2010 balance sheet date, it is not reflected in our historical financial statements. ICQ will be consolidated in our financial statements for periods after July 8, 2010. ICQ was previously a division of AOL, which did not prepare separate consolidated financial information for ICQ. Because no such information is available, we do not present financial information relating to ICQ in this prospectus. Although we are still evaluating the manner in which ICQ will be presented for financial statement purposes for the second half of 2010, we expect to present it in 2011 and subsequent periods as part of our Mail.ru segment.

Headhunter. We provide our Headhunter job listing and recruitment services through our subsidiary Newton Rose Limited (“**Newton Rose**”), which we acquired in February 2009. Prior to February 2009, Newton Rose was accounted for under the equity method, and it is not consolidated in our financial statements for periods prior to February 2009.

Strategic minority investments

In addition to our consolidated subsidiaries, we also hold strategic minority stakes in VK and QIWI that we account for under the equity method. VK operates the vKontakte social network, and QIWI provides payment processing services. Because we account for these entities under the equity method, they are not consolidated in our financial statements, and we include our share of their results under the line item “Share of profit (loss) of equity method investees” in our consolidated income statement.

International investments

In 2009 and 2010, we acquired small minority equity stakes in three international Internet companies, Facebook, Zynga and Groupon. We account for the interests in Facebook, Zynga and Groupon we hold at the date of this prospectus as available-for-sale investments.

Because our investments in Facebook, Zynga and Groupon are classified as available-for-sale investments, they are remeasured at fair value at each balance sheet date, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve. In the first half of 2010 we recognised a gain of US\$172.3 million in respect of our investment in Facebook under other comprehensive income. See Note 17 of our Interim Consolidated Financial Statements. These unrealised gains and losses will not affect our income statement until the investments are de-recognised (*e.g.*, upon their sale) or unless they are determined to be impaired. When the investment is de-recognised, the cumulative gain or loss is recognised in other operating income, and if the investment is determined to be impaired, the cumulative loss is recognised in our income statement as an impairment loss.

Other Russian and Ukrainian Investments

We also hold a portfolio of venture capital investments in companies that we monitor and manage exclusively on the basis of their fair values. Our involvement in the operating management of these investees is limited, and the possibility of maintaining a specific financial investment in the investment portfolio in the long run is remote. These investments were designated, upon initial recognition, as at fair value through profit or loss and are accounted for in accordance with IAS 39, with changes in their fair value from period to period recognised in income in the period of the change.

Group Formation

Since our formation in 2005, we have carried out a significant number of acquisitions and investments, most of which have taken place since 2007. At the beginning of 2007, our consolidated operations consisted solely of our E-Port payment processing business and our Molotok online auctions and e-commerce business operated by Molotok Holdings Limited and its subsidiaries (collectively, “**Molotok**”), and we held minority stakes in certain online games companies. After we contributed our payment processing business to QIWI in July 2007 in exchange for a minority non-controlling stake in QIWI and lost control over Molotok in October 2007 (as described below), we had no consolidated operations and conducted all of our business through non-controlled investments accounted for under the equity method. In December

2008, we began acquiring control of the companies that today form the core of our communication and entertainment platform, and the first of these, Port.ru, was consolidated for income statement purposes from January 1, 2009. OK and ICQ were acquired after June 30, 2010, as more fully described below.

Transactions Reflected in Our Historical Financial Statements

The following are the principal transactions reflected in our historical financial statements.

Principal 2007 Transactions

- *Contribution of E-port to QIWI.* In July 2007, the Group and the OSMP group of companies combined their respective payment systems businesses to form QIWI. As part of this transaction, we contributed our 72% interest in our E-Port payment systems business, valued at US\$51.6 million, to QIWI in exchange for a 25.09% interest in QIWI. We recognised a gain of US\$37.5 million upon the remeasurement of the carrying value of E-Port to fair value. We ceased consolidating E-Port and began accounting for QIWI under the equity method beginning in July 2007.
- *Acquisition of a minority stake in Newton Rose.* In a series of acquisitions between January and August 2007, we acquired 24.5% of Newton Rose for US\$15.0 million. We began accounting for Newton Rose under the equity method in March 2007.
- *Acquisition of a minority stake in VK.* In June-July 2007, we acquired 24.99% of Doraview Limited (subsequently renamed VK.com Limited), which operates the vKontakte social networking site, for US\$16.3 million. We began accounting for VK under the equity method in July 2007.
- *Acquisition of a minority stake in OK.* In a series of acquisitions between March and December 2007, we acquired 28.5% of OK for US\$17.1 million. We began accounting for OK under the equity method in December 2007.
- *Online games acquisitions.* Prior to 2007, we had acquired minority stakes in several online games companies that we accounted for under the equity method and held through Astrum, our wholly owned holding company subsidiary. In a series of transactions in January—November 2007, we increased our stake in these companies in exchange for aggregate consideration valued at US\$18.8 million and in November 2007, we and the other shareholders of certain of the companies combined our respective interests in these companies under Astrum. The fair value of the combined entity was valued at US\$179.3 million. As part of this transaction, we caused Astrum to issue shares giving such other shareholders 29% of Astrum and signed a shareholders agreement resulting in the loss of our control of Astrum. Upon loss of control of Astrum, we recognised a gain resulting from the remeasurement of our stake in Astrum to fair value in the amount of US\$105.4 million. We ceased consolidating Astrum and began accounting for it under the equity method starting from the end of November 2007.
- *Sale of a portion of the Group's minority interest in Port.ru.* In October 2007, we sold 5% of Port.ru for US\$50 million, recognizing a gain of US\$20.8 million on the sale. We continued to exercise significant influence over Port.ru after the sale and continued to account for the investment under the equity method.
- *Loss of control of Molotok.* In October 2007, Molotok, which operates the www.molotok.ru online auctions and e-commerce site, issued shares to the international online auctions group Tradus. We recognised a gain of US\$24.9 million upon the remeasurement of our pre-transaction interest in Molotok to fair value. As a result of the transaction, we lost control of Molotok and began accounting for it under the equity method.

Principal 2008 Transactions

- *Port.ru/Molotok transaction.* In December 2008, we acquired control of Port.ru in exchange for consideration consisting of a net cash payment of US\$102 million, shares of the Company, and our contribution of a 30% stake in Molotok to Port.ru. In parallel, the Company sold its remaining 13% direct interest in Molotok, and Port.ru purchased 19% of Molotok from another shareholder, bringing its total holding in Molotok to 49.9%. We recognised a gain of US\$91.9 million upon the remeasurement to fair value of the interest in Port.ru we held prior to the business combination. As a result of the transaction, we began consolidating Port.ru for income statement purposes from January 1, 2009.

- *Increase in non-controlling interest in Newton Rose.* In a series of transactions between May and December 2008, we acquired an additional 12% stake in Newton Rose for a combination of cash and shares of the Company together valued at US\$11.0 million. This additional stake was not sufficient to give us control of Newton Rose, and we continued to account for it under the equity method.
- *Increase in non-controlling interest in Forticom.* In a series of transactions between January 2008 and December 2008, we increased our existing stake in Forticom, which we had previously accounted for as an available-for-sale investment, from 15% to 72% in exchange for aggregate consideration valued at US\$196.0 million. Although this gave us a majority of Forticom's shares, we did not acquire control due to restrictions in the Forticom shareholders agreement. We began accounting for Forticom under the equity method in January 2008.

Principal 2009 Transactions

- *Acquisition of control of Newton Rose.* In February 2009, we acquired control of Newton Rose, increasing our interest from 36% as of December 31, 2008 to 91% in exchange for aggregate consideration valued at US\$37.9 million. We recognised a gain of US\$2.3 million upon remeasurement of our pre-acquisition stake in Newton Rose to fair value. We began consolidating Newton Rose in February 2009.
- *Acquisition of control of Astrum and OGH.* In March 2009, we acquired control of Astrum in a transaction that increased our stake from 68% to 73% in exchange for aggregate consideration valued at US\$14.7 million and amended the shareholders agreement to remove the restrictions that previously precluded us from exercising control over Astrum. We recognised a gain of US\$21.7 million upon remeasurement of our pre-acquisition stake to fair value. In April 2009, we acquired control of OGH, a games company held through Astrum, by reducing our stake in OGH in exchange for an amendment of the shareholders agreement to remove restrictions precluding us from exercising control. We recognised a loss of US\$9.2 million upon remeasurement of our existing stake in OGH to fair value. As a result of these transactions, we began consolidating Astrum in March 2009 and OGH in April 2009.
- *Combination of Port.ru and Astrum under Mail.ru.* In November 2009, we and the other shareholders of Port.ru and Astrum carried out a merger of the businesses of Port.ru and Astrum under Mail.ru in a transaction in which we reduced our stake in the combined entity to 53% in exchange for aggregate consideration valued at US\$62.7 million, but retained control over, and continued to consolidate, both Port.ru and Astrum.
- *Forticom/OK.* In April 2009, we transferred our 28.5% stake in OK to Forticom in exchange for shares of Forticom valued at US\$129.9 million, increasing our stake in Forticom to 76% from 72%. As a result of the transaction and a related 7.5% acquisition of OK shares by Forticom, the share of Forticom in OK increased to 65%, thereby increasing our indirect ownership of OK on a look-through basis to 49%. Our stake in Forticom did not allow us to control Forticom, and Forticom's stake in OK did not allow it to control OK, in each case due to restrictions in shareholders agreements. We accordingly continued to account for Forticom under the equity method, de-recognised the equity method investment in OK and started accounting for OK as part of our equity method investment in Forticom. We recognised a gain of US\$113.6 million upon the remeasurement of the transferred OK stake to fair value.
- *Facebook.* In a series of transactions between May and September 2009, we acquired a 2.32% fully-diluted equity stake in Facebook and a 1.01% fully-diluted equity stake in Facebook attributable to newly issued Class C shares of the Company (subsequently transferred to the Class C shareholders as described below) for aggregate consideration of US\$300.6 million. We do not exercise significant influence or control over Facebook and it is accounted for as an available-for-sale investment.
- *Disposal of All U Need.* In September 2009, we disposed of our stake in All U Need, an Israeli jobs aggregator held through our Newton Rose subsidiary for cash consideration of US\$5.6 million. We recognised a loss of US\$7.1 million on the sale.

First Half 2010 Transactions

- *Acquisition of Datacentre.* In February 2010, in exchange for aggregate consideration of RUB 300 million, we increased our 50% interest in Datacentre, a company that owns one of our principal

data centres, to 100% and began consolidating Datacentre from that date. The investment in Datacentre is held through Mail.ru, which was our 53% subsidiary at the date of the acquisition and is our 100% subsidiary as of the date hereof. The percentages represent the shareholding of Mail.ru in Datacentre.

- *Increase in stake in Facebook.* In February 2010, we acquired an additional 0.08% interest in Facebook for US\$10 million, increasing our fully diluted equity interest to 3.42%. We do not intend to acquire any additional shares of Facebook prior to the time that Facebook completes an initial public offering. As of June 30, 2010, our fully diluted economic interest in Facebook decreased to 3.38% due to the issuance of additional equity instruments by Facebook.
- *Acquisition of minority stake in Zynga.* In a series of transactions between January and April 2010, we acquired approximately 1.61% (subsequently diluted to 1.47% on a fully diluted basis) of Zynga, a leading developer of social games, for US\$47.7 million. We do not exercise significant influence or control over Zynga and account for our interest as an available-for-sale investment.
- *Acquisition of minority stake in Groupon.* In April 2010, we acquired approximately 5.5% (subsequently diluted to 5.13% on a fully diluted basis) of Groupon, a social e-commerce company, for US\$75.0 million. We do not exercise significant influence or control over Groupon and account for our interest as an available-for-sale investment.
- *Increase in interest in OK.* In April 2010, we acquired a direct interest of 14% in OK for US\$16.6 million. The investment did not enable us to exert significant influence over OK and, accordingly, was accounted for as an available-for-sale investment.

Transactions After the Most Recent Balance Sheet Date

Completed transactions

In addition to the above transactions, which are reflected in our historical financial statements, since June 30, 2010, we have completed the following additional transactions. These transactions are not reflected in the historical consolidated financial statements included in this prospectus but will be reflected in our financial statements for the year ended December 31, 2010 and future periods.

- *Acquisition of ICQ.* In July 2010, we acquired 100% of ICQ, an IM provider, for US\$187.5 million. We began consolidating ICQ in July 2010.
- *Acquisition of additional interest in Mail.ru.* In August 2010, we acquired substantially all of the remaining non-controlling interest in Mail.ru in exchange for aggregate consideration valued at US\$879.8 million, in accordance with the underlying agreement. Because we already consolidated Mail.ru, the principal effect of the transaction will be to reduce the non-controlling interest in Mail.ru. Simultaneously with our closing of this transaction, we distributed the Facebook shares attributable to the Class C shareholders to such shareholders in exchange for the Class C shares. Our current stake in Facebook at the date hereof, which we account for as an available-for-sale investment, amounts to 2.38% on a fully diluted basis. For more information, see Note 18.4 to our Unaudited Interim Financial Statements.
- *Acquisition of control of OK.* In August 2010, we acquired control of OK and its parent company Forticom in a series of transactions for aggregate consideration valued at US\$90 million, in accordance with the underlying agreement. Additionally, as part of the consideration for the acquisition, Forticom transferred its Polish social networking subsidiary to the seller of the non-controlling interest in Forticom. Upon acquisition, the carrying values of our investments in OK and Forticom will be remeasured to fair value, with the resulting gain or loss accounted for through earnings. We began consolidating OK and Forticom in August 2010.

Acquisition of additional shares in VK

On October 18, 2010, we entered into an agreement to acquire 7.5% of VK's outstanding shares from existing shareholders in exchange for cash consideration of US\$112.5 million. The closing of the transaction is conditioned upon corporate approvals and the closing of the Offering. The cash consideration will be funded through both the issuance and sale of new shares in this Offering and cash on hand.

On the same date, we entered into an option agreement that allows us to acquire for cash at any time during an initial exercise period of 365 days from the closing date (the “**VK closing date**”) for the purchase of and payment for the initial 7.5% block of shares described above, all or part of the shares subject to the option, which represent a further 7.5% of VK’s outstanding shares on a fully diluted basis. The exercise price for this 7.5% block of shares is the same as the purchase price for the earlier 7.5% block of shares *i.e.*, \$112.5 million. If the option has not been exercised in full by the 40th day prior to the expiration of the initial exercise period, we may request that up to 50% of the consideration for any remaining shares subject to the option be paid in the form of our ordinary shares, and the remainder in cash. If the existing VK shareholders reject this request, the option period will be extended by 183 days upon payment by us of an additional option premium proportional to the unexercised portion of the option. The extended option can be exercised in whole or part at any time during the extension period and only for cash. We have also agreed with the shareholders of VK that we and the other shareholders of VK will invest an aggregate of US\$12.5 million in cash on the VK closing date, each proportionate to their fully diluted stake in VK. Based on our increased fully diluted stake of 39.99%, our share of this additional primary investment would be US\$5.0 million. VK has agreed that during the term of the initial option period or extended option period, no change to the share capital of VK will be made, no options will be granted in respect of the share capital of VK and there will be no changes to the directors of VK.

Accounting Impact of Acquisitions and Disposals

The transactions undertaken to acquire control over the core subsidiaries that make up our integrated communication and entertainment platform have had a major impact on our historical results of operations. These transactions render meaningful period to period comparisons of our results of operations presented in accordance with IFRS difficult given the resulting changes in the scope of consolidation and acquisition-related accounting gains and charges. In managing the Group’s business, management evaluates the performance of our segments in the manner described under “—*Segment Presentation*” below.

Major effects of our acquisitions and disposals on our financial statements include:

- *Changes in the scope of consolidation.* Following the contribution of E-Port to QIWI in July 2007 and loss of control of Molotok in October 2007 following the dilution of our stake resulting from shares issued by Molotok to Tradus as described above, we had no consolidated operating subsidiaries until our acquisition of control of Port.ru in December 2008. As a result, because Port.ru was consolidated for income statement purposes only from January 1, 2009, we generated no consolidated revenues in the second half of 2007, and our consolidated revenues in 2008 were limited to the dividends received from entities designated as financial assets at fair value through profit or loss and accounted for under IAS 39. We began consolidating the operations of Mail.ru, Newton Rose, Astrum and OGH in 2009, and our consolidated results of operations in our 2009 financial statements primarily reflect those interests. The financial statements for the first half of 2010 reflect the consolidation of Datacentre from February 2010. Because the consolidation of ICQ, Forticom and OK occurred after June 30, 2010, these entities are not consolidated in our historical financial statements presented in this prospectus, but will be consolidated in future periods.
- *Gains resulting from remeasurement of the pre-transaction carrying values of investments to fair value and disposals.* The Group has early adopted IFRS 3 Business Combinations (2008) (IFRS 3R) and IAS 27 on a retroactive basis for all transactions since January 1, 2007. Under this standard, in connection with a business combination where an acquirer already owns a pre-existing interest in the acquiree, that interest is remeasured to fair value when control over an acquiree is obtained, and any resulting gain or loss is recognised in income. Because the Group accumulated an interest in most of its equity method investees and subsidiaries over time, this has resulted in significant accounting gains since 2007. Similarly, upon the loss of control of a subsidiary or the disposal of shares in an equity method associate, the carrying value of the pre-transaction interest in the subsidiary or associate is remeasured to fair value, and any resulting gain or loss is recognised in income. We have recognised significant gains on such transactions since 2007. The investments in OK and Forticom will be remeasured to fair value in connection with our acquisition of control of OK after June 30, 2010, with the resulting gain or loss accounted for through earnings. Thereafter, we do not expect future periods to be affected by significant gains of this type, assuming no further acquisitions or disposals.

The following table summarises the aggregate accounting gains realised in connection with the acquisitions and disposals carried out in the periods indicated.

(in millions of US\$)	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(audited)			(unaudited)	
Net gain on acquisition of control in strategic associates . .	—	91.9	14.8	14.8	—
Gain on bargain purchase of subsidiary ⁽¹⁾	—	—	—	—	0.7
Net gain/(loss) on disposal of shares in strategic associates	20.4	(0.1)	113.1	113.1	—
Net gain/(loss) on loss of control in subsidiaries	167.8	—	(7.1)	—	—
Total net gain (loss) on acquisitions and disposals⁽²⁾	188.2	91.8	120.8	127.9	0.7

(1) Gain on bargain purchase of the remaining stake in Data Center M100 LLC. See Note 5 to the Unaudited Interim Financial Statements.

(2) For more information concerning these net gains, see “Consolidated Results of Operations” below.

- *Recording of Goodwill.* The Group accounts for business combinations by applying the acquisition method under IFRS 3R *Business Combinations*, which it early adopted in its first IFRS financial statements for 2007-2009. In accordance with this method, the Group records goodwill as the fair value of the consideration transferred, including the recognised amount of any non-controlling interest in the acquiree and fair value of the previously held interest, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. The significant goodwill recorded in connection with the Group’s acquisitions may lead to charges in future periods if the goodwill is impaired. The following table summarises the amount of goodwill on our balance sheet at the dates indicated.

(in millions of US\$)	As at December 31,			As at June 30,	
	2007	2008	2009	2009	2010
	(audited)			(unaudited)	
Goodwill	—	346.7	466.5	462.6	452.3

Major Factors influencing Results of Operations

In addition to the acquisition-related charges and changes in scope of consolidation described above, major factors that influence our results of operations include the factors described below.

Russian Internet industry dynamics

The Russian Internet industry is a young and growing segment of the Russian economy. See “*Industry*” for more information. Trends in the Russian Internet industry have a significant impact on the underlying performance of our business. Key trends include the following.

- *Growth in Internet penetration in Russia.* As described in greater detail in the “*Industry*” section of this prospectus, the proportion of the Russian population with access to an Internet connection has grown and is growing rapidly, as has and is the proportion with access to high-bandwidth Internet access. The increasing share of the population with access to the Internet is significantly expanding the potential audience for our services, and the increasing penetration of high-bandwidth access makes it easier to offer high-bandwidth IVAS such as online games to our audience.
- *Growth in paying users.* Although many Internet services in Russia are offered free of charge, a growing number of users have shown willingness to purchase IVAS. We generate an increasing percentage of our revenues from such payments, notably through our online games offerings. See “*Industry*”.

The following table sets forth information on revenues generated by MMO games and Community IVAS in Russia for the periods indicated.

IVAS Market in Russia

	2008	2009
MMO games revenue, \$ million	134	223
Community IVAS revenue, \$ million	6	105
Total	140	329

Source: J'Son & Partners (September 2010)

- *Growth in Internet Advertising in Russia.* As the proportion of the population accessing the Internet on a daily basis continues to grow, the Internet becomes an increasingly attractive medium for advertisers. Although total advertising spending in Russia has fluctuated since 2007, with significant declines in 2009 due to the global economic crisis, the share of total advertising spending in Russia spent on Internet advertising has continued to grow, increasing from 5.4% in 2007 to 9.3% in 2009. As demand for Internet advertising increases, the potential market for the Group's online advertising grows. We believe that the share of Internet advertising in Russia will continue to increase as existing advertisers become increasingly comfortable with the medium and as new advertisers begin to advertise on the Internet for the first time. See "Industry".

The following table summarises certain information concerning the Internet advertising market in Russia for the periods indicated.

Russian Internet Advertising Market

(in millions of US\$, except percentages)	Year ended December 31,				
	2007	2008	% Change 2007/2008	2009	% Change 2008/2009
Display advertising market	223	298	34%	244	(18)%
Contextual advertising market	274	410	50%	356	(13)%
Total online advertising market	497	708	42%	600	(15)%
Total advertising market	9,200	11,150	21%	6,435	(42)%
Share of online advertising	5.4%	6.3%		9.3%	

Source: GroupM (September 2010)

Macroeconomic trends in Russia

The Group's users and advertisers are primarily located in Russia, and macroeconomic conditions in Russia can have a significant impact on the market for our services. The following table summarises historical and projected GDP growth rates in Russia for the periods indicated, as reported by the IMF.

	2007	2008	2009	2010e	2011e
Real GDP growth rate, Russia	8.1%	5.6%	(7.9)%	4.3%	4.1%

Source: IMF, IMF Country Report No. 10/246, July 2010

During economic downturns in Russia, overall advertising spending tends to decline, and spending on entertainment tends to decline as disposable income declines and consumers conserve cash. During the economic downturn in 2009, overall advertising spending in Russia declined by 42% in US\$ terms, and the amount spent on Internet advertising declined by 15% in US\$ terms. Despite this overall trend, the Group's overall online advertising revenues remained stable or grew during the crisis, as Internet advertisers concentrated their Internet advertising spending on a smaller number of large sites such as those operated by the Group. Similarly, IVAS revenues continued to grow during 2008 and 2009, in part reflecting the fact that payments required for such services are small, and users were switching to relatively cheap online entertainment, which helped maintain the attractiveness of IVAS, and the increasing number of IVAS offerings offered by the Group's companies.

Currency fluctuations

The functional currency of the Company and most of its subsidiaries and associates is the Russian Rouble. Because the Group has monetary assets and liabilities denominated in currencies different from the respective entities' functional currency, changes in exchange rates can result in exchange gain or loss on the Group's net foreign currency-denominated monetary assets. In 2009 and 2008, the Group recorded foreign exchange gains of US\$13.5 million and US\$34.7 million, respectively and in 2007, the Group recorded a foreign exchange loss of US\$0.2 million. Similarly, because our financial statements are reported in US dollars, changes in the US\$/RUB exchange rate from period to period can have a significant impact on the reported US\$ equivalent of amounts earned or incurred in RUB. Because most of our revenues and most of our operating expenses are generally denominated in RUB, we do not believe that we are exposed to significant transaction risk from currency fluctuations. In addition to these effects, when we translate the assets and liabilities of subsidiaries with functional currencies other than our presentation currency (US\$) we record the exchange differences arising from the translation in other comprehensive income. These amounts are reclassified to earnings upon disposal of the related entities.

Components of Revenue and Principal Revenue Drivers

We generate our consolidated revenues principally from online advertising and IVAS, with the remainder primarily from subscription fees charged for access to the Headhunter database of online résumés.

Online Advertising

We generate advertising revenues primarily from display advertising and context advertising.

- *Display advertising.* We generate display advertising revenues from banner advertisements and similar advertising formats on our websites. Display advertising space 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). We have standard rates for display 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. We also generated a small amount of revenue in 2009 from barter advertising, in which we provide advertising on our sites to third parties in exchange for advertising on the platforms of those parties. No barter revenues were recognised in our consolidated financial statements in prior periods, and we do not expect barter revenues to become a significant component of our total revenues in the future.
- *Context advertising.* We earn revenues for context advertising through partnerships with third parties (principally Google's AdWords program). When a user carries out a search using our search engine services, search results and advertisement links are displayed on the webpage based on relevancy to the search topic and other 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.

Advertising revenues are significantly influenced by the level of overall advertising in Russia, the portion of that spending devoted to Internet advertising, and the Group's share of the overall Internet advertising market, which depends primarily on the number of users attracted by our Internet websites and the amount of time these users spend on our websites. Advertising revenues are affected by seasonality and 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.

The following table summarises, for the periods indicated, the number of average monthly unique users of the Group's principal Internet websites, which the Group believes is one of the principal metrics advertisers in Russia use to evaluate the reach of Internet websites when making decisions to purchase

display advertising. These figures are provided for each of the sites listed. Many users visit more than one of our sites in a given month. The figures in the table below do not adjust for such duplication.

Average Monthly Unique Users/Visitors (Russia)

Asset (in millions)	2009							2010		
	Q109	Q209	H109	Q309	Q409	H209	2009	Q110	Q210	H110
My World	10.1	9.9	10.0	12.5	15.7	14.1	12.0	18.1	18.1	18.1
Mail.ru (email)	15.6	15.7	15.6	16.8	18.6	17.7	16.7	20.0	20.6	20.3
Mail.ru (portal)	18.3	18.4	18.4	19.5	21.9	20.7	19.5	23.4	24.1	23.8
Mail.ru (search)	5.8	6.5	6.1	7.4	9.4	8.4	7.3	9.7	9.4	9.6
OK	13.1	12.4	12.8	12.9	14.1	13.5	13.1	15.3	15.2	15.3

Source: TNS

IVAS

The Group generates an increasing proportion of its revenues from IVAS. These primarily include:

- **MMO games.** We generate most of our IVAS revenues from MMO games offered by our Astrum division. These games are sold primarily under a free-to-play revenue model in which basic game play is free, but users are given the opportunity to purchase in-game items to enhance game play for a fee. 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 converted to in-game points that are recorded as deferred revenue. Revenues are then recognised over the life of the in-game virtual items (on average 30 to 65 days) or as the in-game virtual items are consumed.
- **Community IVAS.** We derive community IVAS revenues through user payments for paid features and virtual items sold on our social networking sites and other community IVAS services such as dating services and social games. Users generally pay for these fees through SMS. These services are recognised as revenue as the services are provided net of commissions paid to distributors or short messaging service operators.

Until September 2010, our OK segment also generated community IVAS revenues from one-time subscription fees paid by users when signing up to join the OK network. These fees, which accounted for US\$5.6 million of OK's community IVAS revenues in 2009 and US\$3.5 million in the first half of 2010, were eliminated in September 2010. Although we expect the elimination of these fees to have an adverse effect on OK's IVAS revenues in the short term, we believe that their elimination will contribute to growth in OK's user base.

- **Other IVAS.** We derive other IVAS revenues primarily from listing fees for classified advertisements on our sites and revenue sharing arrangements with mobile network operators when reply SMS messages are sent by mobile network users to Agent IM users that have sent them SMS messages using Agent.

The main drivers of IVAS revenues are increases in the number of paying users of the Group's sites that offer such services, which is in turn influenced by the number of total users of our sites offering such services, and the level of average fee-based revenues per paying user. IVAS revenues are affected by seasonality and are generally higher during the second half of the year due to the end of the vacation period because users tend to use our sites more when not on vacation.

The following table sets forth information concerning the average number of monthly paying users for our MMO games, Mail.ru community IVAS and OK services for the periods indicated.

Mail.ru and OK Monthly Paying Users

Asset (in thousands, average for period)	2008	2009							2010		
		Q109	Q209	H109	Q309	Q409	H209	2009	Q110	Q210	H110
Mail.ru											
MMO Games	29	92	101	96	110	145	127	112	167	168	167
Community IVAS	N/A	253	245	249	366	635	501	375	919	1,010	965
Odnoklassniki	232	700	696	698	711	868	790	744	1,042	957	1,000

Other Consolidated Revenues

The remainder of the Group's revenues are generated primarily by its Headhunter online recruitment services. Headhunter generates revenues primarily through subscriptions to its online résumé database.

Payment processing revenues. Prior to the contribution of our E-Port payment processing business to QIWI in July 2007, we generated revenues from payment processing services. Since that time, these services have been performed solely by QIWI which is not consolidated. Payment processing fees are charged to payment terminal users primarily on a percentage of value basis. These revenues are primarily a function of the value of transactions processed, which is primarily a function of the share of the overall payments market, and weighted average commission rates.

The following table summarises the turnover processed by QIWI for the periods indicated.

	Year ended December 31,		Six months ended June 30,	
	2008	2009	2009	2010
(in billions of US\$) ⁽¹⁾		(unaudited)		
Russian turnover	9.8	9.8	4.3	5.4
Russian mobile turnover	9.1	8.4	3.8	4.2
Total turnover processed	10.0	10.5	4.6	5.7

(1) Translated into US\$ based on annual / semi-annual average exchange rates

Fees Paid for Services Provided by DSTA

In January 2007, we entered into an agreement (the “**DSTA Agreement**”) with DST Advisors Limited (“**DSTA**”), a related party of the Company (see “*Related Party Transactions—DSTA Agreement*”). Under the DSTA Agreement, DSTA provided a range of advisory and other services.

As compensation for services provided by DSTA, we paid advisory fees consisting of (i) a cash fee of 1.5% per annum of the value of the Company's equity (calculated as the number of issued shares of the Company multiplied by the price at which the Company last issued shares in the Company); and (ii) options granted to DSTA and certain key employees and consultants of DSTA.

The following table summarises the advisory fees paid under these arrangements for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
(in millions of US\$)		(audited)		(unaudited)	
Cash fees	5.2	19.1	23.1	10.2	12.9
Options issued	—	32.2	2.9	1.9	0.5
Total advisory fees	5.2	51.3	26.0	12.1	13.3

Upon the completion of the Offering, the DSTA Agreement will be terminated and Group companies will enter into employment agreements with certain former employees of DSTA and assume the leases for office space and other administrative and overhead expenses relating to these personnel. Pursuant to an amendment of the DSTA arrangements in April 2010 made in connection with the transactions relating to the investment by Tencent in the Company's shares, the aggregate advisory fees payable to DSTA in 2010 through the closing date of the Offering are capped at US\$35 million.

The employees that will join the Group following the Offering, some of whom will only work part-time for the Company, will principally be focused on the day-to-day management of our core consolidated operations, and the expected aggregate annual compensation expenses for those employees are expected to be significantly lower than the aggregate amounts that have historically been paid to DSTA. For 2011, the Company does not currently expect corporate overhead and compensation expense in respect of the employees that will join the Group and other headquarter and public company related expenses to exceed US\$25 million in the aggregate and currently expects that such expenses may amount to approximately US\$22 million. These amounts will be recorded under selling, general and administrative expenses in our financial statements. These amounts do not include any share-based compensation expense in respect of options that may be granted to these employees under the Company's option plan. See “—Share-based

payments” below. Approximately one-third of the headquarter expenses will be subject to a 20% tax shield in accordance with Russian law.

Share-based Payments

In addition to the advisory fees and share-based payments made by the Company to DSTA and its executives, employees and consultants, our selling, general and administrative expenses in 2009 and the first half of 2010 also reflect share-based payments made by our subsidiaries to their employees. The aggregate expense recorded in respect of share-based payments by our subsidiaries was nil in 2007 and 2008, US\$15.6 million in 2009 and US\$1.9 million and US\$3.7 million in the first half of 2009 and 2010, respectively. At the time of this Offering, the only options over subsidiary shares still outstanding are options granted by Headhunter to a senior manager.

Prior to the closing of the Offering we will grant the remainder of the options available for grant under our 2007 Option Plan which relate in the aggregate to 0.3% of our fully diluted share capital at the date of the offering (before giving effect to the issuance of new shares in the offering). The options granted will vest upon Closing, and we will recognize share-based compensation expense in an amount equal to the fair value of the options at the time of grant. In addition to the scheme outlined above, there will be other equity-based expenses resulting from other options granted to senior managers by the Company and its subsidiaries. The amount of share-based compensation expense can only be determined at the time of grant under the assumption that these options will be treated as equity settled and will depend on several parameters including (but not limited to) share price, exercise price, expected term, volatility, risk free rate and dividend yield, among other factors. Some of these parameters cannot be reliably estimated at this point of time. Moreover the majority of them are largely dependent on the macroeconomic parameters and management judgement and are subject to uncertainties. Based on its current assumptions, management estimates that the share-based compensation expense for the second half of 2010 will be around \$15-20 million.

To incentivise our employees after the Offering we have adopted a new equity-based long-term incentive scheme that will become effective upon the date of Admission. The new scheme will comprise options over an aggregate of 10,706,403 Ordinary Shares, representing 5% of the anticipated fully-diluted share capital of the Company (post issue, assuming no exercise of the Over-allotment Option) as at the date of Admission. The options will be granted over a four-year period from the date of Admission, with vesting dates and other terms of the grant determined at the discretion of the Board or its remuneration committee. An initial grant of options under this scheme representing approximately 3% (with approximately 2% remaining under the scheme) of the anticipated fully-diluted share capital of the Company (calculated as described above) will be made in connection with the Admission. For more information concerning the details of the scheme and the initial grant, see “*Corporate Governance—Compensation*”. We expect to recognise equity-based long-term incentive scheme expense over the vesting period of each tranche based on the applicable IFRS pronouncements valid at the time of preparation of the applicable reports under the assumption that these options will be treated as equity settled. The exercise price for each incentive instrument granted under the scheme shall be the fair market price at the time of the grant (which fair market price, for options granted in connection with the Admission, shall be the Offer Price), with cashless exercise required.

Similarly, the net income of our equity method associates is affected by the share-based payments they make, which affects the amounts we record in respect of our share of their net income. Our share of the share-based payments of our equity method associates amounted in the aggregate to US\$0.7 million in 2007, US\$1.6 million in 2008, US\$1.5 million in 2009 and US\$1.9 million in the first half of 2010. For more information about the share-based payments made by our subsidiaries and equity method associates, see Note 30 to our Consolidated Financial Statements.

Consolidated Results of Operations

As noted above, our Consolidated Financial Statements are significantly affected by changes in scope of consolidation and related accounting gains that make it difficult to evaluate trends in the underlying businesses of the Group. In light of the difficulty of analyzing operating trends based on the Group’s IFRS financial statements, our management evaluates and manages our business and strategic minority investments on the basis of management accounts that do not reflect certain adjustments required under IFRS and assume a 100% ownership interest in and consolidation of all the key subsidiaries and associates

composing the segments in question. Investors are encouraged to review the discussion of our consolidated results of operations that follows together with the segment discussion below. See “—Segment Analysis”.

The following table summarises our consolidated income statement for the periods indicated.

(in millions of US\$)	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
		(audited)		(unaudited)	
IVAS	—	—	63.4	20.2	56.0
Online advertising	—	—	62.8	24.5	38.6
Payment processing services	16.6	—	—	—	—
Online recruitment services	—	—	17.5	8.2	11.4
Dividend revenue from venture capital investments	—	0.1	1.6	0.6	1.2
Other revenue	4.5	—	3.1	1.0	1.5
Total Revenues	21.0	0.1	148.3	54.6	108.7
Cost of revenues	(16.4)	—	(34.3)	(12.2)	(25.7)
Gross margin	4.7	0.1	114.0	42.4	83.0
Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities	(10.9)	(12.7)	1.5	1.2	1.6
Research and development expenses	—	—	(1.0)	—	(1.3)
Selling, general and administrative expenses ⁽¹⁾	(9.7)	(54.6)	(96.8)	(33.6)	(53.2)
Impairment of intangible assets	—	—	(1.8)	—	—
Depreciation and amortisation ⁽²⁾	(0.1)	—	(29.9)	(11.4)	(22.4)
Total Operating Expenses⁽³⁾	(37.0)	(67.3)	(162.3)	(55.9)	(101.0)
Operating profit (loss)	(16.0)	(67.2)	(14.0)	(1.4)	7.7
Finance income	1.9	1.2	1.5	0.8	0.4
Finance costs	(3.4)	(3.3)	—	—	—
Net gain/(loss) on derivative financial assets and liabilities over the equity of strategic investees	0.3	0.5	(3.6)	(1.1)	(0.7)
Net gain on acquisition of control in strategic associates	—	91.9	14.8	14.8	—
Net gain/(loss) on disposal of shares in strategic associates	20.4	(0.1)	113.1	113.1	—
Net gain/(loss) on loss of control in subsidiaries	167.8	—	(7.1)	—	—
Net loss on disposals of intangible assets	(0.3)	—	—	—	0.7
Net foreign exchange gains/(losses)	(0.2)	34.7	13.5	12.1	10.7
(Impairment losses)/reversal of impairment losses related to associates and available-for-sale investments	—	(53.1)	46.7	—	—
Share of profit/ (loss) of equity method investees	3.9	(16.5)	18.0	7.3	(12.4) ⁽⁴⁾
Gain on bargain purchase	—	—	—	—	0.7
Other gains/(losses)	—	—	0.1	—	(1.1)
Profit/(loss) before income tax expense	174.5	(11.9)	183.0	145.6	5.4
Income tax expense	(0.8)	(0.1)	(17.3)	(10.6)	(8.6)
Net profit/(loss)	173.7	(12.0)	165.7	135.1	(3.1)
Attributable to:					
Equity holders of the parent	173.2	(12.0)	168.6	137.4	(7.3)
Non-controlling interest	0.5	—	(2.9)	(2.4)	4.2

(1) Includes US\$— million, US\$32.2 million, US\$18.5 million, US\$3.8 million and US\$4.2 million of stock based compensation and DSTA option expense in 2007, 2008, 2009, the first half of 2009 and the first half of 2010, respectively.

(2) Includes US\$— million, US\$— million, US\$21.5, US\$7.7 and US\$15.9 related to amortisation of fair value adjustments to intangible assets acquired in acquisitions in 2007, 2008, 2009, the first half of 2009 and the first half of 2010, respectively.

(3) Includes all expenses deducted from net revenues to obtain operating profit (loss), including cost of sales, net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities, research and development expenses, selling, general and administrative expenses, impairment of intangible assets, and depreciation and amortization.

(4) Includes a loss of US\$19.4 million representing the Group's share of a US\$25.6 million loss recorded by Forticom upon the lapse of Forticom's options over 13.87% of OK's shares upon the Group's acquisition of the underlying shares.

Revenues

The Group generated total revenues of US\$21 million in 2007, US\$0.1 million in 2008 and US\$148.3 million in 2009. The primary driver of the changes from annual period to annual period was changes in the scope of consolidation. Our revenues in 2007 consisted mainly of the revenues of our E-Port payment processing business, while the revenues of our Molotok online auctions and e-commerce business were insignificant. We contributed our E-Port business to QIWI in exchange for a non-controlling equity stake in QIWI in July 2007, and lost control of Molotok in October 2007 as a result of the issuance of shares to the Tradus group by Molotok. Accordingly, we ceased to consolidate these businesses starting from July and October 2007, respectively. We had no consolidated operations in 2008, because all of our investments were conducted through investees we accounted for under the equity method. Our revenues in 2009 reflect the consolidation of Port.ru for income statement purposes beginning on January 1, 2009, the consolidation of Newton Rose from February 2009, and the acquisition of control in Astrum in March 2009 and OGH in April 2009.

The Group generated total revenues of US\$54.6 million in the first half of 2009 and US\$108.7 million in the first half of 2010. The increase was driven primarily by a 176.8% increase in IVAS revenues and a 57.4% increase in online advertising revenues.

Cost of revenues and gross margin

Cost of revenues was US\$16.4 million, or 77.8% of revenues, in 2007, nil in 2008, and US\$34.3 million, or 23.2% of revenues, in 2009. Gross margin was US\$4.7 million in 2007, US\$0.1 million in 2008 and US\$114.0 million in 2009. In the first half of 2010 cost of revenues was US\$25.7 million, or 23.6% of revenues, and gross margin was US\$83.0 million. The following table summarises the principal components of the Group's cost of revenues for the periods indicated.

	Year ended December 31,					Six months ended June 30,			
	2007	% of Revenues	2008	2009	% of Revenues	2009	% of Revenues	2010	% of Revenues
(in millions of US\$, except percentages)			(audited)				(unaudited)		
Commission to agents	12.2	57.8%	—	9.3	6.2%	2.6	4.7%	8.2	7.6%
Cost of electronic payment terminals sold	3.2	15.1%	—	—	—%	—	—%	—	0.0%
Compensation expense	0.8	4.0%	—	17.0	11.5%	6.5	11.9%	13.2	12.2%
Cost of servers hosting	—	0.0%	—	5.3	3.5%	2.2	4.0%	4.0	3.7%
Other costs	0.2	0.9%	—	2.8	1.9%	0.9	1.7%	0.2	0.2%
Total Cost of revenues	16.4	77.8%	—	34.3	23.2%	12.2	22.3%	25.7	23.6%

The improvement in margins between 2007 and 2009 primarily reflects the fact that the Group's Internet operations, which comprised substantially all of its revenues in 2009, are higher margin activities than the payment processing business that generated substantially all of the Group's 2007 revenues. There was no cost of revenues in 2008 because there were no consolidated operating activities. The increase in cost of revenues as a percentage of total revenues between 2009 and 2010 primarily reflects an increase in commissions paid to agents as a percentage of revenues, driven primarily by the increased share of revenue from MMO games, which involve a higher proportion of agent commissions, including royalty fees, than online advertising or other IVAS revenues and higher compensation expenses as a percentage of revenues, driven by the consolidation of Astrum for the full six months in 2010, compared with three months in 2009, and the resulting increased headcount.

Net gain (loss) on venture capital investments and associated derivative financial assets and liabilities.

The Group recorded a net loss of US\$10.9 million in 2007, a net loss of US\$12.7 million in 2008 and a net gain of US\$1.5 million in 2009 on its venture capital investments. The losses in 2007 and 2008 principally reflect decreases in the fair value of venture capital investments partially due, in 2008, to the effects of the global economic crisis. In the first half of 2010, the Group recorded a net gain of US\$1.6 million on its venture capital investments compared to a net gain of US\$1.2 million in the first half of 2009. These gains reflect a net increase in the fair value of the Group's venture capital investments, driven principally by the effects of the overall economic recovery.

Research and development expenses

The Group recorded no research and development expenses in 2007 or 2008 and US\$1 million in 2009. The Group recorded no research and development expenses in the first half of 2009 and US\$1.3 million in the first half of 2010. The relatively low level of the Group's research and development expenses in 2009 reflects the fact that only clearly identified research and development expenses that cannot be capitalised are reflected in these expenses and most development costs are either capitalised or indistinguishable from ongoing site maintenance.

Selling, general and administrative expenses

Selling, general and administrative expenses were US\$9.7 million, or 45.9% of revenues in 2007, US\$54.6 million in 2008 and US\$96.8 million, or 65.2% of revenues, in 2009. The Group recorded expenses of US\$33.6 million (or 61.6% of revenues) in the first half of 2009 and US\$53.2 million (or 49.0% of revenues) in the first half of 2010. The following table summarises the principal components of the Group's selling, general and administrative expenses for the periods indicated.

(in millions of US\$)	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
		(audited)		(unaudited)	
Payroll	1.1	—	24.9	9.0	17.7
Share-based payments	—	—	15.6	1.9	3.7
Rent of premises and related utility expenses	0.1	—	6.2	3.1	3.6
Advertising and related expenses	0.1	—	9.6	2.6	5.7
Advisory fees	5.2	51.3	26.0	12.1	13.3
of which cash fees paid to DSTA	5.2	19.1	23.1	10.2	12.9
of which Options issued	—	32.2	2.9	1.9	0.5
Other professional fees	2.1	3.0	7.6	1.8	3.6
Other expenses	1.0	0.3	7.1	3.1	5.6
Total selling, general and administrative expenses	9.7	54.6	96.8	33.6	53.2
Share-based compensation and DSTA options	—	(32.2)	(18.5)	(3.8)	(4.2)
Total selling, general and administrative expenses (excluding share-based compensation and DSTA option expense)	9.7	22.4	78.3	29.8	49.0

The increase in 2008 resulted almost entirely from higher advisory fees paid to DSTA and options granted to DSTA and its employees.

The increase in 2009 resulted primarily from the consolidation of Mail, Astrum, OGH and Newton Rose beginning in 2009. The higher expenses resulting from the consolidation of these entities were partially offset in 2009 by lower option expense for options granted to DSTA. The largest components of selling, general and administrative expenses in 2009 were payroll and share-based payments of the Company's subsidiaries, for an aggregate of US\$40.5 million, and the cash fees and options granted to employees and consultants of DSTA, which amounted in the aggregate to an additional US\$26.0 million. Excluding share-based compensation and DSTA options expense, selling, general and administrative expenses in 2009 were US\$78.3 million.

Selling, general and administrative expenses increased from US\$33.6 million in the first half of 2009 to US\$53.2 million in the first half of 2010. Excluding share-based compensation and DSTA options expense, selling, general and administrative expenses increased from US\$29.8 million in the first half of 2009 to US\$49.0 million in the first half of 2010. This increase primarily reflects:

- the consolidation of Astrum and OGH operations starting from April and May 2009 respectively, so that their expenses were included in the scope of consolidation for only a portion of the first half of 2009 as opposed to the first half of 2010, which included a full six months of such expenses of Astrum and OGH; and
- an increase in payroll, advertising expenses, other professional fees and other expense items as described under “—Segment Analysis” below.

Following the IPO, Group companies will enter into employment agreements with certain former DSTA personnel, the DSTA Agreement will be terminated and no further advisory fees will be payable.

See “Fees paid for Services provided by DSTA” above. In 2011, expenses relating to the DSTA personnel mentioned above as well as personnel expenses relating to ICQ and OK, our newly consolidated operations, will be included in our consolidated results of operations.

Impairment of Intangible Assets

The Group recorded an impairment charge of US\$1.8 million in 2009, and no impairment charges in 2008, 2007 or the first half of 2010 or the first half of 2009. The impairment charge in 2009 was recorded in the second half of 2009 and relates to certain MMO games for which the growth in cash flows was lower than projected when Astrum was acquired.

Depreciation and Amortisation

Depreciation and amortisation expense was US\$0.1 million in 2007, nil in 2008 and US\$29.9 million in 2009. In the first half of 2009 and the first half of 2010, depreciation and amortization expense amounted to US\$11.4 million and US\$22.4 million, respectively.

The increase in depreciation and amortisation expense in 2009 resulted principally from the consolidation of Mail, Astrum, OGH and Newton Rose in 2009 and mainly represents the amortisation of intangible assets acquired in the respective business combinations, which amounted to US\$21.5 million of the total US\$29.9 million depreciation and amortisation charge. A small portion of the depreciation and amortisation expense in 2009 relates to the amortisation of capitalised research and development expenses.

The increase in depreciation and amortization expense in the first half of 2010 compared to the first half of 2009 primarily reflects the impact of a full six months of amortization charges related to the intangible assets acquired in the Astrum, OGH and Newton Rose acquisitions in the first half of 2010, which amounted to US\$15.9 million of the total US\$22.4 million depreciation and amortisation charge, as opposed to the first half of 2009, which reflected such charges only for a portion of the period. A small portion of the depreciation and amortization expense in each of these periods relates to the amortization of capitalized research and development expenses.

Operating profit (loss)

Reflecting the revenue and expenses described above, we recorded operating losses of US\$16.0 million in 2007, US\$67.2 million in 2008, US\$14.0 million in 2009 and US\$1.4 million in the first half of 2009 and an operating profit of US\$7.7 million in the first half of 2010.

Net finance costs

The following table summarises our net finance costs for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
(in millions of US\$)	(audited)			(unaudited)	
Finance income	1.9	1.2	1.5	0.8	0.4
Finance costs	(3.4)	(3.3)	—	—	—
Net finance income (costs)	(1.5)	(2.1)	1.5	0.8	0.4

We generated net finance costs of US\$1.5 million in 2007 and US\$2.1 million in 2008 and net finance income of US\$1.5 million in 2009. The finance costs in 2007 relate principally to a US\$30 million promissory note issued in connection with the acquisition of certain shares of Port.ru in 2006, and the remainder of the 2007 finance costs and the finance costs in 2008 principally relate to interest expense under a US\$37.6 million secured loan incurred in May 2007 and repaid in full in July 2008. The finance income in these periods primarily relates to interest earned on cash deposits. In the first half of 2010 and 2009, we generated net finance income costs of US\$0.8 million and US\$0.4 million, respectively.

Net gain/(loss) on derivative financial assets and liabilities over the equity of strategic investees

We generated a net gain on derivative financial assets and liabilities over the equity of strategic investees of US\$0.3 million in 2007 and US\$0.5 million in 2008, and a net loss of US\$3.6 million in 2009. These net gains and losses resulted primarily from changes in the fair value of put and call options written

or purchased in respect of shares of Astrum, Port.ru, Molotok, Newton Rose and its subsidiary Metajob. In the first half of 2009, we generated a net loss of US\$1.1 million mainly related to an increase in the fair value of written call options over the shares of Astrum and in the first half of 2010, we generated a net loss of US\$0.7 million mainly related to an increase in the fair value of written put options over the shares of Newton Rose.

Net gain on acquisition of control in strategic associates

We generated a net gain of US\$91.9 million in 2008 on acquisition of control in strategic associates upon the remeasurement of our pre-transaction interest when we acquired control over Port.ru. We generated a net gain of US\$14.8 million in 2009, reflecting remeasurement gains of US\$21.7 million and US\$2.3 million upon the acquisition of control of Astrum and Newton Rose, respectively, partially offset by a remeasurement loss of US\$9.2 million upon acquiring control of OGH. The remeasurement loss in respect of OGH resulted primarily from a slight decline in cash flow forecasts due to delay in launch of certain games. In the second half of 2010, our pre-transaction interest in OK and Forticom will be remeasured to fair value, with the resulting gains or losses recognised in earnings, as a result of our acquisition of control of these entities in August 2010.

Net gain/(loss) on disposal of shares in strategic associates

We recorded a net gain of US\$20.4 million in 2007, primarily reflecting a US\$20.8 million gain upon the sale of a 5% interest in Port.ru. We recorded a net loss of US\$0.1 million in 2008. We recorded net gains of US\$113.0 million in 2009, primarily reflecting the remeasurement of our pre-transaction stake in OK to fair value when we contributed it to Forticom in exchange for an additional stake in Forticom.

Net gain/(loss) on loss of control in subsidiaries

We recorded a net gain of US\$167.8 million in 2007, reflecting gains upon the remeasurement of our interests in Astrum (US\$105.4 million), Molotok (US\$24.9 million) and E-Port (US\$37.5 million) upon our loss of control of those entities. We recorded a net loss of US\$7.1 million in 2009 upon loss of control of All U Need, an Israeli jobs aggregator owned by Newton Rose.

Net foreign exchange gains and losses

We recorded a net foreign exchange loss of US\$0.2 million in 2007 and net foreign exchange gains of US\$34.7 million in 2008 and US\$13.5 million in 2009. In the first half of 2009 and 2010, we recorded net foreign exchange gains of US\$12.1 million and US\$10.7 million, respectively. These gains and losses primarily reflect the effects of changes in the US\$/RUB and EUR/RUB exchange rates on our cash and cash equivalents and short-term deposits denominated in US\$ and EUR.

Impairment losses and reversals of impairment losses

During 2008 the worldwide financial crisis significantly impacted the global economy, and our management concluded that there were indicators of the potential impairment of the carrying values of our investments in associates and available-for-sale investments, due to factors including significant declines in market values of the companies, increasing market interest rates and considerable lack of liquidity in the market. We therefore performed an impairment test of the carrying values of our associates and available-for-sale investments. As a result of these tests, we recorded an impairment charge of US\$53.2 million, consisting of US\$48.1 million impairment loss in respect of our interest in Forticom and US\$5.1 million in respect of an available-for-sale investment in CED (as defined in Note 28.4 to our Consolidated Financial Statements), a company that operates a business-to-business e-commerce platform, due to a significant decline in its fair value. In 2009, following an improvement in economic conditions as the economic crisis abated, we reversed the entire impairment charge relating to Forticom, which reversal amounted to US\$46.7 million.

Share of profit (loss) of equity method investees

We generated net profits of US\$3.9 million in 2007, a net loss of US\$16.5 million in 2008 and a net profit of US\$18.0 million in 2009 in respect of our share of the profit and loss of our equity method investees. In the first half of 2009 we generated a net profit of US\$7.3 million and in the first half of 2010, we generated a net loss of US\$12.4 million in respect of our share of the profit and losses of our equity method investees, driven primarily by a US\$25.6 million loss recorded by Forticom in connection with the

lapse of Forticom's options over 13.87% of OK's shares upon our acquisition of the underlying shares. The Group's share of this loss amounted to US\$19.4 million.

A significant majority of these historical profits and losses relate to entities that are now consolidated subsidiaries of the Company. The following table summarises the composition of these amounts for the periods indicated for entities that will still be equity method associates after the Offering.

(in millions of US\$)	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(audited)			(unaudited)	
QIWI	(0.5)	(1.1)	2.6	1.0	3.2
Molotok	(0.2)	(1.0)	(2.1)	(0.9)	(1.5)
VK	0.0	0.2	2.2	0.6	1.6
Mamba ^(*)	—	—	1.3	0.2	0.8
Total share of profit (loss) of remaining post-Offering equity method investees	<u>(0.7)</u>	<u>(1.9)</u>	<u>4.0</u>	<u>0.8</u>	<u>4.0</u>

(*) Mamba is an equity method affiliate that operates the dating services provided by the Group. See “—Business.”

Gain on bargain purchase

In the first half of 2010, we recorded a US\$0.7 million gain on bargain purchase in connection with our acquisition of control of Data Center M100 LLC.

Income tax expense

The following table summarises the composition of our income tax expense for the periods indicated.

(in millions of US\$)	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(audited)			(unaudited)	
Current income tax expense	1.0	0.1	15.6	4.8	9.2
Deferred income tax expense/(benefit)	(0.2)	—	1.7	5.8	(0.6)
Income tax expense	<u>0.8</u>	<u>0.1</u>	<u>17.3</u>	<u>10.6</u>	<u>8.6</u>

The increase in our income tax expense in 2009 primarily reflects the impact of consolidating Port.ru, Astrum and Newton Rose in 2009. The deferred income tax expense of US\$1.7 million includes the impact of deferred tax expense of US\$7.3 million recorded in respect of US withholding taxes on unremitted retained earnings of Port.ru and Astrum because in 2009 those subsidiaries began to pay dividends to their shareholders and the Company expects this practice to continue in the future. This impact was partially offset by net deferred tax benefits primarily due to (i) amortisation of fair value adjustments to intangible assets recognised in business combinations in 2008 and 2009 (US\$1.9 million), (ii) deductible temporary differences in deferred compensation and accrued employee benefits (US\$1.2 million), (iii) deductible temporary differences in revenue recognition (US\$1.6 million), and (iv) other net deductible temporary differences (US\$0.9 million).

The reduction in our income tax expense in the first half of 2010 compared to the first half of 2009 primarily reflects the recording of a deferred income tax benefit of US\$0.6 million in the first half of 2010 compared to a deferred income tax expense of US\$5.8 million in the first half of 2009, mainly due to deferred income tax charge on unremitted earnings of subsidiaries recorded in the first half of 2009. Our current income tax expense increased from US\$4.8 million in the first half of 2009 to US\$9.2 million in the first half of 2010, driven primarily by an increase in taxable profits of the consolidated businesses.

Net profit (loss)

Reflecting the items above, we recorded a net profit of US\$173.7 million in 2007, a net loss of US\$12.0 million in 2008, a net profit of US\$165.7 million in 2009, a net profit of US\$135.1 million in the first half of 2009 and a net loss of US\$3.1 million in the first half of 2010.

Recent Developments

Compared with the rate of year-on-year growth in revenues in the first half of 2010, we expect a somewhat slower pace of growth in the second half of 2010 driven primarily by two factors. First, revenue growth in the first half of 2010 benefited from a rapid improvement in macroeconomic conditions in Russia compared to the first half of 2009, whereas the macroeconomic rebound in Russia had already started in the second half of 2009 so that the second half of 2010 will benefit less from this factor. Second, our results in the first half of 2010 benefited from Rouble appreciation more significantly than we observed in the third quarter ending September 30, 2010.

Segment Analysis

Segment Presentation

In accordance with IFRS 8, we present our segment information based on the information presented to our senior management. In light of the difficulty of analyzing operating trends based on the Group's IFRS financial statements as a result of the large number of acquisitions and equity method investments, our management evaluates and manages our business and equity method investments on the basis of management accounts that do not include certain adjustments required under IFRS and assume a 100% ownership interest in and consolidation of all the key subsidiaries and associates composing the segments in question. Management believes this information provides a useful basis for understanding the underlying operational trends in our businesses. We describe the relevant adjustments in greater detail under “*Results of Operations*” below.

In accordance with IFRS 8, we present five principal operating segments in our financial statements.

- *Core consolidated subsidiaries.* Three of our segments—Mail.ru, OK and Headhunter—(together with the recently acquired ICQ)—will form the core of our consolidated operations after this offering.
 - *Mail.ru.* This segment comprises the businesses of Port.ru and Astrum and their subsidiaries and associates. These entities have been consolidated in our financial statements since 2009. Although we are still evaluating the manner in which ICQ will be presented for financial statement purposes for the second half of 2010, we expect to present it in 2011 and subsequent periods as part of our Mail.ru segment.
 - *OK.* The OK reportable segment comprises the businesses of OK and its subsidiaries and associates. As described above, OK was not consolidated until August 2010, and accordingly is not reflected in the historical consolidated financial statements presented in this prospectus.
 - *Headhunter.* The Headhunter reportable segment comprises the operations of Newton Rose and its subsidiaries and associates. Newton Rose has been consolidated in our financial statements since February 2009.
- *Strategic minority investments.* Two of our segments—VK and QIWI—will constitute our strategic minority investments after the offering. These entities are accounted for under the equity method and are not consolidated in our financial statements.
 - *VK.* The VK reportable segment comprises the businesses of VK and its subsidiaries and associates.
 - *QIWI.* The QIWI reportable segment comprises the businesses of QIWI and its subsidiaries and associates.

In addition to our five principal segments, our final segment is Forticom, which includes the historical businesses of Forticom Group Limited and its subsidiaries and associates, excluding OK, which is reported in the OK reportable segment above. As part of the August 2010 transactions through which we gained control of OK, Forticom disposed of its principal business other than OK and we subsequently merged the small remaining operations into OK. Forticom will not be presented as a separate segment in our financial statements in future periods and we accordingly do not discuss it in detail herein.

Presentation of Segment Information

As noted above, our segment information is derived from the financial information used by our management to manage our business. This information differs significantly from the financial information we present on the face of our Consolidated Financial Statements in accordance with IFRS. In particular:

- Our segment financial statements exclude items that management believes obscure the core operating performance of the business, including IFRS adjustments principally affecting such major areas as revenue recognition, certain accruals, deferred taxation, share-based payments, business combinations, fair value adjustments and amortisation and impairment charges. Intra-segment revenues between entities forming the segment are not eliminated as they would be under IFRS.
- The operations of our operating segments are presented in our segment footnote (Note 5 to the Consolidated Financial Statements) for each period on the basis of an assumed 100% ownership interest in and consolidation of each of the Group's key associates and subsidiaries forming the segment, including for periods prior to the acquisition of control of the entities in question.
- Within each operating segment, all key associates and subsidiaries acquired at the end of the most recent reporting period presented in our Consolidated Financial Statements are treated as if they had been owned during each of the reporting periods presented, even if they were acquired after or during the course of the relevant year.
- Segment revenues do not reflect certain other adjustments required when presenting our consolidated revenues under IFRS. For example, segment revenue of the Mail.ru segment excludes barter revenues and VK segment revenues are presented before netting out commissions paid to SMS providers whereas revenues are shown net of those amounts in our Consolidated Financial Statements under IFRS. See Note 5 to our Consolidated Financial Statements and Note 4 to our Unaudited Interim Financial Statements for a reconciliation of proportionate core revenue, as presented to our senior management, to consolidated revenue as presented under IFRS.
- Segment operating expenses are presented by nature (type of expense) instead of dividing them by function into selling, general and administrative expenses, research and development expenses and cost of revenues.
- The net profit of our segments also does not reflect "corporate" expenses incurred at the Company level, including the advisory fees historically payable to DSTA and related stock option expense.

Mail.ru Segment

The following table sets forth the Mail.ru segment income statement for the periods indicated. This segment includes 100% of the financial results of Mail.ru and its subsidiaries and key associates, including Astrum, for all periods presented. In contrast, our Consolidated Financial Statements consolidated these entities only from the respective dates as of which we acquired control in 2009 and instead treated them prior to that time as associates accounted for under the equity method, with only our share in their net operating results recorded in our income statement.

	Year ended December 31,								Six months ended June 30,				
(in millions of US\$, except percentages)	2007	% Revenue	2008	% Revenue	% Change 2007/2008 (audited)	2009	% Revenue	% Change 2008/2009	2009	% Revenue	2010	% Revenue	% Change 1H09/1H10 (unaudited)
Revenue													
Online advertising:													
Display advertising	37.8	62.4%	44.4	39.8%	18%	44.5	32.2%	0%	17.1	31.4%	26.7	28.4%	56%
Context advertising	7.0	11.5%	17.8	16.0%	154%	16.0	11.6%	(10)%	6.8	12.6%	11.0	11.7%	61%
Total On-line advertising	44.8	74.0%	62.2	55.8%	39%	60.5	43.7%	(3)%	24.0	44.0%	37.8	40.1%	57%
IVAS:													
MMO Games	9.7	16.0%	38.9	34.9%	301%	64.9	46.9%	67%	25.0	46.1%	44.4	47.2%	77%
Community IVAS	1.6	2.6%	3.6	3.2%	125%	7.1	5.1%	97%	3.0	5.5%	9.3	9.8%	211%
Other IVAS	3.8	6.3%	6.7	6.0%	76%	5.8	4.2%	(13)%	2.4	4.4%	2.6	2.9%	13%
Total IVAS	15.1	24.9%	49.3	44.2%	227%	77.9	56.3%	58%	30.5	56.0%	56.4	59.9%	85%
Other revenue	0.7	1.2%	—	0.0%	—%	—	—%	—%	—	—	—	—	—
Total revenue	60.5	100.0%	111.5	100.0%	84%	138.4	100.0%	24%	54.5	100%	94.2	100%	73%
Operating expenses													
Personnel expenses	10.1	16.7%	29.7	26.8%	194%	37.1	26.8%	25%	16.7	30.6%	26.9	28.5%	61%
Office rent and maintenance	1.7	2.8%	7.0	6.2%	306%	6.5	4.7%	(7)%	3.5	6.4%	3.5	3.7%	(1)%
Agent/partner fees	2.3	3.9%	7.5	6.7%	219%	14.8	10.7%	98%	4.8	8.9%	8.5	9.0%	75%
Marketing expenses	2.4	3.9%	5.0	4.5%	109%	6.0	4.3%	20%	2.4	4.4%	4.6	4.9%	93%
Server hosting expenses	0.7	1.2%	2.8	2.5%	292%	5.9	4.3%	109%	2.9	5.4%	3.8	4.0%	29%
Professional services	4.8	8.0%	10.5	9.5%	119%	5.7	4.1%	(46)%	1.7	3.1%	1.0	1.1%	(41)%
Other operating expenses, excluding amortisation and depreciation . . .	2.7	4.4%	3.3	3.0%	24%	3.5	2.5%	6%	1.2	2.2%	2.1	2.3%	77%
Total operating expenses	24.8	40.9%	65.8	59.1%	166%	79.5	57.4%	21%	33.2	61.0%	50.3	53.4%	51%
EBITDA (*)	35.8	59.1%	45.6	40.9%	28%	58.9	42.6%	29%	21.3	39.1%	43.9	46.6%	106%
Depreciation and amortisation	5.1	8.4%	4.9	4.4%	(4)%	6.9	5.0%	41%	2.9	5.3%	5.7	6.0%	95%
Share of profit of equity associates	0.4	0.7%	(0.2)	(0.2)%	(157)%	0.0	0.0%	(100)%	0.0	0.0%	0.0	0.0%	—
Other non-operating income (expense), net	0.7	1.1%	7.4	6.6%	977%	4.1	3.0%	(44)%	0.1	0.2%	(1.1)	(1.2)%	(1534)%
Profit before income tax	31.8	52.5%	47.9	43.0%	51%	56.2	40.6%	17%	18.5	33.9%	37.1	39.4%	101%
Income tax expense	6.0	9.9%	13.4	12.0%	125%	12.1	8.7%	(10)%	4.0	7.4%	6.9	7.3%	70%
Net profit	25.8	42.6%	34.5	30.9%	34%	44.1	31.8%	28%	14.4	26.5%	30.2	32.1%	109%

(*) Segment EBITDA is calculated by subtracting segment total operating expenses from segment total revenues. Because segment revenues and segment operating expenses are presented differently than under IFRS, investors should review the segment EBITDA figures together with the discussion under “—Net Profit calculated in accordance with IFRS” below, which details the adjustments from the IFRS presentation. Segment EBITDA may be calculated differently than similarly titled financial measures at other companies.

Revenue

In 2008, total revenues for the Mail.ru segment grew by 84% to US\$111.5 million, driven primarily by an increase in revenues from MMO games, and to a lesser extent by higher revenues from context and display advertising. In 2009, total revenues continued to grow, increasing by 24% (55% on a local currency basis) to US\$138.4 million, similarly driven primarily by an increase in revenues from MMO games. In the first half of 2010, revenues grew to US\$94.2 million, an increase of 73% (58% on a local currency basis) compared to the same period in 2009, driven primarily by an increase in revenues from MMO games.

Online advertising. In 2008, online advertising revenues increased by 39%. This increase reflects:

- an 18% increase in display advertising, driven by an overall increase in spending in the broader online advertising market; and
- a 155% increase in context advertising revenues to \$17.8 million compared to a low base of \$7.0 million in 2007, reflecting a significant increase in the use of search and the Company's efforts to expand its context advertising sales (including through the establishment of a separate sales department for context advertising).

In 2009, online advertising revenues declined by 3%. This decline reflects:

- stable display advertising revenues in US\$ terms. Although overall online advertising spending in Russia shrank during the financial crisis, advertisers tended to concentrate their spending on a smaller number of sites, which benefited high-traffic sites like the Mail.ru portal; and
- a 10% decline in context advertising, principally reflecting the decline in spending in US\$ terms on context advertising in the broader market.

In the first half of 2010, online advertising revenues grew by 57% compared to the same period in 2009. This increase reflects:

- a 56% increase in display advertising revenues; and
- a 61% increase in context advertising revenues.

The increase in display advertising revenues was primarily driven by a recovery of the advertising market, increased prices, and increased market share. The increase in context advertising revenues was primarily driven by an increase in minimum fixed fees under revenue sharing arrangements with third-party search providers.

IVAS. In 2008, IVAS revenues increased by 227% to US\$49.3 million from US\$15.1 million. This increase primarily reflects the impact of a strong increase (301%) in MMO games revenues from US\$9.7 million to US\$38.9 million driven primarily by the launch of Perfect World in the summer of 2008 and the success of Legend, which was launched in 2007 but gained traction in 2008.

In 2009, IVAS revenues continued to increase, growing by 58% to US\$77.9 million. This increase reflects:

- a 67% increase in MMO games revenues, driven by a significant increase in the number of paying users, partially offset by a decrease in average revenue per paying user. The increase in the number of paying users was driven primarily by the continued success of Perfect World and Legend and the launch of new MMO games. Average revenues per paying user declined in US\$ terms, primarily due to a broadening of our audience to include less intense users of our MMO games and to a lesser extent the impact of currency fluctuations;
- a 97% increase in community IVAS revenues, driven by a significant increase in the number of paying users, reflecting growth in the number of paying users for various features of social networks, including social games (distributed both through My World and third party social networks) and a decrease in average revenue per paying user, primarily reflecting lower average revenue per paying user for online dating services that was only partially offset by higher average revenue per user for social games; and
- a 13.4% decrease in other IVAS revenues.

In the first half of 2010, IVAS revenues grew to US\$56.4 million, an increase of 85% compared to the same period in 2009. The increase reflects:

- a 77% increase in MMO games revenues, driven by a 92% increase in the number of paying users and a decrease in average revenue per paying user. The increase in the number of paying users was driven by the continuing success of existing projects and the launch of new MMO games. Average revenues per paying user declined slightly in US\$ terms, driven by continued broadening of our audience to include less intense users of our MMO games and to a lesser extent the impact of currency fluctuations;
- a 211% increase in community IVAS revenues to \$9.3 million, driven by a significant increase in the number of paying users, reflecting the launch of social games through API platforms and growing acceptance of paid services on My World social network; and
- a 13% increase in other IVAS revenues.

Operating expenses

In 2008, total operating expenses grew by 166%, driven primarily by higher personnel costs and to a lesser extent by increases in professional fees, office rent and agent/partner fees. In 2009, total operating expenses grew by 21%. The principal drivers of the increase in 2009 were higher personnel costs and agent/partner fees.

- **Personnel expenses.** Mail.ru's personnel expenses are a function of the number of employees and average compensation costs. In 2008, personnel expenses increased by 194% to US\$29.8 million, driven primarily by an increase in the number of employees and average salaries. As a percentage of revenues, personnel expenses increased from 16.7% in 2007 to 26.7% in 2008, reflecting Mail.ru's efforts to expand and reinforce its development and maintenance team in order to catch up with recent expansion of its operations and create a solid base to support further enhancement of its market position.

In 2009, personnel expenses increased by 25% compared to 2008, to US\$37.1 million, driven primarily by an increase in the number of employees. As a percentage of revenues, personnel expenses remained relatively flat at 26.8% compared to 26.7% in 2008, reflecting greater efficiency in our online games business due to a significant increase in gaming revenues mostly driven by Legend and Perfect World, which helped offset the impact of continued growth in the online games activity, which has higher personnel costs as a percentage of revenues than other Mail.ru segment businesses.

In the first half of 2010, personnel expenses increased by 61% compared to the first half of 2009, to US\$26.9 million, driven primarily by an increased headcount and an increase in average salaries. As a percentage of revenues, these expenses decreased from 30.6% in the first half of 2009 to 28.5% in the first half of 2010, reflecting economies of scale due to spreading the expenses over a larger revenue base.

- **Office rent and maintenance expenses.** Mail.ru's office rent and maintenance expenses are primarily a function of the size of the facilities it occupies and average rent. In 2008, these expenses increased by 306% to US\$7.0 million due primarily to the rental of new office space. As a percentage of revenues, these expenses increased from 2.8% in 2007 to 6.2% in 2008.

In 2009, these expenses declined by 7% to US\$6.5 million due primarily to non-recurring repair and maintenance work in 2008. As a percentage of revenues, these expenses decreased from 6.2% in 2008 to 4.7% in 2009.

In the first half of 2010, these expenses remained relatively stable at US\$3.5 million compared to the first half of 2009. As a percentage of revenues, these expenses decreased from 6.4% in the first half of 2009 to 3.7% in the first half of 2010, reflecting economies of scale due to spreading the expenses over a larger revenue base.

- **Agent/partner fees.** Mail.ru's agent/partner fees consist primarily of royalty payments for licensed games and revenues shared with third party web sites used for promotion. These expenses are generally a function of the overall revenues generated by the underlying activity and the economic terms of the split of those revenues with the partner. In 2008, these fees increased by 219% to US\$7.5 million, driven primarily by higher royalty payments resulting from the popularity of Perfect

World. As a percentage of revenues, these expenses increased from 3.9% of revenues in 2007 to 6.7% of revenues in 2008, reflecting the increased proportion of revenues generated by third-party developed MMO games.

In 2009, these fees increased by 98% to US\$14.8 million. The sharp increase in 2009 primarily reflects higher royalty payments in line with the continued success of Perfect World. As a percentage of revenues, these expenses increased from 6.7% of revenues in 2008 to 10.7% of revenues in 2009, reflecting the increased proportion of segment revenues generated by third-party developed MMO games.

In the first half of 2010, fees increased by 75% compared to the first half of 2009, to US\$8.5 million, in line with MMO revenue growth. As a percentage of revenues, agent/partner fees remained relatively flat at 9.0% compared to 8.9% in the first half of 2009, as the contribution of MMO games to total revenue remained relatively stable.

- **Marketing expenses.** Mail.ru's marketing expenses primarily consist of fees for advertisements and traffic acquisition arrangements (primarily for MMO games) with other Internet sites. In 2008, these fees increased by 109% to US\$5.0 million, reflecting advertising expenditures to promote MMO games. As a percentage of revenues, marketing expenses increased from 3.9% in 2007 to 4.5% in 2008, reflecting the increased proportion of revenues generated by online games, which carry higher average marketing expenses for each dollar of revenue than the segment's other operations.

In 2009, marketing expenses increased by 20% to US\$6.0 million. The increase in marketing expenses was driven primarily by increased advertising expenditures to promote MMO games. As a percentage of revenues, marketing expenses declined slightly to 4.3% in 2009 from 4.5% in 2008 to in spite of the increased proportion of revenues generated by online games, reflecting increased promotion of MMO games via the Mail.ru portal.

In the first half of 2010, marketing expenses increased by 93% compared to the first half of 2009, to US\$4.6 million, driven by an increase in revenue from MMO games. As a percentage of revenues, these expenses remained relatively flat at 4.9% in the first half of 2010, compared to 4.4% in the first half of 2009.

- **Server hosting expenses.** Mail.ru's server hosting expenses depend principally upon the total number of daily users and the amount of data stored, with lower average prices generally obtained for greater volumes. These expenses increased from US\$0.7 million in 2007 to US\$2.8 million in 2008, reflecting growth in the amount of data stored, driven primarily by higher average mailbox sizes. As a percentage of revenues, server expenses increased from 1.2% in 2007 to 2.5% in 2008, principally reflecting an increase in average mailbox sizes, for which the segment does not charge users additional fees.

In 2009, server hosting expenses increased to US\$5.9 million in 2009, reflecting continued growth in the amount of data stored, driven primarily by the increase in storage capacity used per user. As a percentage of revenues, server expenses increased from 2.5% in 2008 to 4.3% in 2009, reflecting the increase in storage capacity used per user, for which the segment does not charge users additional fees.

In the first half of 2010, expenses increased by 29% compared to the first half of 2009, to US\$3.8 million, driven by continued growth in the amount of data stored. As a percentage of revenues, these expenses decreased from 5.4% in the first half of 2009 to 4.0% in the first half of 2010, reflecting economies of scale and reduced marginal costs resulting from the impact of our acquisition of the remaining interest in Data Center M100 LLC.

- **Professional services.** Mail.ru's professional services expenses consist primarily of audit and legal fees. In 2008, these fees increased by 119% to US\$10.5 million, and from 8.0% of revenues in 2007 to 9.5% of revenues in 2008, driven primarily by the first-time audit of Mail.ru and professional fees associated with the preparation of a planned offering of securities that was subsequently abandoned.

In 2009, professional services expenses declined by 46% to US\$5.7 million, and from 9.5% of revenues in 2008 to 4.1% of revenues in 2009, reflecting the absence of one-time tax advisory and offering-related fees and a larger revenue base over which to spread the expenses.

Expenses decreased from US\$1.7 million in the first half of 2009, to US\$1.0 million in the first half of 2010. As a percentage of revenues, these expenses decreased from 3.1% in the first half of 2009 to 1.1% in the first half of 2010, primarily reflecting economies of scale.

- **Other operating expenses.** Mail.ru's other operating expenses consist primarily of office supplies, miscellaneous taxes, business travel and entertainment, bank fees, insurance and multiple other miscellaneous expense items. In 2008, these expenses increased by 24% from US\$2.7 million to US\$3.3 million, driven mainly by the overall growth of Mail.ru's operations and headcount, particularly in the Astrum business.

In 2009, these expenses increased by only 6% from US\$3.3 million (3.0% of revenues) to US\$3.5 million (2.5% of revenues) in spite of the growth in operations and headcount, mainly due to economies of scale and overall cost-saving initiatives undertaken by Mail.ru management in 2009 in connection with the global economic crisis.

In the first half of 2010, expenses increased by 77% compared to the first half of 2009, to US\$2.1 million, driven by an increase in the scale of business. As a percentage of revenues, these expenses remained relatively flat at 2.3% compared to 2.2% in the first half of 2009.

EBITDA

Reflecting the revenue and operating expense evolutions discussed above, in 2008, EBITDA increased by 28% to US\$45.6 million. As a percentage of revenues, EBITDA declined from 59.1% in 2007 to 40.9% in 2008, primarily reflecting the impact of higher personnel expenses.

In 2009, EBITDA increased by 29% to US\$58.9 million. As a percentage of revenues, EBITDA improved from 40.9% in 2008 to 42.6% in 2009, primarily reflecting the reduction in professional expenses from period to period.

In the first half of 2010, EBITDA increased by 106% to US\$43.9 million, from US\$21.3 million in the first half of 2009. As a percentage of revenues, EBITDA improved from 39.1% in the first half of 2009, to 46.6% in the first half of 2010, primarily reflecting economies of scale.

Net Profit

In 2008, segment net profit increased by 34%, to US\$34.5 million, primarily reflecting the EBITDA increase described above, as well as a US\$ 6.7 million increase in net other non-operating income principally relating to the effect of exchange rate differences on net foreign currency denominated monetary assets and an increase in net interest income. Income tax expense increased by US\$7.5 million, or 125%, driven by higher taxable profit. Depreciation and amortisation expense decreased from US\$5.1 million, or 8.4% of revenues, in 2007 to US\$4.9 million, or 4.4% of revenues in 2008, with the change in percentage of revenues driven primarily by spreading the expenses over a larger revenue base.

