
Yandex

2013 Annual Report

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
OR
- SHELL COMPANY PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report _____
Commission file number: 001-35173

YANDEX N.V.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name in English)

The Netherlands

(Jurisdiction of incorporation or organization)

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

Class A Ordinary Shares

NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act. **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. **Class A Ordinary Shares**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report.(1)

Title of each class

Number of shares outstanding

Class A

256,998,308

Class B

72,923,447

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note—checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards

Other

as issued by the International Accounting

Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN
BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

- (1) In addition, we had 23,110,819 Class C shares issued and fully paid as of December 31, 2013. Our Class C shares are issued from time to time solely for technical purposes, to facilitate the conversion of our Class B shares into Class A shares. They are held by a Conversion Foundation managed by members of our Board of Directors. For the limited period of time during which any Class C shares are outstanding, they will be voted in the same proportion as votes cast by holders of our Class A and Class B shares, so as not to influence the outcome of any vote.

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In this Annual Report on Form 20-F (this “Annual Report”), references to “Yandex,” the “company,” “we,” “us,” or similar terms are to Yandex N.V. and, as the context requires, its wholly owned subsidiaries.

Our consolidated financial statements are prepared in accordance with U.S. GAAP and are expressed in Russian rubles. In this Annual Report, references to “rubles” or “RUR” are to Russian rubles, and references to “U.S. dollars” or “\$” are to United States dollars.

Our fiscal year ends on December 31 of each year. References to any specific fiscal year refer to the year ended December 31 of the calendar year specified.

This Annual Report includes market data reported by comScore (February 2014), Liveinternet.ru (March 2014), Public Opinion Foundation of Russia (FOM) (January 2014), ZenithOptimedia (December 2012), Russian Association of Communications Agencies (AKAR) (February 2014), InternetWorldStats (June 2013), and the Russian Federal State Statistics Service (Rosstat) (January 2014). Our search market share in Turkey is based on comScore of qSearch data (January 2014).

Forward-Looking Statements

This Annual Report contains forward-looking statements that involve risks and uncertainties. Words such as “project,” “believe,” “anticipate,” “plan,” “expect,” “estimate,” “intend,” “should,” “would,” “could,” “will,” “may” or other words that convey judgments about future events or outcomes indicate such forward-looking statements. Forward-looking statements in this Annual Report may include statements about:

- the expected growth of the internet search and advertising markets and the number of internet and broadband users in the countries in which we operate;
- competition in the internet search market in the countries in which we operate;
- our anticipated growth and investment strategies;
- our future business development, results of operations and financial condition;
- expected changes in our margins and certain cost or expense items in absolute terms or as a percentage of our revenues;
- our ability to attract and retain users, advertisers and partners; and
- future advertising supply and demand dynamics.

The forward-looking statements included in this Annual Report are subject to risks, uncertainties and assumptions. Our actual results of operations may differ materially from those stated in or implied by such forward-looking statements as a result of a variety of factors, including those described under Part I, Item 3.D. “Risk Factors” and elsewhere in this Annual Report.

We operate in an evolving environment. New risks emerge from time to time, and it is not possible for our management to predict all risks, nor can we assess the effect of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I.

Item 3. Key Information.

A. Selected Consolidated Financial and Statistical Data

The selected consolidated statements of income data for the years ended December 31, 2011, 2012 and 2013 and the selected consolidated balance sheet data as of December 31, 2012 and 2013 are derived from our audited consolidated financial statements appearing elsewhere in this Annual Report. The selected consolidated balance sheet data as of December 31, 2011 and consolidated statements of income data for the years ended December 31, 2009 and 2010 are derived from our audited consolidated financial statements that are not included in this Annual Report. The selected consolidated balance sheet data as of December 31, 2009 and 2010 are derived from our unaudited consolidated balance sheet as represented for the reclassification of Yandex.Money's balances into assets held for sale and liabilities related to assets held for sale to reflect current period presentation. When we represented the consolidated balance sheets as of December 31, 2009 and 2010, we did not have them re-audited.