In 2009, segment net profit increased by 28%, to US\$44.1 million, driven primarily by the EBITDA increase described above and partially offset by a US\$3.3 million decrease in other non-operating income due to the effect of exchange rate differences on net foreign currency-denominated monetary assets and a decrease in net interest income. Income tax expense decreased by US\$1.4 million, or 10%, despite the increase in profit, reflecting a decrease in the income tax rate from 24% in 2008 to 20% in 2009. Depreciation and amortisation expense increased from US\$4.9 million, or 4.4% of revenues in 2008, to US\$6.9 million, or 5.0% of revenues, in 2009, driven by higher depreciation costs relating to investments in new games and website features.

In the first half of 2010, segment net profit increased by 109% to US\$30.2 million, from US\$14.4 million (US\$13.8 million attributable to the group) in the first half of 2009, driven by an increase in EBITDA as described above.

Net Profit calculated in accordance with IFRS

As described above under “—Segment Presentation”, the management accounts from which the information in our segment footnote is derived do not include certain adjustments required under IFRS. The following table sets forth a reconciliation of Mail.ru segment net profit as presented in our segment

income statement to what net income would have been had all applicable IFRS adjustments had been applied, for the periods indicated.

(in millions of US\$)	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(audited)			(unaudited)	
Segment net profit attributable to the group^(*)	25.8	35.1	44.1	13.8	30.2
Effect of adjustments to reconcile segment net profit attributable to the group to net profit under IFRS:					
Share-based payment expense	—	(2.2)	(16.0)	(1.7)	(3.7)
Amortisation of fair value adjustments to intangible assets and impairment of goodwill and other intangible assets	(0.9)	(52.5)	(12.6)	(4.4)	(8.8)
Deferred income tax benefit/(expense)	—	4.8	(2.5)	(4.7)	(0.6)
Gain/(loss) on derivative financial instruments held by investees	—	2.9	(7.6)	(2.3)	—
Fair value adjustments related to acquisitions and disposals	65.7	3.8	28.4	28.4	—
Non-recurring consulting services ^(**)	—	—	(2.5)	—	—
Net foreign exchange gains (losses) and net interest income/(expense), differences in timing of revenue recognition, difference in acquisition date of investees' subsidiaries and other	(3)	2	(0.6)	0.3	(2.7)
Subtotal	61.8	(41.1)	(13.4)	15.6	(15.8)
IFRS net profit/(loss) of investees attributable to the group	87.6	(6.0)	30.7	29.4	14.4

(*) The figures in this table are derived by dividing the figures shown in the corresponding reconciliations of proportionate core net profit in Note 5 to our financial statements by our fully diluted interest in the entities in question at the end of 2009 and as of June 30, 2010, respectively.

(**) Consists of consulting fees paid in connection with the Mail.ru / Astrum transaction.

Calculated on an IFRS basis, in 2007, the Mail.ru segment would have reported a net profit attributable to the group of US\$87.6 million, or US\$61.8 million more than the US\$25.8 million set forth in our segment footnote. In 2008, the IFRS figure would have been a net loss attributable to the group of US\$6.0 million, or US\$41.1 million lower than the segment net profit attributable to the group of US\$35.1 million presented in our management accounts. In 2009, the net profit attributable to the group of Mail.ru would have been US\$30.7 million under IFRS, or US\$13.4 million lower than the US\$44.1 million reported in the segment footnote. In the first half of 2010, the net profit attributable to the group of Mail.ru would have been US\$14.4 million under IFRS, or US\$15.8 million lower than the US\$30.2 million reported in the segment footnote.

The difference in 2007 stems primarily from the non-inclusion of US\$65.7 million in fair value gains on remeasurement in connection with the loss of control of Astrum.

The difference in 2008 stems primarily from the non-inclusion of a US\$52.5 million charge for amortisation of fair value adjustments to intangible assets and impairment of goodwill and other intangible assets relating to online games subsidiaries acquired by Astrum in 2007 and 2008. The effect of not including this charge in calculating segment net profit was partially offset by the effect of not including deferred income tax benefits, gains on derivative financial instruments held by investees and the positive effect of fair value adjustments upon a step acquisition of control of an online games company previously accounted under the equity method.

In 2009, the difference primarily reflects the effect of the non-inclusion of charges of US\$16.0 million for share-based compensation, amortisation/impairment charges of US\$12.6 million related to goodwill and intangible assets acquired in business combinations and losses of US\$7.6 million on derivative financial instruments held by investees related to an increase in the fair value of written call options over shares of Astrum. These items are partially offset by the non-inclusion of a US\$28.4 million positive fair value adjustment related to step acquisitions of control of OGH.

The difference in the first half of 2009 primarily reflects the effect of the non-inclusion of a US\$28.4 million positive fair value adjustment related to step acquisitions of control of OGH. It is partially offset by the non-inclusion of US\$4.7 million of deferred tax expense, charges of US\$4.4 million related to

goodwill and intangible assets acquired in business combinations and losses of US\$2.3 million on derivative financial instruments held by investees related to an increase in the fair value of written call options over shares of Astrum. The difference in the first half of 2010 primarily reflects the non-inclusion of US\$8.8 million amortization of intangible assets acquired in business combinations and US\$3.7 million of share-based compensation expense.

OK Segment

The following table sets forth the OK segment income statement for the periods indicated. Our OK segment includes OK and its subsidiaries for all periods presented, assuming 100% ownership. In contrast, OK is not consolidated in our historical IFRS financial statements because we acquired control after June 30, 2010 but is instead accounted for under the equity method.

(in millions of US\$, except percentages)	Year ended December 31,							Six months ended June 30,					
	2007	% Revenue	2008	% Revenue	% Change 2007/2008	2009	% Revenue	% Change 2008/2009	2009	% Revenue	2010	% Revenue	% Change 1H09/1H10
	(audited)							(unaudited)					
Revenue													
Online advertising:													
Display advertising	1.2	80.0%	14.4	68.9%	1100%	13.0	29.3%	(10)%	6.0	30.2%	8.0	26.4%	33%
Context advertising	0.3	20.0%	2.1	10.0%	600%	1.6	3.6%	(24)%	0.9	4.7%	0.8	2.5%	(19)%
Total On-line advertising	1.5	100.0%	16.5	78.9%	975%	14.6	32.9%	(12)%	6.9	35.0%	8.7	28.9%	26%
Community IVAS	—	0.0%	4.2	19.9%	—	29.7	67.1%	613%	12.9	65.0%	21.5	71.1%	67%
Other revenue	—	0.0%	0.3	1.2%	—	—	—%	(100)%	0.0	0.0%	0.0	0.0%	—
Total revenue	1.5	100.0%	20.9	100.0%	1263%	44.3	100.0%	112%	19.8	100.0%	30.2	100.0%	52%
Operating expenses													
Personnel expenses	0.6	41.1%	2.9	13.7%	354%	2.2	5.0%	(23)%	1.0	5.2%	1.3	4.2%	24%
Office rent and maintenance	0.2	13.2%	1.0	4.8%	394%	0.9	2.1%	(8.3)%	0.4	2.2%	0.5	1.5%	9%
Agent/partner fees	0.0	0.8%	0.8	3.9%	6254%	0.9	1.9%	3%	0.5	2.7%	0.5	1.5%	(17)%
Marketing expenses	0.6	38.9%	3.4	16.4%	474%	0.2	0.4%	(95)%	0.1	0.7%	0.2	0.5%	23%
Server hosting expenses	0.3	18.5%	2.3	11.0%	710%	6.3	14.2%	174%	2.2	11.4%	4.1	13.7%	84%
Professional services	1.1	74.3%	0.8	3.6%	(34)%	5.6	12.6%	637%	3.7	18.8%	4.6	15.2%	23%
Other operating expenses, excluding amortisation and depreciation	0.2	13.0%	4.4	21.2%	2118%	3.4	7.6%	(24)%	0.7	3.8%	0.5	1.6%	(36)%
Total operating expenses	3.1	199.9%	15.6	74.6%	409%	19.4	43.8%	24%	8.8	44.7%	11.5	38.2%	30%
EBITDA^(*)	(1.5)	(99.9)%	5.3	25.4%	(446)%	24.9	56.2%	368%	11.0	55.3%	18.7	61.8%	70%
Depreciation and amortisation	0.1	9.2%	1.3	6.2%	813%	2.6	5.8%	98%	1.2	6.0%	2.4	7.9%	102%
Share of profit of equity associates	—	—	—	—	—	—	—	—	—	—%	—	—%	—
Other non-operating income (expense), net	0.1	6.9%	—	0.0%	(100)%	(0.4)	(0.9)%	—	—	—%	—	—%	—
Profit before income tax	(1.6)	(102.2)%	4.0	19.2%	356%	21.9	49.5%	446%	9.8	49.3%	16.2	53.7%	66%
Income tax expense	—	—%	1.5	7.0%	—	4.8	10.9%	229%	2.2	10.9%	3.5	11.6%	62%
Net profit	(1.6)	(102.2)%	2.6	12.2%	—	17.1	38.7%	569%	7.6	38.4%	12.7	42.2%	67%

(*) Segment EBITDA is calculated by subtracting segment total operating expenses from segment total revenues. Because segment revenues and operating expenses are presented differently than under IFRS, investors should review the segment EBITDA figures together with the discussion under “—*Net Profit calculated in accordance with IFRS*” below, which details the adjustments from the IFRS presentation. Segment EBITDA may be calculated differently than similarly titled financial measures at other companies.

Revenue

In 2008, total revenues for the OK segment grew from US\$1.5 million in 2007 to US\$20.9 million, driven primarily by higher online advertising revenues and the launch of IVAS. In 2009, total revenues for the OK segment continued to increase, growing by 111.6% (an increase of 163% on a local currency basis) to US\$44.3 million, driven primarily by a sharp increase in revenues from IVAS. In the first half of 2010, revenues grew by 52% (an increase of 42% on a local currency basis) compared to the same period in 2009, driven primarily by 67% increase in IVAS revenues.

Online advertising. OK launched its social networking site in 2006, and earned total advertising revenues of US\$1.5 million in 2007. In 2008, OK online advertising revenues increased to US\$16.5 million, driven primarily by an increase in display advertising, which accounted for most of the increase. The increase in display advertising was driven primarily by growth in OK's number of users.

In 2009, OK's online advertising revenues declined by 11.7%. This decline reflected:

- a 10% decline in display advertising, driven primarily by the difficult economic environment in Russia following the global financial crisis. Display advertising was also partially impacted by a two-week period during which no display advertisements were posted due to systems issues resulting from an upgrade to the OK site; and
- a 25% decline in context advertising, reflecting similar trends.

In the first half of 2010, OK's online advertising revenues grew to US\$8.7 million, an increase of 26% compared to the same period in 2009. This reflected:

- a 33% increase in display advertising, driven primarily by the recovery of the advertising market and partially due to increased market share as a result of launch of new advertising products; and
- a decline in context advertising from US\$0.9 million in the first half of 2009 to US\$0.8 million in the first half of 2010 driven by a focus in the first half of 2010 on migrating certain context advertising clients to OK's new display advertising products.

IVAS. OK earns all of its IVAS revenues from community IVAS, which it launched in October 2008. Revenues from these services increased from US\$4.2 million in 2008 to US\$29.7 million in 2009, or 613% driven primarily by a 607% increase in the number of paying users and higher average revenue per paying user driven by the introduction of new IVAS, as well as the impact of having a full year of IVAS revenues in 2009 compared to only three months in 2008. Revenues from community IVAS increased in the first half of 2010 by 67% to US\$ 21.5 million, compared to the same period in 2009, driven primarily by an increase in the number of users and higher engagement.

In 2008, as part of community IVAS revenues, OK introduced one-time registration fees paid by new users of the OK social networking site primarily to combat spam accounts. These fees accounted for US\$0.9 million of the US\$4.2 million of IVAS revenues in 2008, US\$5.6 million of the US\$29.7 million of IVAS revenues earned in 2009 and US\$3.5 million of our US\$30.2 million of revenues in the first half of 2010. We terminated registration fees on OK in September 2010. Although we expect this change to adversely affect our average revenue per paying user in the near term, we believe that removing this fee will attract additional users to the OK network, which we believe will make the OK site more attractive to advertisers and increase OK's potential user base for IVAS.

Operating expenses

Total operating expenses grew by 24% in 2009, driven primarily by increases in server costs and professional fees. In the first half of 2010, total operating expenses grew by 30%, driven primarily by higher server costs and professional fees.

- **Personnel expenses.** Like Mail.ru, OK's personnel expenses are primarily a function of the number of employees and average compensation levels. In 2008, personnel expenses increased from US\$0.6 million to US\$2.9 million, driven primarily by an increase in the number of employees. In 2009, these expenses declined to US\$2.2 million, primarily reflecting the replacement of certain members of senior management of OK and lower bonuses. As a percentage of revenues, personnel expenses decreased from 13.7% in 2008 to 5.0% in 2009.

In the first half of 2010 personnel expenses increased by US\$ 0.3 million to US\$1.3 million, a 24% increase over the level recorded in the first half of 2009, driven primarily by an increase in headcount. As a percentage of revenues, personnel expenses decreased from 5.2% in the first half of 2009 to 4.2% in the first half of 2010, as revenues grew faster than expenses. We expect personnel

costs to increase as a percentage of revenues in future periods as a result of bringing development efforts previously provided by Forticom in-house as described below.

- **Office rent and maintenance expenses.** These expenses increased from US\$0.2 million in 2007 to US\$1.0 million in 2008, driven primarily by the rental of additional office space due to the increase in the number of employees. In 2009, these expenses declined by 8% to US\$0.9 million in 2009 due primarily to the renegotiation of rental rates. As a percentage of revenues, these expenses decreased from 4.8% in 2008 to 2.1% in 2009.

In the first half of 2010 these expenses increased by US\$0.1 million to US\$0.5 million, a 9% increase over the same period in 2009, driven primarily by the effect of changes in the RUB/USD exchange rate. As a percentage of revenues, these expenses decreased from 2.2% of revenues in the first half of 2009 to 1.5% of revenues in the first half of 2010.

- **Agent/partner fees.** OK generates agent/partner fees primarily from commissions paid for display advertising systems. These fees increased from almost nil in 2007 to US\$0.8 million in 2008, as the Group started to sell a considerable amount of advertising. In 2009, these fees remained near stable at US\$0.9 million, and decreased as a percentage of revenues from 3.9% of revenues in 2008 to 1.9% in 2009 due to the increased share of revenue from Community IVAS, which is not subject to agent/partner fees.

In the first half of 2010 and the first half of 2009, these fees declined by 17% to US\$0.5 million and decreased as a percentage of revenues from 2.7% in the first half of 2009 to 1.5% in the first half of 2010.

- **Marketing expenses.** In 2008, marketing expenses increased from US\$0.6 million in 2007 to US\$3.4 million, primarily reflecting initial advertising expenses to promote the OK website. In 2009, these expenses decreased by 95% to US\$0.2 million, as the primary goal of achieving brand awareness was completed.

In the first half of 2010 these expenses increased by 23% from the same period in 2009 to US\$0.2 million, driven by an increase in the volume of market research. The expenses decreased as a percentage of sales from 0.7% in the first half of 2009 to 0.5% in the first half of 2010.

- **Server hosting expenses.** These expenses increased from US\$0.3 million in 2007 to US\$2.3 million in 2008, and grew to US\$6.3 million in 2009. The principal driver of these expenses was growth in the number of users. As a percentage of revenues, server expenses increased from 11.0% in 2008 to 14.2% in 2009, primarily reflecting a price increase by the third party service provider that provides servers to OK.

In the first half of 2010 these expenses increased by 84% from the same period in 2009 to US\$4.1 million. This was driven primarily by growth in the number of users. As a percentage of revenues, these expenses increased from 11.4% of revenues in the first half of 2009 to 13.7% of revenues in the first half of 2010, primarily reflecting the effect of an enhancement of data storage and processing capacity. We expect these expenses to decrease as a percentage of revenues in future periods as we migrate OK's servers to the Group's own data centre.

- **Professional services and other operating expenses.** Professional services and other operating expenses primarily include website development and maintenance provided by a wholly owned subsidiary of Forticom, as well as legal, audit and consulting fees, call centre fees and miscellaneous expenses. In 2008, professional services fees and other operating expenses increased from US\$1.3 million in 2007 to US\$5.2 million, primarily reflecting an increase of US\$2.3 million in website development and maintenance costs due to increased number of users and enhanced features of the OK website, an increase of US\$0.7 million in bad debt allowance and an increase of US\$0.9 million in other miscellaneous expenses. In 2009, these fees and expenses further increased to US\$9.0 million, or 20.2% of revenues, primarily reflecting an increase of US\$4.2 million in website development and maintenance costs due to the same factors as in 2008.

In the first half of 2010 these expenses increased by 13% over the same period in 2009 to US\$5.1 million, driven primarily by an increase in website development and maintenance costs. As a percentage of revenues, these expenses declined from 22.6% in the first half of 2009 to 16.7% in the first half of 2010. We expect these expenses to continue to decrease as a percentage of revenues in future periods as development efforts are moved in-house and the markup historically charged by Forticom is eliminated.

EBITDA

Reflecting the revenue and operating expense evolutions discussed above, EBITDA increased from a negative US\$1.5 million in 2007 to a positive US\$5.3 million in 2008. In 2009, EBITDA increased to US\$24.9 million. As a percentage of revenues, EBITDA improved from 25.4% in 2008 to 56.2% in 2009, primarily reflecting the significant reduction in marketing costs and personnel expenses against the backdrop of a larger revenue base. In the first half of 2010 EBITDA increased to US\$18.7 million from US\$11.0 million in the first half of 2009, an increase of 70% reflecting the revenue and operating expenses described above. As a percentage of revenues, EBITDA improved from 55.3% in the first half of 2009 to 61.8% in the first half of 2010.

Net Profit

In 2007, Segment net profit increased from a net loss of US\$1.5 million in 2007 to net profit of US\$2.6 million in 2008, primarily reflecting the EBITDA increase described above. In 2009, segment net profit increased to US\$17.1 million, driven primarily by the EBITDA increase described above. Income tax expense increased by US\$3.3 million, or 229%, in 2009 primarily reflecting an increase in taxable profit, partially offset by (i) a reduction in the Russian tax rate from 24% in 2008 to 20% in 2009 and (ii) fewer non-deductible expenses in 2009. In the first half of 2010, segment net profit increased to US\$12.7 million from US\$7.6 million in the first half of 2009, an increase of 67%, driven primarily by the EBITDA increase described above. Income tax expense increased by 62% to US\$3.5 million in the first half of 2010, reflecting an increase in taxable profit.

Net Profit calculated in accordance with IFRS

The following table sets forth a reconciliation of OK segment net profit attributable to the group as presented in our segment income statement to what net income attributable to the group would have been had all applicable IFRS adjustments had been applied, for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
(in millions of US\$)					
	(audited)			(unaudited)	
Segment net profit attributable to the group^(*)	(1.6)	2.6	17.1	7.6	12.7
Effect of adjustments to reconcile segment net profit attributable to the group to net profit under IFRS:					
Settlement of a legal claim	—	—	(2.0)	—	—
Deferred income tax expense	—	—	—	—	(2.5)
Accrual for legal claim	—	(3.5)	—	—	—
Other ^(**)	(0.1)	(2.2)	(0.2)	(1.2)	(0.3)
Subtotal	(0.1)	(5.7)	(2.2)	(1.2)	(2.7)
IFRS net profit/(loss) of investees attributable to the group	(1.6)	(3.2)	14.9	6.4	10.0

(*) The figures in this table are derived by dividing the figures shown in the corresponding reconciliations of proportionate core net profit in Note 5 to our financial statements by our fully diluted interest in the entities in question at the end of 2009 and as of June 30, 2010, respectively.

(**) In 2008, “other” reconciling items mainly include the effect of foreign exchange loss on foreign currency denominated net monetary assets of OK, which amounted to US\$1.3 million.

In 2007, the differences between IFRS net loss attributable to the group and segment net loss were insignificant. In 2008, the IFRS figure would have been a net loss of US\$3.2 million, or US\$5.7 million lower than the US\$2.6 million segment net profit attributable to the group presented in our segment footnote. In 2009, the net profit of the OK segment attributable to the group would have been US\$14.9 million under IFRS, or US\$2.2 million lower than the US\$17.1 million reported in the segment information. In the first half of 2010, the IFRS figure would have been US\$10.0 million, or US\$2.7 million lower than the US\$ 12.7 million segment net profit attributable to the group reported in our segment footnote.

The difference in 2008 stems primarily from the non-inclusion of a US\$3.5 million accrual for a legal claim related to, amongst other items, intellectual property rights, including such rights in respect of www.odnoklassniki.ru domain name and brand name. The difference in 2009 stems primarily from non-inclusion of an additional US\$2.0 million charge incurred to settle the legal claim.

The difference in the first half of 2010 primarily reflects US\$2.5 million in deferred income tax expense related to estimated taxes on future distributions of dividends of OK.

Headhunter

Our Headhunter segment includes the operations of Newton Rose and its subsidiaries, which operate the Headhunter online recruitment business, assuming we held a 100% interest for all periods presented. Our Consolidated Financial Statements under IFRS consolidate Newton Rose only from February 2009, the date we acquired control.

Revenues. Headhunter generated revenues of US\$9.1 million in 2007, US\$25.3 million in 2008 (an increase of 179.1% and US\$16.7 million in revenues in 2009 (a decrease of 34.0%). The increase in revenues in 2008 was driven by strong market demand for online recruitment services and the opening by Headhunter of regional offices. The significant decrease in revenues in 2009 primarily reflects the impact of the global economic crisis, which led corporate clients to introduce hiring freezes and reduce their spending on recruitment services. In the first half of 2010 Headhunter's segment revenues increased by 83.6% to US\$12.3 million, driven primarily by an improvement in the economic environment that led to more hiring and spending on recruitment services.

EBITDA. Headhunter generated negative EBITDA of US\$0.3 million in 2007 and positive EBITDA of US\$4.6 million (or 18.1% of revenues) in 2008 and US\$3.4 million (or 20.5% of revenues) in 2009. The improvement in EBITDA margins in 2009 primarily reflects a reduction in other operating expenses relating to significant cost control measures implemented in 2009, including staff reductions and a reduction in advertising expenditures. In the first half of 2010 Headhunter generated positive EBITDA of US\$3.1 million, compared to US\$1.7 million in same period in 2009. As a percentage of revenue, the EBITDA remained stable at 24.8% in the first half of 2010 as compared to 25.0% of revenue in same period in 2009.

Net Profit. Reflecting the movements in EBITDA noted above, Headhunter's net profit increased from US\$0.3 million in 2007 to US\$2.9 million in 2008 and decreased to US\$1.5 million in 2009. In the first half of 2010, net profit increased to US\$1.7 million from the US\$0.8 million (US\$0.6 million attributable to the group) in the first half of 2009.

IFRS Net Profit. On an IFRS basis, Headhunter's net profit attributable to the group would have been the same as the segment net profit attributable to the group reported in the segment financial statements in 2007. In 2008, Headhunter would have generated a net loss attributable to the group of US\$3.1 million, or US\$5.9 million less than the segment net profit attributable to the group of US\$2.9 million presented in our segment footnote. In 2009, Headhunter would have generated a net loss attributable to the group of US\$9.6 million, or US\$11.0 million less than the segment net profit attributable to the group of US\$1.5 million reported in our segment footnote. The principal IFRS adjustments in 2008 relate to charges resulting from amortisation of fair value adjustments to intangible assets and impairment of goodwill and other intangible assets recognised in business combinations (US\$4.4 million), certain revenue recognition adjustments (for US\$3.1 million) related to revenue deferral, and stock-based compensation expense of US\$1.0 million recorded under IFRS. These elements were partially offset by IFRS gain on derivative instruments of US\$2.6 million related to fair value adjustments recognised in connection with a put option with respect to Metajob, a partially owned subsidiary of Newton Rose. The principal difference in 2009 is the exclusion of the loss recognised upon the sale of All U Need which is excluded from the management accounts because All U Need was disposed of in 2009. In the first half of 2010, Headhunter would have generated a net profit attributable to the group of US\$1.5 million, or US\$0.2 million less than the segment net profit attributable to the group presented in our segment footnote.

Strategic Minority Investments

VK

Our VK segment includes the operations of VK.com and its subsidiaries, which operate the VK social networking site for the entire period presented in our financial statements, assuming we held a 100% interest.

Our IFRS financial statements do not consolidate VK, because we own only a 24.99% interest and account for VK under the equity method. We will continue to account for VK under the equity method

following the acquisition of an additional 7.5% interest in VK promptly following the closing of this Offering.

Revenues. VK generated no revenues in 2007, and generated revenues of US\$7.7 million in 2008 and US\$48.4 million in 2009. The increase in revenues from 2008 to 2009 was driven primarily by an increase in IVAS revenues following the launch of VK's open API in May 2009, and an increase in online advertising revenues driven by an increase in VK's user base. In the first half of 2010, VK's revenues increased to US\$40.1 million from the US\$12.2 million recorded in the first half of 2009. The increase was driven primarily by higher IVAS revenues mainly due to the launch of VK's open API in mid-2009. VK's segment revenues include commissions paid to SMS providers and shared with third-party developers using VK's API, and payments to such parties are shown as an operating expense in VK's segment financial statements, while for IFRS purposes revenues would be shown net of such expenses and such expenses would not be shown as operating expenses.

EBITDA. VK generated negative EBITDA of US\$0.7 million in 2007, and positive EBITDA of US\$2.1 million, or 27.7% of revenues, in 2008 and EBITDA of US\$18.4 million, or 38.0% of revenues, in 2009. VK generated US\$12.8 million in EBITDA in the first half of 2010 compared to US\$4.2 million in the first half of 2009.

Net Profit. Reflecting the increase in EBITDA noted above, VK's segment net profit increased from a net loss of US\$0.7 million in 2007 to net profit of US\$0.7 million in 2008 and US\$12.2 million in 2009, and increased from segment net profit of US\$2.5 million in the first half of 2009 to segment net profit of US\$7.4 million in the first half of 2010.

Net Profit under IFRS. On an IFRS basis, VK's net profit attributable to the group would have been the same as the segment net profit attributable to the group reported in the segment financial statements in each of 2007 and 2008. In 2009, net profit attributable to the group under IFRS would have been US\$9.0 million, or US\$3.3 million lower than the US\$12.2 million of segment net profit attributable to the group reported in our segment financial statements. The principal adjustment in 2009 was due to a difference in the timing of revenue recognition in respect of an advertising contract of VK. In the first half of 2010, VK's net profit attributable to the group under IFRS would have been US\$6.3 million, or US\$1.1 million less than the US\$7.4 million of segment net profit attributable to the group. The principal adjustment in the first half of 2010 related to revenue deferral.

QIWI

Our QIWI segment includes the operations of QIWI and its subsidiaries, which operate QIWI's payment processing business, assuming we held a 100% interest for all periods presented. Our IFRS financial statements do not consolidate QIWI, because we own only a 25.09% interest and account for QIWI under the equity method. QIWI is a commission-based business for which most of the gross revenues are offset by expenses. QIWI's financial statements record the revenues received in respect of its services on a gross basis before payment of commissions to agents, which are recorded under agent/partner fees.

Revenues. QIWI generated total revenues of US\$124.6 million in 2007, US\$186.0 million in 2008 (an increase of 49.3% compared to 2007) and US\$195.3 million in 2009 (an increase of 5.0%). The significant increase in payment processing revenues in 2008 was driven primarily by an increase in market share resulting from the acquisition of E-Port. The slower rate of growth in revenues in 2009 primarily reflects slower expansion of market share in 2009. The remainder of the revenue was generated primarily from other revenue including sales of payment terminals and fiscal modules and overdraft commissions charged to agents, and online advertising revenues generated from advertisements displayed on payment terminal screens. In the first half of 2010, QIWI generated segment revenues of US\$116.1 million compared to US\$84.1 million in the first half of 2009, an increase of 38.0%. The increase in the first half of 2010 mainly reflects a one-time effect of sales of special certified equipment for payment terminals required to bring the terminals in conformity with recent changes in the relevant Russian legislation.

EBITDA. QIWI generated EBITDA of US\$5.8 million in 2007 (4.7% of revenues), US\$13.3 million in 2008 (7.2% of revenues) and US\$22.5 million (11.5% of revenues) in 2009. The improvement in EBITDA margins over the three year period primarily reflects growth in expenses at a slower rate than growth in revenues. In the first half of 2010, QIWI generated EBITDA of US\$27.5 million (23.7% of revenues) compared to US\$10.4 million (12.4% of revenues) in the first half of 2009. The improvement as a percentage of revenues in the first half of 2010 was driven primarily by the one-time effect of sales of

special equipment for payment terminals, which encompass significantly higher margins than other operations of QIWI.

Net Profit. Reflecting the increase in EBITDA noted above, QIWI's net profit increased from US\$1.9 million in 2007 to US\$6.5 million in 2008, and then to US\$14.9 million in 2009, and increased from US\$6.8 million in the first half of 2009 (US\$7.0 million attributable to the group) to US\$20.4 million (US\$17.4 million attributable to the group) in the first half of 2010.

Net Profit under IFRS. On an IFRS basis, QIWI's net profit attributable to the group under IFRS would have been US\$0.7 million, US\$0.9 million and US\$14.4 million in 2007, 2008 and 2009, respectively. The differences between the segment net profit of QIWI attributable to the group reported in the segment financial statements and its net profit attributable to the group under IFRS are mainly explained by the effects of amortisation and impairment related to intangible assets recognised by QIWI in business combinations, including the merger with E-Port. In the first half of 2010, QIWI's net profit attributable to the group under IFRS would have been US\$14.4 million, or US\$3.0 million less than the segment net profit attributable to the group shown in our segment financial statements. The principal differences in the first half of 2010 relate to the effects of amortisation related to intangible assets recognised by QIWI in business combinations.

Forticom

Our Forticom segment includes the operations of Forticom other than OK. As part of the August 2010 transactions in which we gained control of OK, Forticom disposed of its main operations other than OK, and we subsequently merged the small remaining operations into OK. As a result, Forticom will cease to be reported as a separate segment in future periods and we have not included a detailed discussion of its historical segment results. See Note 5 to our financial statements for information concerning the historical segment net profit of this segment.

Liquidity and Capital Resources

Since our formation in 2005, and particularly since 2007, our primary use of cash has been for acquisitions. We have financed cash payments in connection with our acquisitions primarily through the issuance of equity, although in a few cases we have used the proceeds of sales of portions of our existing investments. Although we continually evaluate opportunities and may make further targeted strategic acquisitions in the future including our acquisition of an additional 7.5% interest in VK promptly following the closing of the Offering and our potential subsequent exercise of our option to acquire a further 7.5% interest in VK, we expect acquisitions to play a much less significant role in our strategy in future periods than they have since the beginning of 2007. We generally have not used debt financing for our acquisitions or operations, with the exception of bridge financing debt incurred in 2006 and 2007 that was subsequently repaid using the proceeds of an equity issuance and proceeds from sale of investments, and at the date hereof have no long-term debt outstanding.

Between December 2008 and August 2010, we acquired control of each of the companies that today comprise our core consolidated operations. These operations' principal uses of cash are for working capital and capital expenditures, which represent a relatively low percentage of revenues. Each of Mail and Headhunter have generated positive operating cash flow since 2009, allowing us to meet our working capital and capital expenditure requirements entirely through cash flow from operations in 2009 and the first half of 2010, and we expect OK and ICQ to contribute positively to our net cash flow from operations in the second half of 2010.

Sources of Funds

The Group has historically relied principally on the following sources of financing.

- *Cash on hand.* Cash and cash equivalents at December 31, 2007, 2008 and 2009 and June 30, 2010 totaled US\$49.4 million, US\$98.6 million, US\$147.9 million and US\$292.3 million, respectively. See Note 14 to the Consolidated Financial Statements. The significant amount of cash that we had as of June 30, 2010 was largely spent in acquisitions that occurred in the second half of 2010. The relevant transactions are described in more detail in Note 18 of our Unaudited Interim Financial Statements for the six months ended June 30, 2010. At 30 June 2010, OK had cash and cash equivalents on hand of US\$16.0 million.
- *Issuances of equity.* We have financed most of our acquisitions (and our operating cash flow requirements in 2007 and 2008) through issuances of equity. We raised net cash proceeds of

US\$50 million, US\$376.2 million, US\$186.7 million and US\$300.0 million in 2007, 2008, 2009 and the first half of 2010, respectively, from the issuance of common stock. In addition, a portion of our investment in Facebook in 2009 was financed through the issuance of Class C common stock and acquired on behalf of the holders of such shares. In August 2010, we transferred the underlying Facebook shares to the Class C holders in exchange for their Class C common stock, which was subsequently cancelled. The net proceeds of the issuance by us of new Ordinary Shares in this Offering will be used to fund a portion of the purchase price for the 7.5% additional stake of VK to be acquired promptly following the Offering. In addition we may under certain circumstances be able to settle a portion of the option price for the additional VK shares in the form of ordinary shares.

- *Cash flow from operating activities.* Our operations used net cash of US\$62.5 million and US\$33.2 million in 2007 and 2008, respectively. Since 2009, our core consolidated operations have been cash flow positive, and provided net cash of US\$23.6 million in 2009 and US\$19.6 million in the first half of 2010. This has allowed us to finance all of our working capital and capital expenditure requirements using operating cash flow in 2009 and the first half of 2010.
- *Long-term borrowings.* Although we have not relied heavily on debt financing for our operations, we incurred bridge loan financing in 2007 that was subsequently repaid in 2008 with the proceeds of an equity issuance. The Group had no consolidated long-term interest-bearing loans and borrowings outstanding at December 31, 2009 or 2008, and had US\$36.9 million outstanding at December 31, 2007. The 2007 bridge loan borrowing was made under a facility agreement for a secured loan in the amount of US\$37.6 million, secured by shares of Port.ru, and was repaid in full on July 18, 2008. See Note 28.7.5 to our Consolidated Financial Statements.

Uses of Cash

After the offering, we expect our principal uses of cash to consist of minor working capital requirements and capital expenditures.

Capital expenditures. We make capital expenditures principally to support growth in our user base including through the acquisition of additional servers. In 2009 and the first half of 2010, our capital expenditures on property and equipment and acquisitions of intangible assets amounted to US\$17.0 million and US\$15.6 million, respectively. These figures will be higher in future periods in light of our acquisition of OK (US\$1.9 million of capital expenditures in the first half of 2010) ICQ and Data Center.

Share buybacks. The Company's Board of Directors has resolved that upon the request of any shareholder holding (together with its Affiliates, as defined in our Articles of Association) not less than 25% of the total number of votes attaching to the issued and outstanding shares of the Company on October 25, 2010, the Company's Board of Directors shall, subject to the Board complying with any provisions of the BVI Business Companies Act, 2004 in connection with any purchase by the Company of its own shares, authorise the purchase by the Company (and the Company shall purchase) GDRs representing Ordinary Shares constituting not more than (in respect of each of the seven years starting from 2011 (inclusive)) 1.25% per year of the fully diluted share capital of the Company immediately following Admission. In the event a 25% shareholder exercises this right, we will be required to fund purchases of our GDRs in accordance with this provision. The amount of funds required to make such repurchases will depend on prevailing market prices at the time of purchase. The funding for such purchases will depend upon conditions prevailing at the time of the repurchase but is expected to be cash flow from operations. NMT and its affiliates and MIH each control in excess of 25% of the voting power of the Company, which will allow either of them to exercise this right.

In addition to our core cash flow needs described above, we continually evaluate opportunities and may make targeted acquisitions in the future in pursuit of our strategic objectives, using cash in whole or part to fund such acquisitions, depending on conditions prevailing at the time of the transaction. Depending on the size, structure and circumstances of a given transaction, financing sources for such transactions may include cash on hand, cash flow from operations, debt or equity financing, sales of investments or other financing sources. We have purchased an option to acquire an additional 7.5% of VK's shares exercisable for 365 days following Admission with possible extension as discussed above. We currently anticipate that we will use cash flow from operations and cash on hand for this purpose if we choose to exercise the option although the final form of any financing will be determined at the time of exercise.

Cash Flow Analysis

The following table summarises the Group's cash flows for the periods indicated.

(in millions of US\$)	Year ended December 31,			Six months ended June 30,	
	2007	2008 (audited)	2009	2009 (unaudited)	2010
Net cash provided by (used in) operating activities	(62.5)	(33.2)	23.6	3.0	19.6
Net cash used in investing activities	(60.7)	(257.1)	(301.5)	(205.6)	(172.2)
Net cash provided by financing activities	56.7	338.6	324.6	179.4	299.9
Effect of exchange differences on cash balances	0.5	0.9	2.6	2.9	(2.9)
Increase/(decrease) in cash and cash equivalents	(66.5)	48.3	46.7	(23.2)	147.2

Cash flow provided by (used in) operating activities

Our operating activities used net cash of US\$62.5 million and US\$33.2 million in 2007 and 2008, respectively. In 2009, our operations became cash flow positive and provided net cash of US\$23.6 million in 2009 and US\$19.6 in the first half of 2010.

Net cash used in investing activities

We used net cash of US\$60.7 million, US\$257.1 million and US\$301.5 million in 2007, 2008 and 2009 respectively for investing activities. In each of these years, the principal uses of cash were for acquisitions of interests in equity investees and available-for-sale investments. See “—Group Formation” above for a more detailed description of these transactions. Cash used in investing activities also includes capital expenditures to acquire property and equipment and intangible assets (2007: US\$1.4 million; 2008: nil; 2009: US\$17.0 million; first half of 2010: US\$15.6 million). In the first half of 2010 we used net cash of US\$172.2 million for investing activities. The principal uses of cash were for acquisitions of available-for-sale investments and the remaining stake in Data Center and capital expenditures to acquire property and equipment and intangible assets.

Net cash provided by financing activities

Our financing activities provided US\$56.7 million, US\$338.6 million and US\$324.6 million in 2007, 2008 and 2009, respectively. The principal sources of cash from financing activities during these three years were issuances of equity, which generated US\$50.0 million, US\$376.2 million and US\$186.7 million in 2007, 2008 and 2009, respectively, and issuance of Class C shares for US\$93.3 million in 2009. In 2007, we incurred bridge loan financing of US\$37.6 million that was repaid in 2008. The principal uses of cash for financing activities during the three-year period were for the repayment of loans and promissory notes (2007: US\$30 million; 2008: US\$37.6 million; 2009: US\$0.1 million), cash paid for treasury shares in 2009 (US\$20.6 million) and dividends paid by subsidiaries to non-controlling shareholders in 2009 in connection with the merger of Mail.ru and Astrum (US\$22.8 million). In the first half of 2010 our financing activities provided US\$299.9 million. The principal sources of cash in the first half of 2010 were issuances of equity, which generated US\$300.0 million. The principal uses of cash for financing activities in this period were US\$0.3 million of dividends paid by subsidiaries to non-controlling shareholders.

Impact of exchange rate variations

Exchange rate variations had an impact of US\$0.5 million, US\$0.9 million and US\$2.6 million in 2007, 2008 and 2009, respectively. In the first half of 2010, exchange rate variations had a negative impact of US\$2.9 million.

Restrictions on use of cash

Although we manage our cash on a consolidated basis and in some cases use excess cash flows from one segment of our business to finance opportunities in other segments, there are various tax and other considerations that may limit our ability to freely use cash generated in one jurisdiction to finance activities in another jurisdiction.

Off-Balance sheet arrangements

We have no significant off-balance sheet arrangements.

Critical accounting policies

The preparation of our financial statements under IFRS requires management to make estimates and assumptions that affect the amounts reported in our financial statements. Note 4 to our Consolidated Financial Statements summarises the most significant judgments involved in preparing our financial statements.

Market risk disclosure

See Note 29.6 to our Consolidated Financial Statements for a description of our exposure to foreign currency risk and equity price risk, including a sensitivity analysis showing the impact of specified changes in foreign exchange rates and variables affecting equity values.

INDUSTRY

1. Overview

Russia is one of the largest Internet markets in Europe with over 53.3 million Internet users. Combined with the Russian speakers in the former Soviet Union and other countries, the overall audience for Russian-language Internet is estimated to be between 250 and 300 million people. The Internet user base in Russia is projected by J'Son & Partners to grow to 93.2 million by 2013, at a compound annual growth rate ("CAGR") of 15.0%, significantly higher than the projected growth in the US (2.2%) and China (11.3%), and in line with the growth expected in India (16.0%)⁽¹⁾. The projected growth in Russian Internet users is driven by an expected increase in Internet penetration from 37.6% in 2009 to 67.1% in 2013 on the back of expected increases in PC and broadband Internet access penetration levels, especially in regions outside Moscow. The expansion of access to broadband Internet, cold climate and high popularity of social networks contribute to the increasing amount of time Russian users spend on the Internet as a means for communication and indoor entertainment. The average hours spent online per Internet user per month in Russia have increased from 15.0 in June 2009 to 22.5 in June 2010⁽²⁾.

A large and highly engaged audience provides significant opportunities for Internet companies to monetise this user base through online advertising, both display and contextual advertising, and IVAS such as MMO games and social games, and various paid social networking services, including virtual gifts and goods. Growth in Russian GDP, private consumption and Internet advertising budgets are expected to contribute to the projected growth of the Russian online advertising market from \$600 million in 2009 to \$1,620 million in 2013, implying a CAGR of 28.2%. Russian IVAS market is expected to grow from \$329 million in 2009 to \$1,604 million in 2013, at a CAGR of 48.7%, on the back of increasing purchasing power of the Russian population, rising Internet penetration and growing popularity of online games and paid social networking services⁽³⁾.

2. Russian Internet Market

Globally there are an estimated 250 to 300 million Russian speakers⁽⁴⁾ providing a significant potential market for Russian language Internet services. Russian is the fourth most spoken language globally⁽⁵⁾. Statistics from Rosstat (2010) indicate that 141.9 million of these Russian speakers resided in Russia as of 2009. Outside of Russia, Russian is the official second language in Kazakhstan and Belarus, and is widely used in Ukraine and other former Soviet Union countries such as Moldova, Uzbekistan, Tajikistan and Kyrgyzstan. Additionally, the language is spoken by Russian diasporas in other countries around the world.

Following a 16.7% CAGR between 2005 and 2009, the total number of Internet users in Russia reached 53.3 million in 2009, making it the second largest Internet market in Europe. The Internet user base is projected to further grow at a CAGR of 15.0% to reach 93.2 million in 2013⁽⁶⁾. This is more than seven times the growth rate expected in the US at 2.2%, higher than growth projections for China at 11.3% and in line with growth expected in India at 16.0%. The number of Internet page views in Russia has gone up from 32.6 billion in December 2007 to 86.7 billion in December 2009, implying a CAGR of 63%⁽⁷⁾.

(1) J'son & Partners (September 2010) for data on Russia; © 2010 Euromonitor International (August 2010) for data on US, India and China.

(2) comScore (August 2010).

(3) J'son & Partners (September 2010).

(4) Ethnologue by SIL International (2002) and George Weber's "The World's 10 Most Influential Languages" (1997).

(5) Weber's "The World's 10 Most Influential Languages" (1997); primary and secondary speakers.

(6) J'son & Partners (September 2010).

(7) comScore (May 2010).

Key Internet Statistics—Russia and Top 5 Global Markets by Number of Internet Users

	Russia	China	US	India	Japan	Brazil
No. of Internet users in 2009, million	53.3	375.3	227.2	119.1	92.4	87.6
Internet penetration in 2009 as % of population	37.6	28.3	74.1	10.2	72.4	45.2
Growth in number of Internet users (2005-09 CAGR), %	16.7	35.3	2.5	29.8	2.0	22.9
Projected growth in number of Internet users (2009-13 CAGR), %	15.0	11.3	2.2	16.0	1.3	7.8

Source: © 2010 Euromonitor International (August 2010), J'Son & Partners (September 2010) for Russian data (excl. 2005-2009 CAGR, from © 2010 Euromonitor International (August 2010))

Internet Page Views in Russia

	2007A	2008A	2009A
Total number of pages viewed in December, billion	32.6	61.5	86.7

Source: comScore (May 2010)

We believe the growth in Russian Internet users is driven by:

- **Socio-demographics characteristics**

The growth in Russian Internet use benefits from a number of cultural factors. The Russian population is well educated, with 28% of employed Russians having a higher education degree⁽⁸⁾ and willing to embrace technology as indicated by the level of PC penetration, which is at 39% of households in 2009⁽⁹⁾. Driving the preference for local Russian-language Internet services is a low 9% of the Russian population who speak English⁽¹⁰⁾. Additionally, we believe the cold climate in many parts of Russia may further support growth of the Internet as a popular means of indoor entertainment, especially during the winter months.

- **Projected Growth in PC-based Internet Penetration**

Growth in Internet penetration in Russia is enabled by a projected growth in levels of PC penetration as a percentage of households—from 39% penetration in 2009 to 53% in 2013, growing at a projected CAGR of 8.1% during this period⁽¹¹⁾.

- **Increasing Broadband Penetration**

Broadband Internet access significantly enhances the Internet user experience, enabling better access to online services and easier download of bandwidth-intensive content such as video, music, and games. The main contribution to Russian broadband penetration is expected to come from regions outside of Moscow, where broadband connectivity is limited, and users may be billed by time spent online or total inbound traffic. With 62% broadband penetration as a percentage of households in 2009 compared against 30% in Russia overall⁽¹²⁾, Moscow already has high broadband penetration. Broadband penetration outside of Moscow is projected to increase significantly from 26.3% in 2009 to 53.5% in 2013 as average price of a broadband connection decreases⁽¹³⁾; the average price of a 1 Mbps broadband connection outside Moscow currently ranges between RUB 320-1,465 vs. RUB 106 in Moscow⁽¹⁴⁾.

(8) Rosstat (2008).

(9) ScreenDigest (August 2010).

(10) Russian Census of 2002.

(11) ScreenDigest (August 2010).

(12) J'Son & Partners (September 2010).

(13) J'Son & Partners (September 2010).

(14) GroupM (September 2010).

Russian Internet Market

	2008A	2009A	2010E	2011E	2012E	2013E
Number of Internet Users in Russia, million . . .	44.3	53.3	64.4	76.3	84.6	93.2
Internet Penetration as % of Population	31.2%	37.6%	45.4%	54.6%	60.7%	67.1%

Source: J'Son & Partners (September 2010)

Fixed Broadband Internet Access Penetration in Moscow vs. Regions

	2008A	2009A	2010E	2011E	2012E	2013E
Broadband penetration in Moscow, % of households	60.6	62.0	67.8	75.4	80.3	83.5
Broadband penetration outside Moscow, % of households .	21.5	26.3	35.3	42.6	49.8	53.5

Source: J'Son & Partners (September 2010)

2009 Internet Penetration and Average Connection Price

	Moscow	North-western	Urals	Volga	Central Excl. Moscow	Far Eastern	Siberian	Southern
2009 Internet Penetration as % of population	64	51	38	35	33	33	32	30
Price/1 Mbps Connection, RUB	106	584	321	320	489	1,465	546	896

Source: GroupM (September 2010)

• Growth in Mobile Internet

Mobile Internet is widely used in Russia despite limited 3G availability. Wirelessintelligence (2009) forecasts that by October 2010 the three largest Russian mobile operators will have an estimated 11.0 million 3G users, or approximately 6.4% of their estimated total subscriber base, up from 4.2 million (approximately 2.5% of their total subscriber base) by October 2009. The sales of smartphones in Russia grew from 0.3 million units in 2004 to 4.4 million units in 2009⁽¹⁵⁾ and the total data traffic in Russian mobile networks exceeded 5,000 terabytes in 2008⁽¹⁶⁾. Mobile Internet is sometimes used as replacement for broadband in areas where the latter is not easily accessible.

• Promotion of Internet by the Russian Government

The Russian government has undertaken several measures to foster Internet usage in the country. The government announced in 2006 efforts to “modernise” Russia by promoting Internet usage widely. The comprehensive program is focused on providing broadband access in all Russian schools and is expected to familiarise children with the Internet at an early age. Furthermore, an e-government program is currently under way, focused on the provision of government services online.

2.1. Key Industry Players

The Internet industry in Russia is rapidly evolving with a large number of players offering communication, entertainment and other services. These offerings include social networks, instant messaging, online games, e-mail, search and e-commerce. Internet companies have been successful in attracting a significant amount of traffic in recent years.

The Russian Internet industry has a mix of local and international players that provide the Russian versions of successful international websites in order to attract a Russian-speaking audience. Such international players have had limited success so far in attracting a Russian-speaking audience base and

(15) MForum Analytics (July 2010).

(16) ComNews Review (April 2009).

have generally lagged behind local Russian Web sites. As of June 2010, four of the top five web sites in Russia by monthly unique visitors were provided by Russian companies.

Top Internet Companies in Russia (by monthly unique Russian visitors)

	June 2009	June 2010
Yandex	18,050	33,535
Mail.ru Group ⁽¹⁾	23,353	33,212
VK	15,875	30,989
Google	16,299	28,914
RBC	6,862	19,234

Source: comScore (June 2010)

(1) Mail.ru Group Limited includes Mail.Ru sites, OK, ICQ and Headhunter. Mail.ru Group data is net of duplications (see “Presentation of Financial and Other Information—Presentation of Third Party Statistical Information”).

2.2. Rising Online Usage and Engagement Driven by Social Networks

As the number of Internet users grows, they are also spending more time on the Internet. Between June 2009 and June 2010 in Russia, Internet usage has increased by approximately 50%, with the average hours per visitor increasing from 15.0 to 22.5 per month, and average page views per visitor increasing from 2,128 to 3,154 per month.

With improving online experience, user engagement, based on the percentage of monthly Internet users who visit web pages every day, has increased significantly from 39.9% in June 2009 to 49.9% in June 2010.

Internet Usage in Russia

	June 2009	June 2010	Year-on-Year Growth. %
Average hours per Internet user per month	15.0	22.5	50%
Average page views per Internet user per month	2,128	3,154	48%
Ratio of daily Internet users to monthly Internet users, %	39.9	49.9	25%

Source: comScore (June 2010)

Daily Time Spent Online in Russia

	% of Daily Internet Users
Less than 1 hour	2.1%
Between 1-2 hours	19.3%
Between 3-4 hours	25.6%
Between 4-6 hours	20.1%
More than 6 hours	28.8%
No answer	4.1%

Source: GroupM (September 2010)

We believe a key factor driving higher Internet usage and user engagement is the emergence of social networks as the hub for communication and entertainment over the Internet, with over 940 million Internet users globally visiting a social networking site in July 2010, up from 770 million Internet users in July 2009⁽¹⁷⁾. Social networks provide online forums for social interaction, interactive games, storing profile information, and also serve as platforms for a broad range of additional services such as sharing photos and playing online games.

Social networks have become an important communication channel between individuals, with 72.5% of all Internet users globally having visited a social networking site in May 2010, each spending an average of 4.7 hours per month⁽¹⁸⁾. The high usage of social networks and “stickiness” of its audience allows

(17) comScore (August 2010).

(18) comScore (May 2010).

advertisers to reach a large audience as well as target individual users, and allows Internet companies to offer attractive services for users.

In Russia, social networks emerged in 2006 and have attracted millions of users to date. There were 35 million unique visitors on Russian social networks in July 2010, showing a growth of 74% as compared to the year before and making Russia the fastest growing market for social networks globally⁽¹⁹⁾. Benefiting from the preference of local users for Russian language services, Russian social networks have gained a significant portion of Internet traffic, with the top three most-visited social networks⁽²⁰⁾ in Russia capturing 49% of total page views for all websites in Russia in June 2010 as compared to 38% in June 2009⁽²¹⁾.

Russia has the most engaged social networking audience in the world, with visitors spending an average of 6.6 hours and viewing 1,307 pages per month in May 2009. User engagement of the social networking audience in Russia has increased since then, with visitors spending an average of 10.8 hours in July 2010 on social networking websites⁽²²⁾.

Top 10 Highest Engagement Social Networking Country Audiences (May 2009)

Country	Average Hours per Visitor per month	Average Pages per Visitor per month
Worldwide	3.7	525
Russia	6.6	1,307
Brazil	6.3	1,220
Canada	5.6	649
Puerto Rico	5.3	587
Spain	5.3	968
Finland	4.7	919
United Kingdom	4.6	487
Germany	4.5	793
United States	4.2	477
Colombia	4.1	473

Source: comScore (July 2009)

We believe a number of features make the business model of social networks attractive:

- User engagement is high. Monthly-to-daily audience ratio⁽²³⁾ is 50% for VK and 35% for OK⁽²⁴⁾. This implies that on average users log on to these social networks sites every two to three days.
- Users generally exhibit a willingness to pay. Over 10% of the active instant messaging users of Tencent, the Chinese Internet company, paid for IVAS as of June 2010⁽²⁵⁾.
- Successful social networks provide open platforms that are accessible to a wide range of developers via open application programming interfaces (“APIs”) allowing for revenue sharing on third-party applications. Facebook is currently hosting 550,000 third party applications⁽²⁶⁾. Social networks typically share revenues from paid services with developers of those applications.

3. Online Advertising Market

The Russian online advertising market, estimated at US\$600 million in 2009, has increased significantly in recent years, at a CAGR of 30% between 2005 and 2008 before a sharp contraction of 15.3% in 2009 in US Dollar terms. However, in rouble terms, the online advertising market grew by 8.2%

(19) comScore (August 2010).

(20) VK, My World and OK.

(21) comScore (August 2010).

(22) comScore (August 2010).

(23) Using weighted average estimate of daily reach; Russian audience only.

(24) TNS Web Index (July 2010).

(25) Tencent Fact Sheet (Q2 2010).

(26) Facebook (July 2010).

in 2009 and 31.8% in the first half of 2010. The online advertising market is projected to grow at a CAGR of 28.2% from 2009-13⁽²⁷⁾. The growth is expected to be driven by:

- Structural shift to online advertising: the share of online advertising in the overall advertising mix in Russia has grown from 2.0% in 2005 to 9.3% in 2009, which is still considerably lower than 13.7% in the US or 27.2% in the UK⁽²⁸⁾. Led by the growth of Internet penetration and the growing time spent online by the Russian population, the share of online advertising in Russia is expected to increase to 14.4% by 2013.
- Growth in the Russian advertising market: the ad spend per capita in Russia in 2009 at \$45 is also still low compared to US\$484 in the US or US\$272 in the UK⁽²⁹⁾. The Russian advertising market is projected to grow at a fast pace, as ad spending in Russia converges to that of Western countries. Russian advertising market is expected to increase to US\$11.2 billion by 2013, growing at a CAGR of 14.9% from 2009-13.
- Favourable economic factors: Russia's real GDP is expected to grow at a CAGR of 4.1% from 2009-15⁽³⁰⁾. Amidst a growing economy, the Russian population enjoys high levels of disposable income as a proportion of total income, which is a key catalyst to stimulating private consumption. Between January and March 2010, the average monthly income per capita in Russia amounted to US\$517⁽³¹⁾. Due to a flat 13% income tax rate, historically low savings rate, low private debt levels, and absence of rental or mortgage payments for many Russians, a high share of Russians' gross income is classified as disposable income. Share of disposable income as a percentage of gross income per capita in Russia was 82% in 2009, higher than Western countries including the UK (67%), Germany (74%) and the US (78%)⁽³²⁾. We believe these factors make Russians an attractive audience to advertisers.

Online Advertising Market in Russia

	2007A	2008A	2009A	2010E	2011E	2012E	2013E
Total advertising market, \$ million	9,200	11,150	6,435	7,485	8,650	9,915	11,220
Ad spend per capita, \$	64.7	78.5	45.3	52.8	61.1	70.2	79.6
Online advertising market, \$ million	497	708	600	810	1,030	1,305	1,620
Share of online advertising, %	5.4	6.3	9.3	10.8	11.9	13.2	14.4
Display advertising market, \$ million	223	298	244	315	405	510	630
Contextual advertising market, \$ million	274	410	356	495	625	795	990

Source: GroupM (September 2010), Euromonitor from trade sources/national statistics (August 2010)

Online advertising has two key components—*display advertising* and *contextual advertising*.

Display advertising is the traditional form of online advertising involving graphical ads (often in the form of banners) appearing on Web pages. Driven by the migration of advertising dollars online, display advertising market grew at a CAGR of 70.6% from 2005-08. Even in 2009, the market grew at 4.1% in rouble terms. Display advertising is projected to continue taking share from traditional media growing at a CAGR of 26.8% from 2009-13. The growth is expected to be driven by:

- Online migration of audience combined with low cost per thousand of online advertising that is comparable to traditional brand building media such as TV⁽³³⁾;
- Large daily reach of leading web properties appeals to advertisers interested in brand building;
- Behavioural targeting and measurement capabilities offered by online media; and
- Growth from new forms of display advertising such as rich media, video and sponsorships.

(27) GroupM (September 2010) for all data on advertising and online advertising market in Russia in this section (presented gross of VAT).

(28) Zenith Optimedia (July 2010).

(29) Advertising expenditure based on Zenith Optimedia (July 2010); Population estimates for 2009 based on © 2010 Euromonitor International (September 2010) for US and UK, and based on Rosstat (2010) for Russia.

(30) IMF (April 2010).

(31) Rosstat (September 2010); assuming USD/RUB exchange rate of 30.86.

(32) © 2010 Euromonitor International (September 2010).

(33) GroupM (September 2010).

Contextual advertising automates the planning of advertising placement by dynamically choosing ads to display based on the keywords present on the page that the user is viewing. Contextual advertising is particularly popular with search engines that display ads based on keywords in a user's query. Contextual advertising has been a big beneficiary of the growth in Internet users and online advertising budgets and grew at a CAGR of 117.2% from 2005-08, with a 11% growth in rouble terms in 2009. Contextual advertising is projected to continue gaining share of overall online advertising and grow at a CAGR of 29.1% from 2009-13. Growth in contextual advertising market is expected to be driven by:

- The ability to target the audience precisely allows businesses with relatively small advertising budgets to advertise online, thus widening the market for online advertising;
- Performance based nature of contextual advertising provides a better return on investment to advertisers; and
- Regional expansion of Internet penetration in Russia will attract more local advertisers to online advertising.

IVAS Market

In Russia, IVAS has emerged as an important monetisation driver for Internet companies along with online advertising. Examples of IVAS include virtual goods purchased within online games, and premium features for other services, such as invisibility status for visiting the pages of other users. IVAS can be grouped into two key categories: MMO Games and Community IVAS. The Russian IVAS market is expected to grow from \$329 million in 2009 to \$1,604 million in 2013, implying a CAGR of 49%.

IVAS Market in Russia

	2008A	2009A	2010E	2011E	2012E	2013E
MMO games revenue, \$ million	134	223	351	464	562	637
Community IVAS revenue, \$ million	6	105	309	526	740	968
Total	140	329	660	990	1,302	1,604

Source: J'Son & Partners (September 2010)

MMO Games

MMO games offer a large number of players the opportunity to interact with each other in a virtual game world. While MMO games are increasing in popularity they are often characterised by a steep learning curve that makes them less accessible to inexperienced or insufficiently committed users. These games are offered as either *Client games* installed on the users' PC or *Browser games* accessible via any Internet browser.

MMO games typically have a free-to-play revenue model in which basic game play is free of charge, but users can purchase in-game enhancements, typically by SMS or via online payment systems. MMO games typically generate a higher average revenue per paying user ("ARPPU") than other game types and also have a long life cycle, but are also relatively more expensive and take longer to develop than other types of games. The development of a new MMO title can cost as much as \$10 million or more for a highly rated game that can compete globally⁽³⁴⁾.

The number of users willing to purchase in-game enhancements in MMO games ("paying MMO game players") in Russia in 2009 was approximately 647,000, implying 28.7% of all MMO game players in Russia, and projected to reach 1,885,000 by 2013 or 35.4% of all MMO game players in Russia. MMO games revenues, which currently constitute the bulk of online games revenues in Russia, were estimated to be \$223 million in 2009 and are projected to reach \$637 million by 2013, implying a CAGR of 30%.

(34) International Game Developers Association (2002).

MMO Games Market in Russia

	2008A	2009A	2010E	2011E	2012E	2013E
Client games users, million	1.5	2.0	2.5	2.8	3.1	3.4
Browser games users, million	1.0	1.4	1.6	1.9	2.1	2.3
Share of paying players among MMO game players						
users, %	19.5	28.7	31.7	33.4	34.6	35.4
Monthly ARPPU, \$	38.2	31.4	31.4	31.1	30.6	29.5
Client games revenue, \$ million	81	134	210	278	337	382
Browser games revenue, \$ million	54	89	140	186	225	255

Source: J'Son & Partners (September 2010)

Community IVAS

Community IVAS encompasses the market for value added services within the social networking environment, which includes social games as well as other paid services such as virtual gifts and avatars.

Social games are distinctly different from MMO games: hosted within a social network environment, these are less sophisticated games that users may casually play without a strong commitment, while enjoying interaction and/or competing against their social network contacts. Social games target a broad audience and are easily accessible and engaging, but are less likely to capture a user's attention over longer periods of time. Social games are typically less expensive and faster to develop than MMO games. The typical budgets for online social games are between \$100,000 and \$500,000⁽³⁵⁾. Social games market is expected to grow from \$28 million in 2009 to \$316 million in 2013, at a CAGR of 83.0%.

The paid services market encompasses user payments for additional content and features on a social network. Some of the most popular paid services enable users to limit the information shared about their profile, send virtual gifts to their friends, and enhance their profile with additional graphical images. Paid services market is expected to grow from \$77 million in 2009 to \$652 million in 2013, at a CAGR of 70.6%.

The number of social networks users in Russia in 2009 was 31 million and is expected to reach 65 million by 2013 at a CAGR of 20.5%. Community IVAS revenues in Russia were estimated to be \$105 million in 2009 and are expected to reach \$968 million by 2013, implying a CAGR of 74.2%.

Community IVAS Market in Russia

	2008A	2009A	2010E	2011E	2012E	2013E
Number of social networks users, million	22.5	31.0	37.5	49.7	58.3	65.3
Share of paying social game players among social						
networks users, %	—	6.0	7.6	9.3	10.2	11.6
Share of paid services users among social networks						
users, %	—	8.5	12.0	16.1	18.4	20.3
Monthly social games ARPPU, \$	—	2.9	3.1	3.3	3.5	3.7
Monthly paid services ARPPU, \$	0.5	2.8	4.3	4.3	4.3	4.3
Paid services revenue, \$ million	6	77	212	366	509	652
Social games revenue, \$ million	—	28	97	160	231	316

Source: J'Son & Partners (September 2010)

4. Electronic Payments

Electronic payment infrastructure is critical for the development of Internet businesses, as it provides a way for users' money to enter the online economy, facilitating monetisation of IVAS. Availability, convenience and cost-effectiveness of payment methods directly affect users' willingness to pay for IVAS.

Despite the increase of debit and credit cards throughout the Russian community, cash remains the payment method of choice; payment cards were used for only 3.8% of retail purchases of goods and services in 2009⁽³⁶⁾. The low number of retail purchases paid for through payment cards in Russia may be attributed to the lack of consumer education and inadequate card acquiring infrastructure.

(35) The Casual Games Association, Website accessed in August 2010.

(36) The Central Bank of Russia (2010).

Online card transactions in Russia are partially substituted for by various electronic money solutions. The most popular of these are SMS-based billing systems that are managed by the telecommunications operators. These solutions have helped increase consumers' propensity to use electronic payment systems, as well as establish trust in the security of such transactions.

The majority of payments on social networks are currently conducted through SMS, though this system allows for a share of the payment amount to be captured by the telecommunications operators. Alternative money solutions that rely on networks of payment terminals installed in convenient locations provide an attractive solution for content providers, as the content providers can typically keep a higher share of the payments. The terminals may also be used for topping up mobile phones, making utility payments, and money transfers. The top three operators of payment terminals in Russia combined had over 600,000 terminals and a turnover (total volume of payments processed) of approximately \$15 billion in 2009⁽³⁷⁾.

(37) Statistics published on the websites of OSMP, Eleksnet and Cyberplat.

BUSINESS

We are the largest Internet company in the Russian-speaking world and one of the largest Internet companies in Russia based on global monthly unique users, and the world's seventh largest Internet business globally based on page views. Since our formation in 2005, and particularly since the end of 2008, we have moved rapidly to build an integrated communication and entertainment platform that allows us to attract and monetise one of Russia's largest daily Internet audiences. We operate two of the three largest Russian-language online social networking sites and own a strategic minority equity stake in the third, and operate the two largest IM networks in Russia, Russia's leading email service, Russia's second largest Internet portal based on daily and monthly unique users and Russia's largest online games company.

Our integrated communication and entertainment platform attracts millions of Russian-speaking users each day, offering us a significant base for launching new services designed to further increase user engagement. We leverage our large daily user base to generate revenues from display and contextual advertising, as well as from user payments for a range of IVAS including online games, virtual gifts and other services.

We offer a rich suite of communication tools and IVAS that promote user engagement, including:

- **Online Social Networking Sites.** We operate two of the largest Russian-language social networking sites—OK and My World. OK is Russia's second largest social networking site based on daily unique users (and the third largest based on monthly unique users after our My World social network). We made our first minority investment in OK in 2007, and in August 2010, acquired control of 100% of the company. We also operate My World, which has leveraged its association with our IM, email and portal services since its launch in 2007 to become Russia's third largest social networking site based on daily unique users.
- **Instant Messaging.** We operate two IM networks—Agent and ICQ. Agent, launched in 2003, is Russia's largest IM network based on monthly unique users. ICQ, which we acquired in July 2010, is Russia's second largest IM network based on monthly unique users. ICQ is one of the leading providers of IM services in Germany and Ukraine, and is also a significant provider in Israel, the Czech Republic and Slovakia.
- **Email and other Communication Tools.** We are Russia's largest email provider, based on monthly unique users. We also offer users a suite of other communication tools, including photo sharing, video sharing, blogs and online dating services.
- **Online Games.** We are Russia's leading online games company based on monthly active users, with a focus on MMO games and online social networking games that we integrate with our social networking sites and portals. Our MMO portfolio includes 34 games as of July 2010, including popular internally developed hits such as Allods Online and Legend: Legacy of the Dragons, as well as Russian versions of games licensed from third parties, including Perfect World. We derive revenue from these games primarily through a free-to-play revenue model with users paying for in-game enhancements. In the first half of 2010, our top three MMO games had, in the aggregate, an average of 435,000 monthly active users and 103,000 monthly paying users, and the average total monthly paying users in the aggregate for all of our MMO games was 167,000. In the first half of 2010⁽¹⁾, the total average monthly active users for our social games in the aggregate was 19.1 million and the average number of monthly paying users was 564,000 for the first half of 2010.
- **Mail.ru portal, Vertical sites and Search.** Our Mail.ru portal is Russia's second largest website, based on monthly unique users in Russia. Mail.ru is an online destination that attracts millions of Russian-speaking users each day, allowing them to access the range of services we offer, including our thematic vertical sites that are monetised through display advertising and a search engine that generates revenues through context-based advertising. Our Headhunter online recruitment service is Russia's largest online recruiting services provider, and monetises its services primarily through subscription fees.

In addition to these services, which we offer through our consolidated subsidiaries, we hold strategic equity stakes in each of VK and QIWI.

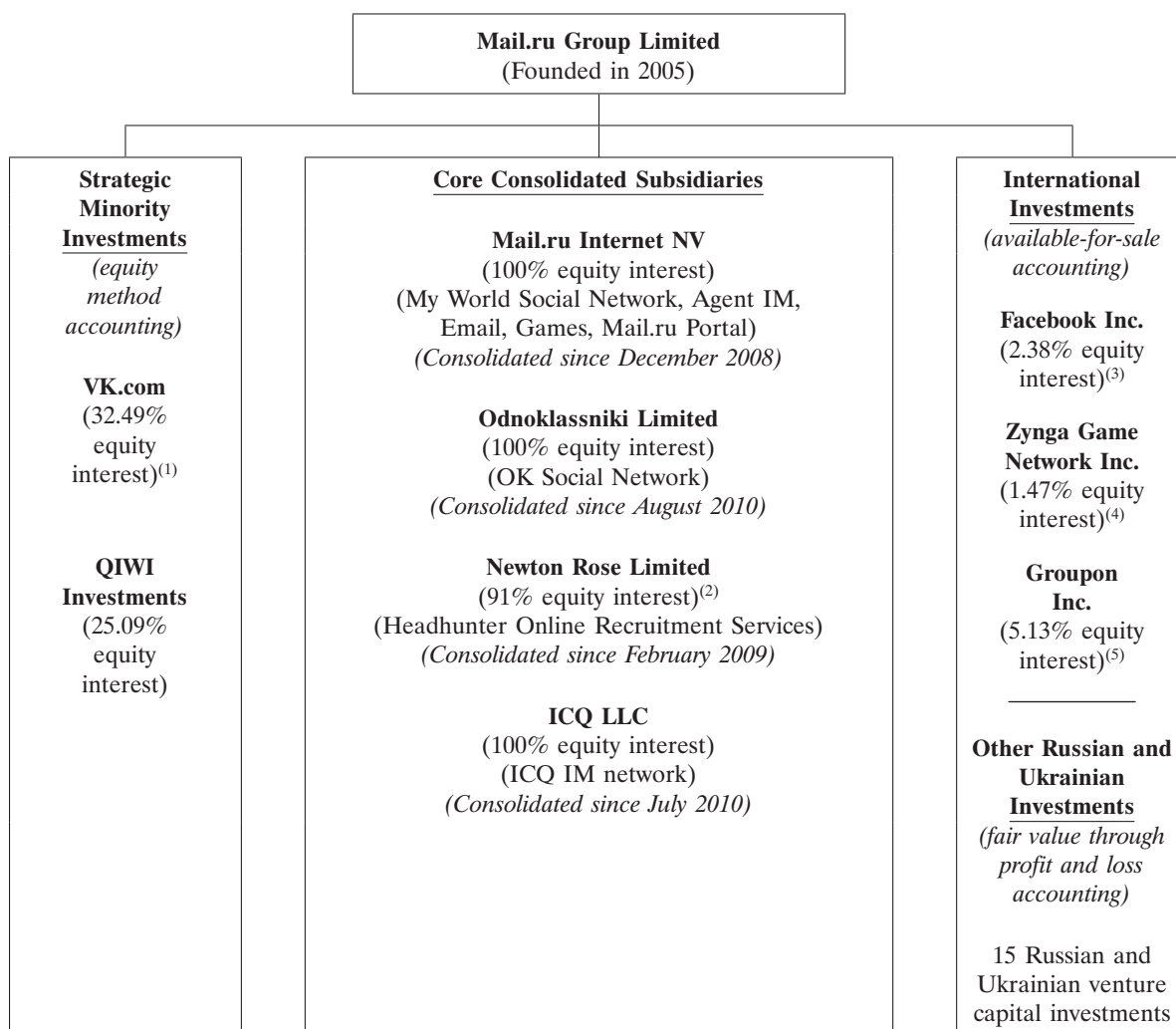
(1) The total average monthly active users for social games is compiled based on data from February to July 2010 only because there is no data available for January 2010.

- **VK** (in which we currently hold a 24.99% stake) is Russia's largest social networking site based on daily unique users. We have agreed to acquire an additional 7.5% interest in VK on a fully diluted basis promptly following the closing of this Offering, and have purchased an option to acquire an additional 7.5% interest in VK on a fully diluted basis exercisable at any time within 365 days from the closing date for the first 7.5% tranche subject to applicable extensions.
- **QIWI** (in which we hold a 25.09% stake) is one of Russia's leading payment-processing companies, with a network of over 180,000 POS payment terminals.

We also hold small minority stakes in the international Internet companies Facebook, Zynga and Groupon, and a number of small venture capital investments in Russia and Ukraine.

Group Structure

The following simplified structure chart summarises the principal entities that make up the core of our consolidated operations at the date of this Offering, including the dates of consolidation, as well as our strategic minority investments, international investments and other Russian and Ukrainian investments.



(1) Assumes acquisition of an additional 7.5% fully diluted stake in VK promptly following the closing of this Offering, which will bring our existing 24.99% stake to 32.49% (see "Management's Discussion of Financial Condition and Results of Operation—Acquisition of additional shares in VK").

(2) Actual holdings.

(3) Fully diluted.

(4) Fully diluted.

(5) Fully diluted.

Our Key Strengths

We believe we benefit from the following key strengths:

- ***The largest Internet company in the high growth Russian-speaking Internet markets.*** We are the largest Internet company in the Russian-speaking world, and one of the largest Internet companies in Russia based on monthly unique users. We are the world's seventh largest Internet business globally based on page views. We own and operate two of the four largest Internet websites in Russia based on monthly unique users, and have a strategic minority interest in a third. In Russia, our Mail.ru site reaches approximately 70% of Russian Internet users on a monthly basis⁽¹⁾. In our core Russian markets, the Internet user base is projected by J'Son & Partners to grow to 93.2 million in 2013, at a compound annual growth rate ("CAGR") of 15.0%. In addition to our audience in Russia, we have a strong position in other markets with a substantial Russian-speaking audience, such as Ukraine and Kazakhstan. As of July 2010, based on data provided by comScore, our websites attracted an aggregate audience, net of duplicates, of 68.4 million monthly unique users worldwide while our nearest Russian-language competitor attracted 48.8 million monthly unique users worldwide.
- ***An integrated communication and entertainment platform that enhances the stickiness of our sites.*** Our broad platform of communication and entertainment services combines two of the leading Russian language social networking sites with Russia's two largest IM networks and Russia's leading email service. We believe that by integrating our IM, email and other communication services with our My World social network and allowing users to access these services with a single log-in, we significantly enhance the user experience by making it easier for users to find and interact with their friends including by using photos, videos, blogs and other textures. We believe helping users establish as many connections as possible on our social networks is the key to the "stickiness" of our sites. Once a user has an established group of friends using our network, the desire to connect with those friends helps encourage them to return more often and spend more time on our sites, and also makes the network more "robust and sustainable" because it can be difficult to persuade an entire community of friends to move to a different network. We believe My World also benefits significantly from its association with our Mail.ru portal, Russia's leading entertainment and communication site, with over 24 million monthly unique users and 11 million daily unique users as of June 2010, by leveraging Mail.ru's reach to attract new users.
- ***A highly engaged user base.*** We believe the range of opportunities to connect with other people that our communication and entertainment platform provides, together with the content we offer, including online games, music, video and entertainment, encourages users to visit our sites more often and spend more time on our sites when they visit. As of June 2010, our ratio of daily to monthly unique visitors was 47% for Mail.ru and 35% for OK, showing that a large proportion of our monthly users return to visit our sites every day.
- ***A proven monetisation model.*** We have proven our ability to monetise the large daily and monthly audience generated by our sites through both online advertising and IVAS. We generate online advertising revenue from display and contextual advertising, which we sell through our own direct sales force in both Moscow and other regions of Russia, as well through advertising agencies and online advertising networks with whom we have strong established relationships. We believe the large daily and monthly audience generated by our communications and entertainment platform offers attractive opportunities to cross-sell the existing services and to introduce new services and help them rapidly reach scale. We generate IVAS revenues from MMO games targeted at "hardcore" gamers as well as from social games, online gifts and other features designed to appeal to our broader social networking audience. Average monthly paying users for IVAS grew to 1.1 million for our Mail.ru segment⁽²⁾ and 1.0 million for our OK segment in the first half of 2010. Of our Mail.ru segment's total user base, 3.3% were paying users in the first half of 2010 and of OK's total user base, 4.2% were paying users in the first half of 2010, in each case based on the estimated global monthly unique user base⁽³⁾.

(1) TNS Web Index (July 2010).

(2) The Mail.ru segment's monthly paying users include paying users for Astrum social games distributed on third-party social networks, including OK and VK.

(3) The denominator for both of these calculations consists of estimated global unique users calculated by multiplying Russian monthly unique user data provided by TNS by a fraction that takes into account the proportion of non-Russian users shown by liveinternet.ru statistics. This also reflects the effect of double counting for certain paying users as explained in "Presentation of Financial and Other Information—Certain Definitions".

- ***A technology and product-driven culture*** We benefit from a demonstrated scalable IT infrastructure and an in-house team of over 460 developers with strong product development capabilities (including for MMO and social games) as well as expertise in addressing the technical challenges involved in integrating IM, email and social networking services. We place a premium on engineering talent, and have recruited engineers from many of the top engineering universities in Russia and believe our reputation as a technology driven culture and training opportunities we offer enhance our attractiveness to top engineering students. In expanding our IT infrastructure, we benefit from the added flexibility of owning our own data centre with 5 petabytes of storage while maintaining strong relationships with third-party server hosting providers.
- ***An attractive portfolio of Russian and international investments.*** Our Russian investments include strategic 24.99% interests in VK, Russia's leading social networking site, and a strategic 25.09% stake in QIWI, one of the leading providers of payment processing services in Russia. Our international portfolio includes minority stakes in leading providers of social networking, online games and group discounts. We hold a 2.38% equity stake on a fully diluted basis in Facebook, which has grown since its launch in February 2004 to become the world's largest social networking site, with over 500 million active users, a 1.47% equity stake in Zynga, one of the world's largest social gaming businesses and a 5.13% equity stake in Groupon, a leading provider of online group discounts. In addition to potential financial returns, we believe these investments offer us attractive opportunities to share knowledge and gain insight into global market trends.
- ***An experienced management team with strong industry relationships and a proven track record.*** We benefit from the experience and knowledge of our management team. Most of our key operational managers have been running our Mail.ru business for over ten years, which we believe has allowed them to accumulate valuable experience and knowledge from managing and growing our platform of Internet sites and communication services. We believe our market position and historical growth demonstrates a track record of identifying and seizing growth opportunities in the rapidly evolving Internet environment. Our management also has proven operational integration capabilities, as demonstrated by the successful integration of acquired businesses such as Astrum. We also benefit from our relationships with our major shareholders, including Tencent, China's leading IM and social networking provider, which operates in similar market segments in China and invested US\$300 million in our Group in 2010 and Naspers Group, a leading South African Internet investor and media group.

Strategy

Our principal strategic goals are to:

- ***Cultivate the social experience for our users to drive engagement and increase stickiness.***
 - To help users rapidly build out their web of online relationships, or "social graph," and expand the average number of friends per user on our platform, we will continue to enhance our friend finder tools and similar applications by leveraging users' IM and email contacts. We will focus on "sticky" services that encourage users to build a community of contacts or friends that is difficult to migrate to other networks. At the same time, to facilitate integration of the Group's IM platforms and social networks, we will introduce peering to allow users of our different social networks and IM networks to communicate freely with one another without having to switch platforms.
 - We intend to unify our communications products by integrating our IM services, social networking sites and email and mobile applications. To encourage interaction among users, we will offer multiple ways to share news through news feeds and real-time status updates. We believe this can help us convert an increasing percentage of our large monthly audience into daily users.
 - To create and offer compelling and entertaining social content that encourages users to spend more time on our platform, we intend to:
 - Develop a pipeline of social games and other applications and services designed to attract a broad base of users seeking a casual and collaborative online social experience.
 - Develop and license MMO games aimed at "hardcore" gamers who enjoy challenging their friends and others in online role-playing games.

- Enhance the ability of users to find and access music, photo and video content (including user-generated content) by offering premium streaming services connected to social recommendation tools that help users find entertaining content.
- ***Leverage our large user base and exceptional reach to drive monetisation.***
 - Leverage our wide reach and attractive user demographics to drive advertising revenue. To capitalise on the opportunity presented by the structural growth in the Russian Internet, the increasing percentage of advertising budgets spent on online advertising and favourable trends in overall advertising spending in Russia, we intend to maintain our high market share in user base, online traffic and page views, and to shift new advertisers to online media with innovative and customised marketing campaigns.
 - Create innovative advertising campaigns that leverage our social networks, including campaigns that offer users opportunities to send friends virtual gifts sponsored by advertisers.
 - Explore opportunities to incentivise users to transition from traditional SMS payment systems to online payment methods that allow us to retain a higher percentage of user payments for our IVAS.
 - Expand our presence in underpenetrated Russian regions and other markets in the former Soviet Union by establishing local sales offices and creating products and services to monetise our user base in these growing markets.
 - Capture a greater share of search revenue by leveraging our website traffic and continuing to enhance the relevance of our search results. We will also continue to explore opportunities to introduce social search features that leverage the power of our social networks by helping users find information and make decisions based on the experience of their friends.
 - Develop and launch new and innovative IVAS.
- ***Launch new products that scale when integrated into our communication and entertainment platform.***
 - Develop new mobile applications to capture a greater share of the growing number of users that access social networks and communication tools through smart phones and other mobile devices.
 - Explore opportunities to expand into new verticals such as e-commerce or e-payments that leverage the distribution capabilities of our platform and the social connectivity of our audience.
 - Integrate our existing and recently acquired businesses and new products.

Our Products and Services

Our communications and entertainment platform attracts millions of users each day, offering us an attractive base for launching new services with the aim of increasing user engagement and helping further monetise our audience.

Communication tools such as email, IM and online social networking sites, which help users communicate with other members of their social network, form the core of our communications and entertainment platform. We believe that the desire of users to stay connected with their online friends through email, instant messages, web postings and status updates helps motivate users to visit our sites, and to visit them often. When users visit our sites, we seek to enhance their engagement, increasing the time they spend on our sites, by offering them IVAS such as online games and virtual gifts, and content through our thematic vertical sites.

Online Social Networking Websites

We operate two of Russia's leading online social networking websites—OK and My World.

Our social networking services help users find, communicate and stay connected with their friends, classmates, family and co-workers. Users begin by creating personal profiles, including their photos, information about schools and universities attended, current location, age, marital or relationship status, lists of interests and other personal data. They then search other users' profiles to find and establish contact with other friends using the network. Our online social networking sites include tools to help users

communicate and connect with their friends, including messaging services, status updates, photo sharing and other tools. Users can play online games together, send each other online gifts, recommend websites and keep track of birthdays, as well as make use of a number of other services and tools. We seek to continuously add new products and services to maintain and increase user engagement. To make it easier for users to visit our social networking sites and communicate with their friends while on-the-go, we also offer versions of our sites that have been optimised for mobile devices.

We launched My World in 2007. We were an early investor in OK, acquiring our initial minority interest in 2007, and acquired control of and began consolidating OK with a 100% stake in August 2010.

We are actively exploring ways to leverage the OK acquisition to increase user engagement on the OK and My World networks, including by introducing peering to allow OK users to access their friends on the My World network and vice versa without leaving their current network. We are also exploring opportunities to improve OK's cost structure by allowing it to leverage our Group's programming and server hosting resources.

OK

Launched in 2006, OK is Russia's second largest social networking site based on daily unique users. We made our first investment in OK in 2007, acquiring a 33% effective interest, and acquired control of the company with a 100% stake in August 2010. OK was one of the first Russian-language online social networking sites, and provides online Russian-language social networking services to users in Russia, and other countries in the former Soviet Union and elsewhere. According to data from www.liveinternet.ru, in the first six months of 2010, approximately 36% of OK's daily unique users were from outside Russia.

The following table summarises certain statistics for the OK social network for the periods indicated.

Odnoklassniki

(data are provided on a global basis unless otherwise indicated)

	June 2009	June 2010
Average Daily Unique Users (Russia)	4.7 million (First half of 2009)	5.6 million (First half of 2010)
Average Monthly Unique Users (Russia)	12.8 million (First half of 2009)	15.3 million (First half of 2010)
Average number of friends per user	20	30
Total new friendships per month	43.8 million	75.6 million
Total new photos per month	40.2 million	71.8 million
Average messages sent per month	0.9 billion	1.9 billion
Number of applications available on API	N/A	58 (June 2010) 132 (August 2010)
Share of social network users using applications	N/A	37%
Percentage of monthly active users accessing OK via mobile devices (Russia)	5.7%	15.3%

Source: TNS data for daily and monthly unique users; Company data for all other figures

OK provides mobile versions of OK for a range of mobile phones and other mobile devices.

OK generates its revenue primarily from online advertising and user payments for IVAS. All of OK's IVAS revenues are classified as Community IVAS. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information. We believe that OK was the first social

networking site in Russia to start generating income from user payments for IVAS. The following table summarises the composition of OK's segment revenues in 2009 and the first half of 2010.

	Year ended December 31, 2009		Six months ended June 30, 2010	
	Revenues	% of Revenues	Revenues	% of Revenues
Revenue				
Online advertising:				
Display advertising	13.0	29.3%	8.0	26.4%
Context advertising	1.6	3.6%	0.8	2.5%
Total On-line advertising	14.6	32.9%	8.7	28.9%
Community IVAS	29.7	67.1%	21.5	71.1%
Total revenue	44.3	100.0%	30.2	100.0%

OK attracts an older audience than My World and VK; 27% of OK's user base as of July 2010 was in the under 25 age group, compared to 32% and 42% for My World and VK, respectively. We believe OK's older user base tends to have greater average spending power, and that this helps OK attract advertisers and creates an attractive potential audience for our IVAS.

OK's advertising revenue comes primarily from the sale of display advertising on its websites, but also includes revenue from special advertisement projects such as contests or promotions sponsored by advertisers. These special projects have included a children's photo competition sponsored by Pampers™, and a promotion sponsored by the Jacobs™ coffee brand in which users could send each other virtual coffee mugs for free.

Of the US\$29.7 million of IVAS revenues generated in 2009 and the first half of 2010, US\$5.6 million and US\$3.5 million, respectively, were for one-time registration fees paid when a user joins the OK network. In September 2010 we eliminated the one-time user registration fees OK historically has charged users who sign up to join the OK social network. We believe removing this registration fee will enhance OK's ability to attract new members.

OK offered its users over 132 online social networking games and other applications as of August 2010. OK's social networking games and other applications are developed both by Astrum and by third parties that use OK's API, which has been open to third-party developers since May 2010. OK has historically employed a highly selective pre-screening approach for allowing online games and applications to be added to its network. Games and other applications generate revenue primarily from a free-to-play revenue model in which basic game play is free of charge, but users can purchase in-game enhancements, typically by SMS or via online payment systems. Revenues collected via SMS are shared with mobile operators, and the remaining revenue is split on a 50/50 basis with third party developers.

My World

Launched in May 2007, "My World", or in Russian "Moi Mir", has benefited from its association with Mail.ru's email, IM and portal services, and today is the third largest online social networking site in Russia based on daily unique users. According to data from www.liveinternet.ru, in the first six months of 2010, approximately 34% of My World's daily unique users were from outside Russia.

We believe My World benefits significantly from its association with the Mail.ru portal, Mail.ru email services and the Agent IM system. Each user that signs up for a mail account at Mail.ru is offered an opportunity to activate a My World account as part of the registration process, and once activated, a user can access his or her My World account as well as his or her email, Agent and other Mail.ru services through a single login. We actively use our Mail.ru email and IM platforms to increase user engagement on the My World social networking site, including through applications that help users find other friends on My World through their Mail.ru email and IM address books.

The following table summarises certain statistics for the My World network for the periods indicated.

My World

<i>(data are provided on a global basis unless otherwise indicated)</i>	June 2009	June 2010
Average daily unique users (Russia)	2.3 million (First half of 2009)	5.0 million (First half of 2010)
Average monthly unique users (Russia)	10.0 million (First half of 2009)	18.1 million (First half of 2010)
Average number of friends per user	10	14
Total new friendships per month	28.7 million	32.5 million
Total new photos per month	57.4 million	64.4 million (July 2010)
Average messages sent per month	N/A	0.2 billion
Number of applications available on API	N/A	890 (August 2010)
Share of social network users using applications	N/A	32.0% (July 2010)
Percentage of monthly unique accounts accessing My World via mobile devices (Russia)	0.8%	4.2%

Source: TNS data for daily and monthly unique users. Company data for all other figures.

Like OK, My World provides mobile versions of its service for a range of mobile phones and mobile devices.

My World generates most of its revenue from display advertising and user payments for games developed for the platform by our Astrum division (see “Online games”). Currently, 100% of revenue generated by games from third-party developers is passed on to these developers and is not recognised as part of My World’s revenue. In the first half of 2010, My World had an average of 646 thousand monthly paying users.

My World attracts a younger audience than our OK website, but an older audience than VK; 32% of My World’s user base as of July 2010 was in the under 25 age group, compared to 27% and 42% for OK and VK, respectively.

My World opened its API to third-party developers in September 2009. Third-party application developers are currently granted access to the API in order to promote usage of the platform among developers. As of August 2010, users could choose from over 890 applications on My World, mostly games, most of which were developed by third-party developers and the remainder of which were developed by Astrum.

Instant Messaging Networks

We operate Russia’s two largest IM networks based on monthly unique users—Agent and ICQ.

Our Agent and ICQ IM networks offer a range of real-time communication tools, services and content designed to help create a vibrant online community. Using our networks, users can communicate with their friends using text messages, video chat or voice over IP (“VoIP”) applications. The communication features of our networks provide a platform for integration with social networking site features such as user profiles, status updates, chat rooms, blogs, interest groups, integrated status updates and news feeds as well as cross-selling opportunities for products with monetisation potential, particularly online games. ICQ also incorporates a suite of search tools (including a toolbar, default search and search home page) powered by our in-house search engine or external search engines such as Google.

Our IM networks are provided principally through client application programs that are downloaded to the user’s computer and run separately from the user’s web browser, but can also be accessed through special versions of our IM client programs designed to run on mobile phones or through browser-based versions.

We acquired ICQ in July 2010, and are actively exploring ways to leverage this acquisition to increase the audience of and user engagement on both our existing Mail.ru platform and the ICQ network,

including by introducing peering with Agent, which would allow ICQ users to communicate with users on the Agent network and vice versa without leaving their current network. We also plan to use ICQ to promote our online games and believe ICQ can improve its margins and enhance its online advertising sales by replacing ICQ's current third-party marketing partner in Russia with the Mail.ru salesforce.

Agent

Developed internally and launched in 2003, Agent is Russia's largest IM network, based on the number of monthly unique users in Russia. In the first six months of 2010, on average approximately 23% of Agent's monthly unique users were from outside Russia.

Agent is integrated with our Mail.ru portal and our My World social networking site. Among other things, Agent users can change their My World status or update their microblogs from the Agent desktop application, and users' email contacts are used to help users determine which of their contacts are users of the Agent network.

The following table summarises key usage statistics for the Agent service at the dates indicated.

	Agent	
	June 2009	June 2010
<i>(in millions)</i>		
Active daily users	5.6	7.3
Active monthly users	9.3	15.6
Average number of messages sent daily	96.1	198.5
Monthly peak concurrent users ⁽¹⁾	1.5	2.4
Mobile monthly active users	1.2	3.8

Source: Liveinternet.ru (2010) for active monthly users; Company data for all other figures

(1) Includes web version of Agent.

Besides basic IM functionality (i.e., online status, contact list, sending IM messages, file transfers, message history), Agent also provides peer-to-peer voice calls, video calls, low rate VoIP calls, free SMS messaging (when sending an outgoing message through an Internet connection to a mobile phone), instant email notifications and other useful features.

Although Agent generates some revenues from SMS and VoIP arrangements, we use the Agent service primarily as a means to direct traffic to and help increase user engagement on our other sites. For example, clicking on the "games" button in Agent redirects a user to our MMO games site, and clicking on an email notification in Agent takes a user to our Mail.ru email site. The minor revenues generated by Agent come primarily from mobile operators that share a portion of the revenue generated by SMS traffic originating from our instant messenger network and user payments for VoIP services.

Although the Agent instant messenger program does not itself include an Internet search field or generate direct contextual advertising revenues, when the Agent program is installed on a user's computer, the Agent installation program's default settings gives a user the option to install a toolbar on the user's web browser that includes a Mail.ru search field, select the Mail.ru search engine as the default Internet search service and set our Mail.ru portal (which includes a search bar) as the user's home page. Because many users accept these default settings, Agent installations help increase our search audience.

Users can access the Agent network both through desktop software optimised mobile versions of Agent for a range of mobile phones and mobile devices using the Windows Mobile, Java-based, iPhone and Android operating systems and browser-based versions.

ICQ

We acquired 100% of ICQ from AOL in July 2010 for US\$187.5 million. Founded in 1996, ICQ is Russia's second largest IM network, based on the number of monthly unique users in Russia, and a leading provider of IM services in certain other countries, including Germany, Israel, the Czech Republic and Slovakia. ICQ's largest territories, which account for more than half of its total user base, are Russia, where it is the second largest IM network after Agent, and Germany, where it is the leading IM network⁽¹⁾.

(1) comScore (July 2010).

Based on internal data, we estimate that as of June 2010, approximately 38.1% of the ICQ worldwide monthly active user base (and 33.5% of the Russian monthly active user base) accessed the ICQ network using ICQ affiliated applications and the remainder accessed ICQ using unaffiliated applications that use the ICQ protocol. Users on unaffiliated applications are not directly monetised by ICQ because ICQ cannot serve advertisements through or collect search queries from such applications. However, such users do contribute to the size of the overall ICQ IM community and to the overall “stickiness” of ICQ. Accordingly, rather than preventing such users from accessing the ICQ network, we are actively exploring ways to encourage them to migrate to applications developed by us.

The following table summarises key usage statistics for the ICQ service at the dates indicated.

	ICQ			
	Global		Russia	
	June 2009	June 2010	June 2009	June 2010
<i>(in millions)</i>				
Total active daily users (incl. unaffiliated)	17.2	17.9	8.3	8.9
Affiliated active daily users only	7.1	6.5	1.4	1.6
Total active monthly users (incl. unaffiliated)	47.3	42.0	15.9	15.1
Affiliated active monthly users only	18.2	16.0	5.0	5.1
Average number of messages sent daily	1,155	1,107	669	676
Total mobile monthly active users (incl. unaffiliated)	5.0	4.6	4.4	4.0
Affiliated mobile monthly active users only	0.3	0.6	0.1	0.1

Source: Company data

Like Agent, ICQ allows users to access its network through both desktop mobile and browser based versions of its program. Upon installation of the desktop version of the program, the default settings in its installation program also install the ICQ web toolbar, and change the user’s search and home page settings to select an ICQ search partner such as Google or Mail.ru as the default search engine.

ICQ generates revenues primarily from search engine providers that share a portion of the context advertising revenues generated on search queries submitted using the ICQ toolbar and web browsers whose search engine and home page preferences are selected upon ICQ installation. ICQ also generates a portion of its revenue from display advertising. A portion of ICQ’s IM revenues is generated by SMS services providers that share a portion of the revenue generated by SMS traffic originating from the ICQ IM network.

CFIUS Investigation. Under Section 721 of Title VII of the United States Defense Production Act of 1950, as amended, and the rules and regulations thereunder (the “**Exon-Florio Amendment**”), the President of the United States is authorized to prohibit or suspend acquisitions, mergers or takeovers by foreign persons of persons engaged in interstate commerce in the United States if the President determines, after investigation, that there is credible evidence that such foreign persons in exercising control of such acquired persons might take action that threatens to impair the national security of the United States and that other provisions of existing Law do not provide adequate authority to protect national security. Pursuant to the Exon-Florio Amendment, a party or parties to a transaction may provide a notification to the Committee on Foreign Investment in the United States (“**CFIUS**”), which has been designated by the President to administer the Exon-Florio Amendment, for investigation of the transaction. Notification is not mandatory, but CFIUS has authority to initiate an investigation of a transaction in the absence of a voluntary notification, including after the transaction has closed.

We closed the purchase of ICQ from AOL on July 8, 2010. Subsequently, we were contacted by CFIUS regarding the acquisition. Based on discussions with CFIUS, we and AOL decided to jointly file a confidential, voluntary notice regarding the acquisition, which was filed in October 2010. CFIUS subsequently notified us of its decision to undertake an investigation of the transaction. CFIUS has not informed us of any specific national security concern or indicated to us whether it will take any action or make any request in connection with the transaction. However, if CFIUS identifies a national security concern, it has power to seek a Presidential order requiring a broad range of remedies, from the unwinding of the transaction to conditioning our retention of control of ICQ on the adoption of such mitigation measures as CFIUS may suggest to address its concerns, which measures could include restrictions on our operations, security agreements, or other forms of mitigation. Until the completion of the CFIUS

investigation, no assurance can be made regarding the outcome. See “*Risk Factors—Our acquisition of ICQ may be affected by the review of the transaction by the Committee on Foreign Investment in the United States*”.

Email and other communication tools

Email

First introduced in 1998, Mail.ru’s email service was the first publicly available Internet based Russian language email service and is the largest on the Internet in Russia today, with an average of 20.3 million average monthly unique users in Russia and 9.3 million average daily unique users in Russia in the first half of 2010. Our email service has high user engagement as demonstrated by an average ratio of daily to monthly unique users of 45.8% for the first six months of 2010.

The Mail.ru email service is an internally-developed platform and has been repeatedly upgraded and enhanced since its launch. It is compatible with the most popular Internet browsers and supports all popular standard mail transfer protocols. Its features include message filters, folder-based organisation of messages, auto-completion of contact addresses, contact grouping, translation and spell-check, an email composition option (in text or HTML formats), signatures, spam filtering and virus scanning. Users can access their email accounts through the Mail.ru portal or desktop or mobile applications using standard Internet mail transfer protocols.

In August 2010, we launched our Mail.ru social email service, an innovative service that transforms a user’s email box into a centralised receiving and response point for email, social network status updates and other social media services using Mail.ru’s Open Mail Standard protocol.

Other communication tools

In addition to our IM and email services, we also provide users with a wide range of other tools to communicate with people around them. Although these tools can be accessed on a standalone basis through dedicated thematic vertical sites, we also integrate them into our other offerings including our social networking sites and the Mail.ru portal.

- *Photo sharing.* First launched in 2005, our photo sharing service (photo.mail.ru) allows registered users to upload, view, rate and share photos.
- *Video sharing.* First launched in 2006, our video sharing service (video.mail.ru) allows registered users to upload, view, rate and share video content. Uploaded videos are automatically converted into flash format, which allows fast uploading as well as easy viewing using most Internet browsers. We also make wide use of video sharing technology to offer video features on our various other thematic vertical sites.
- *Answers.* Launched in 2006, our answers service (answers.mail.ru) allows users to ask questions to which other users can respond. Answers are categorised into topics and rated, by other users, according to the helpfulness of the answer.
- *Blogs.* Launched in 2005, our blog site (blog.mail.ru) allows registered users to publish online weblogs.
- *Dating.* Launched in 2005, our dating site (love.mail.ru) is managed by our equity affiliate Mamba, in which we hold an approximate 30% equity stake. Mamba is Russia’s leading online dating service based on monthly unique users, and also operates its own website (mamba.ru) giving users access to the same database and services as love.mail.ru. Mamba’s services allow users to register their own profiles and search the profiles of other registered users in the database for free. Users can pay a fee for additional services such as to ensure their picture appears on the front page of the dating site, to leave a voicemail with a person or to become a “VIP” premium user, which provides access to enhanced options for their profile. Mail.ru receives a share of revenue generated by users who register for Mamba through the love.mail.ru site.

Online Games

We are Russia’s leading online games company based on daily and monthly active users. Our portfolio of online games includes 34 MMO games and over 30 games for social networking sites. In the first half of 2010, our top three MMO games had, in the aggregate, an average of 435,000 monthly active users and 103,000 monthly paying users, and the average total monthly paying users in the aggregate for all of our

MMO games was 167,000. In the first half of 2010⁽¹⁾, the total average monthly active users for our social games in the aggregate was 19.1 million and average monthly paying users was 564,000 for the first half of 2010. We conduct our online games business through our Astrum division, which was created through the merger of Astrum into Mail.ru in November 2009.

We generally use a “free-to-play” model for online games with item based monetisation, which means that users can play our online games free of charge, but have the option to pay for certain virtual in-game items as such items become available in the course of game play. In most cases, users have the option of obtaining these items without paying any money, typically through spending additional time playing the game. However, in most cases, users that wish to obtain such items instantaneously can do so by paying a fee. We do not offer any online gambling services.

The bulk of our online games revenue has historically been generated by MMO games, which are games played in “virtual worlds” hosted by networked game servers in which thousands of players can simultaneously connect and interact to play the game. Our portfolio of MMO games currently includes internally developed games such as Allods Online and Legend: Legacy of the Dragons, as well as localised Russian versions of games licensed from third parties, including Perfect World, Crossfire and Feng Yung. As of July 2010, 21 of our total 34 active MMO games were developed internally.

We also operate games for social networking sites that we develop internally or through external teams of programmers or license from third parties. Social networking games are easier to play than MMO games and generally can be played to conclusion within a shorter period of time. These games, which are an increasingly popular feature of online social networking sites, generally are also less expensive to develop and maintain than MMO games. In addition to the social networking games we develop internally or through external teams of programmers or license and actively manage, we also generate revenues from social networking games developed by third-party developers that make them available to our online social networking audience through our open API platforms. As of August 2010, 890 applications were available on My World and 132 applications were available on OK, most of which are games. As of August 2010, we offered over 30 social games internally developed or licensed by our Astrum online division on our various social networking platforms. We also offer and develop games for VK and Facebook, although our principal strategy is to focus on developing games for My World.

We distribute MMO games developed or licensed by Astrum through the Mail.ru portal, the specific website for each game, a theme portal for World of Heroes (woh.ru) and My World. In addition, our thematic vertical sites include an online games vertical site that includes news and information about MMO games as well as forums and other communication tools users can use to communicate with one another concerning MMO game features and strategies. We market our MMO games through promotions and advertising on our own and third-party websites. We have also licensed our internally-developed MMO game Allods Online to third parties for distribution in other markets.

We continue to enhance our games after they are launched, taking into account user feedback in order to improve their functionality and user appeal.

The following tables list our principal MMO games and social games, with user statistics for our top three MMO games and social games for the first half of 2010. We offer two main kinds of MMO games—client-based games (which require users to install game software on their computer) and browser-based games (which can be played directly from the user’s internet browser program without downloading additional software). All of our social games are browser-based.

Principal MMO Games (Top Three)

<u>Game</u>	<u>Source</u>	<u>Type</u>	<u>Launched in Russia</u>	<u>Average Monthly Active Users (1H 2010)</u> (in thousands)	<u>Average Monthly Paying Users (1H 2010)</u> (in thousands)
Perfect World	License	Client	2008	264	66
Legend: Legacy of the Dragons	In-house	Browser	2006	99	18
Allods Online	In-house	Client	2009	72	19
Total MMO Games				N/A	167

Source: Company data

(1) The total average monthly active users for social games is compiled based on data from February to July 2010 because there is no data available for January 2010.

Principal MMO Games(*)

Game	Business model	Type	Launch date
Hero Path	License	Client	Sep-10
Crossfire	License	Client	Jun-10
DE—Football Territory	In-house	Browser	Jun-10
Jade Dynasty	License	Client	May-10
Empirecraft	License	Browser	Apr-10
Pandora Saga	License	Client	Mar-10
Juggernaut	In-house	Browser	Mar-10
FlyFF	License	Client	Jan-10
Silkroad	License	Client	Jan-10
Eternity Crystal	In-house	Browser	Jan-10
ES—Warofdragons	In-house	Browser	Jan-10
FR—Warofdragons	In-house	Browser	Jan-10
Northern Blade (Fantasy Tournament)	In-house	Client	Dec-09
FengYung	License	Client	Oct-09
PL—Warofdragons	In-house	Browser	Oct-09
Allods Online	In-house	Client	Sep-09
Football Territory	In-house	Browser	Sep-09
Last Chaos	License	Client	Jul-09
ParaPa (5th Avenue)	License	Client	Feb-09
TR—Warofdragons	In-house	Browser	Feb-09
DE—Warofdragons	In-house	Browser	Oct-08
LoTRO	License	Client	Sep-08
Bloody World	In-house	Browser	Sep-08
Keepers of Power	In-house	Browser	Aug-08
Perfect World	License	Client	Jun-08
Dantar/Heroes	In-house	Browser	Jun-08
Destiny	In-house	Browser	Jun-08
Granada Espada	License	Client	May-08
UK—Warofdragons	In-house	Browser	Nov-07
Piratia	License	Client	Nov-07
Cosmics	In-house	Browser	Aug-07
3Kingdoms	In-house	Browser	Jun-07
Legend	In-house	Browser	Sep-06
Berserk Online	In-house	Browser	Sep-05
Bugs	In-house	Browser	Sep-05
TimeZero	In-house	Browser	Jun-04
Territory	In-house	Browser	Apr-04

Source: Company data

* Sorted by launch date.

Principal Social Games (Top Three)

Game	Source	Launched in Russia	Average Monthly Active Users (1H2010) ^(*) (in millions)	Average Monthly Paying Users (1H 2010) (in thousands)
Lovely Farm	In-house	2009	2.2	187
Legend: Legacy of the Dragons	In-house	2009	0.8	66
SuperCity	Invest ^(**)	2009	2.5	76
Total Social Games		2010	19.1	564

Source: Company data, Feb-July 2010 average

(*) The total average monthly active users for social games is compiled based on data from February to July 2010 only because there is no data available for January 2010.

(**) Invest denotes games developed by third-parties and financed by Mail.ru. Mail.ru gets 100% of revenue until development costs are recovered, then developer participates in revenue sharing.

Principal Social Games^(*)

Game	Business model	Type	Launch date
Dogs	Social	Invest	Sep-10
Territory	Social	In-house	Jul-10
Fashion	Social	In-house	Jul-10
Airport	Social	Invest	Jul-10
Sunny Islands	Social	Invest	Jun-10
Rome Heritage	Social	Invest	Jun-10
Farmer Tribe	Social	Invest	Jun-10
Kolkhoz	Social	In-house	Apr-10
Urban Fight	Social	In-house	Apr-10
Arena	Social	In-house	Mar-10
Tropic Farm	Social	In-house	Feb-10
People	Social	Invest	Feb-10
Gorodki	Social	Invest	Feb-10
Paradise Garden	Social	In-house	Feb-10
Small Garden	Social	Invest	Feb-10
Football	Social	In-house	Jan-10
Dark Lightning	Social	Invest	Dec-09
Keepers of Power	Social	In-house	Dec-09
Chocolate Tree	Social	Invest	Dec-09
Bugs	Social	In-house	Dec-09
Lovely Farm	Social	In-house	Dec-09
Bridges	Social	Invest	Dec-09
Star Resort	Social	Invest	Dec-09
SuperCity	Social	Invest	Nov-09
Plane	Social	Invest	Nov-09
Brigade	Social	In-house	Nov-09
Secret Room	Social	Invest	Nov-09
Kittens	Social	Invest	Nov-09
Dragons	Social	In-house	Nov-09
Pyramyde	Social	In-house	Nov-09
Crouching Panda	Social	In-house	Oct-09
Fish Farm	Social	In-house	Sep-09
Bubbles	Social	In-house	Aug-09
Legend	Social	In-house	Aug-09
Mini games platform (20+ games)	Mini games	In-house	May-08

(*) Sorted by launch date.

Mail.ru portal, Vertical sites, Online recruiting services, Online listing services and Search

Mail.ru portal

Launched in 2001, the Mail.ru portal is an online destination that attracts millions of Russian-speaking users each day, allowing them to connect with friends, find information, play online games, shop for products and services, and access our thematic vertical sites focused on specific interests as well as our other services. The Mail.ru portal is Russia's largest portal website, attracting more daily and monthly unique users than any other portal website as of July 2010. The Mail.ru portal generates revenues principally through online advertising. According to data from www.liveinternet.ru, in the first six months of 2010, approximately 31% of the daily unique users for Mail.ru's portal were from outside Russia.

The Mail.ru portal serves as a gateway to a broad range of Internet websites and services. As described above, using the Mail.ru portal, users can access our principal communication products, including our My World social networking site, launch our Agent instant messenger program, consult emails using the Mail.ru email service, and use our other communication products described above. The Mail.ru portal also offers a range of search tools, described below, and includes links to the full catalogue of online games offered by our Astrum online division, as described under "*Online Games*".

Thematic vertical sites

The Mail.ru portal provides links to a number of our own thematic vertical sites, which are specialised websites that focus on a key area of interest. Each of these sites generates revenues principally through display advertising. In addition, two of our vertical sites allow users to sell products or services online by paying a listing fee. The table below summarises key information concerning our principal vertical sites.

Vertical sites			
Name	Content	Monthly Unique Visitors (in thousands)	Page Views (in thousands)
Auto@mail.ru	Automobile reviews	6,325	91,677
Pogoda@mail.ru	Weather forecast	5,872	59,857
Lady@mail.ru	Women's lifestyle	5,298	103,077
Afisha@mail.ru	Playbill & TV-guide	5,000	61,375
Maps@mail.ru	Online maps	3,846	8,975
Hi-tech@mail.ru	Hi-tech reviews	4,111	24,827
Files@mail.ru	File hosting	2,936	15,128
Deti@mail.ru	Children	3,074	26,767
Travel@mail.ru	Travels	3,188	22,046
Otkrytki@mail.ru	Post cards	2,613	26,774
Zdorovye@mail.ru	Health	2,030	14,630
Tovary@mail.ru	Price comparison site	1,827	13,648
Catalog@mail.ru	Yellow pages	1,032	5,718
Soft@mail.ru	Freeware and shareware software	1,269	3,291
Nedvizhimost@mail.ru	Real estate	1,347	4,962
Content@mail.ru	Online newsletters site	1,086	2,393

Source: Company data

Online recruitment services

Our Headhunter online recruitment business is Russia's largest online recruiting services provider. Headhunter offers its services principally through its website www.headhunter.ru. We offer our Headhunter services through our subsidiary Newton Rose. We made our first investment in Newton Rose in 2007, acquired control of the company in 2009 and currently own a 91% equity stake in the company. Our Headhunter segment generated segment revenues of US\$16.7 million and US\$12.3 million in 2009 and the first half of 2010, respectively, primarily through subscriptions to its job listings. Headhunter had 1,800 transactions in the first half of 2010. In addition to our Headhunter recruitment services, we also offer a jobs site under the Rabota@mail brand for which users do not pay a fee and which we monetise through display advertising.

Search

We provide Internet search services that help users find web pages, photos, videos, products and services using Russian language search terms. During the first half of 2010, Mail.ru search had an average of 1.6 million daily unique users in Russia, 9.6 million monthly unique users in Russia and 267 million monthly page views from users in Russia (TNS). According to data from www.liveinternet.ru, our search services had a market share of 7.3% of the total search market in Russia in June 2010.

Search queries are typically generated by the search bar on our Mail.ru website, through the search field on Agent toolbars or through the selection of our search service as the default Internet search provider in a user's web browser as part of the Agent desktop program installation process.

We offer our search services using our own internally developed search engine technology, which we introduced at the beginning of 2010 to replace our former third-party provider. We also use our internal search engine technology to process search queries in several of our other services, including our Agent, My World, OK, photo sharing and blogs websites.

We generate revenue from our internally-developed search engine services through context advertising furnished through Google's AdWords technology, which displays relevant ads using an auction-based program from Google in which advertisers bid to have their sponsored advertisements appear when

specified search queries are entered. When a customer clicks on a sponsored advertisement, Google receives a fee from the advertiser, and shares a portion of that revenue with us.

As noted above under *Instant Messaging*, ICQ also generates contextual advertising revenues from search engine providers that share a portion of the revenues generated by search queries entered through the ICQ toolbar. Outside Russia, the search partner for ICQ is Google, and inside Russia, ICQ uses our Mail.ru search engine.

Strategic Investments

In addition to the services described above, which we provide through our consolidated subsidiaries, we also hold minority equity stakes in several other Internet companies in Russia that we account for under the equity method. Although we exert influence over these companies through our equity stakes, board representation and certain other minority investor rights, we do not control them or manage their operations, and they are not consolidated in our financial statements.

VK

VK is Russia's leading online social networking site, based on monthly and daily unique users. We purchased an initial 24.99% equity interest in VK in 2007 as part of a broader strategy to invest in sites focused on social networking, which also included the purchase in 2007 of our initial stake in OK and, through our investment in Port.ru, the launch of the My World social network in 2007. We have agreed to acquire an additional 7.5% interest in VK promptly following Closing. See "*Management's Discussion of Financial Condition and Results of Operation—Acquisition of additional shares in VK*".

Founded in 2005, VK originally focused on Moscow and St Petersburg, and has since become the most popular online social networking site in Russia and certain other former Soviet Union countries. VK attracts a younger audience than our OK and My World websites; 42% of VK's user base as of July 2010 was in the under 25 age group, compared to 27% and 32% for OK and My World, respectively.

Similar to OK and My World, VK offers its users a variety of tools to interact with friends that are part of the VK network. These include messaging, news feeds, photo, video and music sharing and functions to create groups of friends. We believe that VK is currently the only Russian language online social networking site to offer users unlimited capacity with respect to video and music sharing functions. In addition, VK has an advanced chat room function, and offers users vanity URLs to make it easier for their friends to access their pages.

VK generates its revenue from four principal sources, display advertising, contextual advertising, user payments for enhanced features and revenue sharing with third-party developers that offer their games and other applications using VK's open application programming interface (API). VK was the first online social networking site in Russia to develop a contextual advertising system that allows users and advertisers to target advertisements to other users selectively based on information in user profiles, including gender, interests, geographies and education. We believe that VK was also the first online social networking site in Russia to open an API to third-party developers.

VK generates user payments from virtual gifts (where users send each other virtual gifts for a fee), ratings (which allows users to vote for each other, affecting their position in a VK search) and classifieds (VK allows users to create and promote classified advertisements in order to buy and sell certain goods).

In 2009 and the first six months of 2010, VK generated net profit of US\$12.2 million and US\$7.4 million respectively. The share of VK's net profit recorded in our consolidated income statement in 2009 and the first six months of 2010 net income was US\$2.2 million and US\$1.6 million respectively. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Segment Analysis—Strategic Equity Method Investments—VK*" for more information.

QIWI

QIWI is the largest consumer payment processor in Russia, providing payment processing services to over 180,000 PoS payment terminals. Of these PoS terminals, more than 95,000 are self-service terminals that allow users to make payments and purchase services directly from the terminal using a user interface developed, maintained and monetised by QIWI. QIWI processes over 8 million transactions on a daily basis. We have held investments in companies focused on payment processing services since 2005, when we acquired our initial investment in the E-Port group of companies. We acquired our 25.09% equity interest

in QIWI in July 2007, when we contributed our entire interest in the E-port business to QIWI, a new company formed by the combination of the assets of E-Port and the OSMP group of payment processing companies.

QIWI is a payment processing company that provides software, marketing support and processing services for PoS payment terminals marketed principally under the QIWI brand. PoS payment terminals allow consumers to purchase mobile phone credits, pay utility bills, pay for IVAS, buy airline or train tickets and pay for other products and services by depositing cash using conveniently located self-service payment terminals or cashier locations. These services are a popular option for paying bills and purchasing goods and services in Russia and certain other markets, where many consumers do not have credit or debit cards or prefer to pay for services in cash. Most of the transactions processed by QIWI are transactions to purchase additional minutes under mobile phone plans. Over time, QIWI hopes to gain an increasing share of its revenue for the processing of other types of transactions such as payment of utility bills and loan repayments.

In addition to paying bills and making other purchases directly from payment terminals, QIWI offers an online wallet service that allows users to load cash onto their online wallet using a payment terminal, credit card or other payment method, and then to use the online wallet to pay for services online. Many of our users utilise this payment method when making payments for the IVAS offered on our Internet sites. As an example, a user of My World that wishes to purchase credits to buy in-game enhancements offered in an online game can deposit cash into his or her online wallet using a QIWI payment terminal connected to QIWI's network, and then use the online wallet to pay us for the game credits.

QIWI has rapidly expanded its network of payment terminals using its processing services by employing a strategy of selling payment terminals with its software to agents throughout Russia, instead of owning and maintaining the terminals itself. Under this approach, the agents own and maintain the terminals, while QIWI provides the software for the terminals and controls the marketing of the QIWI brand and the look and feel of the user interface on self-service terminals. QIWI provides its payment processing and support services to payment terminal owners in exchange for a commission based on the amount of funds processed. In addition to payment processing commissions, which constitute its principal revenue stream, QIWI generates revenues from the sale of advertising on payment terminals and the sale of terminals to new agents joining the QIWI network.

Although Russia is currently the world's largest market for these services, we believe other emerging markets represent a significant market opportunity. QIWI has recently opened offices in China, Vietnam, South Africa, Panama, Romania, Ukraine, Kazakhstan, Georgia, Belarus, Moldova and Tajikistan, and expects to open offices elsewhere in Eastern Europe, in Cambodia and in Columbia in 2010.

QIWI has entered into an agreement whereby it expects to acquire control from a QIWI related party of Commercial Bank "1-st Processing Bank" by November 2010. It has historically used the bank to provide certain of its payment processing services. See *"Regulation of Electronic Payments and Payments through Payment Agents in Russia"* for more information about the regulatory environments in which QIWI operates.

In 2009 and the first six months of 2010, QIWI generated a net profit of US\$14.9 million and US\$20.4 million respectively. The share of QIWI's net profit recorded in our consolidated income statement in 2009 and the first six months of 2010 net income was US\$2.6 million and US\$3.2 million, respectively. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Segment Analysis—Strategic Equity Method Investments—QIWI"* for more information.

International Investments

In addition to our strategic minority investments described above, we also hold minority stakes in a number of international Internet companies. Although our core focus is on Russian-language services and we do not expect the making of similar investments to be an important element of our strategy after this offering, we made these investments in 2009 and 2010 on an opportunistic basis because we believe these companies are attractively positioned to take advantage of social networking trends such as monetisation through online games and group purchasing. We also believe our relationships with these companies offer us opportunities to gain valuable insight into social networking trends.

We account for these investments as available-for-sale assets. Under IFRS, these investments are remeasured at fair value at each balance sheet date, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve in our financial statements. These unrealised gains

and losses will not affect our income statement until the investments are de-recognised (e.g., upon their sale) or unless they are determined to be impaired. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” for more information.

Facebook

We currently hold a 2.38% equity stake on a fully diluted basis in Facebook, which operates the world’s largest online social networking site. Facebook offers online social networking services to its users, allowing them to establish a personal profile and find, add and accept friends on Facebook from around the world. Friends can exchange messages, share photos and share personal information such as birthdays, schools and universities attended and friend-lists. Facebook also allows users to form and join interest groups, such as school or university alumni, employees of a particular organisation or fans of a particular artist, author or band. Users may also access a variety of online social games and applications, developed by third-party developers such as Zynga. Facebook generates income from display advertising, referral marketing and online social games.

According to publicly available information published by Facebook, Facebook’s user base included over 500 million active users as of July 2010.

We acquired our stake in Facebook through a series of transactions in 2009 and 2010. For more information about the acquisition of our stake in Facebook and subsequent evolutions in our equity stake, see Note 28.6 to our Consolidated Financial Statements and Note 17 to our Unaudited Interim Financial Statements.

Zynga

We currently hold a 1.47% equity stake on a fully diluted basis in Zynga, a browser-based games company that designs online social games that it offers to users on its own webpage or via applications on other websites such as Facebook. Zynga’s online games portfolio includes six of the top ten most popular Facebook applications as of September 2010, including Farmville, Frontierville, Texas Hold’em Poker, Mafia Wars, Café World and Treasure Isle (appdata.com). As of September 2010, Zynga had a user base of 233 million application users per month, which is more than four times the number of its closest competitor on Facebook (appdata.com). In May 2010, Zynga entered into a five-year strategic relationship with Facebook. Zynga does not currently offer any games on our social networking sites.

Zynga’s games are offered primarily under a free-to-play model in which users can play the game for free, but can purchase in-game items that enhance the game experience. Zynga can attract users to new games quickly, by cross-promoting its new games through existing popular games.

We acquired our stake in Zynga in February and March 2010. For more information, see Note 32.2 to our Consolidated Financial Statements and Note 17 to our Unaudited Interim Financial Statements.

Groupon

We currently hold a 5.13% equity stake on a fully diluted basis in Groupon, a deal-of-the-day group purchasing site that offers its users a daily deal in each of the cities it serves. Groupon negotiates significant group purchasing discounts with local merchants in the cities it covers and offers them to its user base on a deal-of-the-day basis. The daily deal, usually a restaurant, health/beauty or event offer, becomes “live” when enough Groupon users sign up for the particular deal. The threshold participation requirement means that users are rewarded by frequently participating and encouraging friends to sign up for the service, which increases the user base and sales generated by the site. Users are also encouraged to sign up friends through referral credits awarded when persons they refer sign up and make a purchase within a specified period of time. Users pay for deals using the Groupon website, which charges the relevant business a percentage of the payments collected. Groupon also generates advertising revenue on its website. According to publicly available information published by Groupon in August 2010, Groupon offers deals to more than 13 million subscribers in 29 countries, including in Russia, where it recently acquired control of the Russian group purchasing site Darberry, which has been rebranded under the Groupon brand.

We acquired our stake in Groupon in April 2010. For more information, see Note 32.6 to our Consolidated Financial Statements and Note 17 to our Unaudited Interim Financial Statements.

Other Russian and Ukrainian Investments

In addition to our core consolidated subsidiaries, strategic minority investments and the international investments described above, we also hold investments in a number of smaller privately-held Russian and Ukrainian Internet-related companies. These investments were made prior to 2008 as part of a strategy of acquiring minority investments in a broad range of companies in targeted segments of the Russian Internet market.

We account for these investments on a fair value through profit and loss basis in accordance with IAS 28 and IAS 39. For more information, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview*” and Note 3.3.1 to our Consolidated Financial Statements.

Other Russian and Ukrainian Investments

Name of Business	Website details	Mail.ru Group holding at time of Offering ⁽¹⁾	Summary description
B2B	b2b-center.ru	15%	Business to business online trade system
Diary.ru	diary.ru	50%	Blog service
Finance.ua	finance.ua	25%	Ukrainian business portal
Free-lance	free-lance.ru	38% ⁽²⁾	Free-lance job search portal
Habrahabr	habrahabr.ru	44%	Collective blogs
Interrest	adriver.ru	20%	Display advertising technology solutions
	soloway.ru		
LiveInternet	li.ru	30%	Blog service with online statistics
Meta	meta.ua	26%	Ukrainian portal
Nadavi	nadavi.com.ua	25%	Price comparison website
Nezabarom	nezabarom.ua	25%	Ukrainian travel portal
Nigma	nigma.ru	32%	Niche search engine
Nival Networks	zzima.com	13%	Online games operator and developer
Sape	sape.ru	27%	Links exchange
Subscribe	subscribe.ru	40%	Email marketing service
Ucoz	ucoz.com	30%	Website creation tools and hosting

(1) Rounded to the nearest full percentage point.

(2) Effective interest including (i) interest held directly by the Company and (ii) proportionate interest held through Newton Rose.

Sales and Marketing

Mail.ru, OK and ICQ

Mail.ru sells display and contextual advertising through its own sales forces as well as through third parties such as advertising agencies and online advertising networks.

Mail.ru benefits from an internal direct sales force of 10 direct sales personnel as of June 30, 2010 with offices in Moscow as well as in 8 regional sales offices throughout Russia. Most of Mail.ru’s sales personnel have been with the company for more than five years. Mail has established regional sales offices to allow it to broaden its base of advertisers in regions of Russia outside the Moscow region, which historically have represented a smaller share of overall Internet advertising in Russia. Outside Russia, Mail has opened sales representative offices in Kiev and works through partners in Europe and the former Soviet Union.

OK has traditionally relied primarily on a small staff of sales personnel that manage the sales process through third parties such as advertising agencies and online advertising networks rather than through internal direct sales. Similarly, ICQ has historically relied primarily on third-party local advertising partners in each of its markets. As part of the integration of these businesses into the Group, we are exploring opportunities to sell a larger portion of their advertising inventory in Russia using the Mail.ru sales force.

Historically, our largest advertising clients generally have been major automobile, consumer products, mobile telecommunications operators and financial firms. The top ten advertising clients of Mail.ru accounted for approximately 21% of Mail.ru’s online advertising revenues in 2009 and the top ten advertising clients of OK accounted for 63% of OK’s online advertising revenues in 2009. During the same

periods, no single advertising customer accounted for more than 3.5% and 14% of the sales revenues of Mail.ru or OK, respectively.

We market our MMO games primarily through the Mail.ru portal and our social networking sites OK and My World, in addition to placing advertisements through other media.

Headhunter

Headhunter markets its services via online marketing and acquiring job seeker and employer traffic from search engines. In addition, Headhunter organises annual marketing campaigns in order to improve brand awareness, including participation in HR-related exhibitions, email newsletters and print-related advertising in industry magazines.

Headhunter has an internal sales force of approximately 160 persons, of which 40 are based in Moscow, 90 are based in 12 regional offices throughout Russia and 20 in representative offices in the former Soviet Union.

IT Infrastructure

Our network infrastructure is designed to satisfy the requirements of our operations and to support the growth of the business.

Our network infrastructure includes services furnished internally as well as those furnished by third parties. We have a number of relationships with third-party outsourcing IT providers that provide us with telecommunication services including Internet access, through the leasing of bandwidth on the Internet backbone to the Group, and also with data centre services in Moscow providing space and power for the hosting of servers that are owned by the Group. The Group owns over 4,900 servers with 5 petabytes of total storage. The peak network traffic of the Group's servers increased from 40 gigabytes per second in the first half of 2009, to 60 gigabytes per second in the first half of 2010. The Group's servers are located in 12 independent data centres, in different districts of Moscow and 2 data centres in the United States. In 2009, to reduce reliance on third-party providers and achieve direct and indirect cost savings, we built our own data centre, which today hosts a significant portion of Mail.ru's servers. The remainder of the Group's servers, including those of OK and ICQ, are hosted by third parties. We plan to transition part of the OK and the ICQ servers to our own data centre as part of the integration process for these entities. Our ability to provide its products and services depends on the continuing operation of our network and IT infrastructure, on the provision of network facilities by third-party outsourcing IT providers and on the performance and reliability of the Internet, power and telecommunications infrastructure in Moscow and Russia.

To guard against loss of data in the event of network or power failures, the Group's servers are hosted in multiple geographical locations and backed up on a regular basis. See *"Risk Factors—Problems or faults with our network infrastructure, information technology systems or the Moscow or Russian Internet, power or telecommunications infrastructure could impair our ability to provide our services"*.

The Company's management considers its current access to network facilities and broadband capacity sufficient to carry out current operations, and believes it can expand its network facilities and broadband capacity to meet planned business growth and expansion for at least the next twelve months. See *"Risk Factors—Problems or faults with our network infrastructure, information technology systems or the Moscow or Russian Internet, power or telecommunications infrastructure could impair our ability to provide our services"* for further information.

At June 30, 2010, our network infrastructure was administered by a staff of full-time engineers who handle system and hardware operations and maintenance. In addition to the day-to-day operation of our network, our engineering staff is involved in integrating the networks of recently acquired businesses OK and ICQ with our existing platforms.

The Group also places a high priority on providing its users with a consistently high quality of service and support through its technical support staff, which handles general product and service enquiries and technical support issues.

Intellectual Property

The Group relies on a combination of trademark, copyright and other intellectual property-related laws and contractual restrictions to establish and protect its intellectual property rights, including rights

related to its websites, software and online games. The Group has registered trademarks or trademarks for which registration is pending for its principal brands, and a broad portfolio of registered domain names for its various websites.

OK has registered trademarks in Russia for the world designation “odnoklassniki” in Russian and Cyrillic, combined and device trademarks representing logo of the social network, as well as several other trademarks that are not currently in use, and has registered trademarks in the Baltic countries and Kazakhstan. OK has registered domain name “odnoklassniki.ru”. OK has no patents.

Mail.ru has registered various trademarks with the Russian Federal Service for Intellectual Property, Patents and Trademarks, such as: (i) “@mail.ru”; (ii) “mail.ru”; (iii) “dengi@mail.ru” (in English—“money@mail.ru”); (iv) “MOI MIR” (in English—“MY WORLD”); (v) “moimir@mail.ru”; (vi) GOGO.RU and various trademarks related to its MMO game projects, such as “Allods”, “Allods Online”, “Piratia Online” and others together with several other trademarks that are not currently in use. Mail.ru has also registered certain trademarks in Ukraine and Kazakhstan.

Mail.ru has also registered the following domain names in the “RU” domain with RU-Centre, one of the official registers of domain names in Russia: (i) “mail.ru”; and (ii) “gogo.ru” (together with many other domain names that are not currently in use). Mail.ru has no patents. Mail has also registered “mailru.su” domain name in the “SU” domain and certain domain names in the newly created “РФ” domain, major part of which represent various Cyrillic transliteration of word “mail” (such as “мейл.рф” and “мэйл.рф”). For its MMO related activities, Mail.ru has a great number of domain registrations in different domains, including “COM”, “TV”, “ORG”, “NET” and national domain zones (“FR”, “IT”, “JP” etc.).

ICQ has registered trademarks and registered domain names worldwide. ICQ has no patents, as these applications remained with AOL as part of the purchase agreement. ICQ also has unregistered copyrights to its graphics and software.

Headhunter has various trademarks registered for Russia and Ukraine, and in Kazakhstan the registration process is ongoing. International registration for “Headhunter group” is in the process of being obtained in the former Soviet Union and in Cyprus. The world trademark “Headhunter” (in Latin) is licensed from RBC-Center (news agency) for the period of validity of the trademark. It is agreed with RBC-Center that they will assign the trademark to Headhunter prior to expiry in 2016 and that Headhunter will subsequently own the trademark and extend its validity term, although RBC-Center has not yet done so. Headhunter has no patents. Headhunter has also registered a number of domain names.

The Group also protects its intellectual property through confidentiality agreements and related provisions in employment agreements.

Internet, technology and media companies are frequently involved in litigation based on allegations of infringement or other violations of intellectual property rights. See “*Risk Factors—We may be held liable to third parties for information or content displayed on, retrieved from or linked to our websites or distributed to website users*” and “—*Litigation*” below for further information.

Competition

The Internet industry in Russia is rapidly evolving and highly competitive. We face significant competition in almost every aspect of our business, particularly from companies that seek to provide an integrated offering of Internet communication, search and other products, but also from companies targeting specific niche areas within those services, such as social networking, instant messengers, online games or other. See “*Industry*” for further details. For more information concerning key statistics for the Group’s websites and those of its key competitors, see the Annex to this prospectus.

We compete for online advertising revenues with all websites that sell online advertising targeted to Russian-speaking Internet users, including our equity affiliate vKontakte, and also Yandex, Rambler and RBC.

We also face competition in specific areas, such as social networking products, where Facebook and VK are the key competitors for My World and OK. Our main competitors in IM are QIP (owned by RBC), Skype, AIM, Yahoo! Messenger and Windows Live Messenger. Competitors for email services include Yandex, Rambler and Google, and in online games, Innova, Shanda, NCSoft and Zynga are key competitors. We also face competition from many other niche competitors who focus on specific areas that compete with our thematic verticals, search and communication products. We compete with these companies and services for both users and advertisers.

Certain non-Russia competitors, particularly from the U.S., including Facebook and Google, have larger financial and other resources than we do, and may use those resources to rapidly expand their business activities in Russia. Their resources may also allow them to react quickly to changing user and advertiser requirements and demands, deliver competitive services at lower prices and effectively respond to new Internet technologies or technical standards. We expect to face more intense competition from these U.S. companies and other non-Russia based Internet companies as they increase their business activities in Russia. See “*Risk Factors—If we are not able to effectively respond to competition in our markets, we may lose users to competitors, which could make us less attractive to advertisers and/or reduce the potential base of paying users for our IVAS*”.

Employees

As discussed in greater detail under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Group Formation*” we did not consolidate Mail.ru prior to December 2008, did not consolidate Headhunter (Newton Rose) until February 2009, did not consolidate ICQ until July 2010 and did not consolidate OK until August 2010.

As of June 30, 2010, these entities, which today form the core of the Group’s consolidated operations had 1,833 full-time employees in aggregate. These companies also make use of a limited number of temporary contractors from time to time in the course of their business. The following tables set out, at the dates indicated, the full-time employees of the entities that today form the core of the Group’s consolidated operations.

	31 December			30 June
	2007	2008	2009	2010
Product Development				
Mail.ru	255	377	514	532
OK	11	20	34	50
Headhunter	27	23	18	17
ICQ	66	78	88	86
Subtotal ⁽¹⁾	359	498	654	685
Information Technology				
Mail.ru	205	312	375	411
OK	15	18	19	24
Headhunter	40	48	32	38
ICQ	2	3	3	4
Subtotal ⁽¹⁾	262	381	429	477
Sales and Marketing				
Mail.ru	70	101	108	118
OK	11	21	27	26
Headhunter	68	300	144	162
ICQ	14	15	18	18
Subtotal ⁽¹⁾	163	437	297	324
Corporate Functions				
Mail.ru	109	154	141	167
OK	11	40	22	27
Headhunter	61	81	111	132
ICQ	21	23	23	21
Subtotal ⁽¹⁾	202	298	297	347
Total⁽¹⁾	986	1,614	1,677	1,833

(1) Arithmetic sum provided for convenience purposes only. These companies did not form part of the same consolidated group until 2009 (Mail.ru and Headhunter) or after June 30, 2010 (ICQ and OK).

The Company’s management believes that the Group has developed a strong culture that encourages individual thinking and creativity and a strong commitment to providing the best experience to its users and advertisers. None of the Group’s employees are members of unions, and the Group believes its relations with its employees are good.

Concurrently with the closing of the Offering, the Group intends to hire certain former personnel of DSTA who will perform primarily corporate functions. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Fees paid for Services provided by DSTA*” for more information.

Property

The following table summarises the location of the principal properties of our core consolidated subsidiaries at June 30, 2010. The Group leases all of its properties from unrelated third parties at market rates. These leases expire between December 2010 and August 2013, with the exception of our data centre, which is leased through June 2023.

Property	Location (City, Country)	Square meters
Mail.ru		
Leningradsky Ave. Offices	Moscow, Russia	5,852
International/Regional Offices . .	Nizhny Novgorod, Novosibirsk, Yekaterinburg, Chelyabinsk, Samara, Kazan, Republic of Tatarstan, and Khabarovsk, Russia; Kiev, Ukraine	
Data centre	Moscow, Russia	2,261
OK		
Derbenevskaya Offices	Moscow, Russia	878
ICQ		
Main Offices	Tel Aviv, Israel	2,600
Headhunter		
Godovilkova Street Offices	Moscow, Russia	1,878
International/Regional Offices . .	Rostov-on-Don, Novosibirsk, Krasnoyarsk, Nizhny Novgorod, Kazan, Yekaterinburg, Voronezh, Yaroslavl and St. Petersburg, Russia; Kiev, Ukraine; Minsk, Belarus; Riga, Latvia	—

In addition to the properties listed above, DSTA leases 1,059 square meters of office space in Moscow that will be assumed by the Group following the offering. The Group has also entered into a lease for 200 square meters of office space in Dubai.

The Group is not aware of any environmental issues at any of its properties that may adversely affect in any material respect its use of the properties in question.

Legal Proceedings

In June 2010, LLC Mail.Ru received a claim from the company CJSC Classic-Company regarding the alleged infringement of copyright for the music video “Vorovskaya zvezda” (“Thievish star”) by “Ugolovnaya akademiya” (“Criminal academy”). The video was uploaded onto video.mail.ru website by several users of the video hosting service. Despite the fact that Mail.Ru closed public access to the video the day it received the claim from CJSC Classic-Company, on July 28, 2010, the company filed a claim against LLC Mail.ru with the Moscow Arbitrazh Court seeking RUB100,000 (approx. US\$3,300) for the alleged infringement of its copyright. Court hearings on the case are scheduled for November 2010.

In October 2010, companies of Gala Records group in Russia—CJSC SBA Production, CJSC SBA/Gala Records and CJSC SBA Music Publishing—filed three claims against LLC Mail.Ru with the Moscow Arbitrazh Court alleging infringement of copyrights for audio records by the Russian musical group “Infinity”, the Russian singer M.S. Maksimova under the pseudonym “Maxim”, and the Russian singer Anzhelika Nachyosova each of which were posted on our sites. The aggregate amount of the three claims is RUB2,000,000 (approx. US\$66,600). Preliminary court hearings on these cases are scheduled for November 2010.

Also in October 2010, CJSC SBA/Gala Records filed a similar claim against LLC vKontakte. The second respondent in the claim is the Moscow branch of LLC Network of data centers Selectel that provides servers to LLC vKontakte. The amount of the claim filed with the Moscow Arbitrazh Court is

RUB660,000 (approx. US\$22,000). Preliminary court hearings on the case are scheduled for November 2010.

We believe that the claims filed by CJSC Classic-Company and the SBA/Gala Records companies are without merit and intend to vigorously defend the claims. Although the amount of claims is not material, if the court were to decide in the claimants' favour, it could result in other similar claims against our video-hosting portals and social networks from copyright owners for more significant damages. Other similar claims have been made against VK.

Except as described above, there have been no governmental, legal or arbitration proceedings involving the Company or its consolidated subsidiaries (including any such proceedings which are pending or threatened of which we are aware), during the last 12 months that which may have, or have had in the recent past a material effect on the Company and/or the Group's financial position or profitability.

REGULATION

Regulation of the Russian Internet Industry

There are currently few laws or regulations applicable to commercial online services or the Internet. Performance of commercial activities via the Internet is mainly regulated by Russian civil legislation. However, given the variety and nature of Internet activities, the application of general civil legislation to such matters, and the absence of any specific regulations, give rise to legal uncertainty.

We are subject to certain specific laws and governmental regulations relating to the transfer of information, certain communications activities, advertising services and the provision of fee-based services to consumers in Russia. For these activities, the relevant Russian laws are the following:

- Federal Law dated March 13, 2006 No. 38-FZ “On Advertising” (as amended) (the “**Advertising Law**”);
- Federal Law dated July 27, 2006 No. 149-FZ “On Information, Information Technologies and Protection of Information” (the “**Information Law**”);
- Federal Law dated July 27, 2006 No. 152-FZ “On Personal Data” (the “**Law on Personal Data**”); and
- Law of the Russian Federation dated February 7, 1992 No. 2300-I “On Protection of Rights of Consumers” (as amended) (the “**Consumer Protection Law**”).

The Russian authorities that supervise and enforce these laws are the Russian Federal Antimonopoly Service, exercising supervision in the area of advertising activities, the Federal Service for the Supervision of Communications and Mass Communications, and the Federal Service for the Supervision of the Protection of Consumers’ Rights and Human Welfare, supervising Russian consumer protection legislation.

Potential amendments to current legislation to address specific aspects of Internet-related activities have been widely discussed during the past few years. Upon instructions from the Russian government, certain Russian authorities are now in the process of developing and discussing amendments to laws regulating the use of Internet.

According to publicly available information, the proposed amendments are primarily aimed at defining the legal status of participants in Internet activities and regulating the liability of providers for the hosting of illegal content. The draft amendments have yet to be published however, and there is no guarantee that such provision will become law.

Internet websites are not subject to a mandatory registration requirement under Russian law, and our activities are not regulated or supervised. However, a recent resolution of the Supreme Court of the Russian Federation “On practice of appliance of the Federal Law “On Mass Media” No. 16 as of 15 June 2010, has confirmed that although Internet websites are not subject to mandatory registration requirements, any violation of the legislation governing the distribution of information via the Internet may entail criminal, civil and/or administrative liability.

The Russian Ministry of Communications and Mass Media has held discussions in April 2009 relating to development of criteria, under which certain internet-companies may be considered as enterprises that have strategic importance for ensuring defence and security of the Russian Federation (“**strategic enterprises**”). Federal law “On Procedure for Carrying out Foreign Investments into Enterprises which Have Strategic Importance for Ensuring Defence and Security of the State” No. 57-FZ dated April 29, 2008 (the “**Law on Strategic Enterprises**”) introduces certain restrictions and limitations on acquisition by foreign investors of shares or control over strategic enterprises, as well as sets out a list of activities considered to be of strategic importance to the national defence and security of Russia. The list currently includes among other things, (i) periodic printed publications with the run of not less than 1,000,000 copies for each issue, (ii) television broadcasting/radio broadcasting in a territory whose population constitutes not less than 50% of the population of a constituent member of the Russian Federation. The Law on Strategic Enterprises applies to agreements that were entered into both in and outside of Russia if they lead to the acquisition of control over a strategic enterprise by a foreign investor.

The Law on Strategic Enterprises requires a prior approval of the state government committee (the “**State Committee**”) for the acquisition of direct or indirect control over strategic enterprises by a foreign entity or any other person that is a member of the group with the participation of a foreign entity. In case a

foreign entity acquires 5% or more shares in a strategic enterprise, it shall notify the State Committee in writing and provide information and documents relating to the transaction.

As of the date of the prospectus, Internet activities are not included in the list, and accordingly we do not qualify as a strategic enterprise. See *“Risk Factors—Certain companies of the Group may be qualified as “strategic enterprises” in the Russian Federation in the future”*.

Regulation in the Area of Advertising

Provisions of the Advertising Law that are applicable to Internet advertising contain: general requirements for advertising; and specific regulations regarding the content of advertisements for particular types of goods or services as well as specific rules on advertising by means of telecommunication.

Advertisers (e.g., producers or sellers of goods or services), advertising creators (i.e. advertising agencies, which create advertisements) and distributors of advertisements (such as Mail.ru) are liable under separate provisions of the Advertising Law. In particular, advertisers and advertising creators are liable for violating the requirements and restrictions of the Advertising Law that relate generally to the content of advertisements. Such requirements and restrictions include, inter alia:

- (i) A requirement that an advertisement should be made in good faith and contain accurate information.
- (ii) Certain general prohibitions regarding the content of advertising that include, inter alia, prohibitions of:
 - the use of foreign words or phrases that may lead to the distortion of a meaning of information contained in an advertisement except for registered trademarks;
 - the indication that an object of an advertisement is approved by state authorities or their officials;
 - the illustration of cigarette smoking or consumption of alcoholic beverages or beer in an advertisement;
 - the use of obscene or offensive images, comparisons or phrases, including in relation to gender, race, nationality, profession, social status, age, language of an individual, official state symbols, religious symbols, objects of historical or cultural heritage; and
 - an advertisement in which material information relating to an advertised commodity, or service, or terms and conditions of its purchase or use is omitted, if as a result of such omission the meaning of the information given in the advertisement is distorted such that the consumers of the advertisement are misled.
- (iii) Requirements that apply to the content of advertisements for particular types of goods or services (i.e., alcohol, beer, tobacco, gambling, pharmaceuticals, military goods and arms, securities and financial services).

An advertiser that has an Internet advertising services agreement with a group company must ensure that the content of advertisements that are to be placed on the relevant group company’s website complies with the relevant provisions of the Advertising Law. Although compliance with such provisions is the advertisers’ responsibility, the relevant group company must review nearly all advertisements that are to be placed on its website to verify their compliance with the Advertising Law. If the relevant group company identifies that the content of an advertisement is not in compliance with any applicable requirement of the Advertising Law, the group company must refuse to place such advertisement on its website.

Distributors of advertisements, for example Mail.ru, are liable for violating the requirements for and restrictions on advertising set out in the Advertising Law that relate generally to the means of distribution, but include also those that relate to the content of advertisements. Such requirements and restrictions include, inter alia:

- (i) General requirements for advertising, e.g., the prohibition on advertising of goods that are subject to state registration or mandatory certification or any other mandatory confirmation of compliance of such goods with certain technical requirements or production and/or sale of which is subject to licensing, if the registration has not been effected or certificates or licences have not been obtained as required by Russian law.

- (ii) Specific limitations and requirements apply to the advertising of alcohol, beer, tobacco, gambling, pharmaceuticals, military goods and arms, securities and financial services. For example, the Advertising Law sets out a requirement to include in any advertisement of alcoholic beverages, beer and tobacco a health warning on the excessive consumption respectively of alcoholic beverages or beer or cigarette smoking, and no less than 10% of the relevant advertising area must be allocated to such health warning.
- (iii) Advertisements that are distributed through telecommunication networks (including Internet, email service, mobile connection) must comply with the following requirements:
 - distribution of advertising by means of Internet/ mobile phones/ other new technologies may be distributed only if an addressee of such advertising expressly gave prior consent to receive it. If a person requests to stop the distribution of advertising, the distributor must do so;
 - the addressee, once he has given his consent to receive advertising via email or via mobile phone through use of sms/mms, an addressee has the ability to rescind his consent at any time; and
 - Russian law prohibits any use of electronic communication networks for the purpose of advertisement distribution with automated technologies (e.g. automatic dial up, automatic mailing).

The Advertising Law also contains specific restrictions applicable to advertising distributed by particular means (such as advertising on TV, radio, in newspapers/magazines, on transport vehicles and outdoor advertising). These restrictions are not relevant to Internet advertising.

A person that has violated the Advertising Law is liable in accordance with Russian civil legislation, and individuals may also carry criminal liability. Violations of the Advertising Law are typically punishable by administrative fines. See *“Risk Factors—We may be held liable to third parties for information or content displayed on, retrieved from or linked to our websites, or distributed to website users”*.

Copyright and Trademarks

Intellectual property rights, including copyright, rights related to copyright (i.e., intellectual property rights to, for example, performances and audio records) and proprietary rights to trademarks, are regulated and protected by Part IV of the Civil Code effective from January 1, 2008.

As an example, Mail.ru’s portal provides users with access to a range of products, for which copyrighted materials and objects of related rights may be used, including textual, graphical, video, audio or other materials. Where third parties provide content, software or technologies for services and products (e.g., Software, Games, Weather Forecasts, Horoscopes, What’s On Guide, News), Mail.ru typically licenses the right to use such technologies. Mail.ru also licenses certain other types of software from third parties for use in its general business operations (such as antivirus and anti-spam software).

Where content is posted by users of group company websites, for example on message boards, blogs, video or photo sharing webpages, copyrights or related intellectual property rights belonging to third parties may be infringed. There is currently no legislation, regulation or settled court practice in Russia that specifically addresses the liability of website owners and hosting providers for such infringements.

In the two recent court cases related to such infringements Moscow Arbitrazh court distinguished the scope of liability of the hosting providers, i.e. companies that does not own the website, but just provides website hosting and related technical services, and of the website owners, performing administration functions. The court stated that the hosting providers, not owning the websites and having no access to the website administration, could not delete the illegal content from the websites and therefore should not be held liable. At the same time, the court ruled against the owner of a popular video-sharing website, which, being the domain administrator and the owner of the website on which a music video was uploaded without the copyright holder’s consent, was able to delete from the website illegally shared materials, placed by any user. Recent court cases have also outlined criteria for holding web-site owners liable. Particularly, such criteria are related to the situations in which the web-site owner does not undertake all the necessary actions to prevent copyright infringements, which would arise in the course of its business activities (such as monitoring content of its web-site with due care and diligence, developing of the restriction with regard to uploading of content etc.). See *“Business—Legal Proceedings”*.

Despite the large number of recent court proceedings between the copyright holders, on one side, and websites owners and hosting providers, on the other side, the court decisions on such infringements are controversial and the court practice is still unsettled. See *“Risk Factors—We may be held liable to third parties for information or content displayed on, retrieved from or linked to our websites, or distributed to website users”*.

Recent amendments to the Part IV of the Civil Code, approved by the President of the Russian Federation on October 4, 2010, introduce additional limitations to any reproduction of copyrighted content without a copyright owner’s consent and with no remuneration to the owner. Previously, such reproduction was allowed for the user’s own purposes. Under the new amendments, reproduction of the content for the user’s own purposes will be allowed only in case of “necessity”. The criteria for “necessity” are unclear, and their interpretation will be a question of practice. The law introducing these amendments was published on October 8, 2010 and will come into force after ten days following the date of its official publication, on October 19, 2010.

According to Part IV of the Civil Code, group companies have proprietary rights to the software and technologies that they develop internally, including internally developed software and technologies used for email and IM products, search engines (for example the Gogo.ru search engine developed by Mail.ru) and various vertical products.

In addition, group companies obtain proprietary rights to materials that are subject to copyright protection and that are created for the relevant group company based on agreements with the authors of such materials.

Under Russian law, the registration of copyrighted materials is not required. Software may be registered by a copyright holder, at its discretion, with the Russian Federal Service for Intellectual Property, Patents and Trademarks (the **“Federal Service for Intellectual Property”**). Currently, the group holds one registered software copyright. Due to the constant development and improvement of software, the Company considers registration of software to be inefficient.

Russian law generally provides for the legal protection of the trademarks duly registered with the Federal Service for Intellectual Property or with the Worldwide Intellectual Property Organisation if the registration extends to Russia. In the absence of such registration (i) the company using the designation may be not able to protect it against unauthorised use by a third party; (ii) if a third party has previously registered a trademark, similar to the designation in question, a company may be held liable for unauthorised use of such trademark.

Usage of a third-party’s trademark without the trademark owner’s consent is prohibited. Such consent is usually expressed through the trademark license agreement, which shall be registered with the Federal Service for Intellectual Property. According to clause 1235 of the Civil Code an unregistered license agreement is invalid and is not enforceable under Russian law and may entail civil, administrative and criminal liability. Please see *“Risk Factors—We may be exposed to infringement claims by third parties, or may have our own intellectual property rights infringed, which could materially and adversely affect our business and results of operations”*.

Registration of Domain Names

The Coordination Centre of the National Internet Domain “RU” (the **“CCNID”**) issues rules regarding the registration of second level domain names (i.e. <name>.ru) within the Country code Top Level Domains “RU” and in the newly created “РФ”, and controls the accreditation of registrars involved in such registrations (previously, such rules were made by its predecessor, the Russian Research Institute of Public Networks Development (ROSNIROS)). Domain name registration is recognised as important in Russia for the protection of rights to use and administer domain names on an exclusive basis for the term of the registration. In particular, the Rules of the Registration of Domain Names in the Domain “RU” adopted by the CCNID on June 17, 2009, and effective from October 1, 2009, are binding on registrars of domain names and the entities seeking to register a domain name in the domain “RU”, and the Rules of the Registration of Domain Names in the Domain “РФ” adopted by the CCNID on September 30, 2009, and effective from October 1, 2009 are binding on those registrars of domain names and entities who seek to register a domain name in the domain “РФ”. Several accredited registrars currently operate, including ANO Regional Network Information Centre (RU-CENTRE) that registered the group’s various domain names.

Russia neither has a specialised domain name dispute resolution body and respective special domain names dispute resolution rules, nor delegated the dispute resolution powers with regard to the Coordination Center for Top-level Domain RU to the Worldwide Intellectual Property Organisation.

The number of court cases related to infringements of intellectual property object rights such as rights to trademarks and firm names by registration of identical/confusingly similar domain names (cyber squatting) has increased during the last few years. However, the level of protection for rights to domain names remains relatively low in Russia.

Licenses for the Provision of Communication Services

Pursuant to the Federal Law dated July 7, 2003 No.126-FZ “On Communications” (the “**Communications Law**”), licences are required for activities of entities related to the provision of communication services (“**communication licences**”). Communication licences are currently issued by the Russian Federal Service for the Supervision of Communications and Mass Communications (which is the successor of the Russian Federal Service for the Supervision of Mass Communications, Communication and Protection of Cultural Heritage that was reorganised pursuant to the Decree of the President of the Russian Federation dated May 12, 2008) (the “**Roscomnadzor**”).

As an example, LLC Mail.ru holds communication licence No. 65023 issued on December 26, 2008 and expiring on December 26, 2013. The above licence includes terms and conditions of the provision of the relevant communication services with which Mail.ru is required by law to comply.

Violations of the terms of a licence by a licensee may result in the suspension of the licence by the Roscomnadzor, and potentially the revocation of a licence in court upon a claim of the Roscomnadzor or any interested party, if the violations that caused the suspension of the licence have not been remedied within a time period determined by the Licensing Authority.

However, the Company believes that the relevant products may not be subject to licensing requirements, as it is not entirely clear under Russian law whether the relevant provisions of Russian law are applicable to: (i) communication services of such nature as those provided by certain members of the group’s companies; and (ii) communication services rendered by certain members of the group’s companies free of charge, given that the licensed activities on the provision of communication services are defined by the Communications Law as those activities for which a payment has been made.

Certain members of the group’s companies may not be in full compliance with the terms of its communication licences, but, for the reasons specified above, the Company believes that, even if its communication licences were revoked, such revocation would not adversely affect its activities. To date, neither none of the group’s companies nor the Company has received any warnings relating to the suspension of its communication licences or any other claims relating to any violation of the terms of its communication licences from Roscomnadzor.

Regulation of the Transfer of Information

The Information Law requires that information distributed without the use of mass media must include true and accurate details of the owner of such information or any other person that distributes such information.

As operators of an information system, as defined by the Information Law, certain group companies are required to ensure:

- the prevention of unauthorised access to information and/or its transfer to persons that are not entitled to access such information;
- timely identification of the facts of any unauthorised access to information;
- the prevention of adverse consequences resulting from any violation of the procedures regarding access to information;
- the prevention of any impact on the technical means of processing information, as a result of which operations are disrupted;
- the provision of measures for the immediate restoration of information that is modified or destroyed as a result of unauthorised access to such information; and
- constant supervision of information protection.

A person that has violated the Information Law is liable under the laws of the Russian Federation. Persons whose rights are violated due to the disclosure of information or any other unlawful use of such information, may claim compensation in the form of damages or seek protection of their reputation in court. Under Russian criminal law, individuals may be criminally liable for certain actions relating to computer information (e.g., creation or distribution of “virus” computer programs) and for violations of the privacy of correspondence.

As operators process (e.g., collecting, storing and transferring) personal data, as defined by the Law on Personal Data, certain group companies must ensure the confidentiality of such data. As required by the Law on Personal Data, as a matter of policy, group companies obtain the consent of individuals before processing their personal data. Operators shall also notify the governmental authority controlling compliance with the Law on Personal Data (currently Roscomnadzor) on their intent to process personal data prior to the commencement of processing and shall be included in the Register of the Operators Processing Personal Data, as maintained by Roscomnadzor.

In addition, when processing personal data, operators must undertake all necessary organisational and technical measures, including the use of cryptographic means, for the protection of personal data from unlawful or accidental access, destruction, modification, blocking, copying or distribution of personal data, as well as from other unlawful actions in relation to personal data.

Consumer Protection Regulation

Members of the group provide certain fee-based services to individual users, these services are subject to regulation by the Consumer Protection Law. In particular, consumers are entitled to receive such services within certain time periods, in the manner and of the quality set out for such services on the website of the relevant group company.

If a group company violates any applicable provisions of the Consumer Protection Law, it may be liable in accordance with the laws of the Russian Federation to any consumer whose rights have been violated, by means of compensation in the form of damages.

Regulation of Electronic Payments and Payments through Payment Agents in Russia

Electronic payments

We, and certain of our affiliates, process electronic payments in Russia. There are currently no specific laws or regulations in the Russian Federation that specifically govern electronic payments on the Internet. Such activities fall within the general scope of the Law on Payment Agents, the Law on Personal Data, the Consumer Protection Law and certain other laws.

The Russian government has recently proposed a draft bill entitled “On the National Payment System” and the draft bill introducing amendments to certain legislative acts of the Russian Federation in connection with adoption of the Law “On the National Payment System”. The draft bill “On the National Payment System” includes provisions relating to electronic money, and the draft bill may soon be submitted to the State Duma for approval. According to the draft bill, electronic money is defined as monetary funds, provided by one person to another where the latter accounts the information on the amount of money provided without the opening of a bank account, and which is intended for the execution of payments and other transactions with third persons and in respect to which the person who has provided the funds may issue instructions via electronic means of payment.

The draft bill provides that only credit institutions may be debtors pursuant to electronic money. The draft bill also provides that credit institutions may enter into agreements with organisations that are not credit institutions, under the terms of which the latter may render the credit institutions operational and clearing services for the execution of electronic money operations, and also take legal and other actions on behalf and at the expense of the credit institutions. According to the draft bill, transactions with electronic money will be monitored and regulated by the CBR.

We are monitoring the progress of the draft bill and may in the future be required to enter into an arrangement with a credit institution, pursuant to the provisions of the draft bill, or alternatively seek an appropriate license. As of the date of this prospectus, there is only a draft bill, and no legal requirements upon us, or any of our affiliates, to be compliant. See “*Risk Factors—Government regulation of the Internet, and requirements related to data protection, could adversely affect our business*”.

Payments through payment agents

QIWI provides payment acceptance and processing services.

Activities related to the acceptance of payments through payment agents are regulated by the Federal Law dated June 3, 2009 No. 103-FZ “On activities of acceptance of payments from physical persons performed by the payment agents” (the “**Law on Payment Agents**”). The Consumer Protection Law also applies to such activities.

Payment agents, as defined by the Law on Payment Agents, are legal entities or individual entrepreneurs that render intermediary services regarding the acceptance of payments from individuals, on behalf of service providers such as banks and vendors. Payment agents only conduct activities in relation to cash payments, and only to the extent not regulated by applicable banking legislation. There are two types of the payment agents:

- payment operators, i.e. companies, authorised vendors (e.g. cell phone companies), which services are being paid for by the physical persons via payment operators or via payment subagents (“**Service Providers**”); and
- payment sub-agents, cooperating only with payment operators and not entitled to further deliver payments to the Service Providers.

QIWI acts as a payment operator.

The Law on Payment Agents requires payment operators and payment sub-agents to comply with the Federal Law No. 115-FZ “On Combating the Legalisation (Laundering) of Income Obtained by Criminal Means” dated August 7, 2001 (the “**Anti-Money Laundering Law**”). In particular, the Anti-Money Laundering Law requires payment operators and payment sub-agents to perform mandatory customer due diligence for all transactions exceeding 15,000 RUB. According to the Law on Payment Agents, the payment operator may perform its activities only after it registers with the governmental authority controlling compliance with the Anti-Money Laundering Law (currently the Federal Service for Financial Monitoring, or “**Rosfinmonitoring**”).

From April 1, 2010, payment operators collecting the cash payments have been required to use cash registering facilities with an inbuilt fiscal memory and a reference tape, in order to monitor payments received. As a result of this new regulation, the Tax Service of the Russian Federation has become the authority tasked with supervising the use of the cash registering facilities.

The draft bill “On the National Payment System” also includes certain requirements for payment operators, as defined by the Law on Payment Agents. The most significant of these requirements is that payment operators, when acting as a processing centre, must involve credit organisations. As a consequence, QIWI is acquiring Commercial Bank “1-st Processing Bank” (Joint-stock company), a Russian bank. Banks in Russia are subject to Russian bank regulations, some of which impact their shareholders. In particular, there are regulations governing the acquisition and disposal of stakes in Russian banks, as well as capital adequacy, money laundering and certain reporting requirements. The draft bill introducing amendments to certain legislative acts of the Russian Federation in connection with adoption of the Law “On the National Payment System” provides that the Law on Payment Agents will cease to be in force after 5 years from the date of official publication of the said law, and thus activities related to the acceptance of payments through payment agents will thereafter be regulated by the Law “On the National Payment System” (if such Law is adopted).

CORPORATE GOVERNANCE

Overview

Our current Memorandum and Articles of Association were approved by the shareholders' meeting on October 18, 2010. Our management bodies are the shareholders' meeting and the Board of Directors.

Our ultimate decision making body is the shareholders' meeting. It is followed by the Board of Directors, which is responsible for the general management of the Company, including coordinating strategy and general supervision. A description of each of the shareholders' meeting and the Board of Directors is set out below.

General Shareholders' Meeting

Share Capital

Our share capital is divided into two classes of shares, Class A Shares, each of which carries twenty-five votes at shareholders' meetings, and Ordinary Shares, each of which carries one vote. See "*Description of Share Capital and Certain Requirements of BVI Law*".

Calling Shareholder Meetings

The shareholders' meeting is our supreme governing body. Shareholders' meetings are convened by the Board of Directors, or by the written request of shareholders holding in aggregate 30% or more of the outstanding voting shares in the Company.

The Board of Directors shall give not less than 14 days' notice of Shareholders' meetings unless a shorter notice period is agreed by a resolution approved by at least 75% of all the votes attaching to issued shares ("**75% resolution**").

The agenda for the Shareholders' meetings will be determined by the Board of Directors, but a shareholder or shareholders holding in aggregate 10% or more of the outstanding voting shares of the Company may add items to the agenda (i) no later than a week before the meeting or (ii) at the meeting itself, with the consent of shareholders holding in aggregate more than 50% of outstanding voting shares of the Company.

Voting

Matters determined at shareholders' meetings require a resolution of the shareholders passed by a simple majority of the votes cast at any particular meeting or in favour of any written resolution of shareholders (a "**simple majority resolution**"), unless the Articles of Association specify that a 75% resolution is required for a particular matter ("**Reserved Matters**").

The following are Reserved Matters:

- any amendment to the Memorandum and Articles of Association of the Company (excluding variation in the authorised share capital which may be resolved upon by the Board of Directors) or other constitutional documents, except that any amendment to the mandatory offer requirements shall require a 95% resolution of members, and that any amendment that varies or affects the rights attached to any class of shares shall require a 75% resolution of that class;
- any liquidation, dissolution or winding-up (whether voluntarily or compulsorily) of the Company or of any Portfolio Company (defined below), or the Company or Portfolio Company ceasing to carry on business;
- any change to the authorised number of Directors;
- removal of the entire Board of Directors;
- any amendment to the constitutional documents of any Portfolio Company in a way that causes either the Company or any entity it controls to lose any shareholder rights in relation to such Group company (other than a bona fide restructuring as a result of which either the Company or any other entity that it controls retains all such shareholder rights in relation to such Portfolio Company);
- any issue of new Class A Shares or securities convertible into Class A Shares, or granting any options over Class A Shares;

- to disapply pre-emption rights for Class A Shares and Ordinary Shares;
- to resolve that upon a transfer of Class A Shares, there should be no conversion to Ordinary Shares;
- any issue of shares for non-cash consideration;
- to authorise or issue, or obligate itself to issue, any equity security (including any other security convertible into or exercisable for such equity security) either (a) having a preference over the shares or (b) in exchange for shares in any Portfolio Company;
- consummate any merger, consolidation or similar event, provided always that any such event is a Substantial Transaction (defined below);
- to redeem, purchase or otherwise acquire (or pay into or set aside for a sinking fund for such purpose) any shares, unless such redemption, purchase or acquisition applies pro rata to all shareholders, provided that no 75% Resolution for a pro rata redemption, purchase or acquisition shall be required where the Company exercises the Priority Option under the “Right of First Offer” provisions of the Articles of Association. See “*Description of Share Capital and Certain Requirements of BVI Law—Memorandum and Articles of Association—Rights attaching to shares*”;
- the Company or any entity which it controls or Portfolio Company agreeing, undertaking or discontinuing a Substantial Transaction (defined below);
- exclude any company from the list of Portfolio Companies;
- to designate an entity as a “Affiliate” for the purposes of the Articles of Association; and
- approving a Related Party Transaction (defined below) provided that the 75% Resolution is passed by 75% of those Non-Interested Shareholders (defined below) who cast their votes.

A **Portfolio Company** is (i) a company in which the Company, directly or indirectly holds shares and which has by a resolution of the Board of Directors been designated a “Portfolio Company” of the Company; (ii) a company in which the Company acquires a direct or indirect shareholding in another company, which is valued at more than 10% of the Equity of the Company (defined below) at the time of the acquisition; and (iii) any other company in which the Company, directly or indirectly, holds shares if the audited annual financial statements of the Company for any financial year indicate that the value of such shareholding has increased to more than 10% of the Equity of the Company (defined below), and in each of (i), (ii) and (iii), which has not been excluded by a 75% Resolution.

A **Substantial Transaction** is either of the following:

1. A transaction by the Company or any entity which it controls where:

Gross assets the subject of the transaction = a percentage exceeding 15% Equity of the Company
or:

2. A transaction by any Portfolio Company where:

Gross assets the subject of the transaction × PCH = a percentage exceeding 15% Equity of the Company
or:

3. Any action or omission (including (i) any disposal of shares or any securities convertible into shares or rights to shares and (ii) any consent to any amendment to any agreement) that results in a diminution below any threshold that needs to be maintained under applicable law or pursuant to an agreement in order for the company or any entity that it controls to retain any voting, management, information or other control rights in relation to any Portfolio Company, whether held at law, at equity or by contract (provided that any such disposal that does not result in any such rights falling below any such applicable threshold shall not be deemed to be a Substantial Transaction).

For the purposes of the calculations described above:

The “**Equity of the Company**” means the (i) number of shares in issue at the relevant date multiplied by (ii) the weighted average of the daily closing prices (adjusted to a per share basis in the case of GDRs) during the immediately preceding quarter.

The “**Gross Assets the subject of the transaction**” means: (i) in the case of an acquisition or disposal of assets, the monetary value of the consideration paid or received for assets plus any liabilities assumed; (ii) in the case of any loan, pledge, guarantee or other liability, the amount of such loan, pledge, guarantee or the maximum liability that might be reasonably expected to be incurred.

“**PCH**” means the percentage of the Company’s direct or indirect shareholding in the relevant Portfolio Company, expressed as a decimal (such that, if the Company were to hold 24.99% of a particular Portfolio Company, PCH would be 0.2499).

Related Party Transactions

A “**Related Party Transaction**” is when the Company knowingly enters into (i) a transaction between the Company and a Mail.ru Group Connected Person that has a total value of more than US\$100,000 (other than contracts concluded at arm’s length terms with any consultant, employee, officer or Director of the Company, or any company that the Company controls); or (ii) a transaction between the Company and a Member Connected Person that has a total value of more than US\$500,000 (other than a transaction concluded at arm’s length terms).

The Company requires a 75% Resolution (approved by 75% of the Non-Interested Shareholders) to enter in any Related Party Transaction involving Reserved Matters. For the approval of all other Related Party Transactions, a resolution of Directors (approved by a majority of Non-Interested Directors) is required. Notwithstanding the foregoing, a shareholder of Board of Directors’ resolution is not required for (i) the provision of any legal professional services by any officer of the Company in the normal course on arm’s length terms, (ii) a transaction with a Member Connected Person by a Portfolio Company that the Company does not control or (iii) a bona fide fundraising transaction offered to all shareholders pro rata.

A “**Mail.ru Group Connected Person**” means (i) an employee, officer or Director of the Company; (ii) any immediate family member of the persons included in (i) above; and (iii) any corporation, partnership or other entity which such person or family member controls.

A “**Member Connected Person**” means (i) any shareholder of the Company holding Class A Shares carrying more than 3% of the total votes that may be cast at the Company’s shareholders’ meetings; (ii) a Director of such shareholder; (iii) a person who controls (or persons who together control) any corporate shareholder of the Company holding Class A Shares and/or Ordinary Shares carrying more than 2% of the total votes that may be cast at the Company’s shareholders’ meetings; (iv) any immediate family member of the persons included in (i) - (iii) above; and (v) any corporation, partnership or other entity which such person or family member controls.

A “**Non-Interested Director**” shall be any director other than a director elected to the Board of Directors following his nomination by a shareholder who is the Mail.ru Group Connected Person or Member Connected Person that is a party to the Related Party Transaction in question.

A “**Non-Interested Member**” shall be any shareholder other than a shareholder who is the Mail.ru Group Connected Person or Member Connected Person that is a party to the Related Party Transaction in question.

Limitations on voting powers of Non Russian shareholders

The Memorandum of Association provides that no Non Russian Shareholder (defined below), whether by itself or with its affiliates or in combination with any other Non Russian Shareholder with whom it has a voting agreement or arrangement (unless approved by a 75% Resolution) shall be entitled to cast more than 35% of the votes actually cast at any shareholders’ meeting. In addition, Non Russian Shareholders in aggregate may not cast more than 45% of the votes at any shareholders’ meeting, and any such excessive votes shall be ignored for the purpose of calculating the number of votes actually cast.

A “**Non Russian Shareholder**” is a shareholder of the Company who (i) if an individual, is not a Russian citizen, or (ii) if not an individual, is itself ultimately beneficially owned (more than 50%) or controlled by a person or persons who are not Russian citizens. For the avoidance of doubt, GDR holders are treated as Non-Russian Shareholders for the purposes of determining the aggregate number of votes held. Upon the applicable threshold being exceeded, the discounted votes shall be those votes belonging to the Non-Russian Shareholder whose purchase of shares caused the threshold to be exceeded. For this purpose, purchases of GDRs will not be considered to be a purchase of shares.

For certain additional provisions affecting corporate governance, see “*Material Contracts—Investors’ Rights Agreement*”.

Mandatory offer requirements

Where a person, together with that person’s concert parties, acquires (through an acquisition rather than accretion) shares that together with any other shares owned by such Shareholder or its concert parties carry 75% or more of the voting rights of the Company (the “**75% Threshold**”), such person must simultaneously make a unconditional cash offer to the other shareholders to purchase their shares. The offer price will be determined by the highest price paid for shares in the Company by such person, or its concert parties if applicable, in the preceding 12 months, including the acquisition in which that person reached the 75% Threshold.

The requirements do not apply to any existing shareholder of the Company as of 27 August, 2010 where that shareholder acquires or obtains, through whatever means, 75% or more in the voting rights of the Company. They also do not apply in case of accretion over 75% without a purchase. See “*Risk Factors—Risks relating to corporate governance matters*”.

For the purposes of these requirements, a person who acquires an interest in GDRs shall be taken to have acquired an interest in the underlying shares.

Board of Directors

Current Board of Directors

The Board of Directors currently consists of the ten members listed below. The business address for the Board of Directors is the Company’s registered office.

<u>Name</u>	<u>Position</u>	<u>Date of Appointment</u>	<u>Expiry of Term</u>
Yuri Milner ⁽¹⁾	Chairman	October 18, 2010	2013 AGM
Gregory Finger ⁽¹⁾	Elected Director	December 14, 2006	2013 AGM
Matthew Hammond ⁽²⁾	Elected Director	May 19, 2010	2013 AGM
Vladimir Streshinskiy ⁽²⁾	Elected Director	August 3, 2008	2013 AGM
Hein Pretorius ⁽³⁾	Elected Director	August 27, 2010	2013 AGM
Mark Remon Sorour ⁽³⁾	Elected Director	August 27, 2010	2013 AGM
Ardavan Moshiri ⁽²⁾	Elected Director	October 18, 2010 ⁽⁴⁾	2013 AGM
Vasileios Sgourdos ⁽³⁾	Elected Director	October 18, 2010 ⁽⁴⁾	2013 AGM
Marcos Galperin	Independent Director	October 22, 2010 ⁽⁴⁾	2013 AGM
Independent 2 ⁽⁵⁾	Independent Director		

(1) Founders representative.

(2) New Media and Technology Investment L.P. representative.

(3) MIH Russia Internet BV (member of the Naspers Group) representative.

(4) Such appointment shall be effective from the date of Admission.

(5) The Company plans to appoint its second Independent Director by April 30, 2011, in accordance with the Articles of Association.

Biographies

Yuri Milner

Yuri Milner founded the Company in 2005 and is the Chairman of the Board of Directors of the Company. Yuri has led investments in a number of leading Internet companies.

Yuri graduated from Moscow State University in 1985 with an advanced degree in theoretical physics and subsequently conducted research at the Institute of physics in the Russian Academy of Sciences between 1985 and 1989. Between 1990 and 1992 Yuri attended Wharton Business School and subsequently joined the World Bank where he was involved in the development of the financial sector in Russia. Yuri started investing in the Internet sector in 1999.

Prior to his current position with the Company, Yuri held a number of management positions in Russia, including CEO of Mail.ru between 2001 and 2003. Currently, Yuri serves on the board of directors of Telecominvest. Yuri also serves as a member of the Presidential Commission for Modernisation and Technological Development of Russia’s Economy.

Gregory Finger

Gregory Finger is a founding member and Director of the Company. With the Company, Gregory has participated in numerous high profile investments in leading Internet companies.

Gregory graduated with honours from the Moscow Institute of Chemical Engineering (1988) with a specialisation in automated control systems. Between 1992 and 2005 Gregory was the head of the Moscow office of New Century Holdings, the largest Western financial investor in the Russian speaking and Eastern Europe markets. At New Century Holdings, Gregory worked with over 15 investment funds, including a fund having US\$3 billion in assets under management. Gregory also made the first Internet investments on behalf of New Century Holdings, an early investment in Mail.ru. Gregory started investing in the Internet sector in 1999.

Matthew Hammond

Matthew Hammond is a Director of the Company, and has worked on a number of high profile technology IPO's and M&A transactions.

Matthew Hammond graduated in 1996 from Bristol University with a BA (Hons) in economics and history.

From 1997, Matthew was a technology analyst at Credit Suisse for 12 years, where he was #1 ranked in the Extell and Institutional Investor surveys 8 times.

Matthew Hammond is currently the Group Strategist for Metalloinvest Holdings where he manages the non-core asset portfolio, and he also advises the board on investment strategy, mergers and acquisitions and foreign exchange transactions. Matthew also sits on the boards of Nautilus minerals, Strike Resources and Puricore.

Vladimir Streshinskiy

Vladimir Streshinskiy is a Director of the Company.

Vladimir graduated with honors from the aeromechanics and flight vehicles department of the Moscow Physics and Technology Institute in 1992.

Vladimir Streshinskiy is currently Chief Executive Officer of OJSC "Telecominvest" and has held the position since November 2008. Vladimir is also currently a director of Metalloinvest, Telecominvest, MegaFon, PH Kommersant, MUZ TV and 7 TV.

Hein Pretorius

Hein Pretorius is a Director of the Company and has more than 16 years experience in the Internet, Technology and Telecommunications industries. He is widely recognized for his actions in furthering the MIH group's investment activities in these industries, in particular investments in Mail.ru, Nimbuzz, Gadu-Gadu and the Tradus Group (Ricardo and Allegro).

Hein is a graduate from the School of Project Management (Advanced Project Management) in 1998, Manchester Business School (MDP) in 1999 and Harvard Business School (MDP) in 2008.

Hein joined the Naspers Group in 2000 as CEO of Kalahari.net, the group's first e-commerce platform operation. In 2002 he became CEO of N-Direct (an aggregated platform of all commerce activities) and in 2004 he relocated to China in the role of Internet Business Development Director, first to Shanghai and then to Beijing. In 2007 Hein was relocated to the Netherlands taking up the position of Chief Operating Officer for the Internet Division in Europe. In September 2008 he was appointed as Chief Executive Officer of the Division.

Hein currently holds the position of CEO of the Internet Division in Europe and is a director of a number of companies in the MIH Group. His previous and concurrent management positions include: CEO at N-Direct (subsidiary of Naspers Group) April 2002 - June 2005; BD Director Internet Division at MIH B.V. (subsidiary of Naspers Group) July 2005 - September 2008; Board Member at Nimbuzz.com May 2007 - Present; Board Member at Gadu-Gadu S.A. December 2007 - Present; Board Member at Mail.ru 2008 - Present; Board Member at Ricardo Group March 2008 - Present; Board Member at Allegro Group March 2008 - Present; CEO at MIH Internet Europe (subsidiary Naspers Group) September 2008 - Present.

Mark Remon Sorour

Mark Sorour is a Director of the Company with more than 16 years of relevant experience in business development, mergers & acquisitions, corporate finance and capital markets fundraisings in Internet, Technology and Pay TV businesses.

Mark is a qualified Chartered Accountant. He graduated from Selborne College, East London and has a BCom Diploma in Accountancy from the University of Natal.

Mark joined the Naspers Group in 1994 from investment banking to spearhead business development throughout Africa, the Middle East, Thailand, China, Europe, USA and South East Asia. In 2002, he took up his current position as the Chief Investment Officer of the Naspers group, with global responsibility for the group's mergers & acquisitions, corporate finance and capital markets fundraising activities.

Ardavan Moshiri

Ardavan Moshiri is a Director of the Company. He graduated with a degree in Economics and Statistics from University College London and is a fellow of the Association of Chartered Certified Accountants.

Ardavan is Chairman of the board of Metalloinvest MC, a leading Russian steel and mining company, where he has been a Director since 2006. He is also a Director of Gallagher Holdings Limited, an investment company and principal shareholder in Metalloinvest Group, and a Director of Strike Resources Ltd. and OJSC Megafon, the Russian mobile telecommunications company. Ardavan was CEO of UK-listed GNE Group plc from 1998 to 2006 and CEO of Europe Steel Ltd. from 2000 to 2008. He has served on the board of quoted mining companies OJSC MMC Norilsk Nickel and Nautilus Minerals Inc., as well as a number of unquoted companies.

Vasileios Sgourdos

Vasileios Sgourdos is a Director of the Company with extensive experience in global M&A. He graduated with a Bachelor of Commerce from the University of Witwatersrand in South Africa and received an Honours Bachelor of Accounting Science from the University of South Africa. He is a qualified Chartered Accountant.

Vasileios is a Director of MIH, Abril SA, and a number of companies within the MIH group. He joined MIH in 1994 to manage the finances of the South African Operations Division having worked at PriceWaterhouseCoopers in South Africa. Between 1997 and 2007 Vasileios was Chief Financial Officer for UBC. He was appointed General Manager for Business Development Pay Television at MIH in the Netherlands in January 2007 and Group Chief Financial Officer for MIH in January 2009.

Marcos Galperin

Marcos Galperin is a Director of the company with extensive experience in the Internet industry.

Marcos received an MBA from Stanford University in 1999 and graduated with honors from the Wharton School of the University of Pennsylvania in 1994. He is a member of the Management Board of Stanford Graduate School of Business and a Director of the Board of Endeavor. Among other distinctions and awards Marcos has been awarded an Endeavor Award, a Konex Prize and has been recently recognised by Forbes Magazine as a top 10 member of its "Forbes 40 under 40" list for the year 2010.

Marcos is the founder of MercadoLibre and has been its Chief Executive Officer since its founding in 1999. MercadoLibre is Latin America's leading e-commerce technology company and the site is among the top 50 in the world in terms of page views and is the leading retail platform in unique visitors in each country in which it operates according to metrics provided by comScore, and was considered one of the World's Hottest Brands by Ad Age Magazine. It listed on Nasdaq (Nasdaq:MELI) following its initial public offering in 2007.

Prior to working with MercadoLibre, Marcos spent a summer in the fixed income department of J.P. Morgan Securities Inc. in New York from June to August 1998 and also worked at YPF S.A., an integrated oil company, in Buenos Aires, Argentina, where he was a Futures and Options Associate and managed YPF's currency and oil derivatives program from 1994 to 1997.

Appointment and Powers of the Board of Directors

The Board of Directors is responsible for the general management of the Company and for the particular matters described below.

Appointment of Directors

The Articles of Association specify that there shall be ten Directors, consisting of eight Directors nominated and elected by shareholders (the “**Elected Directors**”) and two independent Directors (the “**Independent Directors**”), provided that by April 30, 2011, the Company plans to have appointed a second Independent Director.

The Elected Directors are appointed by shareholder cumulative voting. Elected Directors shall be appointed for a period from the date of their appointment until the second annual general meeting of shareholders after the date of their appointment. Upon expiry of their term, Elected Directors must resign, but are eligible for re-election. Any shareholder or group of shareholders holding in aggregate not 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 not less than 21 days prior to any annual general meeting at which an Elected Director shall resign.

The Independent Directors are appointed by a resolution of Directors from amongst candidates nominated by the Board of Directors. Independent Directors shall serve for the period included in the terms of appointment, as specified by the Board of Directors.

The Board of Directors elect one of their number to act as Chairman.

All (but not less than all) the Directors may be removed from office, with or without cause, by a 75% shareholders’ resolution.

Powers of the Board of Directors

The Board of Directors is granted the authority to manage the business affairs of the Company, and has the authority to decide, among other things, the following:

- the right to offer, allot, grant options over, or otherwise dispose of, shares (excluding Class A Shares, where a 75% Resolution is required) to such persons at such times and for such cash consideration (non-cash issues require a 75% Resolution) and generally on such terms and conditions as the Directors may determine by resolution, provided that no shares shall be issued at a discount below their par value (provided a 75% Resolution is required to disapply pre-emption rights);
- 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 auditor;
- the appointment of any committee of the Board of Directors, including the Company’s Audit Committee and Remuneration Committee (see below);
- 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;
- 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); and
- 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.

Without prejudice to the rights of the shareholders, including Reserved Matters, the shareholders do not have the power to pass any resolution in conflict with the resolutions of the Board of Directors made in accordance with the Articles of Association.

Proceedings of the Board of Directors

The Board of Directors, or any committees thereof, meet at such times and in such manner as the Directors determine to be necessary or desirable. Meetings are held in the Company's branch in Dubai, or such other place as a 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 present at a meeting. 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 has a casting vote in the event of a tie.

Senior Management

Senior Managers

The following table sets forth the name, position, year of appointment and location of each of our senior managers ("**Senior Managers**"):

<u>Name</u>	<u>Position</u>	<u>Year Appointed</u>	<u>Location</u>
Dmitry Grishin	Chief Executive Officer, Russia	2010	Moscow
Verdi Israelian	Chief Operating Officer, Russia	2010	Moscow
Alexander Karavaev	Chief Financial Officer	2010	Dubai
Alexander Tamas	Managing Director	2010	Dubai

Dmitry Grishin—Chief Executive Officer, Russia

Dmitry Grishin joined Mail.ru in 2000 and, having acted as CEO of Mail.ru from 2003, became CEO in September 2010.

Dmitry graduated from Moscow State Technical University in 2001 with a degree of honour in computer-aided design.

Between 2001 and 2003, Dmitry served as Technical Director of Mail.ru. From 2003 until 2010, Dmitry was the CEO of Mail.ru. Currently Dmitry also serves on the board of directors of Haslop Company Limited.

Dmitry is CEO of Internet Company Mail.ru LLC, the sole executive body for the Company's core consolidated subsidiaries. Dmitry's focus is on the core consolidated subsidiaries and the Company's venture capital stakes in Russian and Ukrainian companies.

Dmitry is based in Moscow, at Internet Company Mail.ru LLC, 10 Presnenskaya Nab., Block C, Floor 57, 123317 Moscow, Russia.

Verdi Israelian—Chief Operating Officer, Russia

Verdi Israelian joined an affiliate of the Company in 2009 and is the COO. Verdi also serves on the boards of several portfolio companies owned by the company.

Verdi holds an MBA from Rotterdam School of Management, Erasmus University in the Netherlands.

Verdi started his career at Arthur Andersen and worked at Lehman Brothers in London. Verdi was then a deputy head of Russia Investment Banking at Morgan Stanley and completed multiple IPO and M&A transactions, helping to raise over US\$5 billion for Russian corporations. Prior to joining the Company, Verdi co-headed CIS operations of European Special Situations Group at Goldman Sachs in Moscow, where he led several private equity investments in consumer, retail, new media and real estate sectors in Russia and Kazakhstan.

Verdi is COO of Internet Company Mail.ru LLC. Verdi is also a member of the board of directors of ICQ.

Verdi is based in Moscow, at Internet Company Mail.ru LLC, 10 Presnenskaya Nab., Block C, Floor 57, 123317 Moscow, Russia.

Alexander Karavaev—Chief Financial Officer

Alexander Karavaev joined an affiliate of the Company in 2008 and is the CFO of the Company.

Alexander graduated with honours in economics from the Siberian Aerospace Academy, majoring in management and strategic planning. Following that, he attended the University Passau in Germany for one year, studying strategic planning.

Between 2003 and 2007, Alexander was Deputy CFO and vice-president of development of financial systems at SUAL, one of the world's largest aluminium producers, and in 2007, became deputy CFO and head of corporate reporting at Renova, an investment company with total assets over US\$15 billion.

Alexander is based in the Dubai branch of the Company, at Office No. 3307, Shatha Tower, Tecom Free Zone, Dubai Media City, Dubai, U.A.E.

Alexander Tamas—Managing Director

Alexander Tamas joined an affiliate of the Company in 2008 and is the Managing Director. Alexander has worked in the Internet industry full time since 2002.

Alexander holds a MA in Business, Finance and Accounting from the Goethe University, Frankfurt.

Alexander co-founded Arma Partners and helped to build it to one of Europe's leading independent technology M&A advisory firms with a presence in London and Palo Alto.

Prior to joining the Company, Alexander worked in the Investment Banking Division of Goldman Sachs in London, where he was responsible for numerous technology and Internet IPOs in Europe and Russia, mergers and acquisitions in the Internet and software sectors and fundraisings for high-growth companies across Europe.

Alexander's focus is on transactions by the Company or by its strategic minority investments, and is also responsible for reviewing the performance of the Company's international investments.

Alexander is based in the Dubai branch of the Company, at Office No. 3307, Shatha Tower, Tecom Free Zone, Dubai Media City, Dubai, U.A.E.

The Audit and Remuneration Committees

The Company has an audit committee and a remuneration committee.

The audit committee has the responsibility for considering and reviewing (i) consolidated Group annual financial statements issued in accordance with IFRS, (ii) semi-annual accounts for the Company and each of its consolidated subsidiaries as at and for the six months ended June 30 of each year, (iii) unaudited quarterly accounts for the Company and each of its consolidated subsidiaries, (iv) details of any material transactions or events having an impact on certain line items of the Company's consolidated accounts, (v) monthly management reports for the Company and each of its consolidated subsidiaries, which shall include income statement, cash flow and balance sheet, and key performance indicators based on actual numbers or Company estimates, and (vi) annual budget information for the Company and certain of its subsidiaries.

The audit committee will meet on a regular basis, taking into account its duties to consider and review the above information. The audit committee consists of members of the Board and is chaired by Vasileios Sgourdos.

The remuneration committee is responsible for approving the terms of appointment and remuneration of senior managers of the Company, and the approval of options to be granted under the option plan.

The remuneration committee meets on an appropriate basis accordingly. The remuneration committee consists of members of the Board and is chaired by Matthew Hammond.

Relationship Agreement

The Company has entered into a Relationship Agreement with DSTG. Please see "*Material Contracts—Relationship Agreement*" for further information.

BVI Corporate Governance Requirements

The Company believes that it is in compliance with the corporate governance requirements of applicable BVI law.

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 Shares and Ordinary Shares.

The following table includes information as to the share ownership and any options over such shares in the Company held, directly or indirectly, by each Director as of the date of this Prospectus (prior to the issue of new Ordinary Shares and prior to the conversion of Class A Shares into Ordinary Shares, in conjunction with the Offering).

Name	Class A Shares (direct and indirect)	Ordinary Shares (direct and indirect)	Ordinary Shares on which options are granted	Total % of Company's issued share capital represented by outstanding shares
Gregory Finger ⁽¹⁾	13,782,000	—	— ⁽³⁾	7.2%
Yuri Milner ⁽²⁾	7,460,000	—	— ⁽³⁾	3.9%

(1) Gregory Finger has an economic interest in the performance of the shares in the Company held by NMT. See “*Principal and Selling Shareholders—Major Shareholders*”. Gregory Finger has agreed in certain circumstances to share proceeds of any sale of his shares in the Company with Yuri Milner.

(2) Yuri Milner has an economic interest in the performance of the shares in the Company held by NMT. See “*Principal and Selling Shareholders—Major Shareholders*”. Gregory Finger and Mikhail Vinchel have agreed in certain circumstances to share proceeds of any sale of their shares in the Company with Yuri Milner.

(3) Gregory Finger and Yuri Milner hold options to acquire 9,206,000 Ordinary Shares in aggregate through DST Advisors Limited.

With the exception of Gregory Finger and Yuri Milner, as listed above, none of the Directors have beneficial ownership interests in our Class A Shares or Ordinary Shares at the date of this prospectus. However, the Company expects to grant options to Directors under its new equity-based long-term incentive scheme on the date of Admission. See “—*Compensation*”.

None of the members of our Board of Directors or our Senior Managers are related to one another for the purposes of the Prospectus Rules. See “*Principal and Selling Shareholders*” for a presentation of changes to the above data expected in connection with the Offering.

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 (excluding Directors) prior to the Offering is 2,694,000 Ordinary Shares and 957,922 Class A Shares (direct and indirect), which equate to 1.90% of the Company's issued share capital. In addition, senior managers and employees hold options granted over 9,560,000 Ordinary Shares.

Our directors and the shareholders that nominated them are generally not prohibited from owning or acquiring interests in companies that could compete with us in the future for investments or business, and each of them has a range of business relationships outside the context of their relationship with us that could influence their decisions. Yuri Milner is the Chairman of the Board of the Company as well as the CEO of DSTG (and also has a financial interest in DSTG). NMT and its affiliates have shareholdings in and representatives on the boards of both the Company (Matthew Hammond, Vladimir Streshinskiy and Ardavan Moshiri) and DSTG. One of our Senior Managers, Alexander Tamas, will work for both the Company and an affiliate of DSTG. The Relationship Agreement between DSTG and the Company does not prevent DSTG from taking advantage of investment opportunities that might otherwise be available to the Company. MIH, represented on the Board of the Company by Hein Pretorius, Mark Remon Sorour and Vasileios Sgourdos, is a member of the Naspers Group, which has interests in a number of different Internet companies, some of which could compete with us in the future, and has a controlling interest in Molotok, with whom we have agreed to certain non-compete arrangements as described under “*Material Agreements*”. See “*Corporate Governance—General Shareholders’ Meeting—Related Party Transactions*” for details as to how the Company addresses potential conflicts of interest.

Other than the potential conflicts of interest described above, there are no other known potential conflicts of interest between us and our Board of Directors or Senior Managers.

Compensation

In 2009, the aggregate remuneration paid (including any contingent or deferred compensation) and benefits in kind granted to the members of the Company's Board of Directors and executive officers was US\$12.2 million. This amount does not include any compensation paid to individuals who are now our executive officers but in 2009 were employed and compensated by either (i) the companies subsequently consolidated, including OK and ICQ; or (ii) any portion of the advisory fee (including share-based compensation) paid by the Company to DSTA. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Fees paid for services provided by DSTA*".

In November 2010, the Board of Directors of the Company adopted a new equity-based long-term incentive scheme that will become effective upon Admission. Under the scheme, the Board or its remuneration committee will grant options to acquire Ordinary Shares to a broad base of current or former employees, consultants and directors either directly or through an employee benefit trust or vehicles controlled by such persons. The new scheme will comprise options over an aggregate of 10,706,403 Ordinary Shares, representing 5% of the anticipated fully-diluted share capital of the Company (post issue, assuming no exercise of the Over-allotment Option) as at the Admission Date. The options will be granted over a four-year period from the Admission Date, with vesting dates and other terms of the grant determined at the discretion of the Board or its remuneration committee. The exercise price for the options will be the fair market price at the time of grant (which fair market price, for options granted on the date of Admission, shall be the Offer Price), with cashless exercise required.

On the date of Admission, the Company expects to grant options over an aggregate of 6,423,842 Ordinary Shares under the scheme, representing approximately 3% (with approximately 2% remaining under the scheme) of the anticipated fully-diluted share capital of the Company (post issue, assuming no exercise of the Over-allotment Option) as at the Admission Date. The Company expects these options will be granted through the employee benefit trust to each of the Directors and Senior Managers as well as to a broad base of other employees. As of the date hereof, the allocations to specific Directors, Senior Managers and other employees have not been determined. The Company will disclose details of the allocations via an RNS once determined. Unless otherwise determined by the Board or its remuneration committee, these options will vest over a four-year period beginning on the date of grant, provided that no options will vest prior to January 2012 (the number of options that vests on the initial vesting date in January 2012 will be based on the number of months elapsed since the grant date, and after January 2012, vesting will be on a monthly basis). See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Share-based payments*".

Employment Contracts with Directors and Senior Managers

At the date of this prospectus, the employment contracts between the Company and its Directors and Senior Managers have not been finalised. The Company expect that such employment contracts, when finalised, will contain customary terms and conditions, including as to severance, pensions and other benefits typically granted.

Litigation Statement about Directors and Officers

At the date of this prospectus, none of the members of our Board of Directors or our Senior Managers for the previous five years:

- has had any convictions in relation to fraudulent offences; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

RELATED PARTY TRANSACTIONS

The following describes transactions that the Company has entered into with affiliates and other entities and persons known to the Company, in which either the Company or its management, directors or major shareholders have a controlling interest or over which any of the foregoing have a significant influence, and which the Company believes are material to it or to the other party. For the description of certain other transactions with related parties, see Note 27 to the Audited Financial Statements. All related party transactions were made in accordance with contractual terms and conditions on the arm's lengths basis.

Relationship Agreement with DSTG

Upon the Offering, the Company entered into a Relationship Agreement with DSTG, a related party. Yuri Milner, the Chairman of the Company's Board of the Directors, is the CEO of DSTG. DSTG and the Company share two directors and NMT holds a stake in both companies.

The Relationship Agreement includes certain terms governing the relationship between the Company and DSTG following the Offering, including tag-along rights for the Company relating to certain common investments, the arrangement by the Company for the use of premises by DSTG and certain confidentiality undertakings.

The terms of the Relationship Agreement are described in greater detail at “*Material Contracts—Relationship Agreement*”.

DSTA Agreement

In January 2007, the Company entered into the DSTA Agreement, pursuant to which DSTA provided certain advisory services to the Company. Certain major shareholders of the Company are also shareholders of DSTA.

The DSTA Agreement has been terminated upon the Offering, and the fees paid historically pursuant thereto are described in detail at “*Management's Discussion of Financial Condition and Results of Operations—Fees paid for services provided by DSTA*”.

MATERIAL CONTRACTS

We have entered into the following selected contracts within the two years immediately preceding the date of this prospectus. These contracts are, or may be, material or have been entered into at any time by any member of our Group and contain provisions under which any member of our Group has an obligation or entitlement which is, or may be, material to our Group as at the date of this prospectus. The following selected contracts are not intended to represent all of our material contracts.

Agreements for the Offering

Underwriting Agreement

On November 5, 2010, the Company, the Selling Shareholders and the Underwriters entered into an underwriting agreement providing for, inter alia, the underwriting of the Offering. See “*Subscription and Sale*”.

Other Material Agreements

Relationship Agreement

Upon offering, the Company and DSTG entered into a relationship agreement providing for the aspects of their relationship following Offering set out below.

Tag-along rights

For so long as the Company and DSTG hold stakes in Facebook and Zynga, the Company will have the benefit of a tag-along right in the event DSTG, or any affiliated transferee thereof (if applicable), sells certain of its holdings in Facebook and Zynga. The tag-along right provides the Company, in the event that DSTG, or an affiliated transferee (if applicable), proposes to sell certain of its stakes in Facebook and Zynga, with an option to sell a portion of its shares in Facebook and Zynga to the proposed purchaser on the same terms.

Not all of DSTG’s shares in Facebook and Zynga are subject to these tag-along rights, and DSTG could sell those shares not subject to the tag-along rights without giving us an option to sell our shares in Facebook or Zynga. The shares subject to the tag-along represent shares attributable to DSTG common shareholders, a larger share of Facebook and Zynga than our stakes in those companies, and the tag-along is on a pro rata basis, so in a tag-along transaction we would be entitled to sell fewer shares of Facebook and Zynga than the amount sold by DSTG.

The tag-along rights in respect of the applicable stakes held by DSTG in Facebook and Zynga respectively, terminate upon the earlier of DSTG no longer holding shares in Facebook and Zynga, or, an IPO of Facebook or Zynga.

Use of Facilities

To the extent permitted by law, the Company agrees to arrange for DSTG to occupy office space and have access to reasonable administrative support services for the day-to-day running of the general administration of the business of DSTG, principally in relation to individuals who work for both DSTG, or its affiliates, and the Company, at the premises of Mail.ru Group Management LLC or the office of the Dubai Branch (or such other premises as they may occupy from time to time) free of charge until the Company ceases to have the tag-along right.

Investors’ Rights Agreement

On October 18, 2010, the Company entered into an Investors’ Rights Agreement with the following shareholders: DST Holdings Limited, Garnet Vale Limited, Gregory Finger, ELQ Investors, Ltd. (“**ELQ**”), New Media and Technology Investment, L.P. (“**NMT**”), Ardor Finance Limited, TCH Amur Limited (“**Tencent**”) and MIH Russia Internet BV (“**MIH**”).

The Investors’ Rights Agreement requires the parties to vote their shares in the Company to give effect to its provisions. The Company gives a number of covenants in the Investors’ Rights Agreement, including the following:

- whilst ELQ, NMT, Tencent and MIH hold above a certain number of shares, the Company agrees not, without the consent of each of those shareholders (as applicable), to (i) create a new class of

shares, (ii) redeem, purchase or otherwise acquire shares unless such redemption occurs on a pro rata basis or pursuant to the Company exercising a Priority Option under the “Right of First Offer” provisions of the Articles of Association (see “*Description of Share Capital and Certain Requirements of BVI Law—Memorandum and Articles of Association—Rights attaching to shares*”), or (iii) amend the definition of “Founding Member” in the Articles of Association;

- whilst NMT and MIH hold not less than a certain percentage in the issued share capital of the Company, the Company shall not, without the prior written consent of such shareholders, issue, whether through one transaction or a series of transactions pursuant to the same agreement, new shares in the issued share capital of the Company, which shares would constitute more than 15% of the issued share capital of the Company;
- whilst Tencent and MIH maintain a threshold shareholding in the Company, they shall be entitled to appoint an observer to the Board of Directors, who shall be entitled to receive all notices and information circulated to the Board of Directors, and to attend all meetings of the Board of Directors. The observer shall not be entitled to vote, but shall participate in discussions of the Board. If the Board believes that the observer is acting in competition with the Company at any given time, acting in good faith, the Board may decline to provide any information to the observer;
- in the event the Company, by a 75% shareholders’ resolution, has disapplied pre-emption rights for a new issue of Class A Shares, the Company will make an offer to each party to the Investors’ Rights Agreement of such number of Class A Shares as would be required for them to maintain their pro rata level of Class A Shares;
- the Company shall always maintain an audit and a remuneration committee. Whilst MIH retains a certain percentage of the Company’s issued share capital, MIH shall be entitled to appoint a representative to the audit committee. The remuneration committee must be chaired by an Independent Director (although the parties to the Investors’ Rights Agreement have agreed and the Directors have resolved to appoint Matthew Hammond as the first chairman of the Remuneration Committee), and comprise a majority of non-interested directors and ensure that the compensation of all officers of the Company shall be market-based;
- the rights attaching to Class A Shares or Ordinary Shares held by parties to the Investors’ Rights Agreement shall not be varied without that shareholder’s consent;
- whilst NMT, ELQ, Tencent and MIH have a shareholding in the Company above a certain threshold, their consent will be required before a 75% shareholders’ resolution on (i) resolving that a Class A Share transfer shall not result in a conversion to Ordinary Shares, and (ii) designating that a person is an “Affiliate” for the purposes of the Articles of Association;
- each of NMT, ELQ, Tencent and MIH shall be entitled to meet with the management of the Company quarterly to discuss any accounts and reports of the Company and to review progress made in achieving the Company’s budget and business plan;
- the Company has passed a resolution that, in order for the Naspers Group to comply with its mandatory public financial reporting obligations resulting from its listing on the Johannesburg Stock Exchange, the Company will provide the Naspers Group with (i) analyses, work papers, schedules and supporting information sufficient to allow the Naspers Group to reflect the effect of material transactions and events on the Company and (ii) access for the Naspers Group and its auditors to the Company’s CFO and audit committee in order to clarify any questions they may have in relation to any material transactions or events, such as to permit compliance with its financial reporting obligations; this resolution may not be revoked or amended without a 75% shareholders’ resolution (see “*Corporate Governance—Interests of Members of our Board of Directors and our employees*”);
- the Company shall procure that Mail.ru will observe in full covenants included in the Shareholders’ Agreement relating to Molotok (see “*—Agreement relating to Molotok*”); and
- the definitions of “Designated Member” and “Key Russian Shareholder” included in the Memorandum and Articles of Association, shall not be amended without both (i) a 75% shareholders’ resolution and (ii) the written consent of the person so designated.

The Investors’ Rights Agreement includes an anti-avoidance provision.

The Investors’ Rights Agreement is governed by English law.

Agreement relating to Molotok

Port.ru, a subsidiary of the Company that operates the Mail.ru portal, social networking and IM businesses, at December 12, 2008, entered into a restrictive covenant with Molotok Holdings Limited such that Port.ru, and its subsidiaries, agree not to operate, own, partner with or in any way promote any auction or fixed-price trading platform that materially competes with Molotok Holdings Limited in the Russian Federation.

Molotok Holdings Limited is also subject to a restrictive covenant in respect of Port.ru and its subsidiaries, and agrees not to operate, and, partner with or in any way promote any social networking or email communication service that materially competes with Port.ru and its subsidiaries in the Russian Federation.

PRINCIPAL AND SELLING SHAREHOLDERS

As at the date of this prospectus, the Company had issued a total of 151,698,000 Class A Shares and 40,824,000 Ordinary Shares and options over a total of 18,766,000 shares. The Company, in the primary portion of the Offering, will issue a further 3,032,727 Ordinary Shares, excluding over-allotment shares. In addition, 745,341 Ordinary Shares will be issued on the Closing Date pursuant to options exercised on a cashless basis by senior managers and employees of the Company and sold in the Offering. See “*Description of Share Capital and Certain Requirements of BVI Law*”. In addition, in connection with the Admission, the Company expects to grant options over an aggregate of 6,423,842 Ordinary Shares. See “*Corporate Governance—Compensation*”.

Major Shareholders

The following section sets forth our shareholders who own at least 1% of our Class A Shares and Ordinary Shares as of the date of this prospectus, as they appear on our register of shareholders.

Shareholder	Before the Offer ⁽¹⁾				After the Offer (assuming the overallotment is exercised in full) and all shares set forth on the cover of the prospectus are sold. ⁽²⁾			
	Total Class A Shares	Total Ordinary Shares	Total % of issued share capital	Total % of votes cast at a General Meeting	Total Class A Shares	Total Ordinary Shares	Total % of issued share capital	Total % of votes cast at a General Meeting ⁽³⁾
MIH Russia Internet BV ⁽³⁾⁽⁴⁾ . .	43,122,000	17,514,000	31.5%	28.6%	43,122,000	17,514,000	30.8%	35.0%
New Media and Technology Investment L.P. ⁽⁵⁾	28,524,000	—	14.8%	18.6%	28,524,000	—	14.5%	24.5%
Ardoe Finance Limited ⁽⁵⁾	24,422,000	—	12.7%	15.9%	24,422,000	—	12.4%	21.0%
Gregory Finger ⁽⁶⁾⁽⁷⁾	13,782,000	—	7.2%	9.0%	12,000,000	—	6.1%	10.3%
Hazelbury Investments Limited ⁽⁷⁾⁽⁸⁾	11,894,000	—	6.2%	7.8%	4,654,000	—	2.4%	4.0%
DST Holdings Limited ⁽⁷⁾⁽⁹⁾ . . .	6,874,000	—	3.6%	4.5%	2,944,000	—	1.5%	2.5%
Tiger Global Private Investment Partners IV, L.P. ⁽¹⁰⁾	3,592,000	—	1.9%	2.3%	—	1,796,000	0.9%	0.1%
Tiger Holding Four S.A.R.L. ⁽¹¹⁾	2,260,000	—	1.2%	1.5%	—	1,130,000	0.6%	0.1%
Channel Trustees Limited ⁽¹²⁾ . .	2,368,000	—	1.2%	1.5%	—	1,184,000	0.6%	0.1%
Quorum Fund Limited ⁽¹³⁾	2,024,000	—	1.1%	1.3%	—	—	—%	—%
ELQ Investors, Ltd. ⁽¹⁴⁾	2,006,000	—	1.0%	1.3%	—	—	—%	—%
TCH Amur Limited ⁽¹⁵⁾	—	16,228,000	8.4%	0.4%	—	16,228,000	8.3%	0.6%
Baltimore Heights Limited ⁽¹⁶⁾ .	—	3,078,000	1.6%	0.1%	—	—	—%	—%

(1) Pre-conversion of Class A Shares to Ordinary Shares in conjunction with the Offering.

(2) Post-conversion of 35,334,000 Class A Shares to Ordinary Shares and issuance of 4,081,341 Ordinary Shares in conjunction with the Offering (including the concurrent issuance of 745,341 Ordinary Shares pursuant to exercise of options granted under our 2007 Option Plan that will be sold in the Offering). Does not reflect any adjustment for 17,828,000 options that will remain outstanding with an average exercise price of US\$12.28 per Ordinary Share and that are exercisable at any time up to December 2015, the options over 6,423,842 Ordinary Shares that will be granted on the Closing Date under our new option plan with an exercise price equal to the Offer Price or any other Ordinary Shares issuable pursuant to options that may be granted in the future under our new option plan.

(3) Votes by Non Russian Shareholders are capped at 35%. See “*Corporate Governance—Share Capital—Limitations on voting power of Non Russian Shareholders*”. When a Non Russian Shareholder exceeds this threshold, the excess votes are disregarded, increasing the effective voting power of the remaining shareholders. This effect is reflected in the voting percentages shown in this table.

(4) Beneficially owned by Naspers Group.

(5) Beneficially owned by Alisher Usmanov. Taken together, entities beneficially owned by Mr. Usmanov hold a total of 52,946,000 Class A Shares before and after the offering, representing 26.9% of the total issued share capital and 45.4% of the votes cast at a general meeting after the Offering.

(6) A founder of the company. Gregory Finger has an economic interest in the performance of the shares of the Company held by NMT, as described in the text following this table. Gregory Finger has agreed in certain circumstances to share proceeds of any sale of his shares in the Company with Yuri Milner.

- (7) Yuri Milner, Gregory Finger and Mikhail Vinchel, the founders of the Company, have entered into an agreement pursuant to which they must vote or not vote together as a block. Taken together, entities beneficially owned by the founders hold a total of 34,866,000 Class A Shares before the Offering and are expected to hold 20,296,000 Class A Shares after the Offering, representing in aggregate 10.3% of the total issued share capital and 17.4% of the votes cast at a general meeting.
- (8) Beneficially owned by Mikhail Vinchel, a founder of the Company. Mikhail Vinchel has agreed in certain circumstances to share proceeds of any sale of his shares in the Company with Yuri Milner. Excluding shares of other founders he may be deemed to beneficially own pursuant to the block voting agreement, Mr. Vinchel beneficially owns a total of 13,624,000 Class A Shares before the offering and will own 4,910,000 Class A Shares after the Offering, representing an aggregate of 2.5% of the Company's total share capital and 4.2% if the votes cast at a general meeting.
- (9) Beneficially owned by Yuri Milner, a founder of the Company. Yuri Milner has an economic interest in the performance of the shares in the Company held by NMT, as described in the text following this table. Yuri Milner also holds shares amounting to less than 1% of the Company's Class A Shares and Ordinary Shares beneficially through Garnet Vale Limited and Jesmond Management Limited. Excluding shares of other founders he may be deemed to beneficially own pursuant to the block voting agreement, Yuri Milner beneficially owns 7,460,000 Class A Shares before the Offering and will own 3,386,000 Class A Shares after the Offering, representing 1.7% of the Company's total share capital and 2.9% of the votes cast at a general meeting. Gregory Finger and Mikhail Vinchel have agreed in certain circumstances to share proceeds of any sale of their shares in the Company with Yuri Milner. In addition, Dmitry Grishin holds a minority stake of less than 10% in DST Holdings Limited.
- (10) Tiger Global Private Investment Partners IV, L.P., together with its affiliates, holds 10,772,000 Class A Shares before the Offer and will hold 5,386,000 Ordinary Shares after the Offer representing 2.7% of the issued share capital and 0.2% of the votes cast at a general meeting.
- (11) Tiger Holding Four S.A.R.L., together with its affiliates, holds 10,772,000 Class A Shares before the Offer and will hold 5,386,000 Ordinary Shares after the Offer representing 2.7% of the issued share capital and 0.2% of the votes cast at a general meeting.
- (12) Beneficially owned by Mikhail Frolkin.
- (13) An affiliate of Quorum Fund owns 1,530,000 Class A Shares, all of which are expected to be sold in the Offering.
- (14) An affiliate of Goldman Sachs International.
- (15) Beneficially owned by Tencent Limited.
- (16) Beneficially owned by Igor Matsanyuk.

New Media and Technology Investment L.P. (NMT) is a fund controlled by Alisher Usmanov, and managed by a general partner that is majority owned by Mr. Usmanov. The other owner of the general partner, with a substantial minority interest, is a vehicle jointly owned by Yuri Milner and Gregory Finger. As a result, Mr. Milner and Mr. Finger share in the general partner's management fee, and in the carried interest to which the general partner would be entitled in the event that NMT sells shares in the Company at a profit.

Except for the additional rights attached to Class A Shares, none of our shareholders has any voting rights different from any other holders of our shares. We are not aware of any arrangements that may result in a change of control.

No single shareholder will directly or indirectly control the Company immediately after Admission.

Selling Shareholders

The following table sets out the names and business addresses of the shareholders who will be selling shares in the Offering.

<u>Name of Selling Shareholder</u>	<u>Business Address</u>	<u>Total Offered (assuming exercise of Over-allotment Option)</u>
Hazelbury Investments Ltd.	Kings Court, Bay Street, P.O. Box N-3944, Nassau, Bahamas	7,240,000
DST Holdings Limited	Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands	3,930,000
Baltimore Heights Limited	Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands	3,078,000

Name of Selling Shareholder	Business Address	Total Offered (assuming exercise of Over-allotment Option)
Quorum Fund Limited	Caledonian House, 69 Dr. Roy's Drive, George Town, Grand Cayman, Cayman Islands	2,024,000
ELQ Investors Ltd.	Peterborough Court, 133 Fleet Street, London EC4A 2BB United Kingdom	2,006,000
Gregory Finger	Pedagogicheskaya Street 6, Apt. 88, 115404, Moscow, Russian Federation	1,782,000
QP Limited	13/F Silver Fortune Plaza, 1 Wellington Street, Central, Hong Kong	1,530,000
Mikhail Vinchel ⁽¹⁾	Chaikinoi Street, Dom 5/23, Apt. 160-161, Moscow 125315, Russian Federation	1,474,000
Tiger Global Private Investment Partners IV, L.P. ⁽²⁾	c/o Tiger Global Management, LLC, 101 Park Avenue, 48 th Floor, New York, NY 10178, United States of America	1,796,000
Talco Global Inc.	Geneva Place, Waterfront Drive, PO Box 3469, Road Town Tortola, British Virgin Islands	1,310,000
Channel Trustees Limited	c/o Tulloch & Co, 4 Hill Street, London, W1J 5NE, United Kingdom	1,184,000
Skyliner Digital Investments Ltd.	Harneys Corporate Services Limited, Craigmuir Chambers, PO Box 71 Road Town, Tortola, British Virgin Islands	908,000
Tiger Holding Four S.A.R.L. ⁽²⁾	39 Boulevard Joseph II, L-1840, Luxembourg	1,130,000
Tiger Holding Five S.A.R.L. ⁽²⁾	39 Boulevard Joseph II, L-1840, Luxembourg	737,000
Tiger Global Private Investment Partners III, L.P. ⁽²⁾	c/o Tiger Global Management, LLC, 101 Park Avenue, 48 th Floor, New York, NY 10178, United States of America	578,000
DST International Investment Sourcing, L.P. ⁽³⁾	Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands	413,195
Tiger Global, L.P. ⁽²⁾	c/o Tiger Global Management, LLC, 101 Park Avenue, 48 th Floor, New York, NY 10178, United States of America	527,000
Tiger Global Master Fund L.P. ⁽²⁾	c/o Tiger Global Management, LLC, 101 Park Avenue, 48 th Floor, New York, NY 10178, United States of America	401,000
Garnet Vale Ltd.	Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands	144,000
Kinlight Limited ⁽³⁾	Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands	127,137
Tiger Global Private Investment Partners, L.P. ⁽²⁾	c/o Tiger Global Management, LLC, 101 Park Avenue, 48 th Floor, New York, NY 10178, United States of America	154,000

<u>Name of Selling Shareholder</u>	<u>Business Address</u>	<u>Total Offered (assuming exercise of Over-allotment Option)</u>
Alastair Tulloch ⁽⁴⁾	46 Laurier Road, London NW5 1SJ United Kingdom	70,000
Svetlana Pavlova ⁽³⁾	10 Presnenskaya nab. Block C, Floor 57, 123317 Moscow, Russian Federation	58,801
Satori Management Limited	Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands	50,000
Scott Shleifer	c/o Tiger Global Management, LLC, 101 Park Avenue, 48th Floor, New York, NY 10178, United States of America	47,000
Tiger Global Private Investment Partners V, L.P. ⁽²⁾	c/o Tiger Global Management, LLC, 101 Park Avenue, 48 th Floor, New York, NY 10178, United States of America	42,000
Mentora Limited ⁽³⁾	Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands	22,249
Unistop Limited ⁽³⁾	Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands	19,071
Redseed Limited ⁽³⁾	Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands	15,892
Nazar Yasin ⁽³⁾	c/o Tiger Global Management, LLC, 101 Park Avenue, 48th Floor, New York, NY 10178, United States of America	15,892
Tiger Global II, L.P. ⁽²⁾	c/o Tiger Global Management, LLC, 101 Park Avenue, 48th Floor, New York, NY 10178, United States of America	21,000
Lee Fixel ⁽⁵⁾	c/o Tiger Global Management, LLC, 101 Park Avenue, 48th Floor, New York, NY 10178, United States of America	18,000
Feroz Dewan	c/o Tiger Global Management, LLC, 101 Park Avenue, 48th Floor, New York, NY 10178, United States of America	18,000
Platinum Shield Limited ⁽³⁾	Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands	4,768
Moneghan Limited ⁽³⁾	Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands	3,179
Shou Zi Chew ⁽³⁾	30 Mimosa Drive, Singapore 805437	3,178
Total		<u><u>32,882,362</u></u>

(1) Founder and former Director of the Company.

(2) Lee Fixel has previously represented Tiger entities on the Board of Directors of the Company.

(3) Includes Ordinary Shares issued pursuant to Options granted under the Company's 2007 Option Plan and exercised by senior managers and employees on the Closing Date.

(4) Company Secretary.

(5) Former Director of the Company and observer to the Board.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF BVI LAW

We describe below our share capital, the material provisions of our memorandum and articles of association in effect on the date of this prospectus and certain requirements of BVI law. This description, however, is not complete and is qualified in its entirety by reference to our memorandum and articles of association and any applicable BVI law. References in this section to “we”, “us” and “our” refer to the Company only.

Description of Authorised and Issued Share Capital

The authorised and issued share capital of the Company, as at the date of this prospectus, is as follows:

Class of Shares	Authorised		Issued	
	Number	Nominal Amount	Number	Nominal Amount
Class A Shares	10,000,000,000	US\$0.000005	151,698,000	US\$0.000005
Ordinary Shares	10,000,000,000	US\$0.000005	40,824,000	US\$0.000005

Following Admission, assuming no exercise of the Over-allotment Option, there will be 78,611,522 Ordinary Shares and 117,688,546 Class A Shares outstanding. The authorised share capital of the Company is not expected to change immediately following Admission.

The authorised and issued share capital of the Company, as of June 30, 2010, the date of the most recent balance sheet included in the historic financial statements, was as follows:

Class of Shares	Authorised ⁽²⁾		Issued ⁽²⁾	
	Number	Nominal Amount	Number	Nominal Amount
Class A Shares	5,000,000	US\$0.01	61,902	US\$0.01
Ordinary Shares	5,000,000	US\$0.01	8,897	US\$0.01
Class C Shares ⁽¹⁾	1,000,000	US\$0.01	9,333	US\$0.01

(1) All of the outstanding Class C Shares were redeemed on July 13, 2010.

(2) Numbers do not give effect to a subsequent 2,000 for 1 stock split in October 2010.

The Class A Shares and the Ordinary Shares are all in registered form, are denominated in US dollars, and are freely transferable. The Company does not issue certificates in respect of its shares other than as required by the Depositary, but any shareholder may request the Company Secretary to provide such shareholder with an extract from the share register showing that shareholder's shareholding.

As at the date of this prospectus, the Company had issued a total of 151,698,000 Class A Shares and 40,824,000 Ordinary Shares and options over a total of 18,766,000 shares. The weighted average strike price of these options is US\$11.95. The Company will issue, in the primary portion of the Offering, a further 3,032,727 Ordinary Shares excluding over-allotment shares. In addition, 745,341 Ordinary Shares will be issued upon the Closing Date pursuant to options granted under our 2007 Option Plan that will be exercised on a cashless basis by senior managers and employees and sold in the Offering. All of the outstanding Class C Shares were redeemed on July 13, 2010. After the Offering, options to acquire 17,828,000 Ordinary Shares will remain outstanding pursuant to options issued prior to the Offering. In addition, in connection with the Admission, the Company expects to grant options over an aggregate of 6,423,842 Ordinary Shares under its new option plan. See “Corporate Governance—Compensation”.

History of the share capital of the Company

As at January 1, 2007, the first day covered by the historical financial information incorporated by reference into this prospectus, the number of authorised shares of the Company was 5,000,000 Ordinary Shares with a nominal value of US\$0.01, and the number of shares issued was 35,153.

Since January 1, 2007, there have been the following changes in the authorised and issued share capital of the Company:

- by a shareholders' resolution on April 24, 2007, the issuance and allotment of 878 Ordinary Shares;
- by a shareholders' resolution on December 18, 2007, the issuance and allotment of 2,089 Ordinary Shares;

- at January 1, 2008, the number of issued shares was 38,120, and the number of authorised shares had not changed;
- by a shareholders' resolution on March 31, 2008, the issuance and allotment of 1,525 Ordinary Shares;
- by a shareholders' resolution on June 5, 2008, the issuance and allotment of 2,083 Ordinary Shares;
- by a shareholders' resolution on July 11, 2008, the issuance and allotment of 2,083 Ordinary Shares;
- by a directors' resolution on September 3, 2008, the issuance and allotment of 4,908 Ordinary Shares;
- by a shareholders' resolution on December 12, 2008, the issuance and allotment of 5,250 Ordinary Shares;
- at January 1, 2009, the number of issued shares was 53,969, and the number of authorised shares had not changed;
- by a shareholders' resolution on January 27, 2009, the buyback and cancellation of 759 Ordinary Shares;
- by a shareholders' resolution on February 17, 2009, the issuance and allotment of 1,614 Ordinary Shares;
- by a shareholders' resolution on May 14, 2009, the alteration of the Memorandum of Association to provide for an amended authorised share capital of 5,000,000 Ordinary Shares, 7591 Class B Shares and 1,000,000 Class C Shares;
- by a directors' resolution on May 22, 2009, the issuance and allotment of 5,045 Ordinary Shares and 6,666 Class C Shares;
- by a directors' resolution on July 1, 2009, the issuance and allotment of 25 Ordinary Shares;
- by a shareholders' resolution on July 9, 2009, the issuance and allotment of 2,018 Ordinary Shares and 2,667 Class C Shares;
- by a directors' resolution on October 15, 2009, the purchase and cancellation of 25 Ordinary Shares;
- by a shareholders' resolution on November 30, 2009, the issuance and allotment of 783 Class B Shares;
- at January 1, 2010, the number of issued shares was 62,670, divided into 61,887 Ordinary Shares and 783 Class B Shares, and in addition, the Company had issued 9,333 Class C Shares. The number of authorised shares was 5,000,000 Ordinary Shares, 8,374 Class B Shares and 9,333 Class C Shares, each with a nominal value of US\$0.01;
- by a shareholders' resolution on April 12, 2010, the issuance and allotment of 8,114 Ordinary Shares;
- by a shareholders' resolution on April 12, 2010, an amendment to the Memorandum and Articles of Association to effect the redesignation of all Ordinary Shares as Class A Shares, with twenty-five votes per share, and all Class B Shares as Ordinary Shares, with one vote per share. The authorised share capital of the company was therefore US\$110,000, divided into 5,000,000 Class A Shares, 5,000,000 Ordinary Shares and 1,000,000 Class C Shares, each class with a nominal value of US\$0.01 per share;
- at June 30, 2010, the number of issued shares was 70,799, divided into 61,902 Class A Shares and 8,897 Ordinary Shares, and in addition, the Company had issued 9,333 Class C Shares. The number of authorised shares was 5,000,000 Class A Shares, 5,000,000 Ordinary Shares and 1,000,000 Class C Shares, each class with a nominal value of US\$0.01 per share;
- by a shareholders' resolution on July 13, 2010, the issuance and allotment of 21,561 Class A Shares, 3,649 Ordinary Shares and the redemption and cancellation of 9,333 Class C Shares reducing the total Class C Shares to 0;
- by a shareholders' resolution on October 1, 2010, the subdivision of each of the issued and unissued Class A Shares of US\$0.01 par value into 2,000 Class A shares of US\$0.000005 par value (including the original share), resulting in a total Class A Share issuance of 151,698,000 shares;

- by a shareholders' resolution on October 1, 2010, the subdivision of each of the issued and unissued Ordinary Shares of US\$0.000005 par value into 2000 Class A shares of US\$0.000005 par value (including the original share), resulting in a total Ordinary Share issuance of 40,824,000 shares;
- at October 4, 2010, the number of issued shares was 192,522,000, divided into 151,698,000 Class A Shares and 40,824,000 Ordinary Shares. The number of authorised shares was 10,000,000,000 Class A Shares, 10,000,000,000 Ordinary Shares; and
- the above list does not include Ordinary Shares to be issued in the Offering or options to be granted upon the date of Admission.

Memorandum and Articles of Association

The Memorandum and Articles of Association of the Company contain provisions (amongst others) to the following effect:

Objects

Under its Memorandum of Association, the Company has full capacity to carry on or undertake any business or activity, or enter into any transaction.

Rights attaching to shares

Voting Rights

Each Class A Share has the right to twenty-five 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.

Issue of shares and pre-emptive rights

The Directors may offer, allot, grant options over, or otherwise dispose of, shares (excluding Class A Shares, where a 75% shareholders' resolution is required) to such persons at such times and for such cash consideration (non-cash issues require a 75% shareholders' resolution) and generally on such terms and conditions as the Directors may determine by resolution, provided that no shares shall be issued at a discount below their par value.

Unless disapplied by a 75% shareholders' resolution, the Company shall not issue Class A Shares or Ordinary Shares without offering to each shareholder such amount of Class A Shares and/or Ordinary Shares as may be necessary to maintain the same percentage economic interest in the shares as such shareholder had immediately prior to the new share issue.

Where a share issue is approved by a 75% shareholders' resolution but the resolution is not approved by 100% of the shareholders, the Company may, at its discretion, offer such shares to the shareholders who did not approve the resolution as may be necessary to maintain the same percentage economic interest in the shares as such shareholder had immediately prior to the new share issue.

See also "*Material Contracts—Investors' Rights Agreement*".

Conversion

In the event of a transfer of any Class A Shares, other than in circumstances described below, such Class A Shares shall automatically convert into Ordinary Shares on the basis that each Class A Share shall automatically convert into one Ordinary Share, and the Ordinary Shares resulting from such conversion shall rank pari passu in all respects with the existing Ordinary Shares in issue.

There shall be no conversion of Class A Shares into Ordinary Shares where: (i) the transfer is to its general or limited partner, controlling shareholder, Affiliate or family member ("**Permitted Transferee**"); (ii) (a) the transfer is part of a 10% block of Class A Shares that carries more than 10% of the total number of votes that may be cast at a general meeting of shareholders, (b) the block is transferred at the same time, (c) none of the Class A Shares falling within the 10% block are being placed into an IPO or sold on a stock exchange, and (d) the transferee acknowledges by deed poll that the provision relating to restriction in voting rights in relation to Non-Russian Shareholders are agreed (see "*Corporate Governance—General Shareholders' Meeting*"), and that if the transferee qualifies as a Non-Russian

Shareholder, it may lose some voting rights if certain thresholds are exceeded; and (iii) a resolution of 75% of the shareholders is in favour of there being no conversion of Class A Shares into Ordinary Shares.

See also “*Material Contracts—Investors’ Rights Agreement*”.

Right of First Offer

If any holder of Class A Shares wishes to accept a bona fide third party offer for the shares in circumstances where it is intended that there shall be no conversion to Ordinary Shares, the shareholder must first give notice of the terms of the intended sale, and third party purchaser, to the Company, and grant the Company an option to purchase those Class A Shares on the same terms (the “**Priority Option**”), and on the basis the Company elects not to exercise the Priority Option, to the other shareholders holding more than 1% of Class A Shares in the Company on the same terms (the “**Shareholder Option**”). The acceptance period for the Priority Option is 30 days, and thereafter a further 30 day acceptance period applies for the Shareholder Option (if applicable).

The rights of first offer provisions do not apply to transfers to Permitted Transferees, subject to an anti-avoidance clause.

Dividends

The Company may by a resolution of the Directors or a shareholders’ resolution declare and pay dividends in money, shares, or other property but dividends shall only be declared and paid out of surplus. In the event that dividends are paid in specie, the Directors shall have responsibility for establishing and recording in the resolution of directors authorising the dividends, a value for the assets to be so distributed. Interim dividends may be paid from time to time as appear to the Directors to be justified by the profits of the Company.

All dividends unclaimed for 3 years after having been declared may be forfeited by resolution of the Directors for the benefit of the Company.

The Class A Shares and the Ordinary Shares have the right to an equal share in any dividend or other distribution paid by the Company, and 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.

See “*Dividend Policy*”.

Variation of rights

Any amendment to the Memorandum and Articles of Association of the Company that varies or affects the rights attached to any class of share requires a resolution of 75% of the shareholders of that class.

See also “*Material Contracts—Investors’ Rights Agreement*”.

Mortgages and charges of shares

A holder of Class A Shares may mortgage or charge his Class A Shares, provided if the charge is over a block of Class A Shares carrying more than 10% of the total number of votes cast at the general shareholders’ meeting, the mortgagee must first agree that any transfers following foreclosure be subject to the rights of first offer provisions in the Articles of Association.

Distribution of assets on a liquidation

Class A Shares and Ordinary Shares have the right to an equal share in the distribution of any surplus assets of the Company upon the winding-up of the Company, and rank pari passu with all other Class A Shares and Ordinary Shares.

Relevant Provisions of BVI law

The BVI Business Companies Act, 2004 (the “**Act**”) does not distinguish between public and private companies. Accordingly the Act and the Company’s memorandum and articles of association do not prohibit the public offering of shares.

The new Securities and Investment Business Act, 2010 does regulate IPOs, but only when offered to the public in the BVI. If the offer is not made to the public in the BVI, then the IPO is not regulated, and the Company will not require a licence and the prospectus will not need to be filed.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (the “**Conditions**”) will apply to the GDRs and will be endorsed on each GDR certificate (the “**GDR Certificates**”):

The GDRs are issued in respect of the ordinary shares, nominal value U.S.\$0.000005 each (the “**Shares**”), of Mail.ru Group Limited (the “**Company**”) pursuant to and subject to (i) in the case of the Regulation S GDRs, the Regulation S Deposit Agreement, to be dated on or about November 8, 2010 (the “**Regulation S Deposit Agreement**”), by and between the Company and Citibank, N.A., as depositary (the “**Depositary**”), and, in the case of the Rule 144A GDRs, the Rule 144A Deposit Agreement, to be dated on or about November 8, 2010 (the “**Rule 144A Deposit Agreement**” and together with the Regulation S Deposit Agreement, the “**Deposit Agreements**”), by and between the Company and the Depositary. Each GDR represents the right to receive, subject to the terms of the Deposit Agreements and the Conditions, one (1) Share on deposit under the terms of the Deposit Agreements.

Pursuant to the provisions of the Deposit Agreements, the Depositary has appointed Citibank International PLC as custodian to receive and hold on its behalf the Shares from time to time deposited under the Deposit Agreements (the “**Deposited Shares**”), and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (such rights, securities, property and cash together with the Deposited Shares, the “**Deposited Property**”). The Depositary shall hold Deposited Property for the benefit of the Holders and Beneficial Owners (each as defined below) as bare trustee in proportion to the number of Shares in respect of which the GDRs held by them are issued. In the Conditions references to the “**Depositary**” are to Citibank, N.A. and/or any other Depositary which may from time to time be appointed under the Deposit Agreements, references to the “**Custodian**” are to Citibank International plc or any other Custodian from time to time appointed under the Deposit Agreements and references to the “**Office**” mean, in relation to the Custodian, the principal office of the Custodian in London (currently at 33 Canada Square, London E14 5LB).

References in the Conditions to the GDRs shall include the GDRs issued pursuant to the terms of the Regulation S Deposit Agreement (the “**Regulation S GDRs**”) and the GDRs issued pursuant to the terms of the Rule 144A Deposit Agreement (the “**Rule 144A GDRs**”).

References in the Conditions to the “**Holder**” of any GDR shall mean the person registered as Holder on the books of the Depositary maintained for such purpose. References in the Conditions to “**Beneficial Owner**” of any GDR shall mean any person or entity having a beneficial interest deriving from the ownership of the GDRs. The Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreements, which include the forms of the applicable GDR Certificate in respect of the GDRs. Copies of the Deposit Agreements will be available for inspection beginning on or about November 8, 2010 at the principal office of the Depositary. Holders and Beneficial Owners are deemed to have notice of, and be bound by, all of the provisions of the Deposit Agreements. Terms used in the Conditions and not defined herein but which are defined in the Deposit Agreements have the meanings ascribed to them in the Deposit Agreements.

The Depositary shall hold Deposited Property for the benefit of the Holders and Beneficial Owners as bare trustee in proportion to the number of Shares in respect of which the GDRs held by them are issued and the Holders and Beneficial Owners will accordingly be tenants in common of such Deposited Property to the extent of the Deposited Property corresponding to the GDRs in respect of which they are the Holders. For the avoidance of doubt, in acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreements and the Conditions and, other than holding the Deposited Property as bare trustee as aforesaid, does not assume any relationship of trust for or with the Holders or the Beneficial Owners or any other person. Any right or power of the Depositary in respect of Deposited Property is reserved by the Depositary under its declaration of trust contained in this paragraph and is not given by way of grant by any Holder or Beneficial Owner.

Holders and Beneficial Owners of GDRs are not parties to the Deposit Agreements and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreements, any Holder may enforce the relevant provisions of the Deposit Agreements as if it were a party to the Deposit Agreements and was the “**Depositary**” in respect of that number of Deposited Shares to which the GDRs of which it is the Holder relates.

Holders and Beneficial Owners are deemed, by virtue of being a Holder or Beneficial Owner and owning, acquiring or holding, as the case may be, a GDR, to have notice of and be bound by all applicable

provisions of the Deposit Agreements and the Conditions. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreements or the Conditions on behalf of any Holder or Beneficial Owner of a GDR or any other person.

*GDRs will initially take the form of global GDRs evidenced by one or more Master GDR Certificates (each a “**Master GDR Certificate**”) registered (i) in the case of Regulation S GDRs, in the name of Citivic Nominees Limited as nominee for Citibank Europe Plc, as Common Depositary (the “**Common Depositary**”), and will initially be held by the Common Depositary for Clearstream Banking, Société Anonyme (“**Clearstream**”) and Euroclear Bank, S.A./N.V., as operator of the Euroclear System (“**Euroclear**”), for the account of accountholders in Euroclear or Clearstream (“**Euroclear Participants**” and “**Clearstream Participants**”, respectively), as the case may be, and (ii) in the case of Rule 144A GDRs, in the name of “Cede & Co.”, as nominee for The Depositary Trust Company (DTC) for the account of accountholders in DTC (“**DTC Participants**”). The Master GDR Certificates will be exchangeable for a certificate evidencing GDRs (“**GDR Certificate**”) in definitive registered form in the limited circumstances as described below.*

If at any time DTC, Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the GDRs, the Company and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available GDR Certificates in definitive registered form.

Under the terms of the GDRs, each purchaser of GDRs is deemed to have represented and agreed, among other things, that the GDRs have not been and will not be registered under the Securities Act and may be offered, sold, pledged or otherwise transferred only in a transaction exempt from the registration requirements of the Securities Act. Each GDR will contain a legend to the foregoing effect.

1. Deposit of Shares

- A. The Depositary may, in accordance with the terms of the Deposit Agreements but subject to the Conditions, and upon delivery of (x) a duly executed order (in a form approved by the Depositary) and (y) a duly executed deposit certificate substantially in the form attached to the Deposit Agreements by or on behalf of any investor who is to become the Beneficial Owner of the GDRs from time to time issue and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects and, subject to the terms of the Deposit Agreements, the Conditions and applicable law, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in the Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The deposit certificate to be provided pursuant to the Regulation S Deposit Agreements certifies, among other things, that the person providing such certificate is not an “affiliate” of the Company, is located outside the United States and will comply with the restrictions on transfer applicable to Regulation S GDRs set forth under “Selling and Transfer Restrictions—Transfer Restrictions”.

The deposit certificate to be provided pursuant to the Rule 144A Deposit Agreements certifies, among other things, that the person providing such certificate is not an “affiliate” of the Company, is a “Qualified Institution Buyer” (as defined in Rule 144A under the Securities Act), and will comply with the restrictions on transfer applicable to Rule 144A GDRs set forth under “Selling and Transfer Restrictions—Transfer Restrictions”.

- B. Subject to the terms and conditions of the Deposit Agreements and applicable law, upon (i) physical delivery to the Custodian of Shares, or book-entry transfer of, Shares to an account of the Custodian, (ii) delivery to the Depositary of the applicable deposit certificate, and (iii) payment of necessary taxes, governmental charges (including transfer taxes) and other charges as set forth in the Deposit Agreements and fees of the Depositary as set forth in Clause 10.1 of the Deposit Agreements and Condition 19, the Depositary will (i) adjust its records for the number of GDRs issued in respect of the Shares so deposited, (ii) notify DTC or the Common Depositary, as the case may be, to increase the number of GDRs evidenced by a Master GDR Certificate, and (iii) make delivery of the GDRs so issued to the applicable DTC, Euroclear or Clearstream Participant specified in the applicable order received for such purpose.

Each person receiving a GDR in the offering will be deemed to make the representations, covenants and acknowledgements set forth under “Selling and Transfer Restrictions—Transfer Restrictions”.

- C. Subject to the limitations set forth in the applicable Deposit Agreements and applicable law, the Depositary may (but is not required to) issue GDRs prior to the delivery to it of Shares in respect of which such GDRs are to be issued against evidence to receive rights from the company (or any agent of the Company involved for the Company in the maintenance or ownership or transactions records for the Shares) in the form of a written blanket or specific guarantee of ownership furnished by the Company (or any agent of the Company involved for the Company in the maintenance or ownership or transactions records for the Shares). No such issue will be deemed a “Pre-Release Transaction” as defined in Condition 1E.
- D. Any further GDRs issued pursuant to Condition 1(A) which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will, subject to Clause 3 of the Deposit Agreements be represented by a separate Master Partial Entitlement GDR Certificate. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master GDR Certificate (by increasing the total number of GDRs evidenced by the relevant Master GDR Certificate or by the number of such further GDRs, as applicable).
- E. Subject to the further terms and provisions of the Deposit Agreements, Citibank, N.A., its agents and affiliates, on their own behalf, may own and deal in any class of securities of the Company and its affiliates and in GDRs. In its capacity as Depositary, the Depositary shall not lend Shares or GDRs; provided, however, that the Depositary may (i) issue GDRs prior to the receipt of Shares pursuant to Condition 1 and Clause 3 of the Deposit Agreements, and (ii) deliver Shares prior to the receipt and cancellation of GDRs pursuant to Condition 2 and Clause 3 of the Deposit Agreements, including GDRs which were issued under (i) above but for which Shares may not have been received (each such transaction a “**Pre-Release Transaction**”). The Depositary may receive GDRs in lieu of Shares under (i) above and receive Shares in lieu of GDRs under (ii) above. Each such Pre-Release Transaction will be (a) subject to a written agreement whereby the person or entity (the “**Applicant**”) to whom GDRs or Shares are to be delivered (w) represents that at the time of the Pre-Release Transaction the Applicant or its customer owns the Shares or GDRs that are to be delivered by the Applicant under such Pre Release Transaction, (x) agrees to indicate the Depositary as owner of such Shares or GDRs in its records and to hold such Shares or GDRs in trust for the Depositary until such Shares or GDRs are delivered to the Depositary or the Custodian, (y) unconditionally guarantees to deliver to the Depositary or the Custodian, as applicable, such Shares or GDRs, and (z) agrees to any additional restrictions or requirements that the Depositary deems appropriate, (b) at all times fully collateralised with cash, U.S. government securities or such other collateral as the Depositary deems appropriate, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The Depositary will normally limit the number of GDRs and Shares involved in such Pre-Release Transactions at any one time to thirty percent (30%) of the GDRs outstanding (without giving effect to GDRs outstanding under (i) above), provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate. The Depositary may also set limits with respect to the number of GDRs and Shares involved in Pre Release Transactions with any one person on a case by case basis as it deems appropriate.

The Depositary may retain for its own account any compensation received by it in connection with the foregoing. Collateral provided pursuant to (b) above, but not the earnings thereon, shall be held for the benefit of the Holders (other than the Applicant). The Depositary may require that the person to whom any Pre Release Transaction is to be made pursuant to this Condition 1(E) deliver to the Depositary a duly completed certification and agreement in substantially the form set forth as Schedule 3 Part A to the Deposit Agreements.

- F. Any person delivering Shares for deposit under the Deposit Agreements and Condition 1 and any Holder or Beneficial Owner may be required and will be deemed to accept, by virtue of being a Holder or a Beneficial Owner, that, from time to time, it will be required to furnish the Depositary or the Custodian with such proof, certificates and representations and warranties as to matters of fact, including without limitation the citizenship and residence of the depositor, taxpayer status, payment of all applicable taxes or governmental charges, exchange control approvals, legal or beneficial ownership of GDRs and Deposited Property, compliance with all applicable laws, the terms of the Deposit Agreements, the Conditions and the provisions of, or

governing, the Deposited Property and the identity and genuineness of any signature on any of the supporting instruments or other documents, and with such further documents and information as the Depositary may deem necessary or appropriate for the administration or implementation of the Deposit Agreements and the Conditions. The Depositary, the Registrar or the Custodian may withhold acceptance of Shares for deposit, withhold delivery or registration of issuance or transfer of all or part of any GDR Certificate, withhold adjustment of the Master GDR Certificate to reflect increases in Shares represented thereby or withhold the distribution or sale of any dividend or distribution of rights or of the net proceeds of the sale thereof or the delivery of any Deposited Property, until such proof or other information is filed or such certifications are executed, or such representations are made or such other documentation or information is provided in each case to the satisfaction of the Depositary, the Registrar or the Custodian.

- G. Notwithstanding anything else contained in the Deposit Agreements or the Conditions, the Depositary shall not be required to accept for deposit or maintain on deposit with the Custodian (a) any fractional Shares or fractional Deposited Property, or (b) any number of Shares or Deposited Property which, upon application of the ratio of GDRs to Shares or Deposited Property, as the case may be, would give rise to fractional GDRs.
- H. Each person depositing Shares under the Deposit Agreements and the Conditions shall be deemed thereby to represent and warrant that (i) such Shares (and the certificates therefor) are duly authorised, validly issued, fully paid, nonassessable and legally obtained by such person, (ii) all pre-emptive (and similar) rights with respect to such Shares have been validly waived or exercised, (iii) the person making such deposit is duly authorised so to do, (iv) the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and (v) the Shares presented for deposit have not been stripped of any rights or entitlements, and are not, and the Regulation S GDRs will not be, restricted securities within the meaning of Rule 144(a)(3) under the Securities Act. Such representations and warranties shall survive the deposit and withdrawal of Shares and the issuance and cancellation of GDRs in respect thereof and the transfer of such GDRs. If any such representations or warranties are false in any way, the Company and the Depositary shall be authorised, at the cost and expense of the person depositing Shares, to take any and all actions necessary to correct the consequences thereof.

Each person depositing Shares, taking delivery of or transferring GDRs or any beneficial interest therein, or surrendering GDRs or any beneficial interest therein and withdrawing Shares under the Deposit Agreements and the Conditions shall be deemed thereby to acknowledge that the GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act, and may not be offered, sold, pledged or otherwise transferred except in accordance with the restrictions on transfer set forth in the applicable Securities Act Legend, and such person shall be deemed thereby to represent and warrant that such deposit, transfer or surrender or withdrawal complies with the foregoing restrictions. Such representations and warranties shall survive any such deposit, transfer or surrender and withdrawal of the Shares or the GDRs or any beneficial interest therein.

2. Withdrawal of Deposited Property

- A. Subject to the terms and provisions of the Deposit Agreements, the Conditions and applicable law, any Holder may request withdrawal of the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the principal office of the Depositary accompanied by:
 - (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn or evidence of the electronic transfer thereof to be delivered to or upon the order in writing of, the person or persons designated in such order or;
 - (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under the Conditions or the Deposit Agreements including, but not limited to the fees of the Depositary set forth in Clause 10.1 of the Deposit Agreements and Condition 19;

- (iii) (x) surrender of a GDRs Certificate at the Principal New York Office or Principal London Office of the Depositary, if DTC, Euroclear or Clearstream book-entry settlement system is not then available for GDRs, or (y) receipt by the Depositary at the Principal New York Office of instructions from DTC, Euroclear or Clearstream, or a Participant, or their respective nominees, on behalf of any Beneficial Owner together with a corresponding credit to the Depositary's account at DTC, Euroclear or Clearstream for the GDRs so surrendered, if the book-entry settlement system is then available for GDRs, in either case for the purpose of withdrawal of the Deposited Property represented thereby; and
 - (iv) the delivery to the Depositary of, in the case of Rule 144A GDRs, a duly executed and completed withdrawal certificate pursuant to the Rule 144A Deposit Agreement.
- B. Withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.
- C. Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition 2, the Depositary will direct the Custodian, within a reasonable time after receiving such direction from such Holder, to deliver at its office to, or to the order in writing of, the person(s) designated in the accompanying order:
 - (i) a certificate for, or other appropriate instrument of title to, or evidence of book-entry transfer of, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
 - (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid or evidence of the electronic transfer of such other Deposited Property;

provided that the Depositary:

 - (x) may make delivery of (a) any cash dividends or cash distributions or (b) any proceeds from the sale of any distributions of Shares or rights which are held by the Depositary in respect of the Deposited Property represented by the GDRs surrendered for cancellation and withdrawal; and
 - (y) at the request, risk and expense of any Holder surrendering a GDR for cancellation and withdrawal, will direct the Custodian to forward any cash or other property (other than securities) held by the Custodian in respect of the Deposited Property represented by such GDRs to the Depositary,

in each case at the principal office from time to time of the Depositary located in New York or London (if permitted by applicable law from time to time).
- D. Delivery by the Depositary and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- E. If any GDR surrendered and cancelled represent fractional entitlements in Deposited Property, the Depositary shall cause the appropriate whole number of Deposited Property to be withdrawn and delivered in accordance with the terms of the Deposit Agreements and this Condition 2 and shall, at the discretion of the Depositary, either (i) issue and deliver to the person surrendering such GDR a new GDR representing any remaining fractional Share, or (ii) sell or cause to be sold the fractional Share represented by the GDR surrendered and remit proceeds of such sale (net of (a) fees and charges of, and expenses incurred by, the Depositary, and (b) taxes withheld) to the person surrendering the GDR.
- F. Notwithstanding anything to the contrary in the Deposit Agreements or the Conditions, the Depositary shall not knowingly accept any Rule 144A GDRs for cancellation and withdrawal of the Deposited Property represented thereby if the recipient thereof has instructed the deposit of such Deposited Property into any unrestricted depositary receipts facility the depositary receipts of which are not "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, unless the Depositary shall have received an opinion of counsel reasonably satisfactory to it

stating that the Deposited Property so withdrawn are not at such time “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.

3. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The issuance and delivery of GDRs against deposits of Shares generally or deposits of particular Shares may be suspended or withheld, or the registration of transfer of GDR Certificates in particular instances may be refused, or the registration of transfers generally may be suspended may be suspended or refused, during any period when the transfer books of the Depositary, the Company, a registrar of GDRs or any registrar of Shares are closed, or if any such action is deemed necessary or advisable by the Company or the Depositary in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or Shares are listed, or under any provision of the Deposit Agreements, the Conditions, or the provisions of or governing the Deposited Property, or any meeting of shareholders of the Company or for any other reason. The Depositary may restrict the transfer of Deposited Shares where the Company notifies the Depositary in writing that such transfer would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Articles of Association or would otherwise violate any applicable laws.

The Depositary will refuse to accept Shares for deposit under the Rule 144A Deposit Agreement, if it has been notified by the Company in writing that the Deposited Shares or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A.

Notwithstanding any provision of the Deposit Agreements, the Conditions or any GDR Certificate to the contrary, Holders and Beneficial Owners are entitled to surrender outstanding GDRs to withdraw the Deposited Shares at any time subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of Shares in connection with voting at a shareholders’ meeting or the payment of dividends, (ii) the payment of fees, taxes and similar charges, (iii) compliance with any laws or governmental regulations relating to the GDRs or to the withdrawal of the Deposited Shares.

4. Transfer and Ownership

- A. GDRs are to be issued in registered form. Title to the GDRs passes by registration in the records of the Depositary. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

The Depositary will maintain GDR Holder records, including a register of GDR Holders, at its principal office in New York.

Interests in the Rule 144A GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by the Master Regulation S GDR Certificate only upon receipt by the Depositary of written certifications and agreements from the transferor under the Regulation S Deposit Agreement. Interests in Regulation S GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by the Master Rule 144A GDR Certificate only upon receipt by the Depositary of written certifications and agreements from the transferor and transferee under the Rule 144A Deposit Agreement. Any interest in GDRs represented by one of the Master GDR Certificates that is transferred to a person whose interest in such GDRs is subsequently represented by the other Master GDR Certificate, will, upon transfer, cease to be an interest in the GDRs represented by such first Master GDR Certificate and, accordingly, will be subject to all transfer restrictions and other procedures applicable to interests in GDRs represented by such other Master GDR Certificate for so long as it remains such an interest.

For a description of the restrictions on the transfer of the GDRs see “*Selling and Transfer Restrictions*” and “*Subscription and Sale*”.

- B. Notwithstanding any other provision of the Deposit Agreements or the Conditions, each Holder and Beneficial Owner, by virtue of their ownership of any GDR or any Deposited Property, shall be deemed thereby to agree to comply with requests from the Company or the Depositary pursuant to BVI laws and any stock exchange on which the Shares may be registered, traded or listed, if applicable, or the Articles of Association, which are made to provide information, *inter alia*, as to the capacity in which such Holder or former Holder, Beneficial Owner or former Beneficial Owner holds or held, owns or owned a beneficial ownership interest in GDRs (and Deposited Property, as the case may be) and regarding the identity of any other person interested in such GDRs (and Deposited Property), the nature of such interest and various related matters, whether or not they are Holders and/or Beneficial Owners at the time of such request.
- C. Applicable laws and regulations may require holders and beneficial owners of Shares, including the Holders and Beneficial Owners of GDRs, to satisfy reporting requirements or obtain regulatory approvals in certain circumstances. Holders and Beneficial Owners of GDRs are solely responsible for complying with such reporting requirements and obtaining such approvals. By virtue of their ownership of any GDR or any Deposited Property, each Holder and Beneficial Owner shall be deemed thereby to agree to file such reports and obtain such approvals to the extent and in the form required by applicable laws and regulations as in effect from time to time. None of the Depositary, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

5. Cash Distributions

Whenever the Depositary receives confirmation from the Custodian of the receipt from the Company of any cash dividend or other cash distribution on or in respect of the Deposited Shares or receipt of proceeds from the sale of any Shares, rights, securities or other entitlements under the terms of the Deposit Agreements or the Conditions, the Depositary shall, if at the time of receipt thereof any amounts received in Foreign Currency can in the judgment of the Depositary (pursuant to Condition 11) be converted on a practicable basis into Dollars transferable to the U.S., promptly convert, or cause to be converted, such dividends, distribution or proceeds into Dollars in the terms described in Condition 11 and will promptly distribute the amount thus received (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes withheld) to the Holders entitled thereto. The Depositary shall distribute only such amount, however, as can be distributed without attributing to any Holder a fraction of one cent, and any balance not so distributable shall be held by the Depositary (without liability for interest thereon) and shall be added to and become part of the next sum received by the Depositary for distribution to Holders of GDRs then outstanding at the time of the next distribution. If the Company, the Custodian or the Depositary is required to withhold and does withhold from any cash dividend or other cash distribution in respect of any Deposited Property an amount on account of taxes, duties or other governmental charges, the amount distributed to Holders in respect of the GDRs representing such Deposited Property shall be reduced accordingly. Such withheld amounts shall be forwarded by the Company, the Custodian or the Depositary to the relevant governmental authority. Evidence of payment thereof by the Company shall be forwarded by the Company to the Depositary.

6. Distributions of Shares

If any distribution upon any Deposited Property consists of a dividend in, or free distribution of, Shares, the Company shall cause such Shares to be deposited with the Custodian and, if applicable, registered in the name of the Depositary, the Custodian or any of their nominees, as the case may be. Upon receipt of confirmation of such deposit from the Custodian, the Depositary shall establish the GDR Record Date upon the terms described in Condition 10 and shall, subject to the terms of the Deposit Agreements and the Conditions, either (i) distribute to the Holders as of the GDR Record Date in proportion to the number of GDRs held as of the GDR Record Date, additional GDRs, which represent the aggregate number of Shares received as such dividend or free distribution, subject to the other terms of the Deposit Agreements and Conditions and net of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes, by either (x) if GDRs are not available in book-entry form, issuing additional GDR Certificates for an aggregate number of GDRs representing the number of Shares received as such dividend or free distribution, or (y) if GDRs are available in book-entry form, reflecting on the records of the Depositary such increase in the

aggregate number of GDRs representing such Shares and give notice to the Common Depositary of the related increase in the number of GDRs evidenced by the Master GDR Certificate, or (ii) if additional GDRs are not so distributed, each GDR issued and outstanding after the GDR Record Date shall, to the extent permissible by law, thenceforth also represent rights and interests in the additional Shares distributed upon the Deposited Property represented thereby, net of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes. In lieu of delivering fractional GDRs, the Depositary shall sell the number of Shares represented by the aggregate of such fractions and distribute the net proceeds of such sale upon the terms described in Condition 5. In the event that the Depositary determines that any distribution in Shares would violate applicable law, is not operationally practicable, is subject to any tax or other governmental charges which the Depositary is obligated to withhold, or if the Company, in the fulfillment of its obligations under Clause 7.1.5 of the Deposit Agreements, has furnished an opinion of U.S. counsel determining that the distribution to Holders of the Shares and the GDRs representing such Shares must be registered under the Securities Act or other laws in order to be distributed to Holders (and no such registration statement has been declared effective), the Depositary may dispose of all or a portion of such Shares in such amounts and in such manner, including by public or private sale, as the Depositary deems necessary and practicable, and the Depositary shall distribute the net proceeds of any such sale, after deduction of (a) taxes and (b) fees and charges of, and expenses incurred by, the Depositary, to Holders entitled thereto upon the terms described in Condition 5. The Depositary shall hold and/or distribute any unsold balance of such property in accordance with the provisions of the Deposit Agreements and the Conditions.

7. Distributions Other than Cash or Shares

Whenever the Company intends to distribute to the holders of Deposited Property property other than cash, Shares or rights to purchase additional Shares, the Company shall give timely notice thereof to the Depositary in accordance with Clause 5.1 of the Deposit Agreements and shall indicate whether or not it wishes such distribution to be made available to Holders of GDRs. Upon receipt of a notice indicating that the Company wishes such distribution to be made available to Holders of GDRs, the Depositary shall consult with the Company, and the Company shall assist the Depositary, to determine whether such distribution is lawful and reasonably practicable. The Depositary shall not make such distribution unless (i) the Company shall have requested the Depositary to make such distribution to Holders, (ii) the Depositary shall have received satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreements, and (iii) the Depositary shall have determined that such distribution is reasonably practicable. Upon receipt of satisfactory documentation and the request of the Company to distribute property to Holders of GDRs and after making the requisite determinations set forth above, the Depositary shall distribute the property so received to the Holders of record as of the GDR Record Date set in accordance with Condition 10, in proportion to the number of GDRs held by them respectively and in such manner as the Depositary may deem practicable for accomplishing such distribution (i) upon receipt of payment or net of the applicable fees and charges of, and expenses incurred by, the Depositary, and (ii) net of any taxes withheld. The Depositary may dispose of all or a portion of the property so distributed and deposited, in such amounts and in such manner (including public or private sale) as the Depositary may deem practicable or necessary to satisfy any taxes (including applicable interest and penalties) or other governmental charges applicable to the distribution. If (i) the Company does not request the Depositary to make such distribution to Holders or requests not to make such distribution to Holders, (ii) the Depositary does not receive satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreements, or (iii) the Depositary determines that all or a portion of such distribution is not reasonably practicable, the Depositary shall sell or cause such property to be sold in a public or private sale, at such place or places and upon such terms as it may deem practicable and shall (x) cause the proceeds of such sale, if any, to be converted into Dollars in accordance with Condition 11, and (y) distribute the proceeds of such conversion received by the Depositary (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes) to the Holders as of the GDR Record Date upon the terms of Condition 5. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems reasonably practicable under the circumstances.

8. Rights Issues

- A. Whenever the Company intends to distribute to the holders of the Deposited Property rights to subscribe for additional Shares, the Company shall give notice thereof to the Depositary in accordance with Clause 5.1 of the Deposit Agreements stating whether or not it wishes such rights to be made available to Holders of GDRs. Upon timely receipt of a notice indicating that the Company wishes such rights to be made available to Holders of GDRs, the Depositary shall consult with the Company, and the Company shall assist the Depositary, to determine whether it is lawful and reasonably practicable to make such rights available to the Holders. The Depositary shall make such rights available to Holders only if (i) the Company shall have requested that such rights be made available to Holders in a timely manner, (ii) the Depositary shall have received satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreements, and (iii) the Depositary shall have determined that such distribution of rights is reasonably practicable. In the event any of the conditions set forth above are not satisfied or if the Company requests that the rights not be made available to Holders of GDRs, the Depositary shall proceed with the sale of the rights as contemplated hereinafter. In the event all conditions set forth above are satisfied, the Depositary shall (x) establish a GDR Record Date (upon the terms described in Condition 10), (y) establish procedures to distribute such rights (by means of warrants or otherwise) and to enable the Holders to exercise the rights (upon payment of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes), and (z) issue and deliver GDRs upon the valid exercise of such rights. The Company shall assist the Depositary to the extent necessary in establishing such procedures.

Nothing herein shall obligate the Depositary to make available to the Holders a method to exercise such rights to subscribe for Shares (rather than for GDRs).

- B. If (i) the Company does not timely request the Depositary to make the rights available to Holders or requests that the rights not be made available to Holders, (ii) the Depositary fails to receive satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreements or determines it is not reasonably practicable to make the rights available to Holders, or (iii) any rights made available are not exercised and appear to be about to lapse, the Depositary shall determine whether it is lawful and reasonably practicable to sell such rights, in a riskless principal capacity, at such place and upon such terms (including public and private sale) as it may deem practicable. The Company shall assist the Depositary to the extent necessary to determine such legality and practicability. The Depositary shall, upon such sale, (x) cause the proceeds of such sale, if any, to be converted into Dollars upon the terms described in Condition 11, and (y) distribute the proceeds of such sale (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes) upon the terms set forth in Condition 5.

If the Depositary is unable to make any rights available to Holders upon the terms described in the Deposit Agreements or to arrange for the sale of the rights upon the terms described above, the Depositary shall allow such rights to lapse.

The Depositary shall not be responsible for (i) any failure to determine that it may be lawful or practicable to make such rights available to Holders in general or any Holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with any sale or exercise, or (iii) the content of any materials forwarded to the Holders on behalf of the Company in connection with the rights distribution.

- C. Notwithstanding anything to the contrary in the Deposit Agreements or this Condition 8, if registration (under the Securities Act or any other applicable law) of the rights or the securities to which any rights relate may be required in order for the Company to offer such rights or such securities to Holders and to sell the securities represented by such rights, the Depositary will not distribute such rights to the Holders unless and until a registration statement under the Securities Act covering such offering is in effect. In the event that the Company, the Depositary or the Custodian shall be required to withhold and does withhold from any distribution of rights an amount on account of taxes or other governmental charges, the amount distributed to the Holders of Rule 144A GDRs representing such Deposited Property shall be reduced accordingly. In the event that the Depositary determines that any distribution of Deposited Property or rights to subscribe therefor is subject to any tax or other governmental charges which the Depositary is obligated to withhold, the Depositary may dispose of all or a portion of such Deposited Property or rights to subscribe therefor in such amounts and in such manner, including by public or private

sale, as the Depositary deems necessary and practicable to pay any such taxes or charges. There can be no assurance that Holders generally, or any Holder in particular, will be given the opportunity to exercise such rights on the same terms and conditions as the holders of Deposited Property or to exercise such rights. Nothing in the Deposit Agreements or this Condition 8 shall obligate the Company to file any registration statement in respect of any rights or Deposited Property or other securities to be acquired upon the exercise of such rights.

9. Redemption

If the Company intends to exercise any right of redemption in respect of any of the Deposited Property, the Company shall give notice thereof to the Depositary in accordance with Clause 5.2 of the Deposit Agreements which notice shall set forth the particulars of the proposed redemption. Upon receipt of such (i) notice and (ii) satisfactory documentation given by the Company to the Depositary within the terms of Clause 7.1.4 of the Deposit Agreements, and only if the Depositary shall have determined that such proposed redemption is practicable, the Depositary shall send to each Holder a notice in accordance with Condition 25 setting forth the intended exercise by the Company of the redemption rights and any other particulars set forth in the Company's notice to the Depositary. The Depositary shall instruct the Custodian to present to the Company the Deposited Property in respect of which redemption rights are being exercised against payment of the applicable redemption price. Upon receipt of confirmation from the Custodian that the redemption has taken place and that funds representing the redemption price have been received, the Depositary shall convert, transfer, and distribute the proceeds (net of applicable (a) fees and charges of, and the expenses incurred by, the Depositary, and (b) taxes), retire GDRs and cancel GDRs upon delivery of such GDRs by Holders thereof and on the terms set forth in the applicable Conditions. If less than all outstanding Deposited Property is redeemed, the GDRs to be retired will be selected by lot or on a pro rata basis, as may be determined by the Depositary. The redemption price per GDR shall be the per share amount received by the Depositary upon the redemption of the Deposited Property represented by GDRs (subject to the terms of the Deposit Agreements and the applicable fees and charges of, and expenses incurred by, the Depositary, and taxes) multiplied by the number of Deposited Property represented by each GDR redeemed.

10. GDR Record Dates

Whenever the Depositary shall receive notice of the fixing of a record date by the Company for the determination of holders of Deposited Property entitled to receive any distribution (whether in cash, Shares, rights or other distribution), or whenever, for any reason, the Depositary causes a change in the number of Deposited Property that are represented by each GDR, or whenever the Depositary shall receive notice of any meeting of, or solicitation of consents or proxies of, holders of Shares or other Deposited Property, or whenever the Depositary finds it necessary or convenient in connection with the giving of any notice, solicitation of any consent or any other matter, the Depositary, shall fix a record date (the "GDR Record Date") for the determination of the Holders of GDRs who shall be entitled to receive such dividend or distribution, to give instructions for the exercise of voting rights at any such meeting, or to give or withhold such consent, or to receive such notice or solicitation or to otherwise take action, or to exercise the rights of Holders with respect to such changed number of Deposited Property represented by each GDR. The Depositary shall make reasonable endeavours to establish the GDR Record Date as closely as possible to the applicable record date for the Deposited Property (if any) set by the Company in the BVI. Subject to applicable law and the provisions of the Deposit Agreements and Conditions, only the Holders of GDRs at the close of business in New York on such GDR Record Date shall be entitled to receive such distribution, to give such voting instructions, to receive such notice or solicitation, or otherwise take action.

11. Conversion of Foreign Currency

Whenever the Depositary or the Custodian shall receive any Foreign Currency by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the Foreign Currency so received can in the judgement of the Depositary be converted on a practicable basis into Dollars transferable to the U.S. and distributed to the Holders entitled thereto, the Depositary shall convert or cause to be converted by sale or in any other manner that it may determine, the Foreign Currency so received into Dollars and shall distribute such Dollars (net of applicable fees, any reasonable and customary expenses incurred on

behalf of Holders in complying with currency exchange control or other governmental requirements) in accordance with the terms of the applicable Conditions. If the Depositary shall have distributed warrants or other instruments that entitle the holders thereof to such Dollars, the Depositary shall distribute such Dollars to the holders of such warrants and/or instruments upon surrender thereof for cancellation, in either case without liability for interest thereon. Such distribution shall be made upon an averaged or other practicable basis without regard to any distinctions among Holders on account of any application of exchange restrictions or otherwise. If such conversion or distribution generally or with regard to a particular Holder can be effected only with the approval or licence of any government or agency thereof, the Depositary shall have the authority, with the assistance of the Company, to file such application, for such approval or licence, if any, as it may consider desirable. In no event, however, shall the Depositary be obligated to make such a filing. If at any time the Depositary shall determine that in its judgement the conversion of any currency other than Dollars and the transfer and distribution of proceeds of such conversion received by the Depositary is not practicable or lawful, or if any approval or licence of any government or agency thereof which is required for such conversion, transfer or distribution is denied or, in the opinion of the Depositary, is not obtainable at a reasonable cost, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may in its discretion (i) make such conversion and distribution in Dollars to the Holders for whom such conversion, transfer and distribution is lawful and practicable, (ii) distribute the Foreign Currency (or an appropriate document evidencing the right to receive such Foreign Currency) to Holders for whom this is lawful and practicable, and (iii) hold (or cause the Custodian to hold) such Foreign Currency (without liability for interest thereon) for the respective accounts of, the Holders entitled to receive the same.

12. Distribution of any Payments

Any distribution of cash under Condition 5, 6, 7, 8, 9, 13 or 14 will be made by the Depositary to those Holders who are Holders of record on the GDR Record Date established by the Depositary in accordance with Condition 10 for that purpose and, distributions will be made in Dollars subject to Condition 11 by cheque drawn upon a bank in New York City or, in the case of the relevant Master GDR Certificate, according to usual practice between the Depositary and DTC, Clearstream, and Euroclear, as the case may be. The Depositary may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreements all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreements or under applicable law in respect of such GDR or the relative Deposited Property.

13. Capital Reorganisation

Upon any change in nominal or par value, split-up, cancellation, consolidation or any other reclassification of Deposited Property, or upon any recapitalisation, reorganisation, merger or consolidation or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such Deposited Property shall, to the extent permitted by law, be treated as new Deposited Property under the Deposit Agreements and the Conditions, and the GDRs shall, subject to the terms of the Deposit Agreements, the Conditions and applicable law, evidence GDRs representing the right to receive such replacement securities. The Depositary may, with the Company's approval, and shall, if the Company shall so request, subject to the terms of the Deposit Agreements, the Conditions and receipt of an opinion of counsel satisfactory to the Depositary that such distributions are not in violation of any applicable laws or regulations, execute and deliver additional GDRs or make appropriate adjustments in its records, as in the case of a stock dividend on the Shares, or call for the surrender of outstanding GDRs to be exchanged for new GDRs, in either case, as well as in the event of newly deposited Shares, with necessary modifications to the form of GDR attached to the Deposit Agreements specifically describing such new Deposited Property or corporate change. Notwithstanding the foregoing, in the event that any security so received may not be lawfully distributed to some or all Holders, the Depositary may, with the Company's approval, and shall if the Company requests, subject to receipt of an opinion of Company's counsel satisfactory to the Depositary that such action is not in violation of any applicable laws or regulations, sell such securities at public or private sale, at such place or places and upon such terms as it may deem proper, and may allocate the net proceeds of such sales (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary, and (b) taxes) for the account of the Holders otherwise entitled to such securities upon an averaged or other practicable basis without regard to any distinctions

among such Holders and distribute the net proceeds so allocated to the extent practicable as in the case of a distribution received in cash pursuant to Condition 5. The Depositary shall not be responsible for (i) any failure to determine that it is lawful or practicable to make such securities available to Holders in general or to any Holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with such sale, or (iii) any liability to the purchaser of such securities.

14. Elective Distributions

Wherever the Company intends to distribute a dividend payable at the election of the holders of Shares in cash or in additional Shares, the Company shall give notice thereof to the Depositary in accordance with Clause 5.1 of the Deposit Agreements stating whether or not it wishes such elective distribution to be made available to Holders of GDRs. Upon timely receipt of a notice indicating that the Company wishes such elective distribution to be made available to Holders of GDRs, the Depositary shall consult with the Company to determine, and the Company shall assist the Depositary in its determination, whether it is lawful and reasonably practicable to make such elective distribution available to the Holders of GDRs. The Depositary shall make such elective distribution available to Holders *only* if the Depositary shall have (i) determined that such distribution is lawful and reasonably practicable and (ii) received satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreements. If the above conditions are not satisfied or if the Company requests that such elective distribution not be made available to Holders of GDRs, the Depositary shall, to the extent permitted by law, distribute to the Holders, on the basis of the same determination as is made in the BVI in respect of the Shares for which no election is made, either (X) cash upon the terms described in Condition 5, or (Y) additional GDRs representing such additional Shares upon the terms described in Condition 6. If the above conditions are satisfied, the Depositary shall establish a GDR Record Date in accordance with Condition 10 and establish procedures to enable Holders to elect the receipt of the proposed dividend in cash or in additional GDRs. The Company shall assist the Depositary in establishing such procedures to the extent necessary. If a Holder elects to receive the proposed dividend (X) in cash, the dividend shall be distributed upon the terms described in Condition 5, or (Y) in GDRs, the dividend shall be distributed upon the terms described in Condition 6. Nothing in the Deposit Agreements or this Condition 14 shall obligate the Depositary to make available to Holders a method to receive the elective dividend in Shares (rather than GDRs). There can be no assurance that Holders and Beneficial Owners generally, or any Holder or Beneficial Owner in particular, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the Deposited Property.

15. Taxation and Applicable Laws

- A. Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Property will be subject to deduction of BVI and other withholding taxes, if any, at the applicable rates, and notwithstanding any other provision of the Deposit Agreements or the Conditions, the Depositary and the Custodian will be entitled, subject to applicable law, to deduct from any cash dividend or other cash distribution which either of them receives from the Company such amount as is necessary in order to provide for any tax, charge, fee or other amount that is, or could become, payable by or on behalf of the Depositary to fiscal or other governmental authority on account of receiving such cash dividend or other cash distribution.

The Holder or Beneficial Owner of any GDR or any Deposited Property shall be deemed thereby to accept (by virtue of his ownership or deposit, as the case may be) that, in the event that any tax or other governmental charge shall become payable with respect to any GDR, Deposited Property or GDR Certificate, such tax or other governmental charge shall be payable by the Holder and Beneficial Owner to the Depositary. The Custodian may refuse the deposit of Shares and the Depositary may refuse to issue or deliver GDRs, to register the transfer, split-up or combination of GDR Certificates and the withdrawal of Deposited Property until payment in full of such tax, charge, penalty or interest is received. The Depositary may, for the account of the Holder or Beneficial Owner, discharge the same out of the proceeds of sale, subject to BVI law and regulations, of an appropriate number of Deposited Shares or other Deposited Property with the Holder and Beneficial Owner remaining liable for any deficiency and being entitled to distribution of any surplus. Any such request shall be made by giving notice pursuant to Condition 25.

By virtue of its ownership of any GDR or Deposited Property, each Holder and Beneficial Owner shall be deemed to agree to indemnify the Depositary, the Company, the Custodian, and any of their agents, officers, employees and Affiliates for, and to hold each of them harmless from, any claims by a governmental authority with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for such Holder or Beneficial Owner.

- B. If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in the BVI in order for the Depositary to receive from the Company Shares to be deposited under the Conditions or in order for Shares, other securities or other property to be distributed under Condition 5, 6, 7, 13 or 14 or to be subscribed under Condition 8, the Depositary shall request that the Company apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreements, to take such action as may be required in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or other property with respect to which such authorisation, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent or permit or to file any such report.

16. Voting Rights

- A. Holders of GDRs will have voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depositary of any meeting of holders of Shares of the Company at which holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 16.

As soon as practicable after receipt from the Company of any such notice, the Depositary will fix the GDR Record Date (the cut-off time shall be close of business in New York) in respect of such meeting or solicitation of consent or proxy in accordance with Condition 10. The Depositary shall, if requested by the Company in writing in a timely manner in accordance with Clause 5.3 of the Deposit Agreements and at the Company's expense and provided no U.S., English or BVI legal prohibitions exist, distribute to Holders as of the GDR Record Date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York on the GDR Record Date will be entitled, subject to any applicable law, the provisions of the Deposit Agreements, the Conditions, the Articles of Association and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given.

- B. Voting instructions may be given to the Depositary only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Subject to applicable law, the provisions of the Deposit Agreements, the Conditions, the Articles of Association and the provisions of the Deposited Property, if the Depositary has received voting instructions from a Holders as of the GDR Record Date to vote the Deposited Property on or before the date specified by the Depositary, the Depositary shall endeavour, in so far as is practicable and permitted by BVI law and practice, to vote the Deposited Property represented by GDRs as follows: (i) in the event voting takes place at a shareholders' meeting by show of hands, the Depositary will instruct the Custodian to vote all Deposited Property in accordance with the voting instructions received from a majority of Holders of GDRs who provided voting instructions and (ii) in the event voting takes place at a shareholders' meeting by poll, the Depositary will instruct the Custodian to vote the Deposited Property in accordance with the voting instructions received from the Holders of GDRs. If the Depositary does not receive instructions from a Holder as of the GDR Record Date on or before the date established by the Depositary for such purpose and voting is by poll, such Holder shall be deemed, and the Depositary shall (unless otherwise specified in the notice distributed to Holders) deem such Holder, to have instructed the Depositary to give a discretionary proxy to a person designated by the Company to vote the Deposited Property; provided, however, that no such discretionary proxy shall be given by the Depositary with respect to any matter to be voted upon as to which the Company informs the Depositary that (A) the Company does not wish such proxy to be given,

(B) substantial opposition exists, or (C) the rights of holders of Deposited Property may be materially adversely affected.

- C. Neither the Depositary nor the Custodian shall, under any circumstances exercise any discretion as to voting and neither the Depositary nor the Custodian shall vote, attempt to exercise the right to vote, or in any way make use of the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with such instructions from Holders or as otherwise contemplated herein. If the Depositary timely receives voting instructions from a Holder which fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder (unless otherwise specified in the notice distributed to Holders) to have instructed the Depositary to vote in favour of the items set forth in such voting instructions. Notwithstanding anything else contained herein, the Depositary shall, if so requested in writing by the Company, represent all Deposited Property (whether or not voting instructions have been received in respect of such Deposited Property from Holders as of the GDR Record Date) for the sole purpose of establishing quorum at a meeting of shareholders.
- D. There can be no assurance that Holders generally or any Holder in particular will receive the notice described above with sufficient time to enable the Holder to return voting instructions to the Depositary in a timely manner.

By continuing to hold GDRs, all Holders and Beneficial Owners shall be deemed to have agreed to the provisions of this Condition 16 as it may be amended from time to time in order to comply with applicable BVI law.

A valid corporate decision of the Company will bind the Depositary (as registered owner of the Shares) and the Holders and Beneficial Owners of GDRs shall be deemed to agree to being bound by such a corporate decision of the Company.

- E. Notwithstanding anything else contained in the Deposit Agreements or the Conditions, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S., English or BVI laws. The Company agrees to take any and all actions reasonably necessary to enable Holders and Beneficial Owners to exercise the voting rights accruing to the Deposited Property and to deliver to the Depositary an opinion of U.S., English or BVI counsel, as applicable, addressing any actions requested to be taken if so requested by the Depositary.

17. Liability

- A. Neither the Depositary nor the Company shall be obligated to do or perform any act which is inconsistent with the provisions of the Deposit Agreements or the Conditions or shall incur any liability (i) if the Depositary or the Company shall be prevented or forbidden from, or delayed in, doing any act or thing required by the terms of the Deposit Agreements or the Conditions, by reason of any provision of any present or future law or regulation of the U.S., England, the BVI or any other country, or of any relevant governmental or regulatory authority or stock exchange, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or on account of the possible criminal or civil penalties or restraint, or by reason of any provision, present or future, of the Articles of Association or any provision of or governing any Deposited Property or by reason of any other circumstances beyond their control (including, without limitation, acts of God or war, nationalisation, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure), (ii) by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements, the Conditions or in the Articles of Association or provisions of or governing Deposited Property, (iii) for any action or inaction in reliance upon the advice or information from legal counsel, accountants, any person presenting Shares for deposit, any Holder, any Beneficial Owner or authorised representative thereof, or any other person believed by it in good faith to be competent to give such advice or information, but only insofar as the terms of this subsection (iii) are not prohibited by applicable law, (iv) for the inability by a Holder or Beneficial Owner to benefit from any distribution, offering, right or other benefit which is made available to holders of Shares but is not, under the terms of the Deposit

Agreements or the Conditions, made available to Holders of GDRs or (v) for any consequential or punitive damages for any breach of the terms of the Deposit Agreements or the Conditions

- B. The Company and the Depositary assume no obligation and shall not be subject to any liability under the Deposit Agreements, the Conditions, or any GDR Certificates to any Holder(s) or Beneficial Owner(s), except that the Company and the Depositary agree to perform their respective obligations specifically set forth in the Deposit Agreements, the Conditions or the applicable GDR Certificates without negligence or bad faith.
- C. The Depositary, its controlling persons, its agents, any Custodian and the Company, its controlling persons and its agents may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented by the proper party or parties (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- D. No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreements or the Conditions.
- E. Without limitation of the foregoing, neither the Depositary, nor the Company, nor any of their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Property or in respect of the GDRs, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required (and no Custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary).
- F. The Depositary has no obligation under the Deposit Agreements to take steps to monitor, supervise or enforce the observance and performance by the Company of its obligations under the Deposit Agreements or the Conditions.
- G. Neither the Depositary, the Custodian nor any Agent nor any of their agents, officers, directors or employees shall be liable (except by reason of its own wilful misconduct, negligence or bad faith or that of its agent, officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.
- H. The Depositary and each of its Agents (and any holding, subsidiary or associated company of the Depositary) may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreements (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- I. The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 6, 7, 8, 13 or 14 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible.
- J. The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to the Company, any Holder, Beneficial Owner or person with an interest in a GDR as regards any deficiency which might arise because the Depositary is subject to any tax (other than a tax imposed on fees assessed by, or the profits of, the Depositary) in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- K. In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreements or the Conditions, the Depositary shall not, except as otherwise expressly provided in Condition 24, be obliged to have regard to the consequence

thereof for the Holders, Beneficial Owners, a person with an interest in a GDR or any other person.

- L. Notwithstanding anything else contained in the Deposit Agreements or the Conditions, the Depositary may refrain from doing anything which could or might, in its reasonable opinion, render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any law, directive or regulation.
- M. The Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable BVI law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issue of GDRs if notified by the Company, or if the Depositary becomes aware of the fact, that such transfer or issue would be in violation of the limitations set forth above or any other applicable laws.
- N. The Depositary may call for, and shall be at liberty to accept as sufficient, evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company, by the Board of Directors of the Company or by a person duly authorised by the Board of Directors of the Company, or such other certificate from persons which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- O. The Depositary and its agents shall not be liable for any failure to carry out any instructions to vote any of the Deposited Property, or for the manner in which any vote is cast or the effect of any vote, provided that any such action or omission is in good faith and in accordance with the terms of the Deposit Agreements and the Conditions. The Depositary shall not incur any liability for any failure to determine that any distribution or action may be lawful or reasonably practicable, for the content of any information submitted to it by the Company for distribution to the Holders or for any inaccuracy of any translation thereof, for any investment risk associated with acquiring an interest in the Deposited Property, for the validity or worth of the Deposited Property, for the credit-worthiness of any third party, for any tax consequences that may result from the ownership of GDRs, Shares or Deposited Property, for allowing any rights to lapse upon the terms of the Deposit Agreements and the Conditions, for the failure or timeliness of any notice from the Company.
- P. No provision of the Deposit Agreements or the Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.
- Q. The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a lawyer or other person, including obtaining an opinion of legal advisers in form and substance reasonably satisfactory to it, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. Save for the failure on the part of the Depositary to exercise reasonable care in the selection or retention of any such agent, the Depositary will not be liable to anyone for any misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent.
- R. None of the Depositary, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy reporting requirements or obtain regulatory approvals under applicable laws and regulations which shall be the sole responsibility of the Holders and Beneficial Owners as described in Condition 4C.

18. Issue and Delivery of Replacement GDRs and Exchange of GDRs.

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the

Depository and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the Principal New York Office of the Depository.

19. Depository's Fees, Costs and Expenses

A. The Depository shall charge the following fees:

- (i) *Issuance Fee*: to any person depositing Shares or to whom GDRs are issued upon the deposit of Shares (excluding issuances pursuant to paragraph (iv) below), a fee not in excess of U.S. \$5.00 per 100 GDRs (or fraction thereof) so issued under the terms of the Deposit Agreements and the Conditions;
- (ii) *Cancellation Fee*: to any person surrendering GDRs for cancellation and withdrawal of Deposited Property, a fee not in excess of U.S. \$5.00 per 100 GDRs (or fraction thereof) so surrendered;
- (iii) *Cash Distribution Fee*: to any Holder of GDRs, a fee not in excess of U.S. \$5.00 per 100 GDRs (or fraction thereof) held for the distribution of cash dividends or other cash distributions (i.e., upon the sale of rights and other entitlements);
- (iv) *Stock Distribution /Rights Exercise Fees*: to any Holder of GDRs, a fee not in excess of U.S. \$5.00 per 100 GDRs (or fraction thereof) held for the distribution of GDRs pursuant to stock dividends or other free stock distributions or upon the exercise of rights to purchase additional GDRs;
- (v) *Other Distribution Fee*: to any Holder of GDRs, a fee not in excess of U.S. \$5.00 per 100 GDRs (or fraction thereof) held for the distribution of securities other than GDRs or rights to purchase additional GDRs;
- (vi) *Depository Services Fee*: to any Holder of GDRs, a fee not in excess of US\$5.00 per 100 GDRs (or fraction thereof) held on the applicable record date(s) established by the Depository; and
- (vii) *GDR Transfer Fee*: to any person presenting a GDR Certificate for transfer, a fee not in excess of US\$1.50 per GDR Certificate so presented for transfer.

In addition, Holders, Beneficial Owners, persons depositing Shares for deposit and persons surrendering GDRs for cancellation and withdrawal of Deposited Property will be required to pay the following charges:

- (i) taxes (including applicable interest and penalties) and other governmental charges;
 - (ii) such registration fees as may from time to time be in effect for the registration of Shares or other Deposited Property on the share register and applicable to transfers of Shares or other Deposited Property to or from the name of the Custodian, the Depository or any nominees upon the making of deposits and withdrawals, respectively;
 - (iii) such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreements to be at the expense of the person depositing or withdrawing Shares or Holders and Beneficial Owners of GDRs;
 - (iv) the expenses and charges incurred by the Depository in the conversion of foreign currency;
 - (v) such fees and expenses as are incurred by the Depository in connection with compliance with exchange control regulations and other regulatory requirements applicable to Shares, Deposited Property, GDRs and GDR Certificates; and
 - (vi) the fees and expenses incurred by the Depository, the Custodian or any nominee in connection with the servicing or delivery of Deposited Property.
- B. Any other charges and expenses of the Depository under the Deposit Agreements and the Conditions will be paid by the Company upon agreement between the Depository and the Company. All fees and charges may, at any time and from time to time, be changed by agreement between the Depository and Company but, in the case of fees and charges payable by Holders or Beneficial Owners, only in the manner contemplated by Condition 24. The Depository will provide, without charge, a copy of its latest fee schedule to anyone upon request.

- C. Depositary fees payable upon (i) deposit of Shares against issuance of GDRs and (ii) surrender of GDRs for cancellation and withdrawal of Deposited Property will be charged by the Depositary to the person to whom the GDRs so issued are delivered (in the case of GDR issuance) and to the person who delivers the GDRs for cancellation to the Depositary (in the case of GDR cancellations). In the case of GDRs issued by the Depositary into Euroclear or Clearstream, the GDR issuance and cancellation fees will be payable to the Depositary by the Euroclear or Clearstream Participant(s) receiving the GDRs from the Depositary or the Euroclear or Clearstream Participant(s) surrendering the GDRs to the Depositary for cancellation, as the case may be, on behalf of the Beneficial Owner(s) and will be charged by the Euroclear or Clearstream Participant(s) to the account(s) of the applicable Beneficial Owner(s) in accordance with the procedures and practices of the Euroclear or Clearstream Participant(s) as in effect at the time. Depositary fees in respect of distributions and the Depositary services fee are payable to the Depositary by Holders as of the applicable record date established by the Depositary. In the case of distributions of cash, the amount of the applicable Depositary fees is deducted by the Depositary from the funds being distributed. In the case of distributions other than cash and the Depositary service fee, the Depositary will invoice the applicable Holders as of the record date established by the Depositary. For GDRs held through Euroclear or Clearstream, the Depositary fees for distributions other than cash and the Depositary service fee are charged by the Depositary to the Euroclear or Clearstream Participants in accordance with the procedures and practices prescribed by Euroclear or Clearstream from time to time and the Euroclear or Clearstream Participants in turn charge the amount of such fees to the Beneficial Owners for whom they hold GDRs.
- D. The Depositary may reimburse the Company for certain expenses incurred by the Company in respect of the GDR program established pursuant to the Deposit Agreements, by making available a portion of the Depositary fees charged in respect of the GDR program or otherwise, upon such terms and conditions as the Company and the Depositary may agree from time to time. The Company shall pay to the Depositary such fees and charges and reimburse the Depositary for such out of pocket expenses as the Depositary and the Company may agree from time to time. Responsibility for payment of such charges may from time to time be changed by agreement between the Company and the Depositary. Unless otherwise agreed, the Depositary shall present its statement for such expenses and fees or charges to the Company once every three (3) months. The charges and expenses of the Custodian are for the sole account of the Depositary.

20. Listing

The Company has undertaken in the Deposit Agreements to use reasonable endeavours to obtain and thereafter maintain, so long as any GDR is outstanding, admission of trading for GDRs on the London Stock Exchange's market for listed securities through its International Order Book. For that purpose the Company will pay all fees and sign and deliver all undertakings reasonably required by the London Stock Exchange in connection therewith. In the event that such a listing is not maintained, the Company has undertaken in the Deposit Agreements to use its reasonable endeavours to obtain and maintain a listing of the GDRs on another internationally recognised investment exchange in Europe designated as a "recognised investment exchange" for the purposes of the United Kingdom Financial Services and Markets Act 2000, as amended.

21. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreements. The Custodian shall be responsible solely to the Depositary. Upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreements. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian, which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreements. The Depositary shall notify Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 25.

Citibank, N.A. may at any time act as Custodian of the Deposited Securities pursuant to the Deposit Agreements, in which case any reference to Custodian shall mean Citibank, N.A. solely in its capacity as Custodian pursuant to the Deposit Agreements. Notwithstanding anything contained in the Deposit Agreements or the Conditions, the Depositary shall not be obligated to give notice to the Company, any Holders of GDRs or any other Custodian of its acting as Custodian pursuant to the Deposit Agreements.

22. Resignation and Termination of Appointment of the Depositary

- A. The Depositary may at any time resign as Depositary hereunder by written notice of resignation delivered to the Company, such resignation to take effect upon the earlier to occur of (i) the 90th day after delivery thereof to the Company (whereupon the Depositary shall be entitled to take the actions contemplated in Clause 12 of the Deposit Agreements), or (ii) the appointment by the Company of a successor depositary and its acceptance of such appointment as hereinafter provided.

The Depositary may at any time be removed by the Company by written notice of removal delivered to the Depositary, which notice of removal shall be effective upon the later of (i) the 90th day after delivery thereof to the Depositary (whereupon the Depositary shall be entitled to take the actions contemplated in Clause 12 of the Deposit Agreements), or (ii) the appointment by the Company of a successor depositary and its acceptance of such appointment as hereinafter provided.

- B. The Company has undertaken in the Deposit Agreements to use its best efforts to procure the appointment of a successor depositary. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 25.
- C. Any corporation into or with which the Depositary may be merged or consolidated shall be the successor of the Depositary without the execution or filing of any document or any further act.

23. Termination of Deposit Agreements

- A. The Depositary shall at any time, at the written direction of the Company, terminate the Deposit Agreements by providing notice of such termination to the Holders of all GDR Certificates then outstanding at least thirty (30) days prior to the date fixed in such notice for such termination. If ninety (90) days shall have expired after (i) the Depositary shall have delivered to the Company a written notice of its election to resign pursuant to Clause 11.1 of the Deposit Agreements and Condition 22, or (ii) the Company shall have delivered to the Depositary a written notice of the removal of the Depositary pursuant to Clause 11.2 of the Deposit Agreements and Condition 22 and, in either case, a successor depositary shall not have been appointed and accepted its appointment as provided in Clause 11.3 of the Deposit Agreements and Condition 22, the Depositary may terminate the Deposit Agreements by providing notice of such termination to the Holders of all GDR Certificates then outstanding at least thirty (30) days prior to the date fixed in such notice for such termination. The date so fixed for termination of the Deposit Agreements in any termination notice so distributed by the Depositary to the Holders of GDRs is referred to as the “**Termination Date**”. Until the Termination Date, the Depositary shall continue to perform all of its obligations under the Deposit Agreements and the Conditions, and the Holders and Beneficial Owners will be entitled to all of their rights under the Deposit Agreements and the Conditions.
- B. If any GDRs shall remain outstanding after the Termination Date, the Registrar and the Depositary shall not, after the Termination Date, have any obligation to perform any further acts under the Deposit Agreements or the Conditions, except that the Depositary shall, subject, in each case, to the terms and conditions of the Deposit Agreements and the Conditions, continue to (i) collect dividends and other distributions pertaining to Deposited Property, (ii) sell securities and other property received in respect of Deposited Property, (iii) deliver Deposited Property, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any securities or other property, in exchange for GDRs surrendered to the Depositary (after deducting or charging, as the case may be, in each case, the fees and charges of, and expenses incurred by, the Depositary, and all applicable taxes or governmental charges for the account of the Holders and Beneficial Owners, in each case upon the terms set forth in

Clause 10.1 of the Deposit Agreements and Condition 19), and (iv) take such actions as may be required under applicable law in connection with its role as Depositary under the Deposit Agreements.

At any time after the Termination Date, the Depositary may sell the Deposited Property then held under the Deposit Agreements and shall after such sale hold un-invested the net proceeds of such sale, together with any other cash then held by it under the Deposit Agreements, in an un-segregated account and without liability for interest, for the pro-rata benefit of the Holders whose GDRs have not theretofore been surrendered. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreements and the Conditions except (i) to account for such net proceeds and other cash (after deducting or charging, as the case may be, in each case, the fees and charges of, and expenses incurred by, the Depositary, and all applicable taxes or governmental charges for the account of the Holders and Beneficial Owners, in each case upon the terms set forth in Clause 10.1 of the Deposit Agreements and Condition 19), and (ii) as may be required at law in connection with the termination of the Deposit Agreements. After the Termination Date, the Company shall be discharged from all obligations under the Deposit Agreements and the Conditions, except for its obligations to the Depositary under Clause 10 of the Deposit Agreements and Condition 19. The obligations under the terms of the Deposit Agreements and the Conditions of Holders and Beneficial Owners of GDRs outstanding as of the Termination Date shall survive the Termination Date and shall be discharged only when the applicable GDRs are presented by their Holders to the Depositary for cancellation under the terms of the Deposit Agreements and the Conditions.

24. Amendment of Deposit Agreements and Conditions

All and any of the provisions of the Deposit Agreements and the Conditions may at any time and from time to time be amended by written agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of the Deposit Agreements and the Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of thirty (30) days after such notice shall have been given. Every Holder or Beneficial Owner at the time any amendment or supplement so becomes effective shall be deemed, by continuing to hold GDRs or any beneficial interest therein to consent to and approve such amendment or supplement and to be bound by the terms of the Deposit Agreements and the Conditions as amended and supplemented thereby.

In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Clause 3 of the Deposit Agreements and Condition 2, the Deposited Property attributable to the relevant GDR except in order to comply with mandatory provisions of applicable law.

The parties hereto agree that substantial rights of Holders and Beneficial Owners shall not be deemed materially prejudiced by any amendments or supplements which (i) are reasonably necessary (as agreed by the Company and the Depositary) in order for the GDRs or Shares to continue to be settled in electronic-book entry form and (ii) do not impose or increase any fees or charges to be borne by Holders or Beneficial Owners.

Notwithstanding anything in the Deposit Agreements or the Conditions to the contrary, if any governmental body should adopt new laws, rules or regulations which would require an amendment or supplement of the Deposit Agreements or the Conditions to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreements, and the Conditions at any time in accordance with such changed laws, rules or regulations. Such amendment or supplement to the Deposit Agreements and the Conditions in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance with such laws, rules or regulations.

25. Notices

Any and all notices to be given to any Holder shall be deemed to have been duly given if (a) personally delivered or sent by mail, air courier or cable, telex or facsimile transmission, confirmed by letter,

addressed to such Holder at the address of such Holder as it appears on the books of the Depositary or, if such Holder shall have filed with the Depositary a request that notices intended for such Holder be mailed to some other address, at the address specified in such request, or (b) if a Holder shall have designated such means of notification as an acceptable means of notification under the terms of the Regulation S Deposit Agreements, by means of electronic messaging addressed for delivery to the email address designated by the Holder for such purpose.

Notice to Holders shall be deemed to be notice to Beneficial Owners for all purposes of the Deposit Agreements and the Conditions. Failure to notify a Holder or any defect in the notification to a Holder shall not affect the sufficiency of notification to other Holders or to the Beneficial Owners of GDRs held by such other Holders.

Delivery of a notice sent by mail, air courier, cable, telex or facsimile transmission shall be deemed to be effective at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a cable, telex or facsimile transmission) is deposited, postage prepaid, in a post office letter box or delivered to an air courier service, without regard for the actual receipt or time of actual receipt thereof by a Holder. The Depositary or the Company may, however, act upon any cable, telex or facsimile transmission received by it from any Holder, the Custodian, the Depositary or the Company, notwithstanding that such cable, telex or facsimile transmission shall not be subsequently confirmed by letter.

Delivery of a notice by means of electronic messaging shall be deemed to be effective at the time of the initiation of the transmission by the sender (as shown on the sender's records), notwithstanding that the intended recipient retrieves the message at a later date, fails to retrieve such message, or fails to receive such notice on account of its failure to maintain the designated email address, its failure to designate a substitute email address or for any other reason.

26. Reports and Information on the Company

The Company publishes the information contemplated in Rule 12g3-2(b) under the Exchange Act on its Internet website or through an electronic information delivery system generally available to the public in the Company's primary trading market. As of the date hereof the Company's Internet website is www.mail.ru. The information so published by the Company may not be in English, except that the Company is required, in order to maintain its exemption from the Exchange Act reporting obligations pursuant to Rule 12g3-2(b), to translate such information into English to the extent contemplated in the instructions to Rule 12g3-2(b). The information so published by the Company cannot be retrieved from the Commission's Internet website, and cannot be inspected or copied at the public reference facilities maintained by the Commission located (as of the date of hereof) at 100 F Street, N.E., Washington, D.C. 20549.

27. Copies of Company Notices

On or before the day when the Company first gives notice, by publication, or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, the Company has undertaken in the Deposit Agreements to transmit to the Custodian and the Depositary a copy of such notice and any other material in English but otherwise in the form given or to be given to holders of Shares or other Deposited Property.

In addition, the Company will transmit to the Depositary English-language versions of the other notices, reports and communications which are generally made available by the Company to holders of Shares or other Deposited Property. The Depositary will, at the expense of the Company, make available a copy of any such notices, reports or communications issued by the Company and delivered to the Depositary for inspection by the Holders and Beneficial Owners at the Depositary's Principal New York Office or Principal London Office, at the office of the Custodian and at any other designated transfer office. The Depositary shall arrange, at the request of the Company and at the Company's expense, for the distribution of copies thereof to all Holders on a basis similar to that for holders of Shares or other Deposited Property or on such other basis as the Company may advise the Depositary.

28. Moneys Held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreements in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any holder or any other person for any interest thereon, except as otherwise agreed.

29. Severability

If any one or more of the provisions contained in the Deposit Agreements or in the Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

30. Governing Law

- A. The Deposit Agreements, the Conditions and the GDRs and any non-contractual obligations arising out of or in connection with the Deposit Agreements, the Conditions and the GDRs will be governed by and construed in accordance with English law, except that (i) the separate relationship created between the Depositary and the persons making deposits or withdrawals of Shares pursuant to the Deposit Agreements and the Conditions, as it specifically relates to such deposits or withdrawals and the delivery of the required certifications is governed by and shall be construed in accordance with the laws of the State of New York and (ii) the transferability of the GDRs and GDR Certificates shall be governed by the laws of the State of New York. The Company has submitted in respect of the Deed Poll to the jurisdiction of the English courts and has appointed an agent for service of process in London. Notwithstanding anything contained in the Deposit Agreements, the Conditions, any GDR Certificate or any present or future provisions of the laws of England or the State of New York, the rights of holders of Shares and of any other Deposited Property and the obligations and duties of the Company in respect of the holders of Shares and other Deposited Property, as such, shall be governed by the laws of the BVI (or, if applicable, such other laws as may govern the Deposited Property).
- B. Except as set forth in the following paragraph, the Company and the Depositary have agreed that the courts of England and Wales and the federal or state courts in the City of New York shall have jurisdiction to hear any suit, action or proceeding and to settle any disputes between them that may arise out of, or in connection with, the Deposit Agreements and the Conditions and the legal relationship established by them and accordingly any legal action or proceedings arising out of, or in connection with, the Deposit Agreements, the Conditions or the GDRs and the legal relationship established thereby (“**Proceedings**”) may be brought in such courts.

These submissions are made for the benefit of the Depositary and shall not limit the right of the Depositary to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not) to the extent permitted by law.

31. UK Contracts (Rights of Third Parties) Act 1999

A person who is not a party to the Deposit Agreements has no right under the Contracts (Rights of Third Parties) Act 1999 (the “**Act**”) of the United Kingdom to enforce any term of the Deposit Agreements but this does not affect any right or remedy granted under the Deed Poll or which otherwise exists or is available apart from the Act.

SUMMARY OF PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILST IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR certificate in registered form and (ii) a single Rule 144A Master GDR certificate in registered form. The Master Regulation S GDR certificate will be registered in the nominee name of Citibank Europe plc, as common depositary for Euroclear Bank S.A./N.V., in its capacity as operator of Euroclear, and Clearstream, Luxembourg and the Master Rule 144A GDR certificate will be registered in the name of Cede & Co., as nominee for DTC. The Master GDR certificates contain provisions that apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs set out in this Prospectus. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

Any increase or decrease in the number of GDRs evidenced thereby from that initially notified to the Holder, as defined in the Conditions, will promptly be notified to the Holder by the Depositary.

Exchange

The Master Regulation S GDR certificate and the Master Rule 144A GDR certificate will be exchanged for certificates in definitive registered form evidencing GDRs only in the circumstances described in (i), (ii), (iii), (iv) or (v) below in whole but not, except in the case of (iv) or (v) below, in part. The Depositary will undertake in the Master Regulation S GDR certificate and the Master Rule 144A GDR certificate to deliver certificates evidencing GDRs in definitive registered form in exchange for either the Master Regulation S GDR certificate or the Master Rule 144A GDR certificate, as the case may be, to GDR holders within 60 business days in the event that:

- (i) DTC, Clearstream, or Euroclear is unwilling or unable to continue as clearing or settlement system and a successor clearing or settlement system is not appointed within 90 calendar days; or
- (ii) DTC or any successor ceases to be a “clearing agency” registered under the United States Exchange Act; or
- (iii) either DTC, Clearstream, or Euroclear is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces its intention to permanently cease business or does, in fact, do so and no alternative clearing system satisfactory to the Depositary is available within 45 days; or
- (iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Company, or the Depositary would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs in definitive registered form; or
- (v) the Holder gives notice to the Depositary of its desire to exchange a part or the whole of the Master Regulation S GDR certificate or Master Rule 144A GDR certificate for certificates evidencing GDRs in definitive registered form.

Any such exchange shall be at the expense of the Holder.

Upon any exchange of a part of the Master Regulation S GDR certificate or the Master Rule 144A GDR certificate for a certificate evidencing a GDR or GDRs in definitive registered form or any distribution of GDRs pursuant to the Conditions, or any reduction in the number of GDRs evidenced hereby following any withdrawal of any Deposited Property pursuant to Condition 2, or any increase in the number of GDRs following the deposit of Shares pursuant to Condition 1, the relevant details shall be entered on the register of the Depositary, whereupon the number of GDRs represented by the Master Regulation S GDR certificate or the Master Rule 144A GDR certificate shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, *provided always that* if the number of GDRs evidenced by the Master Regulation S GDR certificate or the Master Rule 144A GDR certificate is reduced to zero the Master Regulation S GDR certificate or the Master

Rule 144A GDR certificate shall continue in existence until the obligations of the Company under the corresponding Deposit Agreement and the obligations of the Depositary pursuant to the corresponding Deposit Agreement, and the Conditions have terminated.

Payments and Distributions

Payments of cash dividends and other amounts (including cash distributions) in respect of the GDRs represented by the Master Regulation S GDR certificate and the Master Rule 144A GDR certificate will be made by the Depositary through DTC, Clearstream, or Euroclear on behalf of persons entitled thereto upon receipt of funds therefore from the Company. Any free distribution of Shares to the Depositary on behalf of the Holders may result in the record of the Depositary being adjusted to reflect the increased number of GDRs represented thereby.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary will be satisfied by the production by DTC or the common depositary, as the case may be, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by DTC, Clearstream, Euroclear or, if relevant, an alternative clearing system. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all moneys or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR certificate is registered in the nominee name of a common depositary on behalf of Clearstream, and Euroclear, and in the case of the Master Rule 144A GDR certificate, for so long it is registered in the nominee name of DTC, notices to Holders may be given by the Depositary by delivery of the relevant notice to DTC, Clearstream, and Euroclear for communication to Holders in substitution for publications required by Condition 27 except that so long as the GDRs are listed on the Official List maintained by the UK Listing Authority and admitted for trading on the market for listed securities of the London Stock Exchange and, if and to the extent that the Rules of the UK Listing Authority or the London Stock Exchange so require, notices shall also be published by the Company in a leading newspaper having general circulation in the United Kingdom.

Information

For so long as any Rule 144A GDRs or shares represented thereby are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Rule 144A Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder of Rule 144A GDRs or of the Master Rule 144A GDRs or the Beneficial Owner of an interest in such Rule 144A GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such Beneficial Owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4).

Governing Law

The Master Regulation S GDR certificate and the Master Rule 144A GDR certificate shall be governed by and construed in accordance with English law.

TAXATION

The following summary of the principal US federal income, United Kingdom and BVI tax consequences of ownership of the GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of the GDRs, possibly on a retroactive basis, and could alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of the GDRs, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as of the date of this prospectus, and of any actual changes in applicable tax laws after such date.

Certain U.S. Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a summary of certain U.S. federal income tax considerations relevant to a U.S. Holder (as defined below) acquiring, holding and disposing of GDRs. This summary applies only to U.S. Holders who acquire their GDRs pursuant to the Offering. This summary does not discuss all aspects of U.S. federal income taxation which may be important to particular investors in light of their individual investment circumstances, including investors subject to special tax rules, such as financial institutions, insurance companies, dealers or traders using a mark-to-market accounting method, tax-exempt organizations, holders who own (directly, indirectly or constructively) 10% or more of our voting stock, investors that will hold GDRs as part of a straddle, hedge, conversion, constructive sale, or other similar transaction for U.S. federal income tax purposes, or investors that have a functional currency other than the U.S. dollar, all of which may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any state, local, non-U.S., or other federal tax considerations. This summary assumes that investors will hold their GDRs as capital assets (generally, property held for investment) for U.S. federal income tax purposes.

This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), U.S. Treasury regulations and judicial and administrative interpretations thereof, in each case as in effect as of the date hereof. These laws are subject to change, possibly on a retroactive basis. You are urged to consult your tax advisor regarding the U.S. federal, state, local and non-U.S. income and other tax considerations relevant to an investment in the GDRs.

For purposes of this summary, a “U.S. Holder” is a beneficial owner of GDRs that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation) created in, or organized under the law of, the United States, any State thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust, the income of which is subject to taxation on a net income basis in the United States.

If an entity treated as a partnership for U.S. federal income tax purposes holds the GDRs, the tax treatment of the partnership and its partners will depend upon their status and activities. Any such entity should consult its own tax adviser regarding the U.S. federal income tax considerations applicable to it and its partners relating to the purchase, ownership and disposition of the GDRs.

As discussed below under “Passive Foreign Investment Company Rules”, the Company believes that it is not a PFIC for U.S. tax purposes, and the discussion below is premised on the assumption that this will continue to be the case.

Treatment of the GDRs

Holders of the GDRs will be treated for U.S. federal income tax purposes as holding the shares represented by the GDRs. No gain or loss will be recognized upon the exchange of the Shares for the GDRs, or the exchange of the GDRs for the Shares.

Dividends

Dividends that a U.S. Holder receives from us will be subject to tax as foreign source ordinary income and will be includible in the Holder's gross income upon actual or constructive receipt. Such dividend income will not be eligible for the dividends received deduction allowed to corporations. In addition, dividends paid by us will generally not be "qualified dividend income" unless, in the year that a U.S. Holder receives the dividend, the GDRs are readily tradeable on an established securities market in the United States. The GDRs are not, at present, expected to be readily tradeable on an established securities market in the United States. In addition, the "qualified dividend income" rules are, absent an extension, scheduled to sunset for taxable periods of U.S. persons beginning on or after January 1, 2011.

Sale or Other Disposition of GDRs

Subject to the application of the passive foreign investment company rules discussed below, a U.S. Holder will recognize U.S. source capital gain or loss upon the sale or other disposition of GDRs in an amount equal to the difference between the U.S. dollar value of the amount realized upon the disposition and the U.S. Holder's adjusted tax basis in such GDRs (generally their cost in U.S. dollars). Any capital gain or loss will be long-term if the GDRs have been held for more than one year. Net long-term capital gain realized by a non-corporate U.S. Holder may be taxed at a preferential rate. The deductibility of capital losses may be subject to limitations.

Passive Foreign Investment Company Rules

We do not believe we were a PFIC for our preceding tax year and do not expect to be classified as a PFIC in future years. However, the determination of whether we are a PFIC is made annually and based on the composition of our assets and income in the relevant year. Therefore, it is possible that we could become a PFIC as a result of changes in the composition or relative value of our assets or the mix of our income. 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. In general, a non-U.S. corporation will be classified as a PFIC for any taxable year if at least (i) 75% of its gross income is classified as passive income or (ii) 50% of the average quarterly value of its assets produce or are held for the production of passive income. In making this determination, the non-U.S. corporation is treated as earning its proportionate share of any income and owning its proportionate share of any assets of any company in which it holds a 25% or greater interest.

If we are classified as a PFIC at any time that a U.S. Holder holds our GDRs, a U.S. Holder may be subject to a special tax at ordinary income rates on "excess distributions" (generally, any distributions received in a taxable year that are greater than 125% of the average annual distributions received in the preceding three taxable years, or the holding period, if shorter), and gain recognized on the sale of GDRs. The amount of tax on any excess distributions and gain will be increased by an interest charge to compensate for tax deferral, calculated as if the excess distributions were earned ratably over the period the GDRs have been held.

A U.S. Holder can avoid the unfavorable rules described in the preceding paragraph by electing to mark the GDRs to market. If a U.S. Holder makes this mark-to-market election, such U.S. Holder will be required in any year in which we are a PFIC to include as ordinary income the excess of the fair market value of the GDRs held by the U.S. Holder at year-end over the U.S. Holder's basis in those GDRs. In addition, any gain recognized by the U.S. holder upon the sale of GDRs will be taxed as ordinary income in the year of sale. U.S. Holders will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of the GDRs held by the U.S. Holder at year-end over the fair market value of those GDRs at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). A U.S. Holder's basis in the GDRs will be adjusted to reflect any such income or loss. U.S. Holders should consult their tax advisors regarding the desirability of making a mark-to-market election.

Information Reporting and Backup Withholding

Dividend payments and proceeds paid from the sale or other disposition of the GDRs that are made in the United States or by a U.S.-related financial intermediary will be subject to information reporting and, if the recipient of the payment fails to comply with applicable certification requirements or to establish its entitlement to an exemption from those requirements, to backup withholding. Certain exempt recipients are not subject to the information reporting or backup withholding requirements if they establish an exemption. Backup withholding generally will not apply to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification, or who otherwise establishes an exemption from backup withholding. Backup withholding is not an additional tax and any amounts withheld may be credited against a U.S. Holder's U.S. federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

Recently enacted legislation imposes new reporting requirements with respect to the holding of certain foreign financial assets, including, in certain cases, equity of foreign issuers, if the aggregate value of all of such assets exceeds \$50,000. A United States Holder should consult its own tax advisor regarding the application of the information reporting rules to the Shares and the application of the recently enacted legislation to its particular situation.

United Kingdom Tax Considerations

The following is a general summary of certain UK tax considerations relating to the ownership and disposal of the GDRs. It is based on current UK tax law and published HM Revenue & Customs ("HMRC") practice as at the date of this prospectus, both of which are subject to change, possibly with retrospective effect.

The summary applies only to persons who are resident (and, in the case of individuals, ordinarily resident and domiciled) in the United Kingdom for tax purposes and who are not resident for tax purposes in any other jurisdiction and do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of GDRs is connected ("**UK Holders**"). Persons (a) who are not resident or ordinarily resident (or, if resident or ordinarily resident, are not domiciled) in the United Kingdom for tax purposes, including those individuals and companies who trade in the United Kingdom through a branch, agency or permanent establishment in the United Kingdom to which the GDRs are attributable, or (b) who are resident or otherwise subject to tax in a jurisdiction outside the United Kingdom, are recommended to seek the advice of professional advisors in relation to their taxation obligations.

This summary is for general information only and is not intended to be, nor should it be considered to be, legal or tax advice to any particular investor. It does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under UK tax law. In particular:

- this summary only applies to the absolute beneficial owners of the GDRs and any dividends paid in respect of the underlying Ordinary Shares where the dividends are regarded for UK tax purposes as that person's own income (and not the income of some other person);
- this summary: (a) only addresses the principal UK tax consequences for investors who hold GDRs as capital assets, (b) does not address the tax consequences which may be relevant to certain special classes of investor such as dealers, brokers or traders in shares or securities and other persons who hold GDRs otherwise than as an investment, (c) does not address the tax consequences for holders that are financial institutions, insurance companies, collective investment schemes, pension schemes, charities and tax-exempt organisations, (d) assumes that the holder is not an officer or employee of the Company (or of any related company) and has not (and is not deemed to have) acquired the GDRs by virtue of an office or employment, (e) assumes that the holder does not control or hold (and is not deemed to control or hold), either alone or together with one or more associated or connected persons, directly or indirectly (including through the holding of the GDRs), an interest of 10% or more in the Ordinary Shares, voting power, rights to profits or capital of the Company, and is not otherwise connected with the Company, and (f) assumes that the holder is not a "small company" for the purposes of Part 9A of the Corporation Tax Act 2009.

This summary further assumes that:

- a holder of GDRs is, for UK tax purposes, absolutely beneficially entitled to the underlying Ordinary Shares and to the dividends on those Ordinary Shares;

- the Ordinary Shares are not registered in a register kept in the UK, by or on behalf of the Company, and they will not become so registered; and
- any instrument effecting a transfer of Ordinary Shares to the Depositary is executed and retained outside the UK and does not relate to any property situated in the UK or to any matter or thing done, or to be done, in the UK.

Potential investors in the GDRs should satisfy themselves prior to investing as to the overall tax consequences, including, specifically, the consequences under UK tax law and HMRC practice of the acquisition, ownership and disposal of the GDRs, in their own particular circumstances by consulting their own tax advisers.

Taxation of dividends

Withholding Tax

Dividend payments in respect of the GDRs may be made without withholding or deduction for or on account of UK tax.

Income Tax

Dividends received by individual UK Holders will be subject to UK income tax on the full amount of the dividend paid, grossed up for the amount of the non-refundable UK dividend tax credit referred to below.

The rate of UK income tax which is chargeable on dividends received in the tax year 2010/2011 by (i) additional rate taxpayers is 42.5 per cent, (ii) higher rate taxpayers is 32.5 per cent, and (iii) basic rate taxpayers is 10 per cent. Individual UK Holders will be entitled to a non-refundable tax credit equal to one-ninth of the amount of the dividend received from the Company, which will be taken into account in computing the gross amount of the dividend which is chargeable to UK income tax. The tax credit will be credited against the UK Holder's liability (if any) to UK income tax on the gross amount of the dividend. After taking into account the tax credit, the effective rate of tax (i) for additional rate taxpayers will be approximately 36 per cent of the dividend paid, (ii) for higher rate taxpayers will be 25 per cent of the dividend paid, and (iii) for basic rate taxpayers will be nil. An individual shareholder who is not subject to UK income tax on dividends received from the Company will not be entitled to claim payment of the tax credit in respect of such dividends. An individual's dividend income is treated as the top slice of their total income which is chargeable to UK income tax.

Corporation Tax

A UK Holder within the charge to UK corporation tax should generally be entitled to exemption from UK corporation tax in respect of dividend payments. However, if the conditions for the exemption are not or cease to be satisfied, or a UK Holder elects for an otherwise exempt dividend to be taxable, UK corporation tax will be chargeable on the amount of any dividends. If potential investors are in any doubt as to their position, they should consult their own professional advisers.

Provision of information

Persons in the United Kingdom paying "foreign dividends" to, or receiving "foreign dividends" on behalf of, another person, may, in certain circumstances, be required to provide certain information to HMRC regarding the identity of the payee or the person entitled to the "foreign dividend", and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in accordance with guidance published by HMRC applicable for the 2010/2011 tax year, dividend payments in respect of the GDRs should not be treated as falling within the scope of the requirement. There is no guarantee that equivalent guidance will be issued in respect of future years.

Taxation of disposals

A disposal or deemed disposal of GDRs by an individual UK Holder may, depending on his or her individual circumstances, give rise to a chargeable gain or to an allowable loss for the purpose of UK capital gains tax. The principal factors that will determine the capital gains tax position on a disposal of GDRs are the extent to which the holder realises any other capital gains in the tax year in which the disposal is made, the extent to which the holder has incurred capital losses in that or any earlier tax year

and the level of the annual allowance of tax-free gains in that tax year (the “**annual exemption**”). The annual exemption for the 2010/2011 tax year is £10,100. If, after all allowable deductions, an individual UK Holder’s taxable income for the year exceeds the basic rate income tax limit, a taxable capital gain accruing on a disposal of GDRs will be taxed at 28%. In other cases, a taxable capital gain accruing on a disposal of GDRs may be taxed at 18% or 28% or at a combination of both rates.

An individual UK Holder who ceases to be resident or ordinarily resident in the United Kingdom for a period of less than five years and who disposes of his or her GDRs during that period of temporary non-residence may be liable to UK capital gains tax on a chargeable gain accruing on such disposal on his or her return to the United Kingdom (subject to available exemptions or reliefs).

A disposal of GDRs by a corporate UK Holder may give rise to a chargeable gain or an allowable loss for the purpose of UK corporation tax. Such a holder should be entitled to an indexation allowance, which applies to reduce capital gains to the extent that such gains arise due to inflation. The allowance may reduce a chargeable gain but will not create an allowable loss.

Any gains or losses in respect of currency fluctuations relating to the GDRs would be brought into account on the disposal.

Stamp duty and stamp duty reserve tax

No UK stamp duty or stamp duty reserve tax will be payable on (i) the issue or transfer of the Ordinary Shares to the Depository, or (ii) the issue of the GDRs or their delivery into Euroclear, DTC and Clearstream.

No UK stamp duty or stamp duty reserve tax will be payable on any transfer of the GDRs once they are issued into Euroclear, DTC and Clearstream, where such transfer is effected in electronic book entry form in accordance with the procedures of Euroclear, DTC or Clearstream (as applicable).

Inheritance tax

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by, the owner of GDRs where the owner is an individual who is domiciled or deemed to be domiciled in the United Kingdom. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor receives or retains some benefit.

BVI Tax Considerations

With the exception of filing fees charged by the BVI Registry of Corporate Affairs in respect of any optional filings made at the Registry of Corporate Affairs, no taxes, fees or charges (including stamp duty) are payable (either by direct assessment or withholding) to the government or other tax authority in the BVI under the laws of the BVI. Companies incorporated or registered under the BVI Business Companies Act, 2004 (the “**Act**”) are currently exempt from income and corporate tax and the BVI does not currently levy capital gains tax on companies incorporated or registered under the Act.

SUBSCRIPTION AND SALE

Description of the distribution

The Offering consists of (i) an offering of the GDRs in the United States to certain QIBs in reliance on Rule 144A and in the Russian Federation to certain qualified investors in accordance with Russian law and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S.

We, the Selling Shareholders and the Underwriters named below have entered into an underwriting agreement dated November 5, 2010 (the “**Underwriting Agreement**”) with respect to the GDRs being offered (described below). Subject to the satisfaction of certain conditions set out in the Underwriting Agreement, each of the Underwriters has agreed, severally but not jointly, to purchase such number of GDRs as are set forth opposite its name in the following table:

<u>Underwriter</u>	<u>Total number of GDRs</u>
Goldman Sachs International	12,047,169
J.P. Morgan Securities Ltd.	12,047,169
Morgan Stanley & Co. International plc	6,023,584
VTB Capital plc	1,604,492
Pacific Crest Securities LLC	1,203,369
Total	<u>32,925,783</u>

The GDRs will be represented by a Master Rule 144A GDR Certificate and a Master Regulation S GDR Certificate and will be subject to certain restrictions as further discussed in “*Terms and Conditions of The Global Depositary Receipts*”.

The Offer Price is US\$27.70 per GDR.

All GDRs issued or sold pursuant to the Offering, including pursuant to the Over-allotment Option, will be issued or sold at the Offer Price. The Underwriters will receive an aggregate underwriting commission of approximately US\$34.8 million in connection with the Offering (assuming no exercise of the Over-allotment Option).

We have also agreed to reimburse the Underwriters for certain of their expenses in connection with the Offering. See “*Use of Proceeds*” for additional information regarding the fees and expenses payable by us in connection with the Offering.

Stabilisation

In connection with the Offering, the Stabilising Manager or persons acting on behalf of the Stabilising Manager, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a limited after the issue date. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilising action. Such stabilising, if commenced, may be discontinued at any time, and may only be undertaken during the period beginning on the date on which adequate public disclosure of the final price of the GDRs is made and ending at any time but no later than 30 calendar days thereafter. Save as required by law, the Stabilising Manager does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering. Any stabilisation action will be undertaken in accordance with applicable laws and regulations.

Over-allotment Option

The Company and the Selling Shareholders will, pro rata to the number of shares being sold by each of them, grant the Joint Bookrunners on behalf of the Underwriters an option exercisable within 30 days after the announcement of the Offer Price, to purchase an additional 3,292,579 Ordinary Shares in the form of GDRs at the Offer Price, solely to cover over-allotments in the Offering. The Over-allotment Option is exercisable upon written notice to the Company and the Selling Shareholders by the Joint Bookrunners on behalf of the Underwriters at any time during the Stabilisation Period.

The Underwriters may with the Company’s consent also sell GDRs in excess of the Over-allotment Option up to a maximum of 5% of the offering size, creating a naked short position. The Underwriters must close out any naked short position by purchasing shares on the open market.

Underwriting Agreement

In the Underwriting Agreement, the Company and the Selling Shareholders have made certain representations and warranties, including by the Company in relation to our business, the Ordinary Shares and the GDRs and the contents of this prospectus, and agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act. If these indemnities are unenforceable, the Company and the Selling Shareholders have agreed to contribute to any payments that the Underwriters must make in respect of the liabilities against which the Company and the Selling Shareholders have agreed to indemnify them.

The Underwriters are offering the GDRs, subject to prior sale, when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Ordinary Shares and the GDRs and other conditions contained in the Underwriting Agreement, such as receipt by the Underwriters of certain officers' certificates, Selling Shareholders' certificates and legal opinions.

The Joint Bookrunners, on behalf of the other Underwriters, may in their absolute discretion after consultation with the Company terminate the Underwriting Agreement prior to the Closing Date under certain specified conditions that are typical for an agreement of this nature. If any such condition is not satisfied or waived, or the Underwriting Agreement is terminated prior to the Closing Date, then the Offering will lapse. In addition, we have agreed to reimburse the Underwriters for certain of their expenses.

Lock-up Arrangements

The Company, the Selling Shareholders, the Senior Managers and certain non-selling shareholders have agreed, as part of the arrangements with the Underwriters, for a period of 180 days after the Closing Date, without the consent of the Joint Bookrunners, not to:

- issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, or to publicly announce any such action, directly or indirectly, any Ordinary Shares or any Class A Shares or any other shares in the capital of the Company or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Ordinary Shares or any Class A Shares or any other such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive Ordinary Shares or Class A Shares or any other such shares or any other securities as described above, whether such transaction is to be settled by the delivery of Ordinary Shares, Class A Shares or any other shares in the capital of the Company or such other securities, in cash or otherwise;
- enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of any Ordinary Shares or Class A Shares or any other shares in the capital of the Company; or
- enter into any transaction with the same economic effect as, or agree to or publicly announce any intention to enter into any transaction described above, whether any such transaction described above is to be settled by delivery of any Ordinary Shares, Class A Shares or any other shares in the capital of the Company or such other securities, in cash or otherwise.

The foregoing undertaking does not apply to the offer and sale of the GDRs pursuant to the Underwriting Agreement, arrangements with Tiger relating to the loan of securities to the Stabilising Manager in connection with over-allotments, and as regards the Selling Shareholders and the Senior Managers, GDRs purchased in the market after Admission. The Company is also permitted to grant options under the option plan, issue shares pursuant to options granted under its option plan or issue shares pursuant to existing options granted, provided such shares are subject to the lock-up.

In addition, the Company has agreed to instruct the Depositary not to accept any deposit of any Ordinary Shares, or issue any GDRs, for 180 days after the date of this prospectus (other than in connection with this offering), unless we otherwise instruct, such that all existing shareholders (even if they are not Selling Shareholders) shall be unable to deposit their Ordinary Shares with the Depositary against the issue of GDRs during the lock-up period.

Other

The Underwriters and their respective affiliates have engaged in transactions with, and performed various investment banking, financial advisory and other services for, the Company and the Selling Shareholders and their respective affiliates, for which they received customary fees. The Underwriters and their respective affiliates may provide such services for the Company and the Selling Shareholders and their respective affiliates in the future.

Goldman Sachs International and its affiliates own a 1.0% interest in the Company via ELQ Investments Limited.

In connection with the Offering, each of the Underwriters and any of their respective affiliates, acting as an investor for its own accounts, may take up GDRs and in that capacity may retain, purchase or sell for its own account such GDRs and any related investments and may offer or sell such GDRs or other investments otherwise than in connection with the Offering. Accordingly, references in this prospectus to the GDRs being offered or placed should be read as including any offering or placement of GDRs to the Underwriters and any affiliate acting in such capacity. None of the Underwriters intend to disclose the extent of any such investment or transactions otherwise than to the Company and the Selling Shareholders and in accordance with any legal or regulatory obligation to do so.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the GDRs or the Ordinary Shares in any country or jurisdiction where action for that purpose is required. Accordingly, the Ordinary Shares and the GDRs may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

United States

Neither the GDRs and the Ordinary Shares represented thereby nor the Ordinary Shares have been or will be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

The GDRs are being offered and sold outside of the United States in reliance on Regulation S. The Underwriting Agreement provides that certain of the Underwriters may directly or through their respective US broker-dealer affiliates, arrange for the offer and resale of the GDRs within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the Offering of the GDRs, an offer or sale of GDRs (or the Ordinary Shares) within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each of the Underwriters has agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any GDRs in circumstances in which Section 21(1) of the FSMA does not apply; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), an offer to the public of any GDRs which are the subject of the Offering contemplated herein in that Relevant Member State may not be made, except that an offer of GDRs may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43.0 million and (3) an annual net turnover of more than EUR 50.0 million, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Underwriters for any such offer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of GDRs shall result in a requirement for the publication by the Company, any of the Selling Shareholders or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “*offer to the public of any GDRs*” in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of

sufficient information of the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase any GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State; and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Russian Federation

Each of the Underwriters has represented and agreed that the GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation who is not a qualified investor in accordance with Russian law unless and to the extent otherwise permitted under Russian Law.

Transfer Restrictions

None of the GDRs (or the Ordinary Shares represented thereby) has been or will be registered under the Securities Act and the GDRs may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the GDRs are being offered and sold only:

- (i) to QIBs in reliance on Rule 144A under the Securities Act or in reliance on another exemption from, or transaction not subject to, registration under the Securities Act; and
- (ii) in offshore transactions in reliance on Regulation S under the Securities Act. As used in this document, the term “offshore transaction” has the meaning given to it in reliance on Regulation S.

GDRs purchased within the United States pursuant to Rule 144A

Each purchaser of GDRs in the Offering pursuant to Rule 144A, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used therein as defined therein):

- (a) the purchaser (i) is a QIB, (ii) is aware, and each beneficial owner of such GDRs has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Rule 144A GDRs for its own account or for the account of a QIB;
- (b) the purchaser is aware that the GDRs (and the Ordinary Shares represented thereby) have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that such GDRs (and the Ordinary Shares represented thereby) are subject to significant restrictions on transfer;
- (c) the purchaser will not deposit or cause to be deposited such GDRs (or the Ordinary Shares represented thereby) into any depositary receipt facility established or maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility, so long as such GDRs (or the Ordinary Shares represented thereby) are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act;
- (d) the purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with; and
- (e) if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such GDRs (or the Ordinary Shares represented thereby), such GDRs may be offered, sold, pledged or otherwise transferred only (1) outside the United States in accordance with Regulation S under the Securities Act, (2) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A (if available), (3) pursuant to an exemption from the registration requirements of the Securities Act provided by Rule 144 under the Securities Act, or (4) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and in accordance with

the following legend, which such GDRs will bear, as applicable, unless otherwise determined by the Company and the Depositary in accordance with applicable law:

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF EACH OF THE RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THIS RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES AND ONLY (1) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY OR A REGULATION S DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDRs. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

Each purchaser of GDRs purchased pursuant to Rule 144A will be deemed to have acknowledged that we, the Underwriters, our and their affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of such GDRs are no longer accurate, it shall promptly notify us, the Underwriters. If it is acquiring GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

Prospective purchasers are hereby notified that sellers of the GDRs purchased within the United States pursuant to Rule 144A may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

GDRs purchased outside the United States pursuant to Regulation S

Each purchaser of GDRs in the Offering pursuant to Regulation S, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (a) the purchaser (i) is, and the person, if any, for whose account it is acquiring such GDRs is, outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate and (iii) is not a securities dealer or, if it is a securities dealer, it did not acquire such GDRs (or the Ordinary Shares represented thereby) from the Company or an affiliate thereof in the initial distribution of Regulation S;
- (b) the purchaser is aware that such GDRs (and the Ordinary Shares represented thereby) have not been and will not be registered under the Securities Act, are being offered outside the United States in reliance on Regulation S and are subject to significant restrictions on transfer;
- (c) the purchaser will not offer, resell, pledge or otherwise transfer such GDRs, except in accordance with or pursuant to an exemption from the Securities Act and all applicable securities laws of each relevant state of the United States; and
- (d) if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such GDRs (or the Ordinary Shares represented thereby), such GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the appropriate following legend, which such GDRs will bear, as applicable, unless otherwise determined by the Company and the Depositary in accordance with applicable law:

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF EACH OF THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY, AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR THE REGULATION S GDRs EVIDENCED HEREBY AT ANY TIME REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised us as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "*Taxation—Certain US Federal Income Tax Considerations*".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of Citibank Europe plc, as nominee of Citivic Nominees Limited, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by Citibank, N.A. as custodian for DTC. As necessary, the Registrar will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear,

Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from us for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from us for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, New York 10274, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F Kennedy, L-1855 Luxembourg, Luxembourg.

We will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreements.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDR Certificates. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see “*Selling and Transfer Restrictions—Transfer Restrictions*”.

Trading between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (1) decrease the amount of book-entry interests in

the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

Trading between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of us, the Underwriters, the Depositary, the Custodian or our or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

Citibank, N.A. (“**Citibank**”) has been appointed as Depositary pursuant to the Deposit Agreements. Citibank is an indirect wholly owned subsidiary of Citigroup Inc., a Delaware corporation. Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

Citibank was originally organised on June 16, 1812, and is now a national banking association organised under the National Bank Act of 1864 of the United States of America. Citibank is primarily regulated by the United States Office of the Comptroller of the Currency. Its principal executive office is at 399 Park Avenue, New York, NY 10043.

Citibank’s Consolidated Balance Sheets are set forth in Citigroup’s most recent Annual Report (audited balance sheet) and Quarterly Report (unaudited), each on file on Form 10-K and Form 10-Q, respectively, with the United States Securities and Exchange Commission.

Citibank’s Articles of Association and By-laws, each as currently in effect, together with Citigroup’s Annual Report on Form 10-K and Quarterly Report on Form 10-Q are available for inspection at the Depositary Receipt office of Citibank, 388 Greenwich Street, New York, New York 10013.

LEGAL MATTERS

Certain legal matters in relation to the Offering with respect to English, United States and Russian law will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP. Certain legal matters in relation to the Offering with respect to English and United States law will be passed upon for the Underwriters by Sullivan & Cromwell LLP, and by ALRUD with respect to Russian law.

INDEPENDENT AUDITORS

The Consolidated Financial Statements for the years ended December 31, 2009, 2008 and 2007 included in this prospectus have been audited by Ernst & Young LLC, independent auditors, as stated in their report appearing herein. The interim condensed consolidated financial statements for the six months ended June 30, 2010 included in this prospectus have been reviewed by Ernst & Young LLC, independent auditors, in accordance with International Standard on Review Engagements 2410, as stated in their report appearing herein. Ernst & Young LLC is a member of the Audit Chamber of Russia.

Ernst & Young LLC have consented to the inclusion in the Prospectus of their reports beginning on pages F-2 and F-101 in the form and context in which it is included and authorised the contents of the report for the purposes of Prospectus Rule 5.5.4R (2)(f) and item 23.1 of Annex X of the Commission Regulation (EC) 809/2004.

For the purposes of Prospectus Rule 5.5.4R (2)(f) Ernst & Young LLC are responsible for their reports beginning on pages F-2 and F-101 as part of the prospectus and declare that they have taken all reasonable care to ensure that the information contained in their reports is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

GENERAL INFORMATION

1. It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate, to the Official List on or about the Closing Date, 2010. Application has been made for the additional GDRs to be traded on the London Stock Exchange through its IOB. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules on a “when and if issued” basis. Trades in the GDRs executed on the IOB on a “when and if issued” basis on November 5, 2010 will settle on a T+4 basis on November 12, 2010. Otherwise, the GDRs will trade on the IOB on a T+3 settlement cycle.
2. We have obtained all consents, approvals and authorisations required under BVI law in connection with the issue of the GDRs.
3. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered offices of the Company from the date of publication of this prospectus to Admission:
 - this prospectus;
 - our Memorandum of Association and Articles of Association;
 - the form of Deposit Agreements;
 - our financial statements as of and for the years ended December 31, 2007, 2008 and 2009, together with the auditors’ report relating thereto; and
 - our financial statements as of and for the six months ended June 30, 2010, together with the auditor’s review report thereon.

The registered office of the Company is located at Trident Trust Company (B.V.I.) Limited, Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands.

4. If definitive certificates are issued in exchange for the Master GDR Certificates, we will appoint an agent in the United Kingdom.
5. Except as described in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Transactions After the Most Recent Balance Sheet Date*” on page 50, and “*Capitalisation*” there has been no significant change in the financial or trading position of the Group since June 30, 2010, the end of the last financial period for which financial information has been published.
6. The GDRs are not denominated in any currency and have no nominal value. The Offer Price was determined based on the results of the bookbuilding exercise conducted by the Underwriters. The results of the Offering will be made public by us through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering.
7. Holders of GDRs may contact Citibank, N.A, as Depositary for the GDRs with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained at the Depositary’s corporate trust office at 388 Greenwich Street, New York, NY 10013, United States.
8. The ISIN for the Rule 144A GDRs is US5603171092, the Common Code for the Rule 144A GDRs is 055648417, and the CUSIP number for the Rule 144A GDRs is 560317109.
9. The ISIN for the Regulation S GDRs is US5603172082, the Common Code for the Regulation S GDRs is 055222126, and the CUSIP number for the Regulation S GDRs is 560317208.
10. The London Stock Exchange trading symbol is MAIL.

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Audited Consolidated Financial Statements of Mail.ru Group Limited (formerly Digital Sky Technologies Limited) as of and for the years ended December 31, 2007, 2008 and 2009

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Unaudited Interim Financial Statements of Mail.ru Group Limited (formerly Digital Sky Technologies Limited) as of and for the six months ended June 30, 2010

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Independent auditors' report

To the Shareholders of Digital Sky Technologies Limited

We have audited the accompanying financial statements of Digital Sky Technologies Limited and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at December 31, 2009, 2008 and 2007 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for each of the three years then ended, and a summary of significant accounting policies and other explanatory notes.

Save for any responsibility arising under Prospectus Rule 5.5.4R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex X to the Commission Regulation (EC) 809/2004, consenting to its inclusion in the prospectus.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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, 2009, 2008 and 2007 and its financial performance and its cash flows for each of the three years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to the fact that on July 28, 2010 the Group authorized and issued its consolidated financial statements for the years ended December 31, 2009, 2008 and 2007, on which we expressed an unqualified opinion on July 28, 2010. The consolidated financial statements for the years ended December 31, 2009, 2008 and 2007 authorized for issue on July 28, 2010 have been revised as disclosed in Note 1. This opinion on these revised financial statements supersedes our previously issued opinion dated July 28, 2010.

Declaration

For the purposes of Prospectus Rule 5.5.4R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex X of the Commission Regulation (EC) 809/2004.

Ernst & Young LLC

September 28, 2010

Digital Sky Technologies Limited
Consolidated statements of financial position
As of December 31, 2009, 2008, and 2007
(in thousands of US Dollars)

	Notes	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007	As at January 1, 2007
Assets					
Non-current assets					
Investments in associates accounted for under the equity method	6, 10	442,178	359,213	471,396	224,212
Goodwill	6, 7, 11	466,484	346,695	—	15,430
Other intangible assets	7	243,981	105,865	—	24
Property and equipment	8	8,543	5,723	—	527
Available-for-sale financial assets	28	220,049	3,233	24,334	—
Financial assets at fair value through profit or loss . . .	28	113,174	14,675	24,371	6,858
Deferred income tax asset	24	2,788	—	—	484
Other non-current assets	17	3,421	774	—	—
Total non-current assets		1,500,618	836,178	520,101	247,535
Current assets					
Trade accounts receivable	12	22,396	14,640	401	9,591
Loans receivable	13	1,875	—	—	251
Income tax receivable		24	—	—	168
Prepaid expenses		8,657	6,888	2,757	397
Financial assets at fair value through profit or loss . . .	28	—	—	4,562	—
Other current assets	17	2,384	982	—	274
Short-term time deposits	15	960	34,105	—	—
Cash and cash equivalents	14	147,915	98,637	49,379	115,456
Total current assets		184,211	155,252	57,099	126,137
Total assets		1,684,829	991,430	577,200	373,672
Equity and liabilities					
Equity attributable to equity holders of the parent . . .					
Issued capital	16	1	1	—	—
Share premium		878,873	599,285	112,220	66,459
Retained earnings		558,367	389,718	401,729	228,554
Accumulated other comprehensive income/(loss)		(91,447)	(125,562)	20,239	—
Total equity attributable to equity holders of the parent		1,345,794	863,442	534,188	295,013
Non-controlling interests		130,846	86,387	—	101
Total equity		1,476,640	949,829	534,188	295,114
Non-current liabilities					
Long-term interest-bearing loans and borrowings . . .	28	—	—	36,924	—
Financial liabilities at fair value through profit or loss .	28	101,895	1,126	3,275	—
Provisions for tax contingencies		—	581	—	—
Deferred income tax liabilities	24	53,237	25,429	—	34
Total non-current liabilities		155,132	27,136	40,199	34
Current liabilities					
Trade accounts payable	28	8,644	3,506	1,077	47,542
Income tax payable		4,324	2,873	—	163
Other taxes payable		8,684	5,020	—	199
Deferred revenue		15,884	194	—	—
Short-term interest-bearing loans and borrowings . . .	28	—	—	—	30,000
Other payables, provisions and accrued expenses	23	15,521	2,872	1,736	620
Total current liabilities		53,057	14,465	2,813	78,524
Total liabilities		208,189	41,601	43,012	78,558
Total equity and liabilities		1,684,829	991,430	577,200	373,672

The accompanying notes on pages F-11 to F-100 form an integral part of these consolidated financial statements.

Digital Sky Technologies Limited
Consolidated statements of comprehensive income
For the years ended December 31, 2009, 2008 and 2007
(in thousands of US Dollars, except per share information)

	Notes	2009	2008	2007
Revenues	18	148,316	54	21,034
Cost of revenues	19	(34,336)	—	(16,371)
Gross margin		113,980	54	4,663
Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities	28	1,514	(12,689)	(10,852)
Research and development expenses		(977)	—	—
Selling, general and administrative expenses	20	(96,815)	(54,565)	(9,662)
Impairment of intangible assets	7	(1,750)	—	—
Depreciation and amortisation	7,8	(29,949)	—	(105)
Operating loss		(13,997)	(67,200)	(15,956)
Finance income	21	1,546	1,150	1,931
Finance costs	22	—	(3,284)	(3,435)
Net gain/(loss) on derivative financial assets and liabilities over the equity of strategic investees	28	(3,641)	478	339
Net gain on acquisition of control in strategic associates	6	14,826	91,943	—
Net gain/(loss) on disposal of shares in strategic associates	6,10	113,054	(51)	20,444
Net gain/(loss) on loss of control in subsidiaries	6	(7,080)	—	167,839
Net loss on disposals of intangible assets		—	—	(344)
Net foreign exchange gains/(losses)		13,494	34,733	(211)
(Impairment losses)/reversal of impairment losses related to associates and available for sales investments	10	46,748	(53,149)	—
Share of profit/ (loss) of strategic associates	10	17,991	(16,529)	3,888
Other gains/(losses)		78	—	—
Profit/(loss) before income tax expense		183,019	(11,909)	174,495
Income tax expense	24	(17,319)	(102)	(808)
Net profit/(loss)		165,700	(12,011)	173,687
Attributable to:				
Equity holders of the parent		168,649	(12,011)	173,175
Non-controlling interest		(2,949)	—	512
Other comprehensive income/(loss)				
Exchange differences on translation of foreign operations		(3,193)	(165,281)	23,452
Accumulated exchange differences reclassified to earnings upon disposal of foreign operations		41,511	15,000	(3,202)
Unrealised holding gains/(losses) on available-for-sale financial assets		320	—	—
Total other comprehensive income/(loss), net of tax of 0		38,638	(150,281)	20,250
Total comprehensive income/(loss), net of tax of 0		204,338	(162,292)	193,937
Attributable to:				
Equity holders of the parent		206,030	(157,812)	193,414
Non-controlling interest		(1,692)	(4,480)	523
Earnings/(loss) per share, in US Dollars:				
Basic earnings/(loss) for the year attributable to ordinary equity holders of the parent	25	2,870.23	(277.42)	4,833.11
Diluted earnings/(loss) for the year attributable to ordinary equity holders of the parent	25	2,833.97	(406.26)	4,819.12

The accompanying notes on pages F-11 to F-100 form an integral part of these consolidated financial statements.

Digital Sky Technologies Limited
Consolidated statements of cash flows
For the years ended December 31, 2009, 2008 and 2007
(in thousands of US Dollars)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash flows from operating activities				
Profit(loss) before income tax		183,019	(11,909)	174,495
Adjustments for:				
Depreciation and amortisation	7, 8	29,949	—	105
Bad debt expense	12	569	—	237
Net (gain)/loss from changes in derivative financial assets and liabilities over the equity of strategic associates	28	3,641	(478)	(339)
Net (gain)/loss on loss of control in subsidiaries	6	7,080	—	(167,839)
Net loss on disposals of intangible assets		—	—	344
Net gain on acquisition of control in strategic associates	6	(14,826)	(91,943)	—
Net (gain)/loss on disposal of shares in strategic associates	6,10	(113,054)	51	(20,444)
Loss on disposal of property, plant and equipment		61	—	—
Finance income	21	(1,546)	(1,150)	(1,931)
Finance costs	22	—	3,284	3,435
Dividend income		(1,617)	(54)	(1)
Share of profit/(loss) of strategic associates	10	(17,991)	16,529	(3,888)
Impairment of intangible assets	7	1,750	—	—
(Impairment losses)/reversal of impairment losses related to associates and available for sales investments	10	(46,748)	53,149	—
Net foreign exchange (gains)/losses		(13,494)	(34,733)	211
Share-based payment expense	30	18,500	32,489	—
Other non-cash items		55	—	—
Increase in accounts receivable		(5,339)	(1,032)	(2,877)
Increase in advances		(2,216)	(3,218)	(2,605)
Decrease in other assets		465	—	35
Increase/(decrease) in accounts payable, provisions and accrued expenses		6,859	975	(21,261)
Increase/(decrease) in deferred revenue		1,508	—	—
(Increase)/decrease in venture capital financial assets designated as at fair value through profit or loss		(2,249)	6,264	(18,035)
Increase in fair value of derivative liabilities over the equity of financial investees		572	1,335	—
Operating cash flows before interest and income taxes		34,948	(30,441)	(60,358)
Dividends received from financial investments		1,878	48	
Interest received, net of related bank commissions paid		1,186	552	1,921
Interest paid		—	(3,223)	(2,679)
Income tax paid	24	(14,376)	(102)	(1,378)
Net cash provided by/(used in) operating activities		23,636	(33,166)	(62,494)

The accompanying notes on pages F-11 to F-100 form an integral part of these consolidated financial statements.

Digital Sky Technologies Limited
Consolidated statements of cash flows (Continued)
For the years ended December 31, 2009, 2008 and 2007
(in thousands of US Dollars)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash flows from investing activities:				
Cash paid for investments in equity investees		(4,687)	(176,796)	(64,968)
Cash paid for available-for-sale investments and Assets related to Class C shares	28	(300,592)	—	(32,396)
Cash paid for property and equipment	8	(4,816)	—	(124)
Cash paid for intangible assets	7	(12,270)	—	(1,291)
Cash paid for acquisitions of subsidiaries, net of cash acquired .	6	(15,883)	(97,284)	—
Dividends received from equity investees and investments designated as available-for-sale financial assets		4,982	1,087	121
Proceeds from disposal of shares in strategic associates		—	15,932	50,100
Proceeds from disposal of subsidiaries, net of cash disposed of .	6	5,207	—	(12,394)
Disbursement of loans	28	(2,904)	(12)	(438)
Collection of loans		319	—	650
Acquisition of other investments		(2,447)	—	—
Proceeds from short-term investments		31,586	—	—
Net cash used in investing activities		(301,505)	(257,073)	(60,740)
Cash flows from financing activities:				
Cash paid for non-controlling interests in subsidiaries		(3,478)	—	—
Proceeds from disposal of non-controlling interests in subsidiaries	6	79,079	—	—
Proceeds from issuance of common stock, net of share issuance costs paid		186,671	376,154	50,019
Proceeds from issuance of Class C shares		93,330	—	—
Proceeds from exercise of share options over non-controlling interests in subsidiaries		12,478	—	—
Repayment of loans and promisory notes		(127)	(37,600)	(30,000)
Cash paid for treasury shares		(20,546)	—	—
Dividends paid by subsidiaries to non-controlling shareholders . .	31	(22,817)	—	—
Proceeds from loan, net of direct transaction costs paid		—	—	36,679
Net cash provided by financing activities		324,590	338,554	56,698
Net increase/(decrease) in cash and cash equivalents		46,721	48,315	(66,536)
Effect of exchange differences on cash balances		2,557	943	459
Cash and cash equivalents at the beginning of the year		98,637	49,379	115,456
Cash and cash equivalents at the end of the year		147,915	98,637	49,379

The accompanying notes on pages F-11 to F-100 form an integral part of these consolidated financial statements.

Digital Sky Technologies Limited
Consolidated statement of changes in equity
for the year ended December 31, 2007
(in thousands of US Dollars, except share information)

		Share capital				Accumulated other comprehensive income (net of tax effect of 0)		Non-controlling interests	Total equity
	Notes	Number of shares issued and outstanding	Amount	Share premium	Retained earnings		Total		
Balance at January 1, 2007 .		<u>35,153</u>	<u>—</u>	<u>66,459</u>	<u>228,554</u>	<u>—</u>	<u>295,013</u>	<u>101</u>	<u>295,114</u>
Profit for the period		—	—	—	173,175	—	173,175	512	173,687
<i>Other comprehensive income:</i>									
Foreign currency translation .		—	—	—	—	20,239	20,239	11	20,250
Total other comprehensive income		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>20,239</u>	<u>20,239</u>	<u>11</u>	<u>20,250</u>
Total comprehensive income . .		<u>—</u>	<u>—</u>	<u>—</u>	<u>173,175</u>	<u>20,239</u>	<u>193,414</u>	<u>523</u>	<u>193,937</u>
Shares issued for cash 16		2,967	—	50,546	—	—	50,546	—	50,546
Share issuance costs accounted for as a deduction from equity 16		—	—	(1,030)	—	—	(1,030)	—	(1,030)
Share-based payment transactions by strategic associates 30		—	—	740	—	—	740	—	740
Options issued to other shareholders by strategic associates		—	—	(4,495)	—	—	(4,495)	—	(4,495)
Effect of disposal of subsidiaries		—	—	—	—	—	—	(624)	(624)
Balance at December 31, 2007		<u>38,120</u>	<u>—</u>	<u>112,220</u>	<u>401,729</u>	<u>20,239</u>	<u>534,188</u>	<u>—</u>	<u>534,188</u>

The accompanying notes on pages F-11 to F-100 form an integral part of these consolidated financial statements.

Digital Sky Technologies Limited
Consolidated statement of changes in equity (Continued)
for the year ended December 31, 2008
(in thousands of US Dollars, except share information)

	Notes	Share capital		Share premium	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total	Non-controlling interests	Total equity
		Number of shares issued and outstanding	Amount						
Balance at January 1, 2008		38,120	—	112,220	401,729	20,239	534,188	—	534,188
Loss for the period		—	—	—	(12,011)	—	(12,011)	—	(12,011)
Other comprehensive income:									
Foreign currency translation		—	—	—	—	(145,801)	(145,801)	(4,480)	(150,281)
Total other comprehensive income		—	—	—	—	(145,801)	(145,801)	(4,480)	(150,281)
Total comprehensive income		—	—	—	(12,011)	(145,801)	(157,812)	(4,480)	(162,292)
Shares issued for cash	16	10,599	1	383,327	—	—	383,328	—	383,328
Shares issued for shares of associates and subsidiaries	6, 16	5,250	—	79,964	—	—	79,964	—	79,964
Share issuance costs accounted for as a deduction from equity		—	—	(6,173)	—	—	(6,173)	—	(6,173)
Share-based payment transactions	30	—	—	32,203	—	—	32,203	—	32,203
Share-based payment transactions by strategic associates	10, 30	—	—	1,552	—	—	1,552	—	1,552
Other changes in net assets of strategic associates	10	—	—	(3,808)	—	—	(3,808)	—	(3,808)
Business combinations	6	—	—	—	—	—	—	90,867	90,867
Balance at December 31, 2008		53,969	1	599,285	389,718	(125,562)	863,442	86,387	949,829

The accompanying notes on pages F-11 to F-100 form an integral part of these consolidated financial statements.

Digital Sky Technologies Limited
Consolidated Statement of Changes in Equity (Continued)
For the year ended December 31, 2009
(in thousands of US Dollars, except share information)

	Notes	Share capital		Share premium	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total	Non-controlling interests	Total equity
		Number of shares issued and outstanding	Amount						
Balance at January 1, 2009		53,969	1	599,285	389,718	(125,562)	863,442	86,387	949,829
Profit/(loss) for the period		—	—	—	168,649	—	168,649	(2,949)	165,700
Other comprehensive income:									
Foreign currency translation		—	—	—	—	37,061	37,061	1,257	38,318
Unrealised holding gains on available-for-sale financial assets		—	—	—	—	320	320	—	320
Total other comprehensive income		—	—	—	—	37,381	37,381	1,257	38,638
Total comprehensive income		—	—	—	168,649	37,381	206,030	(1,692)	204,338
Shares issued for cash	16	7,063	—	186,671	—	—	186,671	—	186,671
Shares issued in business combinations	6, 16	1,614	—	24,506	—	—	24,506	—	24,506
Other equity instruments issued in business combinations	6	—	—	1,856	—	—	1,856	—	1,856
Business combinations	6	—	—	—	—	—	—	42,338	42,338
Effect of disposal of subsidiary	6	—	—	—	—	—	—	(534)	(534)
Share-based payment transactions	30	—	—	12,673	—	—	12,673	5,824	18,497
Share-based payment transactions by strategic associates	30	—	—	1,426	—	—	1,426	79	1,505
Other changes in net assets of strategic associates		—	—	(3,654)	—	—	(3,654)	—	(3,654)
Dividends paid by subsidiaries to non-controlling shareholders	31	—	—	—	—	—	—	(31,832)	(31,832)
Exercise of options over the shares of subsidiaries		—	—	10,940	—	—	10,940	21,292	32,232
Acquisitions of non-controlling interests in existing subsidiaries		808	—	4,282	—	—	4,282	(7,758)	(3,476)
Disposals of non-controlling interests in subsidiaries	6	—	—	63,438	—	(3,266)	60,172	18,516	78,688
Conversion of equity-settled share-based payments to cash-settled	30	—	—	(2,004)	—	—	(2,004)	(1,774)	(3,778)
Acquisition of treasury shares		(784)	—	(20,546)	—	—	(20,546)	—	(20,546)
Balance at December 31, 2009		62,670	1	878,873	558,367	(91,447)	1,345,794	130,846	1,476,640

The accompanying notes on pages F-11 to F-100 form an integral part of these consolidated financial statements.

Digital Sky Technologies Limited
Notes to consolidated financial statements
For the years ended December 31, 2009, 2008 and 2007
(in thousands of US Dollars)

1 Corporate information and description of business

These consolidated financial statements of Digital Sky Technologies Limited (hereinafter “the Company”) and its subsidiaries (collectively—“the Group”) for the years ended December 31, 2007, December 31, 2008 and December 31, 2009 were authorised for issue by the directors of the Company on September 28, 2010. Previously the Group has issued consolidated financial statements for the years ended December 31, 2007, December 31, 2008 and December 31, 2009 which were authorised for issue by the directors of the Company on July 28, 2010. Subsequently the Group made a revision of the previously issued financial statements as follows:

- The previously issued consolidated financial statements contained a more detailed disclosure of the Group’s segment data. Due to the confidentiality obligations in respect of certain associates of the Group, the segment disclosure (Note 5) in the revised consolidated financial statements does not contain detailed breakdowns of revenues and operating expenses, selected balance sheet and cash flow items that the Group voluntarily disclosed in its previously issued consolidated financial statements. The Group also elected to disclose the data on segment income before income taxes.
- The Group corrected an error related to incorrect classification of “*Cash paid for non-controlling interests in subsidiaries*” in the amount of 3,478 and “*Proceeds from disposal of non-controlling interests in subsidiaries*” in the amount of 79,079 as investing activities in the consolidated statement of cash flows for the year ended December 31, 2009 as follows:

<u>Consolidated statement of cash flows for the year ended December 31, 2009:</u>	<u>As previously reported</u>	<u>Correction of errors</u>	<u>As revised</u>
Net cash flows used in investing activities	(225,904)	(75,601)	(301,505)
Net cash flows provided by financing activities	248,989	75,601	324,590

- The Group updated the revised financial statements for the events that took place subsequent to July 28, 2010 (Note 32).

These revised consolidated financial statements for the years ended December 31, 2007, December 31, 2008 and December 31, 2009 supersede the previously issued consolidated financial statements of the Group

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 is a holding company holding businesses with Internet business models that are actively shaping the industry, including portals, social networking and communications, e-payment solutions, online marketplaces, massively multiplayer online role-play games (“MMORPG”) and social games. The Group and its associates have leading positions in the CIS states where they are present, including Russia, Ukraine, Kazakhstan, Georgia and Armenia.

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.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

2 Basis of preparation (Continued)

2.1 Statement of compliance

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

2.2 First time adoption of IFRS

These consolidated financial statements as at December 31, 2009 and for the year then ended are prepared by the Group in accordance with the guidance prescribed by IFRS 1 *First-time adoption of International Financial Reporting Standards* (“IFRS 1”) with certain exemptions from the retrospective application of IFRSs applied as of January 1, 2007 using the standards and interpretations effective, and the policies adopted as of December 31, 2009. In accordance with this guidance, the Group prepared an opening statement of financial position at the date of transition to IFRS (January 1, 2007) based on the Company’s separate financial statements as well as the Company’s subsidiaries and associates’ books and records (as described below), as adjusted and reclassified in order to comply with IFRS, using the standards and interpretations effective, and the policies adopted as of December 31, 2009.

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.

IFRS 1 allows first-time adopters certain exemptions from the general requirements to apply IFRS retrospectively. The Group has applied the following exemptions:

- (a) *Business combinations exemption.* The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the transition date; and
- (b) *Cumulative translation differences exemption.* The Group has elected to set the previously accumulated cumulative translation differences to zero at January 1, 2007.

The Group did not prepare consolidated financial statements prior to the date of these financial statements.

2.3 Standards issued but not yet effective

The Group has not adopted the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 2 *Share-based Payment*—Group Cash-settled Share-based Payment Transactions:

The amendments to IFRS 2 were issued in June 2009 and become effective for financial years beginning on or after 1 January 2010. The amendments clarify the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11;

- IAS 24 *Related party disclosures (Revised)*:

The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted;

- Amendment to IAS 32 *Financial Instruments: Presentation*—Classification of rights issues:

Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments;

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

2 Basis of preparation (Continued)

2.3 Standards issued but not yet effective (Continued)

- IFRS 9 *Financial Instruments*:

IFRS 9 becomes effective for financial years beginning on or after January 1, 2013. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets;

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*:

IFRIC Interpretation 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability;

- IFRIC 17 *Distribution of Non-Cash Assets to Owners*:

IFRIC Interpretation 17 is effective for annual periods beginning on or after July 1, 2009 and clarifies the accounting for the distribution of dividends in kind by the reporting entity;

- IAS 39 *Financial Instruments: recognition and measurement*—Eligible Hedged Items:

The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations and becomes effective for annual periods beginning on or after July 1, 2009;

- *Improvements to IFRSs-2009* and *Improvements to IFRSs-2010*—a collection of amendments to IFRSs that will not be included as part of another major project. The following table shows the list of IFRSs where amendments have been made that can result in accounting changes for presentation, recognition or measurement purposes and the topics addressed by these amendments:

<u>IFRS (amended in 2009)</u>	<u>Subject of amendment</u>
IFRS 2 <i>Share-based Payment</i>	Scope of IFRS 2 and revised IFRS 3 Business Combinations
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
IAS 1 <i>Presentation of Financial Statements</i>	Current/noncurrent classification of derivative instruments
IAS 7 <i>Statement of Cash Flows</i>	Classification of expenditures on unrecognised assets
IAS 17 <i>Leases</i>	Classification of leases of land and buildings
IAS 18 <i>Revenue</i>	Determining whether an entity is acting as a principal or as an agent
IAS 36 <i>Impairments of Assets</i>	Unit of accounting for goodwill impairment test
IAS 38 <i>Intangible Assets</i>	Additional consequential amendments arising from revised IFRS 3
	Measuring the fair value of an intangible asset acquired in a business combination

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

2 Basis of preparation (Continued)

2.3 Standards issued but not yet effective (Continued)

<u>IFRS (amended in 2009)</u>	<u>Subject of amendment</u>
IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Treating loan prepayment penalties as closely related embedded derivatives Scope exemption for business combination contracts Cash flow hedge accounting
IFRIC 9 <i>Reassessment of Embedded Derivatives</i>	Scope of IFRIC 9 and revised IFRS 3
IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i>	Amendment to the restriction on the entity that can hold hedging instruments
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Accounting policy changes in the year of adoption Revaluation basis as deemed cost Use of deemed cost for operations subject to rate regulation
IFRS 3 <i>Business Combinations</i>	Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS Measurement of non-controlling interest Un-replaced and voluntarily replaced share-based payment awards
IFRS 7 <i>Financial Instruments: Disclosures</i>	Clarification of disclosures
IAS 1 <i>Presentation of Financial Statements</i>	Clarification of statement of changes in equity
IAS 27 <i>Consolidated and Separate Financial Statements</i>	Transition requirements for amendments arising as a result of IAS 27 <i>Consolidated and Separate Financial Statements</i>
IAS 34 <i>Interim Financial Reporting</i>	Significant events and transactions
IFRIC 13 <i>Customer Loyalty Programmes</i>	Fair value of award credits

Management of the Group is in the process of assessing the impact of Standards and Interpretations not yet effective at December 31, 2009 on the Group's accounting policies.

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, 2007, 2008 and 2009 and for each of the years 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

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.1 Principles of consolidation (Continued)

statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

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

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented in the statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Acquisitions and disposals of non-controlling interests are accounted for as equity transactions.

3.2 Business combinations and goodwill

The Group has early adopted IFRS 3 *Business Combinations* (2008) ("IFRS 3R") and IAS 27 *Consolidated and Separate Financial Statements* (2008) ("IAS 27R") for all business combinations occurring starting January 1, 2007. All business combinations occurring on or after this date are accounted for by applying the acquisition method.

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.

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

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

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

A contingent liability of the acquiree is recognised in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

The Group measures any non-controlling interest either at fair value or at its proportionate interest in the identifiable net assets of the acquiree.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

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.

IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for 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.

Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

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,

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.2 Business combinations and goodwill (Continued)

allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

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 strategic investments.

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 *Investment in Associates*, which allows investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in 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 3.12 below as part of the Group's accounting policies with respect to financial assets.

3.3.2 Strategic investments in associates

Strategic investments in associates are regarded by the Group as its key investments. The Group actively participates in the operating management of the strategic investees 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 amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of strategic associates. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes in the investment balance and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.3.2 Strategic investments in associates (Continued)

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 recognised in equity. However, when the Group's share of accumulated losses in a strategic associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

The financial statements of strategic associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in its strategic associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. Determining whether the investment is impaired is based on the guidance of IAS 39 discussed under 3.12.6.

If there is objective evidence that a strategic investment 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 3.14) and recognises the amount of impairment in earnings under '*Impairment losses*)/*reversal of impairment losses related to associates and available for sales investments*'. If the recoverable amount of the impaired investment subsequently increases, the related impairment is reversed to the extent of such increase.

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

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

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

3.4 Property and equipment

3.4.1 Property and equipment

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.4.1 Property and equipment (Continued)

the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of an item of property and equipment are recognised net under ‘*Other gains/(losses)*’ in the statement of comprehensive income.

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

3.4.2 Depreciation and useful life

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

	<u>Estimated Useful Life (in Years)</u>
Servers and computers	3 - 5
Electronic payment terminals	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 amortisation and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

3.5.1 Software development costs

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

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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.5.2 Useful life and amortisation of intangible assets

The Group assesses whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset is regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. The Group did not have any intangible assets with an indefinite useful life in the years ended December 31, 2007, 2008 and 2009.

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

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

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

	<u>Estimated Useful Life (in Years)</u>
Patents and trademarks	7 - 20
Capitalised software costs	3
Domain names	10
Games	3 - 9
Customer base	3 - 10
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.

3.7 Employee benefits

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

Under provisions of the Russian legislation, social contributions are made through a unified social tax ("UST") calculated by the Group by the application of a regressive rate (from 26% to 2%) to the annual gross remuneration of each employee.

3.8 Provisions

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

If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and,

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.8 Provisions (Continued)

where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

3.9 Revenue recognition

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

3.9.1 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 MMORPGs and casual games. The amounts of cash or receivables from payment systems for cash from the users, net of any commissions to distributors or short messaging service operators, are not recognised as revenues and are credited to deferred revenue. They are then converted by the players into the in-game points. In-game points are used to purchase in-game items. Under the item-based revenue model, revenues are recognised over the life of the in-game virtual items that game players purchase or as the in-game virtual items are consumed. Deferred revenue is reduced as revenues are recognised. The estimated life span of in-game items is determined based on historical player usage patterns and playing behaviour. The average estimated life of in-game items varies from 30 to 65 days.

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 recognised as revenue when the services are provided.

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. 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 recognised as revenue as the services are provided on a gross basis, net of commission to mobile operators. If the amount of revenue is measured based on third party data, such amounts of revenue are recorded based on the best available data at the date of issuance of the financial statements.

3.9.2 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 recognised as the services are provided (i.e., as per page view for dynamic banners and over the contractual term for static banners). For display

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.9.2.1 Display advertising (Continued)

advertising sold through some third party advertising agencies, revenue is recognised 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 and 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. In addition, when a cash transaction has been used to support an equivalent quantity and dollar amount of barter revenues, the same cash transaction is not used as evidence of fair value for any other barter transaction.

The amount of revenue and expense recognised from advertising barter transactions was USD 2,496, nil and nil for the years ended December 31, 2009, 2008 and 2007, 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 recognised as the services are provided (i.e., upon “click-through,” which is when a user clicks on an advertiser’s listing) on a net basis.

3.9.3 Dividend revenue

Dividend revenue from venture capital investments and dividend income from investments classified as available-for-sale financial assets is recognised when the Group’s right to receive the payment is established. Dividend income from available-for-sale investments is included under ‘*Finance income*’ in the statement of comprehensive income.

3.9.4 Other revenues

Other revenues primarily consist of the following:

- (a) ***Revenues received from one-time sales of developed games to third parties.*** The Group recognises revenues from these games in the period when the rights for games are transferred to third parties. Royalties and agency fees are calculated based on the percentage of revenues from distributors of the Group’s games.
- (b) ***Commission revenues from providers for electronic payment processing.*** The Group charges a commission for processing of payments collected from the ultimate customers (“Customers”) to providers of various services to Customers (“Providers”). Customers use various payment terminals to pay for the services provided to them by Providers. Such payment terminals are owned by 3rd party cash collection agents (“Agents”). The commission revenue and respective receivable are recognised at the point when Providers accept payments from Customers in the gross amount, including commissions payable to Agents.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.9.4 Other revenues (Continued)

- (c) **Sale of terminals.** The Group sells electronic payment terminal to Agents. Revenue from sales of terminals is recognised upon delivery of terminals to Agents.
- (d) **Commissions charged to agents.** The Group charges commissions, fines and penalties to Agents for late payments and includes them into revenue.
- (e) **Online recruitment services for employers.** Services for employers include provision of access to resume database and posting of job ads on the Group's websites. Revenue earned from provision of access to resume database is recognised over the length of the underlying subscriptions, typically ranging from two weeks to twelve months. Revenue earned from job postings is recognised at the time job posting displayed on the web site, based upon customer usage data. Revenue associated with multiple element contracts is allocated based on the relative fair value of the services included in the contract.
- (f) **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 recognised over a period of subscription, which varies from seven days to six months. Revenue earned from résumé writing is recognised at the time when the résumé is delivered to a job seeker.
- (g) **Other revenue from recruitment services.** Revenues from other recruitment services include revenues from different services related to recruitment process, such as training of HR managers and job seekers, assistance in conducting recruiting campaigns, etc. The Group recognises revenues related to these services in the period when the services are rendered.

3.10 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.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in earnings.

Deferred income tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.10 Income taxes (Continued)

are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

3.11 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”).

The cost of equity-settled transactions with share-based payment recipients for awards granted is measured by reference to the fair value of the awards at the date on which they are granted. The fair value is determined using an appropriate pricing model (Black-Scholes-Merton, binomial, Monte-Carlo or other).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant share-based payment recipients become fully entitled to the award (“the vesting date”). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period recognised in profit or loss represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.12 Financial instruments

3.12.1 Initial recognition and measurement

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

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

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

The Group's financial assets include cash and cash equivalents, short-term time deposits, trade and other receivables, available-for-sale investments in 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.

3.12.2 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:

3.12.2.1 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: This sub-category includes the Group's financial investments in associates, Class C shares of the Company and Assets related to Class C shares (as defined in Note 16).

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

- The changes in the fair value of financial investments in associates and those derivative financial assets and liabilities where the underlying asset is represented by equity instruments of a financial investee, are recorded under '*Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities*' and are included in the Group's operating income; and
- The changes in the fair value of derivative financial assets where the underlying asset is represented by equity instruments of a strategic associate (as defined in 3.3.2) or a subsidiary are recorded under '*Net gain/(loss) on derivative financial assets and liabilities over the equity of strategic investees*';
- 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.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.12.2.2 Loans and receivables

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

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

3.12.2.3 Available-for-sale investments

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

After initial measurement, available-for-sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is de-recognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the statement of comprehensive income under ‘*Impairment losses*’ and removed from the available-for-sale reserve.

3.12.2.4 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 amortised cost using the EIR method, less impairment. Amortised 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 amortisation is included in ‘*Finance income*’ in the statement of comprehensive income. The losses arising from impairment are recognised 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, 2007, 2008 and 2009.

3.12.2.5 Loans and borrowings and other financial liabilities

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

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

3.12.3 De-recognition

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

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement;

And

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.12.3 De-recognition (Continued)

- Either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

3.12.4 Offsetting of financial instruments

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

3.12.5 Fair value of financial instruments

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 28.

3.12.6 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.

3.12.6.1 Financial assets carried at amortised cost

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

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

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.12.6.1 Financial assets carried at amortised cost (Continued)

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

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

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

3.12.6.2 Available-for-sale financial assets

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

3.13 Foreign currency translation

The consolidated financial statements are presented in 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 (the 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 recognised in other comprehensive income.

The Company's assets and liabilities and the assets and liabilities of each subsidiary settled in the respective entity's functional currency but denominated in other currencies are recorded in the Group's

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.13 Foreign currency translation (Continued)

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.

Upon a partial disposal of a subsidiary that includes a foreign operation, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income. This policy also applies to disposals and partial disposals (where significant influence is retained) of strategic associates. Upon acquisition of control in a strategic associate with a functional currency different from the Group's presentation currency, the entire accumulated foreign currency translation adjustment related to the investment in the associate is reclassified to profit or loss.

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

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

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

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

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

3.14.1 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 cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.14.1 Goodwill (Continued)

the cash generating unit is less than its carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3.14.2 Strategic investments in associates

As discussed under 3.3.2, although strategic investments in associates are financial assets and their impairment indicators are assessed as described under 3.12.6, 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 cash-generating unit, rather than ‘drilling down’ into the separate cash-generating units determined by the associate itself for the purposes of its own financial statements. If the Group concludes that the associate is impaired, the impairment is not allocated to the underlying assets or goodwill of the associate. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in earnings.

3.15 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.

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.

3.16 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.

The Group early adopted Improvements to IFRS 8 *Operating Segments*, which allows entity not to report a measure of total assets and liabilities for each reportable segment if such amounts are not

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

3 Summary of significant accounting policies (Continued)

3.16 Segment reporting (Continued)

provided to the chief operating decision maker. As such information is not reviewed by CODM, the Group does not present such measures.

4 Significant accounting judgments, estimates and assumptions

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

4.1 Judgments

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

4.1.1 Consolidation and accounting for associates

The Company directly or indirectly owns 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 makes 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 and that operates both as a venture capital investment fund and as a holding company for strategic investments.

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.

4.2 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;
- share-based payments;
- impairment of intangible assets, goodwill and investments in associates; and
- fair value of assets and liabilities in business combinations.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

4 Significant accounting judgments, estimates and assumptions (Continued)

4.2 Estimates and assumptions (Continued)

Actual results could materially differ from those estimates.

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

4.2.1 Revenue recognition—in-game items life span

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

4.2.2 Fair value of financial instruments

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

The Group has a number of derivative financial assets and liabilities including purchased 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 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 Note 28.

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 amortisation, charged to earnings. The carrying value of intangible assets is disclosed in Note 7.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

4 Significant accounting judgments, estimates and assumptions (Continued)

4.2.4 Software development costs

Software development costs are capitalised in accordance with the accounting policy described in Note 3.5.2. Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

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

Identification of indicators of impairment of non-financial assets and strategic investments in 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 recognises separately the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation methods that require considerable judgment in forecasting future cash flows and developing other assumptions. 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, binominal, Monte-Carlo or other option pricing models, as applicable. The option pricing models were originally developed for use in estimating the fair value of traded options, which have different characteristics than the Group's stock options granted by the Company and its subsidiaries and associates. The models are also sensitive to changes in the subjective assumptions, which can materially affect the fair value estimate. These subjective assumptions include expected volatility, the expected life of the options, the fair value of the underlying shares on the date of grant and risk-free interest rates.

5 Operating segments

In reviewing the operational performance of the Group and allocating resources, the Management Board of the Company, which is the Group's Chief Operating Decision Maker ("CODM"), reviews the following financial metrics of each operating segment:

- (1) Selected items of each segment's statement of comprehensive income attributable to the Group, assuming 100% ownership in and consolidation of each of the Group's key associates and subsidiaries, based on management reporting; intra-segment turnovers between entities forming the segment are not eliminated as they would be under IFRS;
- (2) Proportionate core revenue, defined as the total revenues of each operating segment per management reporting attributable to the Group, based on the Group's fully diluted ownership (i.e. the ownership resulting from assumed exercise of all outstanding instruments of the

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

5 Operating segments (Continued)

respective investee) in each of the Group's significant associates and subsidiaries as of the end of the most recent reporting period; and

- (3) Proportionate core net profit or loss defined as the total of net profits or losses of each operating segment based on management reporting attributable to the Group on a proportionate basis using the Group's fully diluted ownership in each of the Group's significant associates and subsidiaries as of the end of the most recent reporting period.

Management reporting is different from IFRS, because it does not include all adjustments affecting such major areas as revenue recognition, certain accruals, deferred taxation, share-based payments, business combinations, fair value adjustments and amortisation thereof, impairment, intrasegment eliminations.

The financial data is presented on a combined basis for all key subsidiaries and associates representing each segment added together forming the segment revenue and profit.

The identification of the Group's operating segments is based on the structure of Company's strategic investment portfolio. Accordingly, each key strategic investment which is either accounted under the equity method or consolidated is considered a separate segment. The Group has identified the following reportable segments:

- Port.ru, Inc. and Astrum Online Entertainment Limited and their subsidiaries and associates (collectively representing "Mail.ru" reportable segment), a portal and online games business;
- Odnoklassniki Limited and its subsidiaries (collectively representing "OK" reportable segment), a social network business;
- Newton Rose Limited and its subsidiaries and associates (collectively representing "Newton Rose" reportable segment), an online recruitment and job search business;
- VK.com Limited (Doraview Limited) and its subsidiaries and associates (collectively representing "VK" reportable segment), a social network business;
- OE Investments Limited and its subsidiaries and associates (collectively representing "OE" reportable segment), an electronic payment processing business; and
- Forticom Group Limited and its subsidiaries and associates, excluding Odnoklassniki Limited (collectively representing "Forticom" reportable segment), a social network business;

All segments, except for OE and Newton Rose, mainly derive their revenue from (a) providing Internet value-added services to individual and/or corporate customers; and (b) display and/or context advertising in the Internet. OE mainly derives its revenues from providing electronic payment processing services, and Newton Rose provides online recruitment and job search services.

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.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

5 Operating segments (Continued)

The statement of comprehensive income items for each segment for the year ended December 31, 2007, as presented to the CODM, are presented below:

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>
Total revenue	60,531	1,536	9,083	—	124,612	7,516
Total operating expenses	24,758	3,070	9,430	705	118,783	3,227
EBITDA*	35,773	(1,534)	(347)	(705)	5,829	4,289
Profit before income tax	31,792	(1,570)	63	(844)	3,030	4,959
Net profit	25,817	(1,570)	271	(695)	1,913	4,516

* Earnings before interest, tax, depreciation and amortisation (“EBITDA”) is a performance metric reviewed by the CODM and calculated as revenue less operating expenses excluding depreciation and amortisation.

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>
Attributable to:						
Non-controlling interests	(1)	—	(44)	—	—	—
Equity holders of the parent	25,818	(1,570)	315	(695)	1,913	4,516
Fully diluted ownership as of the end of 2009	51.05%	57.30%	88.64%	24.99%	25.09%	72.90%

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total segments</u>
Proportionate core revenue	30,901	880	8,051	—	31,265	5,479	76,576
Proportionate core net profit	13,180	(900)	279	(174)	480	3,292	16,157

A reconciliation of proportionate core revenue, as presented to the CODM, to the Group’s consolidated revenue for the year ended at December 31, 2007 is presented below:

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total segments</u>	<u>Corporate, eliminations and other</u>	<u>Total</u>
Proportionate core revenue, as presented to the CODM	30,901	880	8,051	—	31,265	5,479	76,576	(577)	75,999
Reconciling items:									
Effect of equity accounting for associates	(30,901)	(880)	(8,051)	—	(5,233)	(5,479)	(50,544)	577	(49,967)
Difference in acquisition date of investees’ subsidiaries	—	—	—	—	(5,268)	—	(5,268)	—	(5,268)
Other	—	—	—	—	—	—	—	270	270
Consolidated revenue	—	—	—	—	20,764	—	20,764	270	21,034

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

5 Operating segments (Continued)

A reconciliation of proportionate core net profit, as presented to the CODM, to IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis using December 31, 2009 ownership for the year ended December 31, 2007 is presented below:

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total segments</u>	<u>Corporate, eliminations and other</u>	<u>Total</u>
Proportionate core net profit attributable to the Group, as presented to the CODM	13,180	(900)	279	(174)	480	3,292	16,157	—	16,157
Effect of adjustments to reconcile investees' net profit presented to the CODM to their net profit under IFRS:									
Difference in acquisition date of investees' subsidiaries	(2,231)	—	—	—	84	—	(2,147)	—	(2,147)
Amortisation of fair value adjustments to intangible assets and impairment of goodwill and other intangible assets	(456)	—	—	—	(527)	—	(983)	—	(983)
Effect of OK reported as a separate segment	—	—	—	—	—	(1,252)	(1,252)	—	(1,252)
Fair value adjustments related to acquisitions and disposals	33,519	—	—	—	—	—	33,519	—	33,519
Other	722	(41)	—	—	128	—	809	—	809
Proportionate IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis as of December 31, 2009	<u>44,734</u>	<u>(941)</u>	<u>279</u>	<u>(174)</u>	<u>165</u>	<u>2,040</u>	<u>46,103</u>	<u>—</u>	<u>46,103</u>

The statement of comprehensive income items for each segment for the year ended December 31, 2008, as presented to the CODM, are presented below:

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>
Total revenue	<u>111,483</u>	<u>20,929</u>	<u>25,347</u>	<u>7,672</u>	<u>186,028</u>	<u>23,171</u>
Total operating expenses	<u>65,841</u>	<u>15,614</u>	<u>20,771</u>	<u>5,544</u>	<u>172,685</u>	<u>12,566</u>
EBITDA	<u>45,642</u>	<u>5,315</u>	<u>4,576</u>	<u>2,128</u>	<u>13,343</u>	<u>10,605</u>
Profit before income tax	<u>47,911</u>	<u>4,018</u>	<u>3,829</u>	<u>683</u>	<u>11,473</u>	<u>9,862</u>
Net profit	<u>34,483</u>	<u>2,558</u>	<u>2,853</u>	<u>683</u>	<u>6,525</u>	<u>7,821</u>

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>
Attributable to:						
Non-controlling interests	(635)	—	—	—	(372)	—
Equity holders of the parent	35,118	2,558	2,853	683	6,897	7,821
Fully diluted ownership as of the end of 2009	51.05%	57.30%	88.64%	24.99%	25.09%	72.90%

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

5 Operating segments (Continued)

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total segments</u>
Proportionate core revenue	56,912	11,992	22,468	1,917	46,674	16,892	156,855
Proportionate core net profit	17,928	1,466	2,529	171	1,730	5,702	29,526

A reconciliation of proportionate core revenue, as presented to the CODM, to the Group's consolidated revenue for the year ended at December 31, 2008 is presented below:

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total segments</u>	<u>Corporate, eliminations and other</u>	<u>Total</u>
Proportionate core revenue, as presented to the CODM	56,912	11,992	22,468	1,917	46,674	16,892	156,855	(2,277)	154,578
Reconciling items:									
Effect of equity accounting for associates	(56,912)	(11,992)	(22,468)	(1,917)	(46,674)	(16,892)	(156,855)	2,277	(154,578)
Dividend revenue from venture capital investments	—	—	—	—	—	—	—	54	54
Consolidated revenue	—	—	—	—	—	—	—	54	54

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

5 Operating segments (Continued)

A reconciliation of proportionate core net profit, as presented to the CODM, to IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis using December 31, 2009 ownership for the year ended December 31, 2008 is presented below:

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total segments</u>	<u>Corporate, eliminations and other</u>	<u>Total</u>
Proportionate core net profit attributable to the Group, as presented to the CODM	17,928	1,466	2,529	171	1,730	5,702	29,526	—	29,526
Effect of adjustments to reconcile investees' net profit presented to the CODM to their net profit under IFRS:									
Share-based payment expense	(1,143)	—	(912)	—	—	—	(2,055)	—	(2,055)
Differences in timing of revenue recognition	(1,306)	—	(2,710)	—	—	—	(4,016)	—	(4,016)
Amortisation of fair value adjustments to intangible assets and impairment of goodwill and other intangible assets	(26,798)	—	(3,900)	—	(1,252)	—	(31,950)	—	(31,950)
Gain/(loss) on derivative financial instruments held by investees	1,498	—	2,260	—	—	—	3,758	—	3,758
Effect of OK reported as a separate segment	—	—	—	—	—	(664)	(664)	—	(664)
Fair value adjustments related to acquisitions and disposals	1,951	—	—	—	—	—	1,951	—	1,951
Deferred income tax benefit/ (expense)	2,469	—	192	—	—	—	2,661	—	2,661
Accrual for legal claim	—	(2,006)	—	—	—	—	(2,006)	—	(2,006)
Other	2,349	(1,275)	(171)	5	(245)	(64)	600	—	600
Proportionate IFRS net profit/ (loss) of investees attributable to the Group, on a fully diluted basis as of December 31, 2009	<u>(3,052)</u>	<u>(1,815)</u>	<u>(2,711)</u>	<u>176</u>	<u>233</u>	<u>4,974</u>	<u>(2,195)</u>	<u>—</u>	<u>(2,195)</u>

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

5 Operating segments (Continued)

The statement of comprehensive income items for each segment for the year ended December 31, 2009, as presented to the CODM, are presented below:

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	
Total revenue	138,362	44,283	16,723	48,359	195,280	33,919	
Total operating expenses	79,472	19,400	13,300	29,990	172,770	21,347	
EBITDA	58,890	24,883	3,423	18,369	22,510	12,572	
Profit before income tax	56,156	21,929	1,896	15,303	21,494	10,519	
Net profit	44,066	17,122	1,502	12,242	14,909	8,069	
Attributable to:							
Non-controlling interests	—	—	90	—	(265)	1,696	
Equity holders of the parent	44,066	17,122	1,412	12,242	15,174	6,373	
Fully diluted ownership as of the end of 2009 .	51.05%	57.30%	88.64%	24.99%	25.09%	72.90%	
	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total segments</u>
Proportionate core revenue	70,634	25,374	14,823	12,085	48,996	24,727	196,639
Proportionate core net profit	22,496	9,811	1,252	3,059	3,807	4,646	45,071

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

5 Operating segments (Continued)

A reconciliation of proportionate core revenue, as presented to the CODM, to the Group's consolidated revenue for the year ended at December 31, 2009 is presented below:

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total segments</u>	<u>Corporate, eliminations and other</u>	<u>Total</u>
Proportionate core revenue, as presented to the CODM	70,634	25,374	14,823	12,085	48,996	24,727	196,639	(5,295)	191,344
									—
Reconciling items:									—
Effect of equity accounting for associates, applying the acquisition method for subsidiaries and difference in dates of acquisition of control in subsidiaries	57,201	(25,374)	1,900	(6,713)	(48,996)	(24,727)	(46,709)	5,295	(41,414)
Differences in timing of revenue recognition . . .	(1,100)	—	(397)	—	—	—	(1,497)	—	(1,497)
Net-off of revenues and expenses	—	—	—	(5,372)	—	—	(5,372)	—	(5,372)
Revenue of subsidiary disposed of in the reporting period	—	—	4,413	—	—	—	4,413	—	4,413
Intrasegment revenue elimination	(3,103)	—	(561)	—	—	—	(3,664)	—	(3,664)
Barter revenue	2,498	—	—	—	—	—	2,498	—	2,498
Dividend revenue from venture capital investments	—	—	—	—	—	—	—	1,616	1,616
Other	840	—	(448)	—	—	—	392	—	392
Consolidated revenue . . .	126,970	—	19,730	—	—	—	146,700	1,616	148,316

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

5 Operating segments (Continued)

A reconciliation of proportionate core net profit, as presented to the CODM, to IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis using December 31, 2009 ownership for the year then ended is presented below:

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total segments</u>	<u>Corporate, eliminations and other</u>	<u>Total</u>
Proportionate core net profit attributable to the Group, as presented to the CODM	22,496	9,811	1,252	3,059	3,807	4,646	45,071	—	45,071
Effect of adjustments to reconcile investees' net profit presented to the CODM to their net profit under IFRS:									
Share-based payment expense	(8,163)	—	(423)	—	—	(938)	(9,524)	—	(9,524)
Amortisation of fair value adjustments to intangible assets and impairment of goodwill and other intangible assets . .	(6,446)	—	(356)	—	(1,082)	—	(7,884)	—	(7,884)
Deferred income tax benefit/(expense) .	(1,272)	—	—	—	474	—	(798)	—	(798)
Gain/(loss) on derivative financial instruments held by investees	(3,889)	—	(2,257)	—	—	9,478	3,332	—	3,332
Effect of OK reported as a separate segment	—	—	—	—	—	4,630	4,630	—	4,630
Fair value adjustments related to acquisitions and disposals	14,501	—	(6,276)	—	—	—	8,225	—	8,225
Non-recurring consulting services	(1,264)	—	—	—	—	—	(1,264)	—	(1,264)
Settlement of a legal claim	—	(1,143)	—	—	—	—	(1,143)	—	(1,143)
Net foreign exchange gains (losses) and net interest income/(expense)	(2,377)	—	—	—	—	(1,217)	(3,594)	—	(3,594)
Other	2,091	(141)	(417)	(820)	402	167	1,282	—	1,282
Proportionate IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis as of December 31, 2009	<u>15,677</u>	<u>8,527</u>	<u>(8,477)</u>	<u>2,239</u>	<u>3,601</u>	<u>16,766</u>	<u>38,333</u>	<u>—</u>	<u>38,333</u>

A reconciliation of IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis using December 31, 2009 ownership to the Group's consolidated net profit for the years ended December 31, 2009, 2008 and 2007 is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Proportionate IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis as of December 31, 2009	38,333	(2,195)	46,103
Difference in shareholding percentages and acquisition dates of subsidiaries and associates	3,116	(11,475)	4,512
Amortisation of fair value adjustments to intangible assets and impairment of goodwill and other intangible assets	(8,745)	(1,869)	(643)
Fair value adjustments related to acquisitions and disposals	99,475	91,888	144,414
(Impairment)/reversal of impairment of strategic investments	46,748	(53,149)	—
Gain/(loss) on financial instruments at fair value through profit or loss . .	3,606	(13,142)	(10,513)
Corporate overheads	(27,967)	(54,565)	(7,346)
Net foreign exchange gains (losses)	11,822	34,733	(194)
Other	(688)	(2,237)	(2,646)
Consolidated net profit/(loss)	<u>165,700</u>	<u>(12,011)</u>	<u>173,687</u>

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates

6.1 Acquisitions and disposals of 2007

6.1.1 E-Port/OE

ZAO Avtokard Holding, ZAO E-Port and OOO Eksimarket (collectively “E-Port”), operate electronic online payment systems and sell electronic payment terminals and fiscal modules in Russia. The Group controlled E-Port through the ownership of 71.7% as of January 1, 2007.

In July 2007, the Group and other shareholders of E-Port combined the assets of E-Port with OSMP group of companies (“OSMP”) operating in substantially the same business segments and markets as E-Port. As a result of the arrangement, 100% of E-Port and OSMP businesses were brought together under OE Investments Limited, a newly incorporated entity, to form the OE group of companies (“OE”).

As part of the transaction, the Group contributed its share in E-Port to OE in exchange for 25.09% in OE. The share of the Group in OE enabled the Group to exert significant influence over OE. Accordingly, the Group’s investment in OE was accounted for under the equity method starting from July 2007.

The investment in OE was initially recognised at the fair value of the aggregate consideration transferred by the Group, including the following:

Fair value of 71.7% in E-Port	51,624
Cash paid	9
Less: cash received	(1)
Total consideration	<u>51,632</u>

Management of the Group valued 71.7% of the issued and outstanding shares of E-Port using the discounted future cash flows method.

Net assets of E-Port as of the date of disposal attributable to the Group were USD 14,406, including goodwill in the amount of USD 14,475. In addition, the accumulated currency translation reserve in the amount of USD 307 was fully reclassified to profit and loss upon loss of control in E-Port.

As a result of the disposal the Group recognised a gain from the remeasurment of carrying value of investment in E-Port to fair value in the amount of USD 37,525 recorded under ‘*Net gain/(loss) on loss of control in subsidiaries*’ in the statement of comprehensive income.

The consideration was allocated to the acquired share of the assets and liabilities of OE as follows:

	Fair value
Property and equipment	525
Intangible assets	12,736
Other non-current assets	128
Accounts receivable	9,873
Cash and cash equivalents	6,729
Inventory	182
Other current assets	28
Deferred tax liabilities	(2,430)
Financial lease obligations	(116)
Current liabilities	(18,187)
Total share in net assets	<u>9,468</u>
Goodwill as part of equity method investment	<u>42,164</u>

The intangible assets of OE are mainly represented by brands, customer relationships and software with average remaining useful lives of 3.3 years, 8.5 years and 5.5 years respectively.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.1.2 Newton Rose

Newton Rose Limited (“Newton Rose”) is a provider of online recruitment services to corporate and individual customers. Newton Rose and its subsidiaries operate a leading Russian online recruitment web site www.hh.ru. Additionally, in 2008, Newton Rose acquired control over Israel’s job ads aggregator www.alljobs.co.il (“All U Need”) and the pan-Baltic online recruitment portal www.cvkeskus.ee.

In January-March and in June-August 2007, the Group acquired 24.52% of Newton Rose for an aggregate cash consideration of USD 15,003, (out of which USD 319 had been pre-paid in December 2006), which enabled the Group to exert significant influence over Newton Rose. Upon acquisition, the management allocated USD 10,403 to goodwill as part of the equity method investment and USD 4,600 to the Group’s share in other net assets of Newton Rose.

In June 2007, the Group sold 0.36% in Newton Rose for a cash consideration of USD 100. In December 2007, Newton Rose issued options to other shareholders of Newton Rose. The options were immediately vested and exercised, which resulted in a decrease of 0.48% in the Group’s shareholding in Newton Rose. The dilution was accounted for by the Group as a deemed disposal of the related share.

6.1.3 Doraview

Doraview Limited (“Doraview”), subsequently renamed to VK.com Limited, and its subsidiaries develop and maintain social networking web sites (www.vkontakte.ru, www.vkadre.ru, www.vshtate.ru) for communication, information sharing and personnel recruiting service purposes.

In June-July 2007, the Group acquired 25% of Doraview for an aggregate cash consideration of USD 16,272, which enabled the Group to exert significant influence over Doraview. Upon acquisition, the management allocated USD 16,096 to goodwill as part of the equity method investment and USD 176 to the Group’s share in other net assets of Doraview.

The Group subsequently contributed USD 750 to Doraview in September-December 2007, proportionately to the Group’s ownership interest in Doraview. The other shareholders simultaneously contributed USD 2,250. The contributions did not change the Group’s shareholding in Doraview and represented financing of Doraview’s operating activities and business development.

6.1.4 Odnoklassniki

Odnoklassniki Limited and its subsidiaries (“Odnoklassniki”) operate a leading Russian social networking web site www.odnoklassniki.ru.

Until November 2007, the Group did not exert significant influence over Odnoklassniki and classified it as an available-for-sale financial asset.

In March and in November-December 2007, the Group acquired 28.47% of Odnoklassniki for an aggregate cash consideration of USD 17,079, which enabled the Group to exert significant influence over Odnoklassniki. Upon acquisition, the management allocated USD 9,954 to goodwill as part of the equity method investment, USD 3,572 to brand amortised over the remaining useful life of 10 years and USD 3,554 to the Group’s share in other net assets of Odnoklassniki.

6.1.5 TIT/ITT/Benstar

OOO Territoriya Informatsionnykh Tekhnologiy (“TIT”) is a Russian legal entity providing online entertainment services in Russia through a number of free-to-play MMORPGs. The group owned 49.99% of TIT as of January 1, 2007 and was accounting for the investment in TIT as an associate using the equity method.

OOO IT Territoriya (“ITT”) is a Russian legal entity founded in July 2007 to provide online entertainment services in Russia through a number of free-to-play MMORPGs.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.1.5 TIT/ITT/Benstar (Continued)

Benstar Limited (“Benstar”) is a holding company registered in BVI. The Group owned 49.99% of Benstar as of January 1, 2007. Benstar was a dormant company until July 2007. Starting from July 2007, Benstar owned 100% of ITT.

In April-May and July-August 2007, the Group acquired an additional 10% in Benstar for an aggregate cash consideration of USD 3,200. However, the Group did not acquire control over Benstar due to restriction in the shareholders’ agreement of Benstar, requiring at least 75% of votes on certain significant operating decisions. As part of the same arrangement, the operations of TIT were transferred to ITT. Upon the acquisition of significant influence in ITT, the management allocated USD 2,001 to goodwill as part of the equity method investment and USD 1,199 to the Group’s share in other net assets of ITT.

6.1.6 Nikita/Fun Factory

Nikita Management Limited (“Nikita”) is a BVI entity holding 100% in OOO Fabrika Razvlecheniy (“Fun Factory”), a Russian entity providing online entertainment services.

In January-March 2007, the Group acquired 47.37% of Nikita (subsequently decreased to 45% as a result of Nikita’s shares issued to another shareholder) for a cash consideration of USD 4,500. Upon acquisition, the management allocated USD 1,709 to goodwill as part of the equity method investment, USD 2,353 to the Group’s share of MMORPGs in development and in operation and USD 439 to the Group’s share in other net assets of Nikita. The MMORPGs in operation are to be amortised as part of the equity method investment over the remaining useful life of three years.

6.1.7 Time Zero

Time Zero LLC (“Time Zero”) is a Russian legal entity engaged in development of several online games to be launched into commercial use.

In June-July and in October-November 2007, the Group acquired 51.5% of Time Zero for an aggregate cash consideration of USD 6,660. The ownership of 51.5% did not enable the Group to control Time Zero due to restrictions in the shareholders’ agreement, requiring at least 75% of votes on certain significant operating decisions. Upon acquisition of significant influence, the management allocated USD 5,647 to goodwill as part of the equity method investment, USD 236 to the Group’s share of in-process research and development intangible assets (online computer games under development) and USD 777 to the Group’s share in other net assets of Time Zero.

6.1.8 Nival/OGH

OOO Nival Online (“Nival”) is a Russian entity engaged in development of several online games to be launched into commercial use.

Online Games Holding Limited (“OGH”) is a BVI legal entity which was dormant until May 2007.

As of January 1, 2007, the Group owned 100% of Nival.

In May 2007, the Group contributed 100% in Nival to OGH in exchange for 64.83% of OGH, valued at USD 931. The shareholding of 64.83% did not enable the Group to control OGH because of restrictions in the shareholders’ agreement, requiring at least 75% of votes on certain significant operating decisions. In June 2007, the Group’s share in OGH decreased to 60% further to OGH’s shares issued to another shareholder. In June-August 2007, the Group contributed an additional USD 3,471 to OGH as financing, which did not affect the Group’s shareholding in OGH. Upon acquisition of significant influence in OGH, the management allocated USD 1,177 to goodwill as part of the equity method investment, USD 2,015 to the Group’s share of in-process research and development intangible assets (online computer games under development) and USD 1,210 to the Group’s share in other net assets of OGH.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.1.9 Astrum

Astrum Online Entertainment Limited (“Astrum”), renamed from DST Entertainment Limited and Aquaflow Limited, is a BVI holding entity. Prior to November 30, 2007, Astrum was a wholly owned subsidiary of the Company and was holding all of the Group’s strategic associates in entities engaged in development of online games and providing online entertainment services, including TIT/ITT/Benstar, Nikita/Fun Factory, Time Zero and OGH.

On November 30, 2007, Astrum issued its shares to other shareholders in exchange for additional 40% in Benstar/ITT and 5% of Nikita/Fun Factory. The Company simultaneously acquired, from Astrum and other shareholders, additional Astrum’s shares for a cash consideration of USD 5,000. As a result of the transaction, the Company’s shareholding in Astrum was reduced to 71.19%, and the Group lost control over Astrum due to the restriction in the shareholders’ agreement entered into on the same date, requiring at least 75% of votes on certain significant operating decisions. Accordingly, the Group accounted for its investment in Astrum under the equity method starting from November 30, 2007.

The 71.19% in Astrum was valued at USD 127,636 using the discounted cash flows method. Net assets of the subsidiary as of the date of disposal attributable to the Group were USD 18,373 and consisted entirely of investments in associates. In addition, the accumulated currency translation reserve in the amount of USD 1,119 was fully reclassified to profit and loss upon loss of control in Astrum.

Upon loss of control in Astrum, the Group recognised a gain resulting from remeasurement of carrying value of interest in Astrum to fair value in the amount of USD 105,382 recorded under ‘*Net gain/(loss) on loss of control in subsidiaries*’ in the statement of comprehensive income.

The management allocated the fair value of 71.19% in Astrum to the Group’s share of Astrum’s assets and liabilities as follows:

	<u>Fair value</u>
Property and equipment	97
Intangible assets	49,774
Investments in associates	41,818
Other non-current assets	43
Cash and cash equivalents	1,867
Trade and other receivables	657
Other current assets	128
Deferred tax liabilities	(11,525)
Other current liabilities	(2,303)
Total share in net assets	<u>80,556</u>
Goodwill as part of equity method investment	<u>47,080</u>

The intangible assets of Astrum are mainly represented by MMORPGs to be amortised over remaining useful lives ranging from 3 to 7 years.

6.1.10 Port.ru

Port.ru, Inc. (“Port.ru”) is a leading provider of Russian-language Internet services to consumers in Russia and abroad. It was incorporated in the state of Delaware in the United States of America on April 16, 1999, but has been operating from facilities in Russia via its Russian subsidiaries. Port.ru operates a leading Russian web portal www.mail.ru. The Company owned 41.53% of Port.ru, which entitled the Company to exercise significant influence over Port.ru as of January 1, 2007. Accordingly, the Group was accounting for the investment as an associate.

In October 2007, the Group sold 5.23% of Port.ru for an aggregate cash consideration of USD 50,000. The Group recognised a gain of USD 20,773 on the sale. The gain has been included in ‘*Net gain/(loss) on disposal of shares in strategic associates*’ in the statement of comprehensive income.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.1.11 Molotok

Molotok Holdings Limited (“Molotok”), the holder of 100% in OOO “Molotok”, a Russian legal entity, which provides online auction services to Internet customers through its www.molotok.ru website, was incorporated in the Republic of Cyprus on August 26, 2005. The Company owned 63.3% of Molotok, which entitled the Company to control Molotok as of January 1, 2007. Accordingly, the Group was accounting for the investment as a subsidiary.

In October 2007, Molotok issued additional shares to the Company for a cash consideration of USD 2,072 and to other shareholders for (i) a cash consideration of USD 2,697 and (ii) an online auction system software license valued at USD 17,400 using the relief from royalty method. Additionally, as part of the arrangement, the Group issued written call options, valued at USD 3,145, to another shareholder of Molotok. The written call options are discussed in more detail under 28.7.1. As a result of the transaction, the Group’s share in Molotok decreased to 44.34%, and the Group lost control over Molotok. Accordingly, the group accounted for Molotok under the equity method starting from October 2007.

The 44.34% equity interest in Molotok retained by the Group was valued at USD 31,596 as of October 2007. Net assets of the subsidiary as of the date of disposal attributable to the Group were USD 1,525, including goodwill of USD 1,304. In addition, the accumulated currency translation reserve in the amount of USD 78 was fully recycled to profit or loss upon loss of control in Molotok.

Upon loss of control in Molotok, the Group recognised a gain resulting from remeasurement of carrying value of interest in Molotok to fair value in the amount of USD 24,932 recorded under ‘*Net gain/ (loss) on loss of control in subsidiaries*’ in the statement of comprehensive income.

The management allocated the fair value of 44.34% in Molotok to the Group’s share of Molotok’s assets and liabilities as follows:

	Fair value
Intangible assets	10,363
Other non-current assets	33
Accounts receivable	37
Cash and cash equivalents	103
Other current assets	18
Deferred tax liability	(2,487)
Other current liabilities	(38)
Total share in net assets	<u>8,029</u>
Goodwill as part of equity method investment	<u>23,567</u>

The intangible assets of Molotok are mainly represented by brand, customer relationships and software license to be amortised over remaining useful lives of 10 years, 5 years and 20 years respectively.

6.2 Acquisitions and disposals of 2008

6.2.1 Port.ru and Molotok

In May 2008, the Company exercised its options to acquire 249,404 shares (0.54%) in Port.ru, and thereby increased the Group’s shareholding in Port.ru to 36.84%. The consideration transferred by the Group exceeded the acquired share in Port.ru’s net assets by USD 5,148, which excess was allocated to goodwill as part of equity method investment.

On December 12, 2008, the Company acquired an additional 18.17% of Port.ru, thereby increasing the Group’s ownership in Port.ru to 55.01%, which enabled the Group to control Port.ru. The consideration transferred by the Company included:

- Cash paid in the amount of USD 101,947, net of cash received in the amount of USD 8,995 for the sale of 1.12% of Port.ru as part of the transaction;

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.2.1 Port.ru and Molotok (Continued)

- 2,484 ordinary shares (4.6%) of the Company valued at USD 37,850; and
- 30.43% of Molotok, valued at USD 20,538, transferred to Port.ru.

Additionally, as part of the same arrangement:

- the Company sold 13.34% of Molotok to a third party for a cash consideration of USD 6,937, as a result of the third party's exercise of call options to acquire shares of Molotok with a fair value of USD 2,068; and
- Port.ru acquired 19.43% of Molotok from another shareholder for an aggregate consideration of USD 13,118 consisting of a cash portion of USD 11,793 and 0.17% of Port.ru valued at USD 1,325.

The fair values of the identifiable assets and liabilities of Port.ru as at the date of acquisition were as follows:

	<u>Fair value</u>
Assets	
Strategic associates (Note 10)	57,213
Property and equipment (Note 8)	6,020
Intangible assets (Note 7)	111,359
Other non-current assets	810
Accounts receivable	14,455
Short-term investments	35,875
Cash and cash equivalents	13,658
Other current assets	2,992
Total assets	<u>242,382</u>
Liabilities	
Long-term taxes payable	610
Deferred tax liabilities	26,748
Accounts payable	1,516
Accrued expenses	3,021
Deferred revenue	207
Income tax payable	3,022
Other taxes payable	5,280
Total liabilities	<u>40,404</u>
Total net assets	<u>201,978</u>

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.2.1 Port.ru and Molotok (Continued)

Goodwill on the transaction was calculated as the excess of:

(a) the aggregate of	
i) the consideration transferred by the Group measured at fair values:	
Cash paid	110,942
Shares of the Company	37,850
Investment in Molotok transferred to Port.ru by the Company	20,538
Less: Cash received for shares sold as part of the transaction	<u>(8,995)</u>
Consideration transferred by the Group	160,335
ii) the amount of non-controlling interest in Port.ru measured in accordance with IFRS 3R	90,867
iii) the acquisition date fair value of the Group's previously held equity interest in Port.ru (36.84%)	315,461
over	
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3R	<u>201,978</u>
Goodwill (Note 11)	<u>364,685</u>

The Group has elected to measure the non-controlling interest in Port.ru as a proportionate share of the net assets of Port.ru.

The Group recognised a gain of USD 91,943 as a result of remeasuring to fair value the 36.84% equity interest in Port.ru held by the Group immediately prior to the business combination. The gain has been included in '*Net gain on acquisition of control in strategic associates*' in the statement of comprehensive income.

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

The intangible assets of Port.ru mainly consist of brand and customer relationships to be amortised over the remaining useful lives of 3 to 10 years.

Since the acquisition of Port.ru was consummated in December 2008, the Company started consolidating the results of operation of Port.ru from January 1, 2009 due to proximity of IFRS reporting date to the date of acquisition. If the combination had taken place at the beginning of the year, the Group's revenue would have been USD 63,210 and net profit would have been USD 24,191.

The Group has incurred USD 574 in transaction costs in connection with the acquisition of Port.ru. The transaction costs have been expensed and included in '*Selling, general and administrative expenses*'.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	(110,942)
Cash acquired with the subsidiary (included in cash flows from investing activities)	<u>13,658</u>
Cash paid for acquisition of a subsidiary, net of cash acquired	(97,284)
Transaction costs paid (included in cash flows from operating activities)	(574)
Cash received for 1.12% sold (included in cash flows from investing activities)	<u>8,995</u>
Net cash flow on acquisition	<u>(88,863)</u>

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.2.2 Newton Rose

In May-December 2008, the Group acquired an additional 12.34% of Newton Rose for an aggregate consideration of USD 10,995, consisting of a cash portion of USD 6,684 and 283 shares (0.52%) of the Company valued at USD 4,311.

The Group has allocated USD 10,589 to goodwill as part of equity method investment, USD 1,487 to other intangible assets as part of the equity method investment and USD 1,082 to the Group's share of other net liabilities of Newton Rose.

6.2.3 Forticom group of companies

The Forticom group of companies ("Forticom") operates the leading social networks in the Baltic countries www.one.lv and www.one.lt, as well as the leading social network in Poland www.nasza-klasa.pl and holds an equity method investment in Odnoklassniki.

The Group owned 15.48% in Forticom as of January 1, 2008, was not able to exert significant influence over Forticom and accordingly accounted for its investment in Forticom as an available-for-sale financial asset.

In January 2008, the Group acquired an additional 3.91% of Forticom for a cash consideration of USD 13,441, thereby increasing its ownership share in Forticom to 19.39%. As part of the transaction, the Group obtained the right to nominate one director to the board of directors of Forticom and thus started exerting significant influence over Forticom. Accordingly, the investment in Forticom is accounted for under the equity method starting from January 2008.

In May-July 2008, the Group acquired an additional 20.36% in Forticom for a cash consideration of USD 104,214.

In December 2008, the Group acquired an additional 32.52% for an aggregate consideration of USD 78,375 consisting of a cash portion of USD 40,570 and 2,481 shares (4.6%) of the Company valued at USD 37,804.

The consideration transferred by the Group and the cost of the available-for-sale investment as of the date of the transaction, in the case of acquisition of significant influence in Forticom in January 2008, was allocated to the acquired share in the assets and liabilities of Forticom as follows:

	January 2008	May-July 2008	December 2008
Cash paid	13,441	104,214	40,570
Cost of AFS investment	14,448	—	—
2,481 ordinary shares of the Company	—	—	37,805
Total to be allocated	27,889	104,214	78,375
Identifiable intangible assets	19	25	143
Property and equipment, net	165	155	731
Investments in associates	15,916	4,491	26,053
Other non-current assets	—	—	3
Current assets	644	5,329	2,512
Non-current liabilities	(14)	(17)	(116)
Current liabilities	(211)	(284)	(2,956)
Total share in net assets acquired	16,519	9,699	26,370
Goodwill as part of equity method investment	11,370	94,515	52,005

Although the Group's shareholding in Forticom increased to 72.27% in December 2008, the Group did not acquire control over Forticom because other shareholders retained significant participating rights

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.2.3 Forticom group of companies (Continued)

per the shareholders' agreement of Forticom requiring at least 85% of votes on certain significant operating decisions.

As part of the December 2008 transaction, Forticom issued options to buy 5,889 Class B non-voting shares to Forticom shareholders other than the Group. Class B shares are in all respects identical to ordinary shares, except that Class B shares are not entitled to vote. The 5,889 Class B shares that are potentially issuable under the options thus represent a 2.61% economic interest in Forticom. The options, accounted for by Forticom as a financial liability in accordance with IAS 39, have an exercise price of USD 1 and vest ratably in three equal tranches on January 1, 2009, 2010 and 2011. The fair value of the financial liability was estimated at USD 3,056 using the Black-Scholes-Merton formula.

6.2.4 Astrum

In February 2008, Astrum acquired an additional stake in its associate in exchange for 5% of Astrum's shares. As a result of the transaction, the Group's ownership in Astrum decreased to 67.63%. The transaction was accounted for by the Group as a deemed disposal of 3.56% in Astrum, which was the effect of dilution on the Group.

In February-May 2008, the Group contributed USD 8,800 in cash to the capital of Astrum.

In June 2008, the Group acquired 0.39% in Astrum for a cash consideration of USD 1,500. The consideration transferred by the Group exceeded the acquired share in Astrum's net assets by USD 919, which excess was allocated to goodwill as part of equity method investment.

6.3 Acquisitions and disposals of 2009

6.3.1 Newton Rose

In February 2009, the Group acquired an additional 54.61% of voting shares of Newton Rose, thereby increasing its ownership to 90.62%, which enabled the Group to control Newton Rose. The aggregate consideration of USD 37,854 transferred by the Company included:

- cash consideration of USD 10,366; and
- ordinary shares (2.33%) of the Company valued at USD 24,506.

Additionally, as part of the same arrangement, the Company issued:

- A put option to sell an aggregate of 4,834 shares (approximately 3.49%) of Newton Rose at variable exercise price determined as each holder's percentage shareholding in Newton Rose multiplied by fifteen multiplied by Adjusted Distributable Profit (as discussed in Note 28), valued at USD 1,126; and
- The right to convert 8,167 shares of Newton Rose into shares of the Company at the conversion rate of 0.02651 shares of the Company per one Newton Rose share exercisable during the fourth quarter of 2011, valued at USD 1,856.

The fair value of the conversion right was determined using the binomial model with the following inputs:

Share price (USD)	410.7
Expected volatility	69.73%
Option life (years)	2.87
Expected dividends, USD per share	0 in 2009, 22.1 in 2010
Risk-free interest rate	1.17%

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.3.1 Newton Rose (Continued)

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

	<u>Fair value</u>
Property and equipment (Note 8)	1,107
Intangible assets (Note 7)	6,992
Other investments	543
Deferred tax assets	562
Inventory	9
Income tax receivable	786
Trade and other receivables	2,084
Advances	427
Cash	<u>1,113</u>
Total assets:	13,624
Deferred tax liabilities	693
Other long term liabilities	84
Loans	107
Deferred income	7,688
Trade and other payables	2,126
Provisions	421
Income tax payable	<u>459</u>
Total liabilities:	11,578
Total net assets	<u>2,045</u>

Goodwill on the acquisition was calculated as the excess of:

(a) the aggregate of

i) the consideration transferred by the Group measured at fair values:

Cash paid	10,366
Shares of the Company	24,506
Right to exchange shares of Newton Rose for ordinary shares of the Company . .	1,856
Written option to sell to the Company 3.49% of Newton Rose	<u>1,126</u>

Consideration transferred by the Group **37,854**

ii) the amount of non-controlling interest in Newton Rose measured in accordance with IFRS 3R 565

iii) the acquisition date fair value of the Group's previously held equity interest in Newton Rose (36.01%) 27,333

over

(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3R 2,045

Goodwill (Note 11) **63,707**

The Group has elected to measure the non-controlling interest in Newton Rose as a proportionate share of the net assets of Newton Rose.

The Group recognised a gain of USD 2,300 as a result of remeasuring to fair value the 36.01% equity interest in Newton Rose held by the Group immediately prior to the business combination. The gain has

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.3.1 Newton Rose (Continued)

been included in *'Net gain on acquisition of control in strategic associates'* in the statement of comprehensive income.

Goodwill is mainly attributable to Newton Rose's presence on online recruiting market in Russia and potential to increase it in future. None of the goodwill is expected to be deductible for income tax purposes.

The intangible assets of Newton Rose mainly consist of brands, customer relationships and software development costs to be amortised over remaining useful lives of 8 years, 8 years and 3.1 years respectively.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	10,365
Cash acquired (included in cash flows from investing activities)	<u>(1,113)</u>
Net cash flow on acquisition	<u>9,252</u>

In July 2009, the Group acquired an additional 0.68% of Newton Rose, thereby increasing its ownership to 91.30%. As a consideration, the company issued 25 ordinary shares valued at USD 661. The carrying value of the share of non-controlling interest acquired at that date was insignificant. The difference of USD 660 between the consideration and the carrying value of the interest acquired was recognised in share premium within equity.

6.3.2 Astrum

As of March 24, 2009, the Group owned 68.02% of Astrum. However, the Group did not control Astrum because of restrictions set out in the shareholders' agreement of Astrum requiring at least 75% of votes on certain significant operating decisions. Accordingly, Astrum was considered an associate of the Group and the investment was accounted for by the Group under the equity method.

On March 25, 2009, the Company acquired control over Astrum via an acquisition of 4.35% from other shareholders for a cash consideration of USD 5,934 and a subscription to 0.76% newly issued shares of Astrum for a cash consideration of USD 5,001. As a result of the transactions, the Group's ownership in Astrum increased to 73.13%. As part of the arrangements, the other shareholders agreed to have the shareholders' agreement amended so as to remove the restrictions that previously precluded the Group from controlling Astrum for the consideration of USD 1,500. Additionally, as part of the transactions, some of the call options previously issued to the Company by Astrum valued as at the date of the transaction at USD 2,281 were cancelled.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.3.2 Astrum (Continued)

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

	<u>Fair value</u>
Intangible assets (Note 7)	93,075
Property and equipment (Note 8)	532
Investments in associates (Note 10)	45,419
Deferred tax asset	378
Other non-current assets	182
Trade accounts receivable, net	891
Prepaid expenses	78
Cash and cash equivalents	4,656
Other current assets	1,321
Total assets	146,532
Deferred tax liabilities	16,257
Financial liabilities	6,510
Accounts payable	1,049
Other taxes payable	1,212
Deferred revenue	3,696
Other payables and accrued expenses	2,162
Total liabilities	30,886
Net assets	115,646

Goodwill on the transaction was calculated as the excess of:

(a) the aggregate of	
i) the consideration transferred by the Group measured at fair values:	
Cash paid	12,434
Cancellation of purchased call options	2,281
ii) the amount of non-controlling interest in Astrum measured in accordance with IFRS 3R	30,750
iii) the acquisition date fair value of the Group's previously held equity interest in Astrum (68.02%)	119,908
over	
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3R	115,648
Goodwill (Note 11)	49,725

The Group has elected to measure the non-controlling interest in Astrum as a proportionate share of the net assets of Astrum.

The Group recognised a gain of USD 21,676 as a result of remeasuring to fair value the 68.02% equity interest in Astrum held by the Group immediately prior to the business combination. The gain has been included in 'Net gain on acquisition of control in strategic associates' in the statement of comprehensive income.

Goodwill is mainly attributable to the growth potential of Russian entertainment and paid Internet services markets, as well as to the potential of Astrum to further enhance its position in those markets. None of the goodwill recognised is expected to be deductible for income tax purposes.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.3.2 Astrum (Continued)

The intangible assets of Astrum mainly represent MMORPGs to be amortised over remaining useful lives of 3 to 9 years.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	12,434
Cash acquired (included in cash flows from investing activities)	<u>(4,656)</u>
Net cash flow on acquisition	<u>7,778</u>

6.3.3 OGH

In April 2009 the Group acquired control over OGH by virtue of contract which removed the restrictions related to voting on key operating decisions and terminated the shareholders' agreement among the shareholders of OGH. To achieve that, the Group gave up some shares in OGH and decreased its ownership to 66.02% (from 68% that it held prior to acquisition).

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

	<u>Fair value</u>
Property and equipment (Note 8)	182
Intangible assets (Note 7)	39,955
Trade accounts receivable	394
Cash and cash equivalents	947
Other current assets	627
Other current liabilities	(4,130)
Deferred tax liability	<u>(5,535)</u>
Total net assets	<u>32,440</u>

Intangible assets relate to MMORPG games that are to be amortised over the period of 3 to 5 years.

Goodwill on the transaction was calculated as the excess of:

(a) the aggregate of	
i) the consideration transferred measured at fair value	—
ii) the amount of any non-controlling interest in the acquiree measured in accordance with IFRS 3R	11,023
iii) in a business combination achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree of 66.02%	33,002
over	
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3(R)	<u>32,440</u>
Goodwill (Note 11)	<u>11,585</u>

Goodwill is mainly attributable to the OGH's Russian online games market share and a potential to increase that share in the foreseeable future. None of the goodwill is expected to be deductible for income tax purposes.

At the date of the acquisition, the cost of previously held equity interest in OGH was revalued to 33,002 with a loss on acquisition of control in strategic associates in the amount of 9,150 recorded under

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.3.3 OGH (Continued)

'Net gain on acquisition of control in strategic associates' in the consolidated statement of comprehensive income.

6.3.4 Port.ru

In February 2009, the Company acquired an additional 0.07% in Port.ru for a cash consideration of USD 541. The acquisition of the non-controlling interest was accounted for by the Group through equity. The carrying value of the non-controlling interest was USD 106. The difference of USD 435 between the consideration and the carrying value of the interest acquired was recognised under *'Share premium'* in the consolidated statement in financial position.

6.3.5 Port.ru/Astrum/Mail.ru Internet NV

In November 2009, the Company and other shareholders of Astrum and Port.ru carried out a merger of the business of Astrum and Port.ru, whereby the Group effectively reduced its interest in the combined Port.ru and Astrum entity ("Mail.ru Internet NV") to 52.99% in exchange for a cash consideration of USD 62,656, but retained control over both Port.ru and Astrum. As part of the same transaction, a non-controlling interest of 0.02% in Port.ru was converted to rights to receive cash, which resulted in a liability of USD 391 recognised by the Group. The arrangement was accounted for the Group through equity and resulted in (a) a net aggregate increase of USD 45,164 in the equity attributable to equity holders of the Company, including (i) a decrease in other comprehensive income of USD 3,422 due to re-attribution of a proportionate share of accumulated foreign currency translation adjustment to non-controlling interest and (ii) an increase of USD 48,585 in *'Share premium'*; and (b) a net aggregate increase of USD 17,102 in equity attributable to non-controlling interest.

6.3.6 OGH/Mail.ru Internet NV

In December 2009, the Company acquired the entire outstanding non-controlling interest (33.98%) in OGH for a consideration consisting of USD 2,937 in cash and Class B shares of the Company representing approximately 1.25% in the Company. The Company immediately contributed the acquired non-controlling interest in OGH to the capital of Mail.ru Internet NV exchange for approximately 1.02% of Mail.ru Internet NV. As part of the same transaction, the Company simultaneously sold a 0.95% non-controlling interest in Mail.ru Internet NV for a cash consideration of USD 16,423. The entire transaction, including the acquisition, exchange and sale of non-controlling interest was accounted for by the Group through equity and resulted in (a) a net aggregate increase of USD 19,725 in the equity attributable to equity holders of the Company, consisting of (i) an increase in other comprehensive income of USD 156 due to re-attribution of a proportionate share of accumulated foreign currency translation adjustment to non-controlling interest and (ii) an increase of USD 19,569 in *'Share premium'*; and (b) a net aggregate decrease of USD 6,239 in equity attributable to non-controlling interest.

6.3.7 Forticom/Odnoklassniki

In December 2008, the Group entered into an arrangement whereby the Group agreed to transfer to Forticom 28.47% in Odnoklassniki in exchange for an additional 4.03% economic interest of Forticom (3.97% of voting power). The transfer of Odnoklassniki shares was conditional on an approval by Federal Antimonopoly Service of Russia ("FAS"), which had not been received as at December 31, 2008. The outcome of the FAS approval process being considered highly uncertain, the transaction was not accounted for until officially cleared by FAS.

In April 2009, FAS granted its approval with respect to the acquisition by the Group of ordinary shares of Forticom representing an additional 4.03% of economic interest in Forticom, the related shares were transferred and the acquisition was consummated on the terms and conditions set out in the share purchase agreement entered into in December 2008. The acquisition resulted in the Group holding 76.24% of voting rights and 75.67% of economic interests in Forticom but did not enable the Group to

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.3.7 Forticom/Odnoklassniki (Continued)

control Forticom due to the non-controlling shareholders' participating rights set out in the shareholders' agreement of Forticom requiring at least 85% of votes on certain significant operating decisions. As a result of the transaction, the share of Forticom in Odnoklassniki increased to 64.73%, but this did not enable Forticom to control Odnoklassniki due to the non-controlling shareholders' veto rights set out in the shareholders' agreement of Odnoklassniki.

The investment in Odnoklassniki was valued at USD 129,908 as of the date of the FAS approval. Accordingly, the Group de-recognised its investment in Odnoklassniki as of that date and recognised an additional investment in Forticom in that amount. The management allocated USD 98,296 to the Group's share of Forticom's equity method investment in Odnoklassniki, USD 29,259 to goodwill as part of the equity method investment and USD 2,353 to the Group's share in other net assets of Forticom. The Group recognised a gain of USD 113,630 in connection with the disposal of Odnoklassniki resulting from remeasurement of carrying value of interest in Odnoklassniki to fair value in April 2009. The gain has been included in '*Net gain/(loss) on disposal of shares in strategic associates*' in the statement of comprehensive income.

In January and October 2009, other shareholders of Forticom exercised options over the shares of Forticom, which resulted in a decrease of 1.21% in the Group's share of Forticom. The Group accounted for the exercise of the options as a deemed disposal.

6.3.8 All U Need

In September 2009, the Group disposed of the entire interest it held through Newton Rose in All U Need to a third party for a cash consideration of USD 5,644. The net assets of the subsidiary as of the date of disposal attributable to the Group were USD 12,045, including goodwill of USD 11,611. In addition, the currency translation reserve attributable to ALL U Need in the amount of USD 679 was reclassified to profit and loss.

As a result of the disposal the Group recognised a loss in the amount of USD 7,080 recorded under '*Net gain/(loss) on loss of control in subsidiaries*' in the statement of comprehensive income.

The cash flows on disposal were as follows:

Cash consideration received	5,644
Cash and cash equivalents disposed of	<u>(437)</u>
Net cash inflow	<u>5,207</u>

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.3.9 Summary of the effects of business combinations in 2009 on the Group's revenue and net income

The effects of the business combinations carried out by the Group in 2009 on the Group's revenue and net income are summarised as follows:

	<u>Revenue</u>	<u>Net income</u>
The Group, excluding entities acquired in 2009	83,671	197,902
Contributed by acquired entities:		
Newton Rose, March-December	19,662	(9,410)
Astrum (excluding OGH), April-December	28,533	(25,326)
OGH, May-December	16,450	2,534
Total contributed by acquired entities	<u>64,645</u>	<u>(32,202)</u>
The Group	148,316	165,700
Effect of business combinations as if occurring on January 1, 2009		
Astrum	6,869	8,798
OGH	4,109	1,330
Total effect of business combinations as if occurring on January 1, 2009	<u>10,978</u>	<u>10,128</u>
The Group, as if all business combinations occurred on January 1, 2009	<u>159,294</u>	<u>175,828</u>

If the acquisition of Newton Rose had occurred on January 1, 2009, it would not have had significant impact on the revenue or net income of the Group.

6.4 Summary of selected financial statement items related to acquisitions and disposals of shares in associates and subsidiaries

6.4.1 Net gain on acquisition of control in strategic associates

Net gain on acquisition of control in strategic associates is summarised as follows:

<u>Subsidiary</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Port.ru	—	91,943	—
Astrum	21,676	—	—
Newton Rose	2,300	—	—
OGH	(9,150)	—	—
Total	<u>14,826</u>	<u>91,943</u>	<u>—</u>

6.4.2 Net gain/(loss) on disposal of shares in strategic associates

Net gain/(loss) on disposal of shares in strategic associates is summarised as follows:

<u>Associate</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Port.ru	—	—	20,773
Molotok	—	(381)	—
Astrum	—	330	—
Odnoklassniki	113,630	—	—
Forticom	(576)	—	—
Newton Rose	—	—	(323)
OGH	—	—	(6)
Total	<u>113,054</u>	<u>(51)</u>	<u>20,444</u>

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.4.3 Net gain/(loss) on loss of control in subsidiaries

Net gain/(loss) on loss of control in subsidiaries is summarised as follows:

<u>Subsidiary</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
E-Port	—	—	37,525
Molotok	—	—	24,932
Astrum	—	—	105,382
All U Need	(7,080)	—	—
Total	(7,080)	—	167,839

6.4.4 Cash paid for non-controlling interests in subsidiaries

Cash paid for non-controlling interests in subsidiaries is summarised as follows:

<u>Subsidiary</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Port.ru	541	—	—
OGH	2,937	—	—
Total	3,478	—	—

6.4.5 Cash paid for acquisitions of subsidiaries, net of cash acquired

Cash paid for acquisitions of subsidiaries, net of cash acquired, is summarised as follows:

<u>Subsidiary</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Port.ru	—	97,284	—
Astrum	7,778	—	—
Newton Rose	9,252	—	—
OGH	(947)	—	—
Other	(200)	—	—
Total	15,883	97,284	—

6.4.6 Proceeds from disposal of non-controlling interests in subsidiaries

Proceeds from disposal of non-controlling interests in subsidiaries is summarised as follows:

<u>Subsidiary</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Port.ru-Astrum merger, November 2009	62,656	—	—
Sale of non-controlling interest in Mail.ru Internet N.V., December 2009	16,423	—	—
Total	79,079	—	—

6.4.7 Proceeds from disposal of shares in strategic associates

Proceeds from disposal of shares in strategic associates is summarised as follows:

<u>Associate</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Port.ru	—	8,995	50,000
Newton Rose	—	—	100
Molotok	—	6,937	—
Total	—	15,932	50,100

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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

6.4.8 Proceeds from disposal of subsidiaries, net of cash disposed of Proceeds from disposal of subsidiaries, net of cash disposed of, is summarised as follows:

<u>Subsidiary</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
E-Port	—	—	(12,163)
All U Need	5,207	—	—
Molotok	—	—	(231)
Total	<u>5,207</u>	<u>—</u>	<u>(12,394)</u>

7 Intangible assets

	<u>Goodwill</u>	<u>Trade mark</u>	<u>Customer base</u>	<u>Game software and software development costs</u>	<u>Other software, licenses and other</u>	<u>Total</u>
Cost						
At January 1, 2007	15,430	—	—	—	29	15,459
Additions	—	—	—	1,246	25	1,271
Disposals	—	—	—	(1,246)	—	(1,246)
Disposals due to disposals of subsidiaries (Note 6)	(15,779)	—	—	—	(50)	(15,829)
Translation adjustment	349	—	—	—	(4)	345
At December 31, 2007	—	—	—	—	0	0
Additions due to acquisition of subsidiaries (Note 6)	364,685	82,700	25,159	—	3,500	476,044
Translation adjustment	(17,990)	(4,080)	(1,241)	—	(173)	(23,484)
At December 31, 2008	346,695	78,620	23,918	—	3,327	452,560
Additions	—	2	660	8,243	4,698	13,603
Additions due to acquisition of subsidiaries (Note 6)	125,017	4,054	949	132,495	2,524	265,039
Disposals	—	—	—	(230)	(134)	(364)
Disposals due to disposals of subsidiaries (Note 6)	(11,611)	(1,112)	—	—	—	(12,723)
Translation adjustment	6,383	(1,606)	(509)	15,921	404	20,593
At December 31, 2009	466,484	79,958	25,018	156,429	10,819	738,708
Accumulated amortisation and impairment						
At January 1, 2007	—	—	—	—	(5)	(5)
Charge for the year	—	—	—	—	(3)	(3)
Disposals	—	—	—	—	—	—
Disposals due to disposals of subsidiaries (Note 6)	—	—	—	—	8	8
Translation adjustment	—	—	—	—	(0)	(0)
At December 31, 2007	—	—	—	—	—	—
At December 31, 2008	—	—	—	—	—	—
Charge for the year	—	(7,746)	(3,179)	(12,228)	(2,859)	(26,012)
Disposals	—	—	—	205	108	313
Impairment	—	—	—	(1,750)	—	(1,750)
Disposals due to disposals of subsidiaries (Note 6)	—	83	—	—	—	83
Translation adjustment	—	(365)	(155)	(307)	(50)	(877)
At December 31, 2009	—	(8,028)	(3,334)	(14,080)	(2,801)	(28,243)
Net book value						
At January 1, 2007	15,430	—	—	—	24	15,454
At December 31, 2007	—	—	—	—	—	—
At December 31, 2008	346,695	78,620	23,918	—	3,327	452,560
At December 31, 2009	466,484	71,930	21,684	142,349	8,018	710,465

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

7 Intangible assets (Continued)

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

Games represent separable cash-generating units and the analysis of impairment was performed of the level of each game, where either impairment was previously recognised or current operating performance was below the original forecasts. The analysis included the comparison of the value in use determined based on discounted future cash flows to the carrying amount. The value in use calculation uses cash flow projections from financial budgets approved by senior management covering a ten-year period, which is the horizon typically used by the Group's management for strategic planning purposes.

Based on such analysis in 2009 the Group recorded an impairment loss in the amount of USD 1,750 related to game software. The impairment entirely belongs to the Mail.ru operating segment.

The principal factors leading to the impairment losses recorded by the Group in 2009 were reductions in the projected future cash flows of the acquired 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, 2009. Although the Group continues to project future long-term growth in cash flows, such growth is lower for the impaired games than was estimated at the time the businesses 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 cash generating units.

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.

The major assumptions used in the DCF models are presented in Note 11.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

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, 2007	317	—	479	1	45	842
Additions	60	—	—	—	—	60
Disposals	—	—	—	(1)	—	(1)
Disposals due to disposals of subsidiaries (Note 6)	(384)	—	(554)	—	(46)	(984)
Translation adjustment	7	—	75	0	1	83
At December 31, 2007	—	—	—	—	—	—
Additions due to acquisition of subsidiaries (Note 6)	4,817	783	—	—	421	6,021
Translation adjustment	(238)	(39)	—	—	(21)	(298)
At December 31, 2008	4,579	744	—	—	400	5,723
Additions due to acquisition of subsidiaries (Note 6)	1,053	438	317	13	—	1,821
Additions	4,201	60	358	205	—	4,824
Transfers	220	—	—	(220)	—	—
Disposals	(339)	—	(3)	—	—	(342)
Disposals due to disposals of subsidiaries (Note 6)	(323)	(61)	(38)	—	—	(422)
Translation adjustment	314	44	45	2	—	405
Balance at 31 December 2009 . . .	9,705	1,225	679	—	400	12,009
Accumulated depreciation and impairment						
At January 1, 2007	(28)	—	(271)	—	(16)	(315)
Charge for the year	(34)	—	(60)	—	(5)	(99)
Disposals	—	—	—	—	—	—
Disposals due to disposals of subsidiaries (Note 6)	63	—	336	—	21	420
Translation adjustment	(1)	—	(5)	—	—	(6)
At December 31, 2007	—	—	—	—	—	—
At December 31, 2008	—	—	—	—	—	—
Charge for the year	(3,082)	(424)	(166)	—	—	(3,672)
Disposals	234	—	—	—	—	234
Disposals due to disposals of subsidiaries (Note 6)	178	7	—	—	—	185
Translation adjustment	(190)	(4)	(19)	—	—	(213)
Balance at 31 December 2009 . . .	(2,860)	(421)	(185)	—	—	(3,466)
Net book value						
At January 1, 2007	289	—	208	1	29	527
At December 31, 2007	—	—	—	—	—	—
At December 31, 2008	4,579	744	—	—	400	5,723
At December 31, 2009	6,845	804	494	—	400	8,543

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

9 Consolidated subsidiaries

These consolidated financial statements include the assets, liabilities and financial results of the Company and its subsidiaries, whose main activity is providing Russian-language Internet services. The Company did not have any significant subsidiaries as of December 31, 2007. The significant subsidiaries as at December 31, 2009, 2008 and January 1, 2007 are listed below:

Subsidiary	Main activity	December 31, 2009	December 31, 2008	January 1, 2007
Lexton Holdings Limited	Holding entity	N/A	N/A	71.7%
ZAO Avtokard Holding	Electronic payment processing	N/A	N/A	71.7%
ZAO E-Port	Electronic payment processing	N/A	N/A	71.7%
Eksimarket LLC	Electronic payment processing	N/A	N/A	71.7%
Molotok Holdings Limited . . .	Holding entity	N/A	N/A	63.3%
Molotok LLC	E-commerce	N/A	N/A	63.3%
Mail.ru Internet N.V. (Netherlands)	Holding entity	53.0%	N/A	N/A
Port.ru Inc. (USA)	Holding entity	53.0%	55.0%	N/A
NetBridge Limited (Cyprus) . .	Holding entity	53.0%	55.0%	N/A
Mail.Ru, LLC (Russia)	Online portal services	53.0%	55.0%	N/A
Mail.Ru, LLC (Ukraine)	Online portal services	53.0%	55.0%	N/A
Money.Mail.Ru, LLC (Russia) .	Internet payment system	52.5%	55.0%	N/A
New Trinity Investment, LLC (Russia)	Online portal services	53.0%	55.0%	N/A
Port.ru Msk, LLC (Russia) . . .	Online portal services	53.0%	55.0%	N/A
Astrum Online Entertainment Limited (BVI) (previously named DST Entertainment Limited)	Holding entity	N/A	100.0%	100.0%
Benstar Limited (BVI)	Holding entity	53.0%	N/A	N/A
Nessly Holdings Limited (Cyprus)	Holding entity	53.0%	N/A	N/A
Astrum Online Entertainment, GmbH (Germany)	Development and support of online games	53.0%	N/A	N/A
Astrum Nival, LLC (Russia) . .	Development and support of online games	53.0%	N/A	N/A
Dark Joker, LLC (Ukraine) . .	Development and support of online games	53.0%	N/A	N/A
Express Gold, LLC (Russia) . .	Internet payment system	39.8%	N/A	N/A
IT Territory Nord, LLC (Russia)	Development and support of online games	27.1%	N/A	N/A
IT Territory, LLC (Russia) . . .	Development and support of online games	53.0%	N/A	N/A
Online Games Holding Limited (BVI)	Development and support of online games	53.0%	N/A	N/A
Time Zero, LLC (Russia)	Development and support of online games	53.0%	N/A	N/A
Newton Rose Limited (BVI) . .	Holding company	91.3%	N/A	N/A
Headhunter LLC (Russia) . . .	Online recruiting services	91.3%	N/A	N/A
Headhunter LLC (Ukraine) . .	Online recruiting services	46.6%	N/A	N/A
Headhunter KZ LLC (Kazakhstan)	Online recruiting services	55.7%	N/A	N/A
Metajob LLC (Russia)	Online recruiting services	46.6%	N/A	N/A
CV Keskus AS (Estonia)	Online recruiting services	91.3%	N/A	N/A

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 holds over 50% in some of its strategic associates, it accounts for these entities under the equity method based on the provisions of the respective shareholders' agreements containing significant participating rights of other shareholders.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

10 Investments in strategic associates (Continued)

Investments in strategic associates at December 31 2009, 2008 and 2007 and January 1, 2007 comprised the following:

Associate	Main activity	Voting shares				Carrying value			
		December 31, 2009	December 31, 2008	December 31, 2007	January 1, 2007	December 31, 2009	December 31, 2008	December 31, 2007	January 1, 2007
OE Investments Limited (Cyprus) and subsidiaries	Provides electronic payment processing services via subsidiaries in Russia, Armenia, Georgia, Kazakhstan, Tajikistan, Uzbekistan, Belarus, Moldova and China	25.09%	25.09%	25.09%	N/A	42,246	43,649	53,365	N/A
Newton Rose Limited (BVI) and subsidiaries	Provides online recruitment services to corporate and individual customers via subsidiaries in Russia, Ukraine, Kazakhstan, the Baltic countries and Israel	N/A	36.01%	23.67%	N/A	N/A	22,414	15,206	N/A
Port.ru (USA), including associates and subsidiaries mainly located in Russia	Provides, via Russian subsidiaries, Russian-language Internet services to consumers in Russia and abroad	N/A	N/A	36.31%	41.53%	N/A	N/A	219,394	222,277
Astrum Online Entertainment Limited (BVI), including subsidiaries and associates	Provides online entertainment services via subsidiaries and associates in Russia and Ukraine	N/A	68.02%	71.19%	N/A	N/A	80,171	116,789	N/A
Territoriya Informatsionnykh Tekhnologiy LLC	Provides online entertainment services	N/A	N/A	N/A	49.99%	N/A	N/A	N/A	1,935
VK.com (formerly Doraview Limited) (BVI) and subsidiaries ("Doraview")	Develops and maintains, via Russian subsidiaries, social networking web sites (www.vkontakte.ru, www.vkadre.ru, www.vstate.ru) for communication, information sharing and personnel recruiting service purposes	24.99%	24.99%	24.99%	N/A	16,667	15,496	17,718	N/A
Forticom Group Limited (BVI), including subsidiaries and associates	Operates, via subsidiaries, the leading social networks in the Baltic countries www.one.lv and www.one.lt, as well as a leading social network in Poland www.nasza-klasa.pl and owns a 28.8% stake in Odnoklassniki group (see below)	75.74%	72.27%	N/A	N/A	326,306	131,538	N/A	N/A
Odnoklassniki Limited (UK), including a subsidiary and an associate based in Russia	Operates a leading Russian social networking web site www.odnoklassniki.ru	N/A	28.47%	28.47%	N/A	N/A	13,059	16,912	N/A
Molotok Holdings Limited (Cyprus) and subsidiary OOO Molotok.ru (Russia)	Provides online auction services to Internet customers through its www.molotok.ru web site	49.90%	49.90%	44.34%	N/A	27,658	30,490	32,012	N/A
Haslop Company Limited (Cyprus) and subsidiary CJSC Mamba (Russia)	Provides content for www.love.mail.ru, a vertical of the www.mail.ru portal operated by a subsidiary of Port.ru	31.50%	31.50%	N/A	N/A	17,962	18,900	N/A	N/A
OOO Data Center M100 (Russia) ("Data Center")	Provides hosting services	50%	50%	N/A	N/A	7,593	3,496		N/A
Nikita Management Limited (BVI)	Holds 100% in OOO Fun Factory (Russia) engaged in online gaming services	50%	N/A	N/A	N/A	3,746	N/A	N/A	N/A
Total						442,178	359,213	471,396	224,212

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

10 Investments in strategic associates (Continued)

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

Movement in investments in strategic associates for the years ended December 31, 2009, 2008 and 2007 is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Investments in strategic associates at January 1	359,213	471,396	224,212
Acquisition of shares in associates	175,352	251,712	65,167
Contributions to associates	4,658	8,800	4,225
Effect of acquisition of significant influence in investees previously accounted for as an available-for-sale financial assets	—	14,448	8,735
Effect of loss of control in subsidiaries	—	—	182,269
Effect of acquisition of control in associates	(127,512)	(209,407)	—
Disposals of shares in associates	(12,568)	(8,456)	(31,360)
Share in net profits of associates	17,991	(16,529)	3,888
Share in equity-settled share-based payments of associates	1,501	1,552	740
Effect of other options issued by associates	—	—	(6,873)
Foreign currency translation	(14,578)	(102,312)	20,911
Dividends from associates	(4,972)	(60)	(518)
Share in other changes in capital of associates	(3,655)	(3,808)	—
(Impairment)/reversal of impairment of investments in associates	46,748	(48,123)	—
Investments in strategic associates at December 31	<u>442,178</u>	<u>359,213</u>	<u>471,396</u>

During 2008 the worldwide financial crisis significantly hit the global economy, including the economic segments where the Group operates. As a result the Company's management considered that there were notable indicators of the potential impairments of the carrying values of the investments in associates, including but not limited to, significant decline in market values of the companies, increasing market interest rates and considerable lack of liquidity in the market. The Company therefore performed the impairment test of the carrying values of the investments in associates that resulted in an impairment loss recognised in earnings in the amount presented in the preceding table. The recoverable amounts of the investments were determined based on value in use calculations using 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.

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 analyses 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 analyses are intended to reflect the risks inherent in the future cash flows of the respective reporting units.

The impairment loss recognised by the Group in 2008 relates to the investment in Forticom and is fully allocated to the Forticom operating segment.

The key markets Forticom and its significant associates operate in are Poland and Russia. The calculation of value in use is most sensitive to the following assumptions with respect to these key markets and operations:

- Online advertising market growth rates;
- Growth rates of revenues from paid content;
- EBITDA margins;
- Growth rates used to extrapolate cash flows beyond the budget period;

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

10 Investments in strategic associates (Continued)

- Foreign currency exchange rates (RUR/USD) and
- Discount rates.

Management has used the following parameters in the DCF model with respect to the key operations of Forticom and its associates at December 31, 2009 and 2008:

	December 31, 2009	December 31, 2008
Terminal growth rate	4%	4%
Discount rates	17.5-18.2%	23.7-24.2%

The reversal of impairment in 2009 relates to investment in Forticom impaired in 2008 and is fully allocated to the Forticom operating segment.

The reversal of impairment mainly resulted from the revision of macro-economic assumptions due to overall economic recovery, specifically a change in weighted average cost of capital and exchange rate of the RUR to the USD.

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

	December 31, 2009	December 31, 2008	December 31, 2007	January 1, 2007
The Group's share of the associates':				
Total assets	342,863	274,172	243,028	10,325
Total liabilities	(96,891)	(91,868)	(70,529)	(4,251)
Net assets	245,972	182,304	172,499	6,074
Net assets attributable to non-controlling interests in associates' subsidiaries	(2,289)	(1,186)	(603)	—
Net assets attributable to equity holders of associates	243,683	181,118	171,896	6,074
Goodwill as part of strategic associates	198,495	178,095	299,500	218,138
Aggregate carrying amount of investments	442,178	359,213	471,396	224,212
		2009	2008	2007
The Group's share of the associates':				
Revenue		95,288	115,092	42,807
Net profit		17,991	(16,529)	3,888

11 Impairment testing of goodwill

Goodwill acquired through business combinations was allocated to Port.ru (arising from 2008), Astrum and Newton Rose (arising from 2009), groups of individual cash-generating units for impairment testing. The recoverable amount has been determined based on a value in use calculation using 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 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. No impairment of goodwill was recognised for the years ended December 31, 2009, 2008 and 2007.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

11 Impairment testing of goodwill (Continued)

The table below shows movements in goodwill per groups of cash generating unit (“CGU”) for each of the years ended December 31, 2007, 2008 and 2009:

	Port.ru	Astrum	Newton Rose	E-Port	Molotok	Total
Cost at January 1, 2007	—	—	—	14,192	1,238	15,430
Disposal of E-Port	—	—	—	(14,475)	—	(14,475)
Disposal of Molotok	—	—	—	—	(1,304)	(1,304)
Translation adjustment	—	—	—	283	66	349
Cost at December 31, 2007	—	—	—	—	—	—
Acquisition of Port.ru	364,685	—	—	—	—	364,685
Translation adjustment	(17,990)	—	—	—	—	(17,990)
Cost at December 31, 2008	346,695	—	—	—	—	346,695
Acquisition of Astrum	—	49,725	—	—	—	49,725
Acquisition of OGH	—	11,585	—	—	—	11,585
Acquisition of Newton Rose	—	—	63,707	—	—	63,707
Disposal of All U Need	—	—	(11,611)	—	—	(11,611)
Translation adjustment	(9,907)	7,270	9,020	—	—	6,383
Cost at December 31, 2009	336,788	68,580	61,116	—	—	466,484

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 the applicable dates are presented below (together with the assumptions used in the DCF models related to impairment test of games):

	Port.ru	Astrum	Newton Rose	E-Port	Games
January 1,2007					
Terminal growth rate	N/A	N/A	N/A	0.0%	N/A
Pre-tax discount rate	N/A	N/A	N/A	21.7%	N/A
December 31,2008					
Terminal growth rate	4.0%	N/A	N/A	N/A	N/A
Pre-tax discount rate	20.8%	N/A	N/A	N/A	N/A
December 31,2009					
Terminal growth rate	7.5%	7.5%	2.5%	N/A	2.2%
Pre-tax discount rate	18.1%	24.5%	19.8%	N/A	19.3%

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

12 Accounts receivable

As of December 31, 2009, 2008 and 2007 trade receivables comprised the following:

	December 31, 2009	December 31, 2008	December 31, 2007	January 1, 2007
Trade accounts receivable, gross	23,261	14,938	401	9,743
Provision for impairment of trade receivables	(865)	(298)	—	(152)
Total trade receivables, net	<u>22,396</u>	<u>14,640</u>	<u>401</u>	<u>9,591</u>

Trade receivables aged but not impaired as of December 31, 2009, 2008 and 2007 are presented below:

		Ageing of receivables (days)					
	Total	<30	30-60	60-90	90-180	180-360	>360
As of December 31, 2009							
Trade accounts receivable	22,396	13,109	4,654	1,952	1,215	1,091	375
As of December 31, 2008							
Trade accounts receivable	14,640	8,320	3,249	1,486	1,329	251	5
As of December 31, 2007							
Trade accounts receivable	401	401	—	—	—	—	—
As of January 1, 2007							
Trade accounts receivable	9,591	9,392	19	19	6	92	63

The accounts receivable balances as of January 1, 2007 were mainly represented by the amounts due to E-Port group from mobile communication service providers and cash collection agents.

The accounts receivable balances as of December 31, 2007 were mainly represented by dividends receivable from an equity associate.

The receivable balances as at December 31, 2008 mainly represented the amounts due to subsidiaries of Port.ru from advertising customers and agencies, partners in partnership projects and mobile operators. These counterparties usually have a credit period of 30 days.

The accounts receivable balances as of December 31, 2009 mainly represented the amounts due from online electronic payment systems and advertising customers.

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

Management considers that the carrying amount of the receivable balances approximated their fair value as of December 31, 2009, 2008 and 2007.

13 Loans receivable

In April 2009, the Company provided a loan to Forticom in the amount of USD 1,875. The loan is payable in one year and carries interest of 12% p.a., unless repaid earlier, in which case the loan is interest free.

Since Forticom is a strategic associate of the Group, the amount of loan is disclosed in Note 27 as a balance owed by a related party.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

14 Cash and cash equivalents

As of December 31, 2009, 2008 and 2007 cash and cash equivalents comprised of the following:

Currency	December 31, 2009	December 31, 2008	December 31, 2007	January 1, 2007
Current accounts and cash on hand:				
USD	1,759	2,257	337	219
RUR	9,881	1,696	28	33,061
EUR	17,352	87	2	—
Other	333	1	1	—
Total current accounts and cash on hand . .	29,325	4,041	368	33,280
Deposit accounts with an original maturity of three months or less:				
USD	102,436	34,118	49,011	82,176
RUR	—	8,509	—	—
Total deposit accounts with an original maturity of three months or less	102,436	42,627	49,011	82,176
Short-term investments in money market funds	USD 16,154	51,969	—	—
Total cash and cash equivalents	147,915	98,637	49,379	115,456

15 Short-term time deposits

The Group's short-term time deposits represent deposits with an original maturity of over three months but less than one year. At December 31, 2008, deposits denominated in EUR amounted to USD 14,105 and deposits denominated in USD amounted to USD 20,000.

16 Share capital

The charter capital of the Company consisted of 35,153, 38,120 and 53,969 ordinary shares with USD 0.01 par value as at January 1, 2007, December 31, 2007 and 2008 respectively and 61,887 ordinary shares, 783 Class B shares and 9,333 Class C shares with USD 0.01 par value as at December 31, 2009. The number of authorised shares of the Company was 5,000,000 as at January 1, 2007, December 31, 2007 and 2008. At December 31, 2009 the authorised share capital was divided into three classes: 5,000,000 ordinary shares, 8,374 Class B shares and 1,000,000 Class C shares.

As of December 31, 2009, 2008, 2007 and January 1, 2007 all issued shares were fully paid.

A reconciliation of the number of shares outstanding as of December 31, 2009, 2008 and 2007 and January 1, 2007 is presented in the statement of changes in equity.

In case of liquidation, the Company's assets remaining after settlement with creditors is distributed among the ordinary shareholders proportionately to the number of shares owned.

Each ordinary share has 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 has the following rights:

- (i) the right to an equal share in any dividend paid by the Company pari passu with all other Shares; and

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

16 Share capital (Continued)

- (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 has 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 December 31, 2009, 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 has 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 28.6 and 28.2.

In May 2007, the Company adopted an option plan ("the 2007 Option Plan") reserving 736 ordinary shares of the Company for issue under options to be granted to persons providing services directly or indirectly to the Company. The 2007 Option Plan contained the following terms for future issuance of options:

- The exercise price of the options is to be set at not less than USD 11,378.83;
- Options are not to be issued to any member of the Company's Managements Board, or any relative thereof, or any company controlled thereby;
- The exercise period of the options can not extend beyond May 2014;
- 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.

As of December 31, 2009 and 2008, 250 and 81 options respectively had been issued under the 2007 Option Plan (see DSTA Officer Options 2008, DSTA Officer Options 2009 and DSTIIS Options in Note 30).

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Notes to consolidated financial statements (Continued)

17 Other assets

The table below represents other non-current assets:

	December 31, 2009	December 31, 2008	December 31, 2007	January 1, 2007
Long-term deposits	1,580	—	—	—
Loans receivable	915	—	—	—
Other non-current assets	926	774	—	—
	<u>3,421</u>	<u>774</u>	<u>—</u>	<u>—</u>

The following table represents other current assets:

	December 31, 2009	December 31, 2008	December 31, 2007	January 1, 2007
Inventory	111	—	—	195
Advances issued	1,143	181	—	—
VAT receivable	229	344	—	46
Interest receivable	5	48	—	—
Other current assets	896	409	—	33
	<u>2,384</u>	<u>982</u>	<u>—</u>	<u>274</u>

18 Revenues

	2009	2008	2007
IVAS	63,372	—	—
Online advertising	62,757	—	—
Payment processing commissions	—	—	16,567
Online recruitment services	17,492	—	—
Dividend revenue from venture capital investments	1,617	54	—
Other revenue	3,078	—	4,467
	<u>148,316</u>	<u>54</u>	<u>21,034</u>

19 Cost of revenues

	2009	2008	2007
Commission to agents	9,255	—	12,164
Cost of electronic payment terminals sold	—	—	3,182
Compensation expense	17,036	—	835
Cost of servers hosting	5,257	—	—
Other costs	2,788	—	190
	<u>34,336</u>	<u>—</u>	<u>16,371</u>

20 Selling, general and administrative expenses

	2009	2008	2007
Payroll	24,851	—	1,131
Share-based compensation expense related to subsidiaries	15,615	—	—
Rent of premises and related utility expenses	6,192	—	106
Advertising and related expenses	9,571	—	88
Advisory fees	25,968	51,258	5,163
Other professional fees	7,552	2,981	2,127
Other expenses	7,066	326	1,047
	<u>96,815</u>	<u>54,565</u>	<u>9,662</u>

Payroll expenses and share-based compensation expense relate to the subsidiaries of the Company. For further details in respect of Advisory fees please refer to Note 27.1.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

21 Finance income

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Interest and similar income from cash and cash equivalents, net of related bank commission	1,333	522	1,931
Dividend income from available-for-sale investment	213	628	—
Total finance income	<u>1,546</u>	<u>1,150</u>	<u>1,931</u>

22 Finance costs

Finance costs consist of interest expense incurred in connection with a loan payable, including amortisation of transaction costs:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Interest on loan	—	(2,646)	(3,118)
Amortisation of transaction costs incurred in connection with loan	—	(638)	(317)
Total finance costs	<u>—</u>	<u>(3,284)</u>	<u>(3,435)</u>

Details on the loan are available in Note 28.

23 Other payables, provisions and accrued expenses

Other payables, provisions and accrued expenses consist of:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u>	<u>January 1, 2007</u>
Payables to personnel	4,791	—	—	—
Accrued vacations	4,546	1,687	—	—
Advances received	1,837	—	—	—
Payables to non-controlling shareholders in a subsidiary	592	—	—	—
Accrued professional consulting expenses	2,707	1,185	—	—
Accrued share issuance cost	—	—	1,030	526
Interest payable	—	—	454	—
Other current payables and provisions	1,048	—	252	94
Total	<u>15,521</u>	<u>2,872</u>	<u>1,736</u>	<u>620</u>

24 Income tax

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

The Russian Federation

The Company'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 Company'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 realised in connection with sale of shares in companies deriving their value or the

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

24 Income tax (Continued)

greater part of their value from immovable property located in Cyprus). Dividend income is also tax exempt.

Germany

The Company'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 Company's subsidiaries and associates incorporated in the Ukraine are subject to corporate income tax at the standard rate of 25% applied to their taxable income.

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 Company's associates registered in the United Kingdom are subject to corporate income tax at a standard rate of 28% rate applied to their worldwide income.

Estonia

The Company's associates 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).

Reconciliation between tax expense and the product of accounting profit multiplied by BVI's domestic tax rate for the year ended December 31, 2009, 2008 and 2007 is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Profit (loss) before taxation	183,019	(11,909)	174,495
BVI statutory income tax rate at 0%	—	—	—
Foreign tax rate differential	(1,250)	—	(604)
Non-deductible share option expense	(2,670)	—	—
Other non-deductible expenses	(1,248)	—	—
Utilisation of previously unrecognised tax loss	2,918	—	—
Tax accruals, penalties and interest	(990)	—	—
Tax on unremitted earnings	(7,274)	—	—
Tax on dividends	(6,805)	(102)	(204)
Total income tax expense	<u>(17,319)</u>	<u>(102)</u>	<u>(808)</u>

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

24 Income tax (Continued)

Deferred income tax assets and liabilities as of December 31, 2009, 2008 and 2007 were as follows:

	Consolidated statement of financial position				Consolidated statement of comprehensive income		
	December 31, 2009	December 31, 2008	December 31, 2007	January 1, 2007	2009	2008	2007
Deferred tax liabilities arising from:							
Intangible assets book basis in excess of tax basis	(43,163)	(21,304)	—	34	1,916	—	—
Basis of investment in associate in excess of tax basis	(4,474)	(4,605)	—	—	—	—	—
Unremitted earnings of subsidiaries . . .	(7,951)	—	—	—	(7,274)	—	—
Other	(200)	—	—	50	(196)	—	—
Total deferred tax liabilities	(55,788)	(25,909)	—	84	(5,554)	—	—
Deferred tax assets arising from:							
Tax credit carryforwards	623	—	—	—	614	—	—
Deferred compensation and accrued employee benefits	1,888	404	—	—	1,151	—	—
Accrued expenses	207	72	—	23	54	—	12
Revenue recognition	2,071	(5)	—	—	1,604	—	—
Unrealised intercompany profit	284	—	—	—	271	—	—
Advances received	—	—	—	373	—	—	103
Other	266	9	—	(30)	143	—	63
Total deferred tax assets	5,339	480	—	366	3,837	—	178
Net deferred tax assets / (liabilities) . . .	(50,449)	(25,429)	—	450	(1,717)	—	178

Management's assessment of the realisation of deferred tax assets is based upon the weight of all available evidence, including factors such as the recent earnings history and expected future taxable income. The Group expects to realise its Russian deferred tax assets recognised as of December 31, 2009 and has not recorded a valuation allowance against such assets.

As of December 31, 2009, deferred tax liability has been provided for US withholding taxes on unremitted retained earnings of Port.ru and Astrum subsidiaries, because in 2009 those subsidiaries started to pay dividends to their shareholders and the Company expects this practice to continue in future. 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 January 1, 2007 and December 31, 2007, 2008 and 2009 was immaterial.

Changes in net deferred tax liability from January 1, 2007 to December 31, 2009 were as follows:

	2009	2008	2007
Total deferred income tax asset/(liability), net at January 1	(25,429)	—	450
Effect of acquisitions	(21,545)	(26,748)	—
Translation reserve	(2,168)	1,319	60
Deferred tax benefit/(expense)	(1,717)	—	178
Effect of disposals of subsidiaries	410	—	(688)
Total deferred income tax liability, net at December 31	(50,449)	(25,429)	—

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

24 Income tax (Continued)

	December 31, 2009	December 31, 2008	December 31, 2007
Current income tax expense	(15,602)	(102)	(986)
Deferred income tax (expense)/benefit	(1,717)	—	178
	<u>17,319</u>	<u>(102)</u>	<u>(808)</u>

25 Earnings/loss per share

25.1 Basic earnings/loss per share

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

	December 31, 2009	December 31, 2008	December 31, 2007
Net profit/(loss) attributable to equity holders of the Company	<u>168,649</u>	<u>(12,011)</u>	<u>173,175</u>
Weighted average number of ordinary shares in issue	58,758	43,295	35,831
Basic earnings/(loss) per share (USD per share)	<u>2,870.23</u>	<u>(277.42)</u>	<u>4,833.11</u>

25.2 Diluted earnings/loss per share

Diluted earnings/loss per share 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 loss per share).

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/loss attributable to ordinary shareholders of the Company (numerator).

As discussed in more detail in Notes 6 and 30, the Company issued certain call options and conversion rights over its shares in 2009 and 2008. The Company did not issue any such instruments in 2007.

The options issued in 2008 were found to have an anti-dilutive effect on the Group's loss per share for the year ended December 31, 2008 either because the average market price of the underlying shares was below the exercise price of the options or because the increase in the denominator used in the calculation would decrease the loss per share.

All instruments potentially convertible into the shares of the Company had a dilutive effect on the earnings per share for the year ended December 31, 2009 and, accordingly, were taken into account when calculating the diluted earnings per share for that year.

In addition to the options and conversion rights over the shares of the Company, Port.ru, Astrum, OGH, Mail.ru Internet NV, Newton Rose and Forticom have issued to the Company and/or to other parties options to acquire ordinary shares of the respective subsidiary or associate. In calculating the dilution effect of these instruments, the effect of the exercise of the options on the earnings/loss 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 earnings/loss per share.

Out of the options issued by the Group's subsidiaries and associates, options issued by Port.ru were found to have a dilutive effect in the years ended December 31, 2008 and 2009 and options issued by Forticom to other shareholders of Forticom were found to have a dilutive effect in the year ended

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

25 Earnings/loss per share (Continued)

25.2 Diluted earnings/loss per share (Continued)

December 31, 2009, and the effects of their potential exercise are included in the calculation of diluted earnings/loss per share.

As of January 1, 2008, Port.ru had 1,322,939 options outstanding, out of which 294,404 options had been acquired by the Company in October 2006 and exercised by the Company in May 2008. As of December 31, 2008, 1,073,535 Port.ru options were outstanding. The Port.ru options were replaced with the same number of options over the shares of Mail.ru Internet NV on substantially the same terms on November 30, 2009. Additionally, 496,725 new options over the shares of Mail.ru Internet NV were issued on the same date, but their effect on the Group's earnings per share in 2009 was anti-dilutive. All options over Mail.ru Internet NV were outstanding as of December 31, 2009.

Forticom had 1,964 and 5,889 dilutive options outstanding as at December 31, 2009 and December 31, 2008 respectively.

Additionally, the right to convert shares of Newton Rose into shares of the Company issued by the Company as part of the Newton Rose acquisition in February 2009 was found to have a dilutive effect on the Group's earnings per share in 2009. The conversion right was outstanding as of December 31, 2009. The conversion right is described in more detail in Note 6.

The calculation of diluted earnings/loss per share is summarised in the table below:

	December 31, 2009	December 31, 2008	December 31, 2007
Net profit/(loss) attributable to equity holders of the Company . .	168,649	(12,011)	173,175
Adjustment for assumed exercise of Port.ru share options	(933)	(5,578)	(501)
Adjustment for assumed exercise of Forticom share options . .	(273)	—	—
Effect of conversion right issued to a shareholder of Newton Rose	(205)	—	—
Adjusted net profit/(loss) attributable to equity holders of the Company	167,238	(17,589)	172,674
Weighted average number of ordinary shares in issue	58,758	43,295	35,831
Effect of equity-settled share-based payments of the Company .	66	—	—
Effect of conversion right issued to a shareholder of Newton Rose	188	—	—
Total diluted weighted average number of shares	59,012	43,295	35,831
Diluted earnings/(loss) per share (USD per share)	2,833.97	(406.26)	4,819.12

26 Commitments, contingencies and operating risks

26.1 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. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilisation measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

26 Commitments, contingencies and operating risks (Continued)

26.1 Operating environment of the Group (Continued)

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

26.2 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 2009 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.

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 maximum 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, and amount up to USD 12,900.

26.3 Operating lease commitment—the Group as a lessee

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

	2009	2008	2007
	Minimum lease payments	Minimum lease payments	Minimum lease payments
Less than 1 year	6,212	2,054	—
From 2 to 5 years	7,909	5,135	—
More than 5 years	1,337	—	—
Total	<u>15,458</u>	<u>7,189</u>	<u>—</u>

The Group mainly leases office premises. In 2009 operating lease expense included in general and administrative expenses of consolidated statement of comprehensive income amounted to 6,116 (2008 and 2007—Nil).

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

27 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 (see below). All related party transactions were made in accordance with contractual terms and conditions on an arm's lengths basis.

	<u>Sales to related parties</u>	<u>Purchases from related parties</u>	<u>Amounts owed by related parties</u>	<u>Amounts owed to related parties</u>
2009				
Shareholders of the Group				592
Strategic associates	3,789	—	2,732	—
Other entities	131	11	—	43
2008				
Strategic associates	5,764	—	1,160	—
Other entities	34	127	29	—

27.1 Investment advisor—DST Advisors Limited—other related party

Under the terms of the agreement dated January 1, 2007, DST Advisors Limited (“DSTA”) is 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 amount to an aggregate of 1.5% per annum of the Company's equity (calculated in accordance with the agreement mentioned above) and are payable quarterly in advance. Total fees for 2009, 2008 and 2007 amounted to USD 23,083, 19,055 and 5,163 respectively. The prepaid fees as of December 31, 2009, 2008 and 2007 and January 1, 2007 amounted to USD 6,475, 5,026, 2,758 and 73 respectively.

In addition to the fees referred to above, in December 2008 the Company granted to DSTA options to acquire 7,591 Class B shares of the Company at the price of USD 26,426.89 per share. Additionally, in April 2008, the Company granted to a key executive of DSTA options to acquire 81 ordinary shares of the Company at USD 11,378.83 per share. In May 2009, the Company granted an additional 250 options to acquire its ordinary shares at the same exercise price to key employees and consultants of DSTA. These options are described in more detail in Note 30. The Group has recognised an expense of USD 2,885 and 32,203 during the 2009 and 2008 reporting period respectively in connection with the options.

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:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Advisory fees	23,083	19,055	5,163
Share-based payment expense	2,885	32,203	—
Total	<u><u>25,968</u></u>	<u><u>51,258</u></u>	<u><u>5,163</u></u>

27.2 The ultimate parent

The Company has no ultimate parent.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of December 31, 2009, 2008 and 2007 and January 1, 2007 and are presented by category of financial instruments in the table below:

	Category*	December 31, 2009	December 31, 2008	December 31, 2007	January 1, 2007
Financial assets					
Assets related to Class C shares	FAFVPL	97,363	—	—	—
Financial investments in associates	FAFVPL	15,799	13,290	22,011	3,000
Derivative financial assets over the equity of investees	FAFVPL	12	1,385	6,922	3,858
Available-for-sale equity investments . . .	AFSFA	220,049	3,233	24,334	—
Short-term accounts receivable	LR	22,396	14,640	401	9,591
Loans and interest receivable	LR	915	48	—	251
Short-term time deposits	LR	960	34,105	—	—
Cash and cash equivalents	LR	147,915	98,637	49,379	115,456
Total financial assets		505,409	165,338	103,047	132,156
Current		171,271	147,429	54,343	125,298
Non-current		334,138	17,909	48,704	6,858
Total derivative financial assets		12	1,385	6,922	3,858
Current		—	—	4,562	—
Non-current		12	1,385	2,360	3,858
Financial liabilities					
Class C shares	FLFVPL	97,363	—	—	—
Derivative financial liabilities over the equity of investees	FLFVPL	4,532	1,126	3,275	—
Long-term interest-bearing loans and borrowings	FLAC	—	—	36,924	—
Short-term interest-bearing loans and borrowings	FLAC	—	—	—	30,000
Short-term payables and accrued expenses	FLAC	22,573	6,378	2,812	48,162
Total financial liabilities		124,468	7,504	43,011	78,162
Current		22,573	6,378	2,812	78,162
Non-current		101,895	1,126	40,199	—
Total derivative financial liabilities		4,532	1,126	3,275	—
Current		—	—	—	—
Non-current		4,532	1,126	3,275	—

* Financial instruments used by the Group are included in one of the following categories:

- FAFVPL—financial assets at fair value through profit or loss;
- AFSFA—available-for-sale financial assets;
- LR—loans and receivables;
- FLFVPL—financial liabilities at fair value through profit or loss; or
- FLAC—financial liabilities at amortised cost.

None of the Group's investees are public companies and none of the Group's financial instruments are traded in active markets. Accordingly, fair value of the Group's financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets is determined using valuation techniques, including discounted cash flow models, comparison to similar instruments for which observable market prices exist, options pricing models and other relevant valuation models. Such valuation techniques require management to make certain assumptions about the model inputs, including credit risk and volatility. If

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

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.

Fair value of long-term borrowings and other long-term payables is determined by discounting future cash outflows using relevant interest rates.

28.1 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 has 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, 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, 2009, 2008 and 2007 were as follows:

	December 31, 2009	December 31, 2008	December 31, 2007
Terminal growth	5.00%	2.10%	2.10%
Discount rates	25% - 35%	25% - 35%	25% - 35%

The fair value of the Group's financial investments in associates as of January 1, 2007 was determined based on recent cash transaction.

The Group has recognised a gain of USD 2,099 in 2009 and loss of USD 12,546 and 10,852 during 2008 and 2007 respectively due to the change in fair value of its financial investments in associates. The loss and gain were recorded in the statement of comprehensive income under '*Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities*'.

28.2 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 16 and para. 28.6 for the description of Class C shares and the corresponding financial liability).

The fair value of Assets related to Class C shares as of December 31, 2009 was determined based on recent cash transaction.

The Group did not recognise any gains or losses from the changes in fair value of Assets related to Class C shares in 2009.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

28.3 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, 2009	December 31, 2008	December 31, 2007	January 1, 2007
Purchased call options to acquire Astrum shares . . .	—	1,359	2,360	—
Purchased call options to acquire Port.ru shares . . .	—	—	4,562	3,858
Purchased call option to acquire shares in a financial investee	<u>12</u>	<u>26</u>	<u>—</u>	<u>—</u>
Total derivative financial assets over the equity of investees	<u>12</u>	<u>1,385</u>	<u>6,922</u>	<u>3,858</u>

28.3.1 Purchased call options to acquire Astrum shares

In November 2007, Astrum issued call options to the Group to acquire 2,552 ordinary shares of Astrum at a fixed price of USD 1,621 per share. The vesting of the options is summarised in the table below:

Vesting date	Number of shares	Subscription amount
January 1, 2008	850.0	1,378
January 1, 2009	850.0	1,378
January 1, 2010	<u>851.5</u>	<u>1,380</u>
Total	<u>2,552</u>	<u>4,136</u>

The fair value of the options was estimated using the Black-Scholes-Merton formula with the following assumptions:

	December 31, 2008	December 31, 2007
Dividend yield, %	0%	0%
Expected volatility, %	63.8%	55.2%
Risk-free interest rate, %	7.8%	4.7%
Expected term, years	3.2	4.2
Share price (USD)	1,238	1,739

The expiry date of the options was initially determined as December 31, 2012. However on March 25, 2009, as part of acquisition of control in Astrum the options were cancelled.

The Group has recognised a gain of USD 1,135 and a loss of USD 739 due to the change in fair value of purchased call options in Astrum during 2009 and 2008 respectively. The gain and loss were recorded in the statement of comprehensive income under '*Net gain/(loss) on derivative financial assets and liabilities over the equity of strategic investees*'.

28.3.2 Purchased call options to acquire Port.ru shares

In October 2006, the Company acquired call options to buy 249,404 ordinary shares of Port.ru at a fixed price of USD 3 per share. All options were exercisable as of January 1, 2008. The expiry date of the options is December 10, 2014. The options were exercised by the Company in May 2008 (see Note 6). The

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

28.3.2 Purchased call options to acquire Port.ru shares (Continued)

fair value of the options as of January 1 and December 31, 2007 was estimated using the Black-Scholes-Merton formula with the following assumptions:

	December 31, 2007	January 1, 2007
Dividend yield, %	0%	0%
Expected volatility, %	66.0%	56.60%
Risk-free interest rate, %	3.4%	4.90%
Expected term, years	0.37	1.4
Share price (USD)	21.3	18.3

The fair value of the options at exercise date was deemed equal to their intrinsic value as of that date, based on the share price of USD 23 per share.

The Group has recognised a gain of USD 286 due to the change in fair value of purchased call options in Port.ru during 2008. The gain was recorded in the statement of comprehensive income under '*Net gain/ (loss) on derivative financial assets and liabilities over the equity of strategic investees*'.

28.4 Available-for-sale equity instruments

The Group 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 actively 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.

As of December 31, 2007, the Group's 15.48% investment in Forticom did not enable the Group to exert significant influence over the investee and was classified as an available-for-sale financial asset (see also Note 6). As of December 2009, the Group also held approximately 2.32% on a fully diluted basis in Facebook (excluding Assets related to Class C shares) and classified this investment as an available-for-sale financial asset. Investment in Facebook consisted of 5,871,966 shares of Series E Preferred stock and 5,009,788 shares of common stock.

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

	December 31, 2009	December 31, 2008	December 31, 2007	January 1, 2007
Investment in CED (15%)	3,476	3,233	9,885	—
Investments in Forticom (15.48%)	—	—	14,449	—
Investment in Facebook (2.32%)	216,573	—	—	—
Total	220,049	3,233	24,334	—

The fair value of the Group's available-for-sale investments in Facebook and Forticom was determined based on recent cash transactions.

The Group's available-for-sale investment in CED as of December 31, 2007 was determined based on recent cash transactions. The fair value of the investment as of December 31, 2008 and 2009 was estimated using a DCF model based on cash flow projections from financial budgets approved by senior management

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

28.4 Available-for-sale equity instruments (Continued)

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 model are summarised in the table below:

	December 31, 2009	December 31, 2008
Terminal growth rate	2.50%	2.10%
Pre-tax discount rate	18.1%	20.9%

28.4.1 Impairment of available-for-sale equity instruments

For its available-for-sale investments, the management assesses at each reporting date whether there is objective evidence that an investment is impaired. Objective evidence includes a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the management evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of the investment is less than its cost.

Based on these criteria, the Group identified an impairment of USD 5,026 on its available-for-sale investment in CED as of December 31, 2008, which is recognised within 'Impairment losses' in the statement of comprehensive income.

28.5 Financial assets classified as loans and receivables

Detail information on short-term receivables, cash and cash equivalents and short-term time deposits is available in Notes 12 through 14.

28.6 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 16, 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 December 31, 2009 was determined based on recent cash transactions.

The Group did not recognise any gains or losses from the changes in fair value of Class C shares in 2009.

28.7 Derivative financial liabilities over the equity of investees

Derivative financial liabilities over the equity of the Group's investees as of December 31, 2009, 2008 and 2007 are summarised as follows:

	December 31, 2009	December 31, 2008	December 31, 2007	January 1, 2007
Written call options in Molotok	—	—	3,275	—
Derivative financial liability over the equity of a financial investee	1,694	1,126	—	—
Written put option by Newton Rose to sell shares in Metajob	2,546	—	—	—
Written put option to sell Newton Rose shares	292	—	—	—
	<u>4,532</u>	<u>1,126</u>	<u>3,275</u>	<u>—</u>

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

28.7.1 Written call options to acquire shares of Molotok

The written call options were entered into by the Company in October 2007 and include two arrangements.

The first arrangement is a contingent right, granted to another large shareholder of Molotok, to acquire 379,163 ordinary shares of Molotok at approximately USD 18.3 per share. The option under this arrangement is exercisable from October 8, 2007 through January 8, 2010 (for 27 months).

The second arrangement is a contingent right, granted to another large shareholder of Molotok, to acquire 379,163 ordinary shares of Molotok at approximately USD 22.87 per share. The option under this arrangement is exercisable from January 8, 2010 through January 8, 2011 (for 12 months), provided the option under the first arrangement has not been exercised.

The right to acquire Molotok shares under the arrangements is contingent on the performance of Molotok and sales of Molotok shares by certain shareholders of Molotok, including the Company.

The options under the first arrangement were exercised in December 2008 due to the Company selling its shares in Molotok. The options under the second arrangement lapsed due to this exercise.

The fair value of the written call options as of December 31, 2007 was estimated using the binomial model with the following assumptions:

	First arrangement		Second arrangement	
	December 31, 2007	October 8, 2007	December 31, 2007	October 8, 2007
Dividend yield, %	0%	0%	0%	0%
Expected volatility, %	61.5%	61.40%	64.2%	64.00%
Risk-free interest rate, %	3.1%	4.10%	3.1%	4.20%
Expected term, years	2.02	2.3	3.02	3.3
Share price (USD)	19.9	18.8	19.9	18.8

The fair value of the options under the first arrangement as of the exercise date was deemed equal to their intrinsic value based on a share price of USD 23.7 per share.

The Group recognised a gain of USD 931 due to the change in fair value of written call options in Molotok during 2008 (2007—a loss of USD 68). The gain was recorded in the statement of comprehensive income under ‘*Net gain/(loss) on derivative financial assets and liabilities over the equity of strategic investees*’.

28.7.2 Derivative financial liability over the equity of a financial investee

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.

The fair value of the liability 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:

	December 31, 2009	December 31, 2008	November 7, 2008
Dividend yield, %	0%	0%	0%
Expected volatility, %	61%	73%	67%
Risk-free interest rate, %	0.47%	0.80%	1.40%
Expected term, years	1.00	2.00	2.15
Share price (USD)	86,590.4	57,985.8	56,063.7

The Group recognised a loss of USD 572 and 148 due to the change in fair value the derivative financial liability in 2009 and 2008 respectively. The loss was recorded in the statement of comprehensive

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

28.7.2 Derivative financial liability over the equity of a financial investee (Continued)

income under ‘*Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities*’.

28.7.3 Written call options in Astrum

On November 30, 2007 Astrum issued call options to its shareholders to subscribe for 10,356 of shares at a fixed price of 1.621 per share (“Astrum Options”). Out of the 10,356 Astrum Options, 2,552 options were issued to the Group and were subsequently cancelled in March 2009 upon acquisition of control in Astrum (see 28.3.1).

The expiry date of Astrum Options was set at December 31, 2012. The options were initially recorded by Astrum as a financial liability because they were denominated in USD, currency different from the Astrum’s functional currency.

On March 25, 2009, as part of acquisition of control in Astrum by the Group the Company and other shareholders of Astrum changed the provisions of the call option effectively cancelling their share of the options of 3,061 units. Out of these options 1,096 were granted to two executives of Astrum in their capacity as employees and were accounted for under requirements of IFRS 2, and the remaining 1,965 options were forfeited.

In addition to the re-allocation of 1,096 options above Astrum issued a tranche of 6,086 units of new options to two executives on the same date.

All options mentioned above became vested and were exercised by the option holders on November 30, 2009 as part of the merger between Port.ru and Astrum (see Note 6) for USD 21,494, of which USD 9,016 were offset against dividends declared and USD 12,478 were paid in cash. Options exercised included 7,294 units accounted for as extinguishment of the financial liability at fair value of shares as of the date of exercise in the amount of 10,753 and 7,182 units accounted for as settlement of share-based payments to employees. Movement in the number of options and weighted average exercise prices (“WAEP”) is presented below:

	Number of shares	WAEP
	2009	
Outstanding as of January 1, 2009	10,355	1.621
Granted to employees during the year	7,182	1.346
Forfeited during the year	(3,061)	1.621
Exercised during the year	(14,476)	1.485
Outstanding as of December 31, 2009	—	
Exercisable as of December 31, 2009	—	

The fair value of options granted during the year ended December 31, 2008 and on March 24, 2009 was estimated on the date of grant using the Black-Scholes-Merton formula with the following assumptions:

	March 24, 2009	November 30, 2009
Dividend yield (%)	0	0
Expected volatility (%)	77.48	73.47
Risk-free interest rate (%)	6.69	5.12
Expected term (years)	3.00	2.33
Share price per share (US dollars)	1,238	2,522

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

28.7.3 Written call options in Astrum (Continued)

The volatility is based on historical volatility of peer companies. The share price was determined based on the DCF model as Astrum is not public.

28.7.4 Written put option to sell Newton Rose shares

On February 17, 2009 as part of acquisition of control in Newton Rose, the Company issued to other shareholders of Newton Rose put options to sell an aggregate of 4,834 shares of Newton Rose at variable exercise price determined as each holder's percentage shareholding in Newton Rose multiplied by fifteen multiplied by Adjusted Distributable Profit. Adjusted Distributable Profit is defined to approximate the net profit of Newton Rose 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 call options as of February 17 and December 31, 2009 was estimated using the Monte Carlo simulation with the following assumptions:

	December 31, 2009	February 17, 2009
Number of simulations	50,001	50,001
Dividend yield (%)	*	*
Expected volatility (%)	61.81%	69.73%
Risk-free interest rate (%)	2.17%	1.17%
Expected term (years)	2	2.87
Share price (US dollars per share)	720.5	410.7

* Calculated separately for each simulation

The Group has recognised a gain of USD 956 due to the change in fair value of written call options in Newton Rose during 2009. The gain was recorded in the statement of comprehensive income under '*Net gain/(loss) on derivative financial assets and liabilities over the equity of strategic investees*'.

28.7.5 Long-term interest-bearing loans and borrowings

On April 24, 2006, as part of an acquisition of shares in Port.ru, the Company issued a 12% USD 30,000 promissory note payable to the seller secured by securities of Port.ru representing approximately 20.44% interest in Port.ru on an if-converted basis, which had a carrying value of USD 109,413 as of January 1, 2007. The note was fully repaid on March 6, 2007.

The Group incurred interest expense in the amount of USD 661 in 2007 in connection with the loan (see also Note 22).

On May 16, 2007, the Company entered into a facility agreement with a group of institutional lenders for a secured loan in the amount of USD 37,600. The loan was repayable in full on May 16, 2009. The loan was bearing interest at the rate of 10.75% per annum payable every six months. The loan was secured by 6,290,640 shares (21.43%) of Port.ru that had a carrying value of USD 178,273 as of January 1, 2008. The Group incurred direct transaction costs of USD 921 in connection with the origination of the loan. The transaction costs were amortised over the life of the loan using the EIR method.

The loan was fully repaid by the Company on July 18, 2008.

The Group incurred interest expense in the amount of USD 2,646 and USD 2,458 in 2008 and 2007 respectively in connection with the loan (see also Note 22).

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

28.8 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).

As at December 31, 2009, 2008 and 2007 and January 1, 2007, the Group held the following financial instruments measured at fair value:

	December 31, 2009	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
<i>Assets related to Class C shares</i>	97,363	—	—	97,363
<i>Financial investments in associates</i>	15,799	—	—	15,799
<i>Derivative financial assets over the equity of investees</i>	12	—	—	12
Total financial assets at fair value through profit or loss	113,174	—	—	113,174
Available-for-sale equity investments	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 financial liabilities over the equity of investees	(4,532)	—	—	(4,532)
Total financial liabilities measured at fair value	(101,895)	—	—	(101,895)
	December 31, 2008	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
<i>Financial investments in associates</i>	13,290	—	—	13,290
<i>Derivative financial assets over the equity of investees</i>	1,385	—	—	1,385
Total financial assets at fair value through profit or loss	14,675	—	—	14,675
Available-for-sale equity investments	3,233	—	—	3,233
Total financial assets measured at fair value	17,908	—	—	17,908
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss—				
derivative financial liabilities over the equity of investees	(1,126)	—	—	(1,126)
Total financial liabilities measured at fair value	(1,126)	—	—	(1,126)

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

28.8 Fair value hierarchy (Continued)

	<u>December 31, 2007</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
<i>Financial investments in associates</i>	22,011	—	—	22,011
<i>Derivative financial assets over the equity of investees</i>	6,922	—	—	6,922
Total financial assets at fair value through profit or loss	28,933	—	—	28,933
Available-for-sale equity investments	24,334	—	—	24,334
Total financial assets measured at fair value	<u>53,267</u>	<u>—</u>	<u>—</u>	<u>53,267</u>
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss—				
derivative financial liabilities over the equity of investees	(3,275)	—	—	(3,275)
Total financial liabilities measured at fair value	<u>(3,275)</u>	<u>—</u>	<u>—</u>	<u>(3,275)</u>
	<u>January 1, 2007</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
<i>Financial investments in associates</i>	3,000			3,000
<i>Derivative financial assets over the equity of investees</i>	3,858	—	—	3,858
Total financial assets at fair value through profit or loss	6,858	—	—	6,858
Available-for-sale equity investments	—	—	—	—
Total financial assets measured at fair value	<u>6,858</u>	<u>—</u>	<u>—</u>	<u>6,858</u>
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss—derivative				
financial liabilities over the equity of investees	—	—	—	—
Total financial liabilities measured at fair value	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

28.8 Fair value hierarchy (Continued)

The balance of Level 3 measurements as of January 1, 2007 is reconciled to the balance of those measurements as of December 31, 2009 as follows:

	Balance as of January 1, 2007	Purchases	Sales	Settlements	Effect of acquisition of significant influence	Realised gains/ (losses)	Unrealised gains/ (losses)	Translation adjustment	Impairment	Balance as of December 31, 2007
Financial assets										
measured at fair value										
Financial assets at fair value through profit or loss:										
<i>Financial investments in associates</i>	3,000	28,887	—	—	—	81	(10,933)	976	—	22,011
<i>Derivative financial assets over the equity of investees</i>	3,858	2,379	—	—	—	—	407	278	—	6,922
Total financial assets at fair value through profit or loss	6,858	31,266	—	—	—	81	(10,526)	1,254	—	28,933
Available-for-sale equity investments	—	32,322	—	—	(8,735)	—	—	747	—	24,334
Total financial assets measured at fair value .	6,858	63,588	—	—	(8,735)	81	(10,526)	2,001	—	53,267
Financial liabilities										
measured at fair value										
Financial liabilities at fair value through profit or loss—derivative financial liabilities over the equity of investees .	—	(3,145)	—	—	—	—	(68)	(62)	—	(3,275)
Total financial liabilities measured at fair value .	—	(3,145)	—	—	—	—	(68)	(62)	—	(3,275)

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

28.8 Fair value hierarchy (Continued)

	Balance as of January 1, 2008	Purchases	Sales	Settlements	Effect of acquisition of significant influence	Realised gains/ (losses)	Unrealised gains/ (losses)	Translation adjustment	Impairment	Balance as of December 31, 2008
Financial assets measured at fair value										
Financial assets at fair value through profit or loss:										
<i>Financial investments in associates</i>	22,011	8,258	(2,007)	—	—	385	(12,930)	(2,427)	—	13,290
<i>Derivative financial assets over the equity of investees</i>	6,922	26	—	(4,786)	—	705	(1,153)	(329)	—	1,385
Total financial assets at fair value through profit or loss	28,933	8,284	(2,007)	(4,786)	—	1,090	(14,083)	(2,756)	—	14,675
Available-for-sale equity investments	24,334	—	—	—	(14,448)	—	—	(1,627)	(5,026)	3,233
Total financial assets measured at fair value	53,267	8,284	(2,007)	(4,786)	(14,448)	1,090	(14,083)	(4,383)	(5,026)	17,908
Financial liabilities measured at fair value										
Financial liabilities at fair value through profit or loss— derivative financial liabilities over the equity of investees	(3,275)	(1,187)	—	2,068	—	1,001	(219)	486	—	(1,126)
Total financial liabilities measured at fair value	(3,275)	(1,187)	—	2,068	—	1,001	(219)	486	—	(1,126)

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

28.8 Fair value hierarchy (Continued)

	Balance as of January 1, 2009	Purchases	Acquired through business combination	Sales	Settlements	Realised gains/ (losses)	Unrealised gains/ (losses)	Gain/(loss) recognised in other comprehensive income	Translation adjustment	Balance as of December 31, 2009
Financial assets measured at fair value										
Financial assets at fair value through profit or loss:										
<i>Assets related to</i>										
Class C shares . . .	—	93,330	—	—	—	—	—	—	4,033	97,363
Financial investments in associates	13,290	1,062	465	(911)	—	(225)	2,325	—	(207)	15,799
Derivative financial assets over the equity of investees . .	1,385	—	—	—	(2,395)	569	554	—	(101)	12
Total financial assets at fair value through profit or loss	14,675	94,392	465	(911)	(2,395)	344	2,879	—	3,725	113,174
Available-for-sale equity investments	3,233	207,262	—	—	—	—	—	320	9,234	220,049
Total financial assets measured at fair value	17,908	301,654	465	(911)	(2,395)	344	2,879	320	12,959	333,223
Financial liabilities measured at fair value										
Financial liabilities at fair value through profit or loss—										
Class C shares	—	(93,330)	—	—	—	—	—	—	(4,033)	(97,363)
Financial liabilities at fair value through profit or loss— derivative financial liabilities over the equity of investees . .	(1,126)	(1,235)	(6,510)	—	10,753	(3,188)	(2,162)	—	(1,064)	(4,532)
Total financial liabilities measured at fair value	(1,126)	(94,565)	(6,510)	—	10,753	(3,188)	(2,162)	—	(5,097)	(101,895)

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

28 Financial instruments (Continued)

28.9 Contingent contractual arrangements over the equity of certain investees

As of December 31, 2009 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 are 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 is 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, is 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 is 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, is to be executed at fair market value as defined by the relevant shareholders agreement.

29 Financial risk management objectives and policies

29.1 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 mainly through regular reviews of each strategic investee's operations and active participation of the Group in the financial and operating management of each strategic investee. 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 raise finances for the Group's strategic and venture capital 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.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

29 Financial risk management objectives and policies (Continued)

29.2 Risk management structure

The Group's senior management is responsible for identifying and controlling risks. Those activities are supervised by the Group's Management Board, the Group's governing body that is ultimately responsible for the overall risk management approach within the Group.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are 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.

29.3 Liquidity and financial resources

The Group uses cash from shareholders contributions, has sufficient cash and does not have any outstanding loans as of December 31, 2009. Trade and other payables are due on demand.

29.4 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

Financial assets, which potentially subject the Company and its subsidiaries and associates to credit risk, consist principally of cash and cash equivalents, short-term time deposits and short-term receivables. The total of these account balances represents the Group's maximum exposure to credit risk.

The Group places its cash and cash equivalents with highly rated financial institutions, which are considered at the time of deposit to have minimal risk of default. The Group does not require collateral or other security to support the financial instruments subject to credit risk. The Group does not enter into master netting arrangements to mitigate the credit risk of financial instruments, except for barter transactions for which there is no cash settlement. Accounts receivable from the largest customer represented 10% of total trade accounts receivable of the Group as of December 31, 2009 and 13% as of December 31, 2008. 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.

29.5 Capital management policy

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may make dividend payments to shareholders, return capital to shareholders or issue new shares. Currently, the Group requires capital to finance its growth, but it has sufficient cash from shareholders' contributions.

29.6 Market risk

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

The sensitivity analyses in the following sections relate to the position as at December 31, 2009, 2008 and 2007 and include the impact of movement in market variables on the financial instruments of the Group and its associates.

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

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

29 Financial risk management objectives and policies (Continued)

29.6.1 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.

	USD		EUR		GBP		UAH	
Change in rate 2009	15%	–15%	14%	–14%	17%	–17%	34%	–34%
Increase (decrease) in profit before tax . .	(18,438)	18,438	(2,000)	2,000	92	(92)	(930)	930
Change in rate 2008	+20%	–20%	—	—	—	—	—	—
Increase (decrease) in profit before tax . .	(19,285)	19,285	—	—	—	—	—	—
Change in rate 2007	+20%	–20%	—	—	—	—	—	—
Increase (decrease) in profit before tax . .	(2,077)	2,077	—	—	—	—	—	—

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

29.6.2 Equity price risk

The Group's unlisted 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.

At the reporting date, the Group's exposure to unlisted equity securities at fair value through profit or loss, 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 could have a negative impact of approximately USD 5,701 (2008—1,917, 2007—2,338) on the Group's pre-tax income, including a negative impact of USD 419 (2008—934, 2007—712) in connection with impairment of available-for-sale investments. A 500 basis point increase in the discount rate used in the valuation models could result in a negative impact of USD 10,187 (2008—3,013, 2007—4,322) on the Group's pre-tax income, including a negative impact of USD 929 (2008—1,111, 2007—1,313) in connection with impairment of available-for-sale investments. 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.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

30 Share-based payments

30.1 Share-based payment arrangements of the Company

DSTA Options

In December 2008, the Company granted to DSTA options to purchase 7,591 Class B shares of the Company (“DSTA options”). The options vest immediately upon grant and are exercisable through December 31, 2015. The options may be exercised either on a gross share basis or net share basis, whereby the option holder receives shares worth, at exercise price, the difference between the fair value of the shares at exercise date and the exercise price.

DSTA options can be either exercised by DSTA or re-assigned by DSTA at its discretion to any employee, officer, director, consultant of the Company, DSTA, any investee of the Company where the Company holds at least 15%, or any company managing the assets of the Company (“Permitted Designee”).

DSTA Officer Options 2008

In April 2008, pursuant to the 2007 Option Plan (see Note 16), the Company granted to a key officer of DSTA options to purchase 81 ordinary shares of the Company (“DSTA Officer Options 2008”), vesting immediately upon grant and exercisable on a gross share basis. The exercise period is through May 28, 2014 (unless extended by the board of directors of the Company).

The options have to be exercised

- (i) upon change of control in the Company;
- (ii) upon an initial public offering of the Company’s shares; or
- (iii) if the option holder ceases to be an employee of the Company, DSTA or any entity where the Company holds at least 20%

DSTA Officer Options 2009

In May 2009, pursuant to the 2007 Option Plan, the Company issued an aggregate of 109 options to purchase its shares to key employees of DSTA, vesting immediately upon grant and exercisable through December 31, 2015 on a gross share basis.

88 out of the 109 options were issued by the Company in replacement of DSTA Officer Options 2008. The terms of the option agreement of April 2008 are substantially the same as those of the option agreement of May 2009. Accordingly, the replacement of the 81 options did not have any accounting consequences. The remaining 28 options are hereinafter referred to as DSTA Officer Options 2009.

DSTIIS options

In May 2009, pursuant to the 2007 Option Plan, the Company issued 222 options (“DSTIIS Options”) to acquire its shares to a consultant of DSTA (“DSTIIS”), exercisable through December 31, 2015 on a gross share basis and vesting as follows:

Immediately	61
12/31/2009	41
12/31/2010	40
12/31/2011	40
12/31/2012	40

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

30 Share-based payments (Continued)

30.1 Share-based payment arrangements of the Company (Continued)

The fair value of DSTA Options, DSTA Officer Options 2008, DSTA Officer Options 2009 and DSTIIS Options was estimated at the respective grant dates using the Black-Scholes-Merton formula as summarised in the table below:

	<u>DSTA Officer Options 2008</u>	<u>DSTA Options</u>	<u>DSTA Officer Options 2009</u>	<u>DSTIIS options</u>
Number of options	81	7,591	28	222
Dividend yield, %	0%	0%	0%	0%
Expected volatility, %	63%	69%	74%	74%
Risk-free interest rate, %	2.1%	0.9%	1.0%	1.0%
Expected term, years	3.2	2.6	2.2	2.2
Share price (USD)	12,427.50	15,231.30	26,426.89	26,426.89
Fair value, total (USD '000)	479	31,725	486	3,853
Fair value per option (USD)	5,915.41	4,179.28	17,357.14	17,354.4

The expected volatility was determined by reference to peer companies' historical volatility, because the Company is not public.

The movements in share-based payments over the shares of the Company described above are summarised in the table below:

	<u>Number of shares</u>	<u>Exercise price (USD)</u>	<u>Number of shares</u>	<u>Exercise price (USD)</u>	<u>Number of shares</u>	<u>Exercise price (USD)</u>
	<u>2009</u>		<u>2008</u>		<u>2007</u>	
Outstanding as of January 1	7,672	26,268.01	—	—	—	—
Granted during the year						
<i>DSTA Options</i>	—	—	7,591	26,426.89	—	—
<i>DSTA Officer Options 2008</i>	—	—	81	11,378.83	—	—
<i>DSTA Officer Options 2009</i>	28	11,378.83	—	—	—	—
<i>DSTIIS Options</i>	222	11,378.83	—	—	—	—
Total granted	250	11,378.83	7,672	26,268.01	—	—
Forfeited during the year	—	—	—	—	—	—
Cancelled during the year	—	—	—	—	—	—
Outstanding as of December 31 . .	7,922	25,798.15	7,672	26,268.01	—	—
Exercisable as of December 31 . .	7,802		7,672		—	

The expense recognised by the Group with respect to the options over the shares of the Company described above is summarised under 27.1. The expense is included under 'Advisory fees' as part of 'Selling, general and administrative expenses' in the statement of comprehensive income.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

30 Share-based payments (Continued)

30.2 Share-based payment arrangements of the Company's subsidiaries and strategic associates

The table below shows the summary of share-based payments expenses for the Group's subsidiaries.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Port.ru Inc.	7,818	—	—
Astrum	7,011	—	—
Newton Rose	414	—	—
OGH	372	—	—
Total	<u>15,615</u>	<u>—</u>	<u>—</u>

The table below shows the summary of the Group's share in share-based payments expenses of the Group's associates.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Port.ru Inc.	—	681	642
Astrum	215	213	—
Newton Rose	22	258	18
OGH	293	—	81
Molotok	—	401	—
Forticom	975	—	—
	<u>1,505</u>	<u>1,553</u>	<u>741</u>

Port.ru Options

Prior to November 30, 2009 Port.ru had the following options granted for its shares:

<u>Number of shares</u>	<u>Range of Exercise Prices</u>	<u>WAEP</u>
498,809	3.00	
574,726	18.27	
<u>1,073,535</u>	<u>3.00 - 18.27</u>	<u>11.17</u>

The options were to become fully vested on December 21, 2009 and to expire on December 10, 2014.

On November 30, 2009—within Astrum—Port.ru merger arrangements—all of the above options became fully vested and were cancelled irrespective of their initial vesting period provisions. In exchange for options, the holder of those options was granted a replacement and new options in the following three tranches for the shares in Mail.Ru Internet NV:

	<u>Number of shares</u>	<u>Range of Exercise Prices</u>
Tranche 1	498,809	3.00
Tranche 2	574,726	18.27
Tranche 3	496,725	15.64
Total	<u>1,570,260</u>	<u>12.59</u>

Tranches 1 and 2 were granted in exchange for the cancelled options. The expiry dates of the tranches were extended to July 31, 2016 with all other options' parameters unchanged.

Tranche 3 represented newly granted options. 207,000 of the options in Tranche 3 became fully vested as of the grant date with the remaining half to become vested at January 1, 2011 in 13 equal installments.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

30 Share-based payments (Continued)

30.2 Share-based payment arrangements of the Company's subsidiaries and strategic associates (Continued)

The table below shows the fair value calculations for the modification of Port.ru options for tranches 1 and 2.

	Pre-modification		Post-modification	
	Tranche 1	Tranche 2	Tranche 1	Tranche 2
Stock Price (USD)	33.49	33.49	33.49	33.49
Exercise Price (USD)	3.00	18.27	3.00	18.27
Grant date	30.11.2009	30.11.2009	30.11.2009	30.11.2009
Expiry date	10.12.2014	10.12.2014	31.07.2016	31.07.2016
Expected life in years	5.03	5.03	6.67	6.67
Annualised volatility	70.91%	70.91%	70.91%	70.91%
Annual dividend rate	2.55%	2.55%	2.55%	2.55%
Discount Rate—Bond Equivalent Yield	5.394%	5.394%	5.394%	5.394%
Fair Value	<u>27.41</u>	<u>21.23</u>	<u>26.53</u>	<u>21.72</u>

The effect of the above modification is not significant.

The table below shows the fair value calculations for the newly granted options per Tranche 3.

	Tranche 3
Stock Price (USD)	33.49
Exercise Price (USD)	15.64
Grant date	30.11.2009
Expiry date	31.07.2016
Expected life in years	6.67
Annualised volatility	70.91%
Annual dividend rate	2.55%
Discount Rate—Bond Equivalent Yield	5.394%
Call Option Value	<u>22.33</u>

OGH/ Nival Options

In 2007-2009 OGH, the Group's subsidiary (associate prior to April 2009), granted stock options to its management. The programs assumed three grants of options with vesting dates through December 31, 2009 and expiration dates on December 31, 2011 and exercise prices of 1, 2 and 4 respectively.

On December 31, 2009, the Group signed a resolution terminating the options agreements and replacing them with cash compensation to be paid to employees. The fair value of the award was reclassified from equity to 'Other payables, provisions and accrued expenses' line of the consolidated statement of financial position in the amount of 3,708.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

30 Share-based payments (Continued)

30.2 Share-based payment arrangements of the Company's subsidiaries and strategic associates (Continued)

The following table illustrates the number and WAEP of share options during the year:

	Number of shares	WAEP	Number of shares	WAEP
	2009		2008	
Outstanding at the date of the acquisition	324	1,491	—	—
Granted during the year	225	4,000	—	—
Forfeited during the year	(5)	2,400	—	—
Cancelled during the year	(544)	2,520	—	—
Outstanding as of December 31	—		—	
Exercisable as of December 31	—		—	

31 Dividends paid by subsidiaries to non-controlling shareholders

In July and October 2009, Port.ru Inc. declared dividends out of which USD 20,419 was attributable to non-controlling shareholders of Port.ru. The dividend declared was fully paid in 2009.

In November 2009 Astrum and OGH declared dividends out of which USD 10,966 was attributable to non-controlling shareholders of Astrum and OGH. The amount of USD 1,950 was paid in cash and USD 9,016 was offset against exercise of options over the shares of Astrum by the non-controlling shareholders of Astrum.

In October 2009, Newton Rose declared a dividend out of which USD 448 was attributable to non-controlling shareholders of Newton Rose. The dividend declared to the non-controlling shareholders of Newton Rose was fully paid in 2009.

32 Events after the reporting period

32.1 Acquisition of Data Center

On February 25, 2010, the Group's 53% owned subsidiary acquired an additional 50% stake in Data Center M100 LLC ("Data Center") thus increasing its share to 100%.

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 below); 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).

The purchase agreement embeds 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 will not recognise this liability. Therefore, the Group will not recognise 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 put option contract gives the Group an option to sell the 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

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

32 Events after the reporting period (Continued)

32.1 Acquisition of Data Center (Continued)

option was fair valued at USD 3,126 (93.61 million roubles) at the date of acquisition using the Black-Sholes-Merton option pricing formula with the following inputs:

	As at February 25, 2010
Stock Price (in million roubles)	228
Exercise Price (in million roubles)	250
Grant date	25.02.2010
Expiry date	31.12.2014
Expected life in days	1,770
Annualised volatility	74.5%
Annual dividend rate	0
Discount Rate—risk-free rate	7.67%
Put Option Value (in million roubles)	93.61

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 has to be recognised separately from the business combination. Accordingly, the respective portion of consideration for the put option is to be excluded from the consideration transferred for the acquisition of Data Center.

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 provisional fair values of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3 (R)	15,218
Gain on bargain purchase	(749)

The provisional fair value of the identifiable assets and liabilities of Data Center as at the date of acquisition was:

Net assets acquired	Fair value
Property and equipment	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 is to be immediately recognised in the statement of comprehensive income.

32.2 Acquisition of Zynga shares

In February and March 2010, the Group acquired approximately 1.61% on a fully diluted basis in Zynga Game Network, Inc. ("Zynga"), a leading developer of social Internet games, for a cash consideration of USD 47,715.

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

32 Events after the reporting period (Continued)

32.3 Acquisition of Odnoklassniki shares

In April 2010, the Group acquired approximately 13.87% in Odnoklassniki for a cash consideration of USD 16,645.

32.4 Acquisition of additional Facebook shares

In February 2010, the Group acquired approximately 0.08% on fully diluted basis in Facebook for a cash consideration of USD 10,042.

32.5 Acquisition of ICQ LLC

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

The Group has not yet completed evaluation of the accounting for this transaction and is in the process of purchase price allocation. Therefore, no disclosure is presented related to the purchase price allocation.

32.6 Acquisition of Groupon, Inc. shares

In April 2010, the Group acquired approximately 5.5% on fully diluted basis in Groupon, Inc., a social e-commerce company, for a cash consideration of USD 75,011.

32.7 Acquisition of control over Forticom and Odnoklassniki

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 25,000;
- Ordinary (low voting) shares of the Group with the selling value of USD 30,000; and
- Transfer by Forticom of one of its subsidiaries to the selling party.

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

The Group has not yet completed evaluation of the accounting for these transactions and is in the process of determining acquisition accounting. Therefore, no disclosure is presented related to the acquisition accounting.

32.8 Acquisition of non-controlling interest in Mail.ru Internet NV

In August 2010, the Group increased its ownership in Mail.ru Internet NV to 99.93% in a series of transactions for a consideration consisting of (i) 20,209 Class A shares of the Company, (ii) 2,871 ordinary (low voting) shares of the Company and (iii) USD 26,548 in cash. 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 options over Mail.ru Internet NV shares were converted into options to acquire 1,323 ordinary shares of the Company at an exercise price of USD 13,813.16 per share. 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

32.9 Issue of shares to Tencent Holdings Limited

In April 2010, Tencent Holdings Limited represented by its subsidiary TCH Holdings Limited subscribed for 8,114 ordinary shares of the Company for a cash consideration of USD 300,002. 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. Each ordinary share has the right to

Digital Sky Technologies Limited
Notes to consolidated financial statements (Continued)

32 Events after the reporting period (Continued)

32.9 Issue of shares to Tencent Holdings Limited (Continued)

one vote and each Class A share has the right to 25 votes. The total authorised charter capital thereafter consisted of 5,000,000 Class A shares, 5,000,000 ordinary shares and 1,000,000 Class C shares \$0.01 each. Additionally, all options issued or issuable under the 2007 Option Plan 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 approximately 11.46% economic interest and approximately 0.52% voting interest in the Company.

32.10 Distribution of Assets related to Class C shares and cancellation of Class C shares

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.

32.11 Share-based payments

On July 12, 2010, the options over 57 ordinary shares of the Company granted to DSTA officers were terminated. On the same date, the options to acquire 166 ordinary shares of the Company at the exercise price of USD 11,378.83 were granted to the key officers and consultants of the Group and DSTA under the 2007 Option Plan. The granted options vested immediately. The total share-based payment expense to be recognised with respect to these options is estimated at USD 1,852.

32.12 Change in the Company's name

On September 1, 2010, the directors of the Company resolved to change the name of the Company from Digital Sky Technologies Limited to Mail.ru Group Limited. The name change has not been effected as of the date of these consolidated financial statements.

32.13 Stock split

On September 1, 2010, the directors of the Company resolved to effect a 1:2,000 stock split. The stock split has not been effected as of the date of these consolidated financial statements.

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Report on review of interim condensed consolidated financial statements

To the Shareholders of Digital Sky Technologies Limited.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Digital Sky Technologies Limited and its subsidiaries ('the Group'), comprising an interim consolidated statement of financial position as at June 30, 2010 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for each of the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Save for any responsibility arising under Prospectus Rule 5.5.4R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex X to the Commission Regulation (EC) 809/2004, consenting to its inclusion in the prospectus.

Scope of review

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

Conclusion

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

Declaration

For the purposes of Prospectus Rule 5.5.4R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex X of the Commission Regulation (EC) 809/2004.

September 28, 2010

Digital Sky Technologies Limited
Interim consolidated statement of financial position
As at June 30, 2010
(in thousands of US Dollars)

	Notes	As at June 30, 2010 Unaudited	As at December 31, 2009 Audited
Assets			
Non-current assets			
Investments in associates accounted for under the equity method		414,411	442,178
Goodwill		452,260	466,484
Other intangible assets	6	226,663	243,981
Property and equipment	7	24,386	8,543
Loans receivable		2,422	—
Available-for-sale financial assets	17	587,213	220,049
Financial assets at fair value through profit or loss	17	186,224	113,174
Deferred income tax asset		2,767	2,788
Other non-current assets		1,115	3,421
Total non-current assets		1,897,461	1,500,618
Current assets			
Trade accounts receivable		24,685	22,396
Loans receivable		1,875	1,875
Income tax receivable		1,044	24
Prepaid expenses		13,073	8,657
Other current assets	8	5,720	2,384
Short-term time deposits		4,894	960
Cash and cash equivalents		292,254	147,915
Total current assets		343,545	184,211
Total assets		2,241,006	1,684,829
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	14	1	1
Share premium		1,183,444	878,873
Retained earnings		551,048	558,367
Accumulated other comprehensive income/(loss)		27,713	(91,447)
Total equity attributable to equity holders of the parent		1,762,206	1,345,794
Non-controlling interests		126,961	130,846
Total equity		1,889,167	1,476,640
Non-current liabilities			
Financial liabilities at fair value through profit or loss	17	167,731	101,895
Deferred income tax liabilities		50,991	53,237
Deferred gain on acquisition of an available-for-sale investment below fair value	17	66,206	—
Total non-current liabilities		284,928	155,132
Current liabilities			
Trade accounts payable		10,077	8,644
Income tax payable		3,702	4,324
Other taxes payable		9,466	8,684
Deferred revenue		17,192	15,884
Other payables, provisions and accrued expenses	9	26,474	15,521
Total current liabilities		66,911	53,057
Total liabilities		351,839	208,189
Total equity and liabilities		2,241,006	1,684,829

The accompanying notes on pages F-108 to F-125 form an integral part of these interim condensed consolidated financial statements.

Digital Sky Technologies Limited
Interim consolidated statement of comprehensive income
For the six months ended June 30, 2010
(in thousands of US Dollars)

		For the six months ended	
	Note	June 30, 2010 Unaudited	June 30, 2009 Unaudited
Revenues	10	108,710	54,552
Cost of revenues	11	(25,661)	(12,157)
Gross margin		83,049	42,395
Net gain on venture capital investments and associated derivative financial assets and liabilities		1,579	1,187
Research and development expenses		(1,321)	(9)
Selling, general and administrative expenses	12	(53,216)	(33,590)
Depreciation and amortisation		(22,369)	(11,358)
Operating income/(loss)		7,722	(1,375)
Finance income		413	822
Net loss on derivative financial assets and liabilities over the equity of strategic investees		(741)	(1,120)
Net gain on acquisition of control in strategic associates		—	14,826
Net gain on disposal of shares in strategic associates		—	113,051
Net foreign exchange gain		10,744	12,071
Share of (loss)/profit of strategic associates		(12,352)	7,344
Gain on bargain purchase	5	749	—
Other losses		(1,099)	(3)
Profit before income tax expense		5,436	145,616
Income tax expense	13	(8,555)	(10,555)
Net (loss)/profit		(3,119)	135,061
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations		(63,184)	2,705
Unrealised holding gains on available-for-sale financial assets		172,435	224
Total other comprehensive income		109,251	2,929
Total comprehensive income		106,132	137,990
Net (loss)/profit attributable to:			
Equity holders of the parent		(7,319)	137,427
Non-controlling interest		4,200	(2,366)
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent		111,840	142,743
Non-controlling interest		(5,708)	(4,753)
Earnings/(loss) per share, in US Dollars			
Basic earnings/(loss) for the six months attributable to ordinary equity holders of the parent		(116.76)	2,471.51
Diluted earnings/(loss) for the six months attributable to ordinary equity holders of the parent		(118.35)	2,459.41

The accompanying notes on pages F-108 to F-125 form an integral part of these
interim condensed consolidated financial statements.

Digital Sky Technologies Limited
Interim consolidated statement of cash flows
For the six months ended June 30, 2010
(in thousands of US Dollars)

	Notes	For the six months ended	
		June 30, 2010 Unaudited	June 30, 2009 Unaudited
Cash flows from operating activities			
Profit before income tax		5,436	145,616
Adjustments for:			
Depreciation and amortisation		22,369	11,358
Bad debt expense		1,176	529
Net loss from changes in derivative financial assets and liabilities . . .		741	1,120
Net gain on acquisition of control in strategic associates		—	(14,826)
Net gain on disposal of shares in strategic associates		—	(113,051)
Loss on disposal of property and equipment and intangible assets . . .		108	119
Finance income		(413)	(822)
Dividend revenue from venture capital investments	10	(1,240)	(617)
Share of profit/(loss) of strategic associates		12,352	(7,344)
Gain on bargain purchase of subsidiary		(749)	—
Net foreign exchange gains		(10,744)	(12,071)
Share based payment expense		4,218	3,751
Other non-cash items		—	29
(Increase)/decrease in accounts receivable		(3,805)	1,928
Increase in advances		(2,676)	(1,118)
(Increase)/decrease in inventories		19	(22)
(Increase)/decrease in other assets		(2,109)	360
(Increase)/decrease in accounts payable, provisions and accrued expenses		6,902	(2,010)
Increase/(decrease) in deferred revenue		993	(2,797)
Increase in venture capital financial assets designated as at fair value through profit or loss		(5,641)	(1,935)
Increase in derivative financial liabilities over the equity of venture capital financial assets designated as at fair value through profit or loss		146	493
Operating cash flows before interest and income taxes		27,083	8,690
Dividends received from financial investments		1,302	786
Interest received, net of related bank commissions paid		171	646
Income tax paid		(8,975)	(7,123)
Net cash provided by operating activities		19,581	2,999

The accompanying notes on pages F-108 to F-125 form an integral part of these interim condensed consolidated financial statements.

Digital Sky Technologies Limited
Interim consolidated statement of cash flows (Continued)
For the six months ended June 30, 2010
(in thousands of US Dollars)

		For the six months ended	
	Notes	June 30, 2010 Unaudited	June 30, 2009 Unaudited
Cash flows from investing activities:			
Cash paid for investments in equity investees		—	(1,966)
Cash paid for available-for-sale investments and assets related to			
Class C shares	17	(149,412)	(200,000)
Cash paid for property and equipment		(7,441)	(1,901)
Cash paid for intangible assets		(8,178)	(3,877)
Cash paid for acquisitions of subsidiaries, net of cash acquired		(4,478)	(16,083)
Dividends received from equity investees		1,259	3,033
Disbursement of loans		(1,526)	(1,893)
Acquisition of short-term deposits		(3,807)	—
Proceeds from sales of short-term investments		1,580	17,143
Acquisition of other non-current assets		(202)	(48)
Net cash used in investing activities		(172,205)	(205,592)
Cash flows from financing activities:			
Cash paid for non-controlling interests in subsidiaries		—	(541)
Proceeds from issuance of common stock, net of share issuance costs			
paid	14	300,002	133,324
Proceeds from exercise of share options over the shares of the			
Company		171	—
Proceeds from issuance of Class C shares		—	66,660
Repayment of loans and promisory notes		—	(3)
Cash paid for treasury shares		—	(20,058)
Dividends paid by subsidiaries to non-controlling shareholders		(303)	—
Net cash provided by financing activities		299,870	179,382
Net increase/(decrease) in cash and cash equivalents		147,245	(23,211)
Effect of exchange differences on cash balances		(2,906)	2,919
Cash and cash equivalents at the beginning of the period		147,915	98,637
Cash and cash equivalents at the end of the period		292,254	78,345

The accompanying notes on pages F-108 to F-125 form an integral part of these interim condensed consolidated financial statements.

Digital Sky Technologies Limited
Interim consolidated statement of changes in equity
For the six months ended June 30, 2009
(in thousands of US Dollars, except share information)

	Notes	Share capital		Share premium	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total	Non-controlling interests	Total equity
		Number of shares issued and outstanding	Amount						
Balance at January 1, 2009		53,969	1	599,285	389,718	(125,562)	863,442	86,387	949,829
Profit/(loss) for the period		—	—	—	137,428	—	137,428	(2,366)	135,062
Other comprehensive income:									
Foreign currency translation		—	—	—	—	5,092	5,092	(2,387)	2,705
Unrealised holding gains on available-for-sale financial assets 17		—	—	—	—	223	223	—	223
Total other comprehensive income . .		—	—	—	—	5,315	5,315	(2,387)	2,928
Total comprehensive income		—	—	—	137,428	5,315	142,743	(4,753)	137,990
Shares issued for cash		5,045	0	133,324	—	—	133,324	—	133,324
Shares issued in business combinations		1,614	0	24,506	—	—	24,506	—	24,506
Other equity instruments issued in business combinations		—	—	1,856	—	—	1,856	—	1,856
Business combinations		—	—	—	—	—	—	42,338	42,338
Share-based payment transactions .		—	—	3,152	—	—	3,152	599	3,751
Share-based payment transactions by strategic associates		—	—	455	—	—	455	79	534
Other changes in net assets of strategic associates		—	—	49	—	—	49	—	49
Acquisitions of non-controlling interests in existing subsidiaries .		—	—	(412)	—	—	(412)	(127)	(539)
Repurchase of own shares		(759)	(0)	(20,058)	—	—	(20,058)	—	(20,058)
Balance at June 30, 2009		59,869	1	742,157	527,146	(120,247)	1,149,057	124,523	1,273,580

The accompanying notes on pages F-108 to F-125 form an integral part of these interim condensed consolidated financial statements.

Digital Sky Technologies Limited
Interim consolidated statement of changes in equity (continued)
For the six months ended June 30, 2010
(in thousands of US Dollars, except share information)

	Notes	Share capital		Share premium	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total	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
Profit/(loss) for the period		—	—	—	(7,319)	—	(7,319)	4,200	(3,119)
Other comprehensive income:									
Foreign currency translation . . .		—	—	—	—	(53,275)	(53,275)	(9,909)	(63,184)
Unrealised holding gains on available-for-sale financial assets	17	—	—	—	—	172,435	172,435	—	172,435
Total other comprehensive income .		—	—	—	—	119,160	119,160	(9,909)	109,251
Total comprehensive income . . .		—	—	—	(7,319)	119,160	111,841	(5,709)	106,132
Shares issued for cash		8,114	0	300,002	—	—	300,002	—	300,002
Share-based payment transactions		—	—	2,395	—	—	2,395	1,824	4,219
Share-based payment transactions by strategic associates		—	—	1,898	—	—	1,898	—	1,898
Exercise of options over the shares of the Company		15	—	171	—	—	171	—	171
Other changes in net assets of strategic associates		—	—	105	—	—	105	—	105
Balance at June 30, 2010		70,799	1	1,183,444	551,048	27,713	1,762,206	126,961	1,889,167

The accompanying notes on pages F-108 to F-125 form an integral part of these interim condensed consolidated financial statements.

Digital Sky Technologies Limited
Notes to interim condensed consolidated financial statements
For the six months ended June 30, 2010
(in thousands of US Dollars)

1 Corporate information and description of business

These interim condensed consolidated financial statements of Digital Sky Technologies Limited (hereinafter “the Company”) and its subsidiaries (collectively—“the Group”) for the six months ended June 30, 2010 were authorised for issue by the directors of the Company on September 28, 2010.

The Company was registered on May 4, 2005 in the Territory of the British Virgin Islands (“BVI”), pursuant to the International Business Companies 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 is a holding company holding businesses with Internet business models that are actively shaping the industry, including portals, social networking and communications, e-payment solutions, online marketplaces, massively multiplayer online role-play games (“MMORPG”) and social games. The Group and its associates have leading positions in the CIS states where they are present, including Russia, Ukraine, Kazakhstan, Georgia and Armenia.

2 Basis of preparation

2.1. Statement of compliance

The interim condensed consolidated financial statements for the six months ended June 30, 2010 have been prepared in accordance with IAS 34.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at December 31, 2009.

Digital Sky Technologies Limited

Notes to interim condensed consolidated financial statements (Continued)

2 Basis of preparation (Continued)

2.2. Significant accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2009, except for the adoption of new standards and interpretations as of January 1, 2010, listed below.

Standard	Content of change	Effect
IFRS 2 <i>Share-based Payment</i> (amendments), 'Group cash-settled and share-based payment transactions'.	In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2—Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.	The interpretation did not have any effect on the company's financial position or financial results.
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'.	The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.	The interpretation did not have significant effect on the company's financial position or financial results.
IAS 7 <i>Statement of Cash Flows</i> . Classification of expenditures on unrecognised assets	Only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.	The adjustments did not have significant effect on the company's financial position or financial results.
IAS 17 <i>Leases</i> . Classification of land and buildings	The specific guidance on classifying land as a lease has been removed so that only the general guidance remains.	The interpretation did not have any effect on the company's financial position or financial results.
IAS 36 <i>Impairment of Assets</i> . Unit of accounting for goodwill impairment testing	The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in IFRS 8 before aggregation for reporting purposes.	The interpretation did not have any effect on the company's financial position or financial results.
IFRIC 9 <i>Reassessment of Embedded Derivatives</i> . Scope of IFRIC 9 and IFRS 3	IFRIC 9 does not apply to possible reassessment at the date of acquisition to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation or a joint venture.	The interpretation did not have any effect on the company's financial position or financial results.
IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i> . Amendment of the restriction on the entity that can hold hedging instruments.	Qualifying hedging instruments may be held by any entity within the group, provided the designation, documentation and effectiveness requirements of IAS 39 are met.	The interpretation did not have any effect on the company's financial position or financial results.

Digital Sky Technologies Limited
Notes to interim condensed consolidated financial statements (Continued)

2 Basis of preparation (Continued)

2.2. Significant accounting policies (Continued)

Standard	Content of change	Effect
IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i>	The Interpretation provides guidance on the accounting for distribution of assets other than cash (non-cash assets) to owners. The Interpretation also discusses situations when an entity allows owners a choice whether to receive non-cash assets or their cash equivalents.	The interpretation did not have any effect on the company's financial position or financial results.
IAS 1 <i>Presentation of financial statements</i> (amendment).	The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.	The amendment did not have significant effect on the company's financial position or financial results.
IAS 39 <i>Financial Instruments: Recognition and Measurement—Eligible Hedged Items</i>	The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations.	The amendment did not have any effect on the company's financial position or financial results.
Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets	<p>Assessment of loan prepayment penalties as embedded derivatives:</p> <ul style="list-style-type: none"> A prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. <p>Scope exemption for business combination contract</p> <ul style="list-style-type: none"> The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, not derivative contracts where further actions are still to be taken. <p>Cash flow hedge accounting</p>	The amendment did not have any effect on the company's financial position or financial results.

Digital Sky Technologies Limited
Notes to interim condensed consolidated financial statements (Continued)

2 Basis of preparation (Continued)

2.2. Significant accounting policies (Continued)

Standard	Content of change	Effect
	<ul style="list-style-type: none"> Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss. 	
Various improvements to Financial Reporting Standards	Improvements to various Standards following the 2007 ‘Improvement to IFRSs’ project eliminate a number of inconsistencies in the current versions of International Financial Reporting Standards.	The amendment did not have any effect on the company’s financial position or financial results.

The Group has not early adopted any other Standard, Interpretation or amendment that was issued but is not yet effective.

3 Seasonality of operations

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

4 Operating segments

In reviewing the operational performance of the Group and allocating resources, the Management Board of the Company, which is the Group’s Chief Operating Decision Maker (“CODM”), reviews the following financial metrics of each operating segment:

- (1) Selected items of each segment’s statement of comprehensive income attributable to the Group, assuming 100% ownership in and consolidation of each of the Group’s key associates and subsidiaries, based on management reporting; intra-segment turnovers between entities forming the segment are not eliminated as they would be under IFRS;
- (2) Proportionate core revenue, defined as the total revenues of each operating segment per management reporting attributable to the Group, based on the Group’s fully diluted ownership (i.e. the ownership resulting from assumed exercise of all outstanding instruments of the respective investee) in each of the Group’s significant associates and subsidiaries as of the end of the most recent reporting period; and
- (3) Proportionate core net profit or loss defined as the total of net profits or losses of each operating segment based on management reporting attributable to the Group on a proportionate basis using the Group’s fully diluted ownership in each of the Group’s significant associates and subsidiaries as of the end of the most recent reporting period.

Management reporting is different from IFRS, because it does not include all adjustments affecting such major areas as revenue recognition, certain accruals, deferred taxation, share-based payments, business combinations, fair value adjustments and amortisation thereof, impairment, intrasegment eliminations.

The financial data is presented on a combined basis for all key subsidiaries and associates representing each segment added together forming the segment revenue and profit.

Digital Sky Technologies Limited

Notes to interim condensed consolidated financial statements (Continued)

4 Operating segments (Continued)

The identification of the Group's operating segments is based on the structure of Company's strategic investment portfolio. Accordingly, each key strategic investment which is either accounted under the equity method or consolidated is considered a separate segment. The Group has identified the following reportable segments:

- Port.ru, Inc. and Astrum Online Entertainment Limited and their subsidiaries and associates (collectively representing "Mail.ru" reportable segment), a portal and online games business;
- Odnoklassniki Limited and its subsidiaries (collectively representing "OK" reportable segment), a social network business;
- Newton Rose Limited and its subsidiaries and associates (collectively representing "Newton Rose" reportable segment), an online recruitment and job search business.
- VK.com Limited (Doraview Limited) and its subsidiaries and associates (collectively representing "VK" reportable segment), a social network business;
- OE Investments Limited and its subsidiaries and associates (collectively representing "OE" reportable segment), an electronic payment processing business; and
- Forticom Group Limited and its subsidiaries and associates, excluding Odnoklassniki Limited (collectively representing "Forticom" reportable segment), a social network business.

All segments, except for OE and Newton Rose, mainly derive their revenue from (a) providing Internet value-added services to individual and/or corporate customers; and (b) display and/or context advertising in the Internet. OE mainly derives its revenues from providing electronic payment processing services, and Newton Rose provides online recruitment and job search services.

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

The interim statement of comprehensive income items for each segment for the six months ended June 30, 2009, as presented to the CODM, are presented below:

	Mail.ru	OK	Newton Rose	VK	OE	Forticom
Total revenue	54,530	19,809	6,707	12,206	84,092	14,349
Total operating expenses	33,236	8,849	5,028	7,967	73,745	7,225
EBITDA*	21,294	10,960	1,679	4,239	10,347	7,124
Profit before income tax	18,465	9,756	950	3,063	9,775	6,535
Net profit	14,447	7,605	832	2,450	6,768	5,201

* Earnings before interest, tax, depreciation and amortisation ("EBITDA") is a performance metric reviewed by the CODM and calculated as revenue less operating expenses excluding depreciation and amortisation.

Attributable to:	Mail.ru	OK	Newton Rose	VK	OE	Forticom	Total segments
Non-controlling interests	658	—	260	—	(187)	897	
Equity holders of the parent	13,789	7,605	572	2,450	6,955	4,304	
Fully diluted ownership as at June 30, 2010	51.05%	61.09%	97.09%	24.99%	25.09%	72.95%	
	Mail.ru	OK	Newton Rose	VK	OE	Forticom	Total segments
Proportionate core revenue	27,838	12,101	6,511	3,050	21,099	10,468	81,067
Proportionate core net profit	7,039	4,646	555	612	1,745	3,140	17,737

Digital Sky Technologies Limited

Notes to interim condensed consolidated financial statements (Continued)

4 Operating segments (Continued)

A reconciliation of proportionate core revenue, as presented to the CODM, to the Group's consolidated revenue for the six months ended June 30, 2009 is presented below:

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total segments</u>	<u>Corporate, eliminations and other</u>	<u>Total</u>
Proportionate core revenue, as presented to the CODM	27,838	12,101	6,511	3,050	21,099	10,468	81,067	(2,267)	78,800
Reconciling items:									
Effect of equity accounting for associates, applying the acquisition method for subsidiaries and difference in dates of acquisition of control in subsidiaries	16,391	(12,441)	182	(2,421)	(21,099)	(11,436)	(30,824)	2,267	(28,557)
Differences in timing of revenue recognition	(146)	—	(1,083)	27	—	—	(1,202)	—	(1,202)
Net-off of revenues and expenses	—	—	—	(701)	—	—	(701)	—	(701)
Revenue of subsidiary disposed of in 2009	—	—	2,940	—	—	—	2,940	—	2,940
Barter revenue	351	756	—	—	—	1,057	2,164	—	2,164
Dividend revenue from venture capital investments	—	—	—	—	—	—	—	617	617
Other	327	(416)	624	45	—	(89)	491	—	491
Consolidated revenue	<u>44,761</u>	<u>—</u>	<u>9,174</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>53,935</u>	<u>617</u>	<u>54,552</u>

Digital Sky Technologies Limited

Notes to interim condensed consolidated financial statements (Continued)

4 Operating segments (Continued)

A reconciliation of proportionate core net profit for the six months ended June 30, 2009, as presented to the CODM, to IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis using June 30, 2010 ownership is presented below:

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total</u>
Proportionate core net profit attributable to the Group, as presented to the CODM	7,039	4,646	555	612	1,745	3,140	17,737
Effect of adjustments to reconcile investees' net profit presented to the CODM to their net profit under IFRS:							
Share-based payment expense	(873)	—	—	—	—	—	(873)
Amortisation of fair value adjustments to intangible assets and impairment of goodwill and other intangible assets	(2,229)	—	(337)	—	(484)	—	(3,050)
Deferred income tax benefit/(expense)	(2,396)	—	—	—	285	—	(2,111)
Gain/(loss) on derivative financial instruments held by investees	(1,178)	—	(2,472)	—	—	6,866	3,216
Effect of OK reported as a separate segment	—	—	—	—	—	857	857
Fair value adjustments related to acquisitions and disposals	14,501	—	—	—	—	—	14,501
Net foreign exchange gains (losses) and net interest income/(expense)	—	(319)	—	—	—	—	(319)
Other	139	(438)	(276)	(16)	(59)	(536)	(1,186)
Proportionate IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis as of June 30, 2010	15,003	3,889	(2,530)	596	1,487	10,327	28,772

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

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>
Total revenue	94,230	30,198	12,296	40,182	116,092	16,100
Total operating expenses	50,324	11,539	9,244	27,408	88,590	10,062
EBITDA	43,906	18,659	3,052	12,774	27,502	6,038
Profit before income tax	37,100	16,228	2,249	9,399	27,633	4,739
Net profit	30,249	12,735	1,711	7,349	20,349	3,232

<u>Attributable to:</u>	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>
Non-controlling interests	56	—	—	—	2,953	806
Equity holders of the parent	30,193	12,735	1,711	7,349	17,396	2,426
Fully diluted ownership as at June 30, 2010	51.05%	61.09%	97.09%	24.99%	25.09%	72.95%

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total segments</u>
Proportionate core revenue	48,104	18,448	11,938	10,041	29,128	11,745	129,404
Proportionate core net profit	15,413	7,780	1,661	1,837	4,365	1,770	32,826

Digital Sky Technologies Limited

Notes to interim condensed consolidated financial statements (Continued)

4 Operating segments (Continued)

A reconciliation of proportionate core revenue, as presented to the CODM, to the Group's consolidated revenue for the six months ended at June 30, 2010 is presented below:

	<u>Mail.ru</u>	<u>OK</u>	<u>Newton Rose</u>	<u>VK</u>	<u>OE</u>	<u>Forticom</u>	<u>Total segments</u>	<u>Corporate, eliminations and other</u>	<u>Total</u>
Proportionate core revenue, as presented to the CODM	48,104	18,448	11,938	10,041	29,128	11,745	129,404	(3,253)	126,151
Reconciling items:									
Effect of equity accounting for associates, applying the acquisition method for subsidiaries and difference in dates of acquisition of control in subsidiaries	46,429	(18,215)	372	(5,865)	(29,128)	(11,805)	(18,212)	3,253	(14,959)
Differences in timing of revenue recognition . . .	(427)	(148)	864	(293)	—	—	(4)	—	(4)
Net-off of revenues and expenses	—	—	(77)	(3,754)	—	—	(3,831)	—	(3,831)
Intrasegment revenue elimination	—	—	(220)	—	—	—	(220)	—	(220)
Barter revenue	403	—	—	—	—	244	647	—	647
Dividend revenue from venture capital investments	—	—	—	—	—	—	—	1,240	1,240
Other	342	(85)	(122)	(129)	—	(184)	(178)	(136)	(314)
Consolidated revenue . . .	94,851	—	12,755	—	—	—	107,606	1,104	108,710

Digital Sky Technologies Limited

Notes to interim condensed consolidated financial statements (Continued)

4 Operating segments (Continued)

A reconciliation of proportionate core net profit for the six months ended June 30, 2010, as presented to the CODM, to IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis using June 30, 2010 ownership is presented below:

	Mail.ru	OK	Newton Rose	VK	OE	Forticom	Total
Proportionate core net profit attributable to the Group, as presented to the CODM	15,413	7,780	1,661	1,837	4,365	1,770	32,826
Effect of adjustments to reconcile investees' net profit presented to the CODM to their net profit under IFRS:							
Share-based payment expense	(1,865)	—	—	—	—	(2,218)	(4,083)
Barter	226	—	—	—	—	—	226
Amortisation of fair value adjustments to intangible assets and impairment of goodwill and other intangible assets	(4,514)	—	(84)	—	(519)	(543)	(5,660)
Deferred income tax benefit/(expense)	(318)	(1,507)	—	—	—	(336)	(2,161)
Gain/(loss) on derivative financial instruments held by investees	—	—	217	—	—	(19,362)	(19,145)
Effect of OK reported as a separate segment	—	—	—	—	—	4,937	4,937
Net foreign exchange gains (losses) and net interest income/(expense)	(612)	—	408	—	—	—	(204)
Other	(972)	(167)	(786)	(273)	(238)	407	(2,029)
Proportionate IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis as of June 30, 2010	7,358	6,106	1,416	1,564	3,608	(15,345)	4,707

A reconciliation of IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis using June 30, 2010 ownership to the Group's consolidated net profit/(loss) for the six months ended June 30, 2010 and 2009 is presented below:

	Six months ended June 30	
	2010	2009
Proportionate IFRS net profit/(loss) of investees attributable to the Group, on a fully diluted basis as of June 30, 2010	4,707	28,770
Difference in shareholding percentages and acquisition dates of subsidiaries and associates	(2,284)	9,393
Amortisation of fair value adjustments to intangible assets and impairment of goodwill and other intangible assets	(3,859)	(4,095)
Fair value adjustments related to acquisitions and disposals	—	99,472
Gain on financial instruments at fair value through profit or loss	530	3,354
Corporate overheads	(16,038)	(12,651)
Net foreign exchange gains	12,554	10,151
Other	1,271	667
Consolidated net profit/(loss)	(3,119)	135,061

Digital Sky Technologies Limited
Notes to interim condensed consolidated financial statements (Continued)

5 Business combination

5.1 Data Center M100 LLC

On February 25, 2010, 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.

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 below); 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 is USD 10,038 (300 million roubles).

The purchase agreement embeds 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 recognise this liability. Therefore, the Group did not recognise 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 put option contract gives the Group an option to sell the 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 3,126 (93.61 million roubles) and USD 3,081 (96.12 million roubles) at the date of acquisition and at June 30, 2010, respectively, using the Black-Sholes-Merton option pricing formula with the following inputs:

	As at February 25, 2010	As at June 30, 2010
Stock Price (in million roubles)	228	228
Exercise Price (in million roubles)	250	250
Grant date	25.02.2010	25.02.2010
Expiry date	31.12.2014	31.12.2014
Expected life in days	1,770	1,645
Annualised volatility	74.5%	73.5%
Annual dividend rate	0	0
Discount Rate—risk-free rate	7.67%	6.89%
Put Option Value (in million roubles)	93.61	96.12

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 recognised 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.

Digital Sky Technologies Limited
Notes to interim condensed consolidated financial statements (Continued)

5 Business combination (Continued)

5.1 Data Center M100 LLC (Continued)

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 provisional fair values of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3 (R)	15,218
Gain on bargain purchase	(749)

Out of the total purchase price of USD 10,038 the Company paid USD 5,230 as of June 30, 2010. The remaining amount is recorded as payable for acquisition in the amount of USD 4,808.

The provisional fair value of the identifiable assets and liabilities of Data Center as at the date of acquisition was:

<u>Net assets acquired</u>	<u>Fair value</u>
Property and equipment	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 was immediately recognised in the statement of comprehensive income.

The Group recognised a gain in the amount of USD 84 due to the change in fair value of the put option contract in February-June 2010. The gain was recorded in the statement of comprehensive income under "*Net loss on derivative financial assets and liabilities over the equity of strategic investees*".

External revenue and net loss of Data Center for the six month ended June 30, 2010 from the date of acquisition was USD 216 and USD 527. If the combination had taken place at the beginning of the year, the Group's revenue would have been USD 108,807 and net loss would have been USD 3,198.

6 Intangible assets

During the six months ended June 30, 2010, the Group capitalised software development costs and otherwise acquired assets with a cost of USD 9,510 (2009: USD 4,308), excluding intangible assets and goodwill acquired through business combinations, which amounted to USD 0 in the six months ended June 30, 2010 and USD 265,040 in the six months ended June 30, 2009.

Assets with a net book value of USD 108 were disposed of by the Group during the six months ended June 30, 2010 (2009: USD 30), resulting in a net loss on disposal of USD 108 (2009: USD 0).

7 Property and equipment

During the six months ended June 30, 2010, the Group acquired assets with a cost of USD 7,438 (2009: USD 1,897), excluding property and equipment acquired through business combinations, which amounted to USD 11,740 in the six months ended June 30, 2010 and USD 1,821 in the six months ended June 30, 2009.

Digital Sky Technologies Limited
Notes to interim condensed consolidated financial statements (Continued)

8 Other current assets

Other current assets consist of the following:

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
VAT receivable	2,611	229
Other current assets	<u>3,109</u>	<u>2,155</u>
	<u>5,720</u>	<u>2,384</u>

9 Other payables, provisions and accrued expenses

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

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Accrued compensation	14,402	9,337
Advances received	4,428	1,837
Payables to non-controlling shareholders in a subsidiary	—	592
Accrued professional consulting expenses	2,049	2,707
Payable for acquisition of Data Center	4,808	—
Other current payables and provisions	<u>787</u>	<u>1,048</u>
Total	<u>26,474</u>	<u>15,521</u>

10 Revenues

	<u>Six months ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Internet value added services	55,993	20,227
Online advertising	38,592	24,511
Online recruitment services	11,429	8,221
Dividend revenue from venture capital investments	1,240	617
Other revenue	<u>1,456</u>	<u>976</u>
	<u>108,710</u>	<u>54,552</u>

In the six months ended June 30, 2010, the Group generated revenues in the amount of 1,391 from overseas royalty revenues. The Group enters into licensing arrangements with overseas licensees to operate the Group's games in other countries and regions. These licensing agreements provide two separate elements, each having commercial substance: the initial non-refundable fees and the usage-based royalty fees. The initial non-refundable payment represents the license of the game and is recognised as license revenue immediately once the games are launched into commercial use by the licensees. Ongoing usage-based royalties determined based on the amount of money charged to the players' accounts or services payable by players in a given country or region to the licensees are recognised when they are earned, provided that the collection is probable.

Digital Sky Technologies Limited
Notes to interim condensed consolidated financial statements (Continued)

11 Cost of revenues

	Six months ended June 30	
	2010	2009
Royalties and commissions to agents	8,211	2,573
Compensation expense	13,224	6,512
Cost of servers hosting	4,011	2,171
Other costs	215	901
	<u>25,661</u>	<u>12,157</u>

12 Selling, general and administrative expenses

	Six months ended June 30	
	2010	2009
Payroll	17,690	8,976
Share-based compensation expense	3,747	1,890
Rent of premises and related utility expenses	3,551	3,142
Advertising and related expenses	5,690	2,601
Advisory fees	13,323	12,096
Other professional fees	3,576	1,788
Other expenses	5,639	3,097
	<u>53,216</u>	<u>33,590</u>

For further details in respect of Advisory fees please refer to Note 16.1.

13 Income tax

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

	Six months ended June 30	
	2010	2009
Current income tax expense	9,196	4,800
Deferred income tax expense/(benefit)	(641)	5,755
	<u>8,555</u>	<u>10,555</u>

Reconciliation between tax expense and the product of accounting profit multiplied by BVI's domestic tax rate for the six months ended June 30, 2010 and 2009 is as follows:

	Six months ended June 30	
	2010	2009
Profit before income tax expense	5,436	145,616
Income tax expense computed at statutory tax rate of 0%	—	—
Foreign tax rate differential	(3,590)	(2,729)
Non-deductible share-based compensation expense	(931)	(358)
Tax on unremitted earnings	(2,881)	(7,072)
Other non-deductible expenses	(1,153)	(396)
Total income tax expense	<u>(8,555)</u>	<u>(10,555)</u>

Digital Sky Technologies Limited

Notes to interim condensed consolidated financial statements (Continued)

14 Share capital

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 300,002. 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. Each ordinary share has the right to one vote and each Class A share has the right to 25 votes. The total authorised charter capital thereafter consisted of 5,000,000 Class A shares, 5,000,000 ordinary shares and 1,000,000 Class C shares \$0.01 each. Additionally, all options issued or issuable under the 2007 Option Plan 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.

15 Commitments, contingencies and operating risks

15.1 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. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilisation measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

15.2 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 2009 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

Digital Sky Technologies Limited
Notes to interim condensed consolidated financial statements (Continued)

15 Commitments, contingencies and operating risks (Continued)

15.2 Taxation (Continued)

varying interpretations. Therefore, there is a risk that related arrangements of the Group may be challenged by the taxing authorities and may result in additional taxes for the Group.

The Group's management believes that its interpretation of the relevant legislation is appropriate and 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 maximum effect of additional taxes, fines and penalties on these interim condensed consolidated financial statements, if the authorities were successful in enforcing their different interpretations, could be significant and amount up to USD 18,800.

16 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 (see below). All related party transactions were made in accordance with contractual terms and conditions on an arm's lengths basis.

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Six months ended June 30, 2010				
Strategic associates	1,948	58	2,875	—
Other entities	—	18	60	15
Six months ended June 30, 2009				
Strategic associates	1,869	22	2,514	18
Other entities	54	1	29	43

16.1 Investment advisor—DST Advisors Limited—other related party

Under the terms of the agreement dated January 1, 2007, DST Advisors Limited ("DSTA") is 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 amount to an aggregate of 1.5% per annum of the Company's equity (calculated in accordance with the agreement mentioned above) and are payable quarterly in advance.

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

	Six months ended June 30,	
	2010	2009
Advisory fees	12,852	10,235
Share-based payment expense	471	1,861
Total	13,323	12,096

16.2 The ultimate parent

The Company has no ultimate parent.

Digital Sky Technologies Limited
Notes to interim condensed consolidated financial statements (Continued)

17 Financial instruments—fair value hierarchy

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

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

As at June 30, 2010 and 2009, the Group held the following financial instruments measured at fair value:

	June 30, 2010	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
<i>Assets related to Class C shares</i>	162,330	—	—	162,330
<i>Financial investments in associates</i>	20,802	—	—	20,802
<i>Derivative financial assets over the equity of investees</i>	3,092	—	—	3,092
Total financial assets at fair value through profit or loss	186,224	—	—	186,224
Available-for-sale equity investments	587,213	—	—	587,213
Total financial assets measured at fair value	773,437	—	—	773,437
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss—				
Class C shares	(162,330)	—	—	(162,330)
Financial liabilities at fair value through profit or loss—				
derivative financial liabilities over the equity of investees	(5,401)	—	—	(5,401)
Total financial liabilities measured at fair value	(167,731)	—	—	(167,731)
	June 30, 2009	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
<i>Assets related to Class C shares</i>	67,018	—	—	67,018
<i>Financial investments in associates</i>	15,039	—	—	15,039
<i>Derivative financial assets over the equity of investees</i>	26	—	—	26
Total financial assets at fair value through profit or loss	82,083	—	—	82,083
Available-for-sale equity investments	137,518	—	—	137,518
Total financial assets measured at fair value	219,601	—	—	219,601
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss—				
Class C shares	(67,018)	—	—	(67,018)
Financial liabilities at fair value through profit or loss—				
derivative financial liabilities over the equity of investees	(12,221)	—	—	(12,221)
Total financial liabilities measured at fair value	(79,239)	—	—	(79,239)

Digital Sky Technologies Limited

Notes to interim condensed consolidated financial statements (Continued)

17 Financial instruments—fair value hierarchy (Continued)

The balance of available-for-sale equity investments as of December 31, 2009 is reconciled to the balance of those investments as of June 30, 2010 as follows:

	Balance as of December 31, 2009	Purchases	Deferred gain on acquisition below fair value	Gain/(loss) recognised in other comprehensive income	Translation adjustment	Balance as of June 30, 2010
Facebook	216,573	10,042	—	172,302	(13,040)	385,877
CED	3,476	—	—	133	(111)	3,498
Groupon	—	75,011	—	—	(5,445)	69,566
Zynga	—	47,715	—	—	(1,279)	46,436
Odnoklassniki	—	16,645	70,503	—	(5,312)	81,836
Total available-for-sale equity investments	220,049	149,413	70,503	172,435	(25,187)	587,213

The balances of financial assets and liabilities at fair value through profit and loss as of December 31, 2009 are reconciled to the balances of those assets and liabilities as of June 30, 2010 as follows:

	Balance as of December 31, 2009	Purchases	Acquired through business combination	Gain/(loss) recognised in earnings	Translation adjustment	Balance as of June 30, 2010
Assets related to Class C shares	97,363	—	—	70,485	(5,517)	162,331
Financial investments in associates	15,799	3,958	—	1,726	(682)	20,801
Derivative financial assets over the equity of investees	12	—	3,113	83	(116)	3,092
Total financial assets measured at fair value	113,174	3,958	3,113	72,294	(6,315)	186,224
Financial liabilities at fair value through profit or loss— Class C shares	(97,363)	—	—	(70,485)	5,517	(162,331)
Financial liabilities at fair value through profit or loss— derivative financial liabilities over the equity of investees	(4,532)	—	—	(971)	103	(5,400)
Total financial liabilities measured at fair value	(101,895)	—	—	(71,456)	5,620	(167,731)

18 Events after the reporting period

18.1 Acquisition of ICQ LLC

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

The Group has not yet completed evaluation of the accounting for this transaction and is in the process of determining acquisition accounting. Therefore, no disclosure is presented related to the acquisition accounting.

Digital Sky Technologies Limited
Notes to interim condensed consolidated financial statements (Continued)

18 Events after the reporting period (Continued)

18.2 Acquisition of control over Forticom and Odnoklassniki

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 25,000;
- Ordinary (low voting) shares of the Group with the selling value of USD 30,000; and
- Transfer by Forticom of one of its subsidiaries to the selling party.

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

The Group has not yet completed evaluation of the accounting for these transactions and is in the process of determining acquisition accounting. Therefore, no disclosure is presented related to the acquisition accounting.

18.3 Acquisition of non-controlling interest in Mail.ru Internet NV

In August 2010, the Group increased its ownership in Mail.ru Internet NV to 99.93% in a series of transactions for a consideration consisting of (i) 20,209 Class A shares of the Company, (ii) 2,871 ordinary (low voting) shares of the Company and (iii) USD 26,548 in cash. 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 options over Mail.ru Internet NV shares were converted into options to acquire 1,323 ordinary shares of the Company at an exercise price of USD 13,813.16 per share. 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.

18.4 Distribution of Assets related to Class C shares and cancellation of Class C shares

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.

18.5 Share-based payments

On July 12, 2010, the options over 57 ordinary shares of the Company granted to DSTA officers were terminated. On the same date, the options to acquire 166 ordinary shares of the Company under the 2007 Option Plan at the exercise price of USD 11,378.83 were granted to the key officers and consultants of the Group and DSTA. The granted options vested immediately. The total share-based payment expense to be recognised with respect to these options is estimated at USD 1,852.

18.6 Change in the Company's name

On September 1, 2010, the directors of the Company resolved to change the name of the Company from Digital Sky Technologies Limited to Mail.ru Group Limited. The name change has not been effected as of the date of these interim condensed consolidated financial statements.

18.7 Stock split

On September 1, 2010, the directors of the Company resolved to effect a 1:2,000 stock split. The stock split has not been effected as of the date of these interim condensed consolidated financial statements.

ANNEX—SELECTED STATISTICAL DATA

The following tables summarise selected statistical data derived from the third-party sources indicated for all data other than monthly paying users, which is extracted from company data.

We believe that the statistical data and projections cited herein are useful in helping investors understand the major trends in the Russian Internet industry and differences between the Russian Internet market and similar markets in other countries. However, we have not independently verified these figures and the youth of the Internet industry, particularly in Russia, and its rapidly evolving nature make it difficult to obtain precise and accurate statistics. Such information, data and statistics may be approximations or estimates or use rounded numbers. Different providers of statistics may provide different data for similarly-titled measures due to differences in terminology, research methodology or other factors. Because there is no single source for all of the statistics we present, we cite a variety of different sources. In some cases, to calculate percentages the numerator and denominator may come from different sources, or involve extrapolation from or combinations of multiple sources. The resulting figures are necessarily approximations. You should not place undue reliance on the statistical data cited in this prospectus. Similarly, the third-party estimates of future market growth cited herein are subject to significant risks and uncertainties that could cause actual data to differ materially from the projected amounts. No assurance can be given that the estimated figures will be achieved, and you should not place undue reliance on the third-party estimates we cite.

We confirm that the third party information included herein has been accurately reproduced and that as far as we are aware, and are able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. We note that neither these independent third party sources nor the Underwriters accept liability for the accuracy of any such information, and prospective investors are advised to consider such information with caution.

Average Daily Unique Users/Visitors (Russia) (millions)

Asset	2009							2010		
	Q109	Q209	H109	Q309	Q409	H209	2009	Q110	Q210	H110
<i>Group companies and equity affiliates</i>										
OK	4.9	4.6	4.7	4.4	5.1	4.8	4.7	5.7	5.5	5.6
My World	2.3	2.3	2.3	2.9	4.2	3.5	2.9	5.0	5.0	5.0
VK	6.9	7.1	7.0	7.6	9.6	8.6	7.8	10.4	10.7	10.5
Mail.ru (email)	6.6	6.7	6.6	6.9	8.6	7.8	7.2	9.2	9.4	9.3
Mail.ru (portal)	8.1	8.3	8.2	8.6	10.6	9.6	8.9	11.5	11.7	11.6
Mail.ru (search)	1.0	1.2	1.1	1.3	1.8	1.5	1.3	1.7	1.6	1.6
<i>Competitors</i>										
Yandex	8.3	8.7	8.5	9.2	11.5	10.4	9.4	12.8	13.2	13.0
Rambler	3.3	3.1	3.2	3.0	3.5	3.2	3.2	3.6	3.5	3.5
LiveJournal	1.4	1.4	1.4	1.5	1.9	1.7	1.6	2.0	2.1	2.1
RBC	0.0	2.7	1.3	2.5	3.0	2.8	2.1	3.0	2.9	3.0

Source: TNS Gallup

Average Monthly Unique Users/Visitors (Russia) (millions)

Asset	2009							2010		
	Q109	Q209	H109	Q309	Q409	H209	2009	Q110	Q210	H110
<i>Group companies and equity affiliates</i>										
OK	13.1	12.4	12.8	12.9	14.1	13.5	13.1	15.3	15.2	15.3
My World	10.1	9.9	10.0	12.5	15.7	14.1	12.0	18.1	18.1	18.1
VK	13.3	13.6	13.4	15.0	17.3	16.1	14.8	18.5	19.4	19.0
Mail.ru (email)	15.6	15.7	15.6	16.8	18.6	17.7	16.7	20.0	20.6	20.3
Mail.ru (portal)	18.3	18.4	18.4	19.5	21.9	20.7	19.5	23.4	24.1	23.8
Mail.ru (search)	5.8	6.5	6.1	7.4	9.4	8.4	7.3	9.7	9.4	9.6
<i>Competitors</i>										
Yandex	18.6	18.8	18.7	20.1	22.3	21.2	19.9	23.8	24.9	24.4
Rambler	12.1	11.1	11.6	11.5	13.3	12.4	12.0	13.6	13.8	13.7
LiveJournal	9.3	9.5	9.4	10.5	12.7	11.6	10.5	13.1	13.4	13.2
RBC	0.0	13.9	6.9	14.5	16.9	15.7	11.3	17.4	16.9	17.1

Source: TNS Gallup

Total Monthly Page Views (Russia) (millions)

Asset	2009							2010		
	Q109	Q209	H109	Q309	Q409	H209	2009	Q110	Q210	H110
<i>Group companies and equity affiliates</i>										
OK	5,223	4,093	4,658	1,113	1,141	1,127	2,893	1,136	1,138	1,137
My World	1,857	2,115	1,986	1,971	3,028	2,500	2,243	4,130	4,301	4,215
VK	37,675	37,050	37,362	41,839	48,362	45,101	41,231	48,725	47,017	47,871
Mail.ru (email)	2,866	2,881	2,873	2,950	4,013	3,481	3,177	4,072	3,915	3,994
Mail.ru (portal)	7,710	7,770	7,740	8,213	10,358	9,285	8,513	11,581	11,633	11,607
Mail.ru (search)	199	217	208	245	355	300	254	281	253	267
<i>Competitors</i>										
Yandex	4,605	4,920	4,762	5,076	6,725	5,900	5,331	7,512	7,590	7,551
Rambler	1,681	1,530	1,605	1,557	1,682	1,619	1,612	1,801	1,715	1,758
LiveJournal	529	487	508	504	618	561	534	732	690	711
RBC	0	1,153	576	966	1,078	1,022	799	1,064	1,090	1,077

Source: comScore

Average Monthly Unique Users/Visitors (Global) (millions)

Asset	2009							2010		
	Q109	Q209	H109	Q309	Q409	H209	2009	Q110	Q210	H110
<i>Group companies and equity affiliates</i>										
OK	NA	NA	NA	14.9	16.2	15.5	15.5	17.8	20.4	19.1
My World	NA	9.7	9.7	11.3	13.4	12.4	11.7	14.2	15.9	15.0
VK	NA	20.9	20.9	21.8	24.4	23.1	22.6	27.1	38.2	32.7
Mail.ru (email)	NA	18.3	18.3	19.0	20.9	19.9	19.5	21.6	25.0	23.3
Mail.ru (portal)	NA	29.7	29.7	30.6	33.0	31.8	31.3	35.0	39.0	37.0
Mail.ru (search)	NA	9.7	9.7	11.7	12.7	12.2	11.6	12.3	13.6	13.0
<i>Competitors</i>										
Yandex	NA	26.9	26.9	30.1	33.0	31.6	30.4	36.3	42.0	39.1
Rambler	NA	15.5	15.5	18.8	20.5	19.6	18.6	19.8	17.3	18.5
LiveJournal	NA	1.6	1.6	1.2	26.5	13.8	10.8	24.5	25.4	24.9
RBC	NA	4.5	4.5	4.5	4.8	4.7	4.6	4.9	4.8	4.8

Source: comScore

Monthly Minutes of Usage Per Unique User (Global) (minutes)

Asset	2009							2010		
	Q109	Q209	H109	Q309	Q409	H209	2009	Q110	Q210	H110
<i>Group companies and equity affiliates</i>										
OK	NA	NA	NA	236	265	251	251	275	305	290
My World	NA	78	78	55	56	55	61	59	52	56
VK	NA	397	397	446	447	447	434	460	480	470
Mail.ru (email)	NA	35	35	35	39	37	37	37	37	37
Mail.ru (portal)	NA	94	94	90	94	92	93	94	91	93
Mail.ru (search)	NA	5	5	4	3	3	4	6	5	5
<i>Competitors</i>										
Yandex	NA	54	54	52	51	51	52	44	45	45
Rambler	NA	28	28	30	32	31	30	31	35	33
LiveJournal	NA	8	8	9	9	9	8	13	14	14
RBC	NA	22	22	20	23	22	22	25	27	26

Source: comScore

Monthly Paying Users

	2008	2009							2010		
	2008	Q109	Q209	H109	Q309	Q409	H209	2009	Q110	Q210	H110
Mail.ru											
MMO Games	29	92	101	96	110	145	127	112	167	168	167
Community IVAS	N/A	253	245	249	366	635	501	375	919	1,010	965
OK	232	700	696	698	711	868	790	744	1,042	957	1,000

Source: Company data

MMO Paying Users (Top Three)

	2009							2010		
	Q109	Q209	H109	Q309	Q409	H209	2009	Q110	Q210	H110
Legend	18,686	17,020	17,853	17,225	18,233	17,729	17,791	16,585	19,819	18,202
Allods Online	—	—	—	—	—	—	19,623*	16,091	21,560	18,826
Perfect World	32,514	42,038	37,276	47,353	57,753	52,553	44,915	68,197	63,121	65,659

Source: Company data

(*) Average for November and December 2009

MMO Active Users (Top Three)

	2009							2010		
	Q109	Q209	H109	Q309	Q409	H209	2009	Q110	Q210	H110
Legend	78,512	82,585	80,548	90,383	100,312	95,347	87,948	96,555	102,198	99,376
Allods Online	—	—	—	—	—	—	62,734*	75,903	68,088	71,996
Perfect World	138,956	167,999	153,478	196,360	216,248	206,304	179,891	245,590	282,407	263,999

Source: Company data

(*) Average for November and December 2009

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