Ruble amounts have been translated into U.S. dollars at a rate of RUR 32.7292 to \$1.00, the official exchange rate quoted as of December 31, 2013 by the Central Bank of the Russian Federation. Such U.S. dollar amounts are not necessarily indicative of the amounts of U.S. dollars that could actually have been purchased upon exchange of Russian rubles at the dates indicated, and have been provided solely for the convenience of the reader. On March 31, 2014, the exchange rate was RUR 35.6871 to \$1.00. See "Risk Factors—Fluctuations in currency exchange rates, particularly depreciation of the Russian ruble, may materially adversely affect our business, financial condition and results of operations."

The following selected consolidated financial data should be read in conjunction with our "Operating and Financial Review and Prospects" and our consolidated financial statements and the related notes appearing elsewhere in this Annual Report. Our financial statements are prepared in

accordance with U.S. GAAP. These historic financial results are not necessarily indicative of the results to be expected in any future period.

	Year ended December 31,					
	2009	2010	2011	2012	2013	
	RUR	RUR	RUR	RUR	RUR	\$
(in millions, except share and per share data)						
Consolidated statements of income data:						
Revenues:	8,729	12,500	20,033	28,767	39,502	1,206.9
Operating costs and expenses:						
Cost of revenues(1) . . .	2,086	2,585	4,707	7,188	10,606	324.1
Product development(1)	1,619	2,073	3,124	4,274	5,827	178.0
Sales, general and administrative(1)	1,474	1,838	3,294	4,900	6,537	199.7
Depreciation and amortization	912	1,181	1,874	2,951	3,695	112.9
Total operating costs and expenses	6,091	7,677	12,999	19,313	26,665	814.7
Income from operations	2,638	4,823	7,034	9,454	12,837	392.2
Interest income	67	156	222	1,002	1,717	52.5
Other (expense)/income, net(2)	(23)	24	62	118	2,159	65.9
Net income before income taxes	2,682	5,003	7,318	10,574	16,713	510.6
Provision for income taxes	672	1,186	1,545	2,351	3,239	98.9
Net income	2,010	3,817	5,773	8,223	13,474	411.7
Net income per Class A and Class B share:						
Basic	6.63	12.56	18.30	25.21	41.25	1.26
Diluted	6.52	12.37	17.59	24.50	40.27	1.23
Weighted average number of Class A and Class B shares outstanding:						
Basic	303,109,083	303,817,388	315,541,639	326,210,948	326,657,778	326,657,778
Diluted	308,156,196	308,580,600	328,155,087	335,690,596	334,571,212	334,571,212

(1) These amounts exclude depreciation and amortization expense, which is presented separately, and include share-based compensation expense of:

	2009	2010	2011	2012	2013	
	RUR	RUR	RUR	RUR	RUR	\$
Cost of revenues	10	16	26	33	61	1.9
Product development	60	87	153	221	435	13.3
Sales, general and administrative	139	57	150	122	258	7.9

(2) A major component of other (expense)/income is foreign exchange gains and losses generally resulting from changes in the value of the U.S. dollar compared with the Russian ruble. Because the functional currency of our operating subsidiaries in Russia is the Russian ruble, changes in the ruble value of these subsidiaries' monetary assets and liabilities that are denominated in other currencies (primarily U.S.

dollar-denominated cash, cash equivalents and term deposits maintained in Russia) due to exchange rate fluctuations are recognized as foreign exchange gains or losses in our income statement. For example, in 2013, other income includes RUR 127 million of foreign exchange gains arising from the appreciation of the U.S. dollar compared to the Russian ruble in that year. Although the U.S. dollar value of our U.S. dollar-denominated cash, cash equivalents and term deposits was not impacted by this appreciation, it resulted in an upward re-valuation of the ruble equivalent of these U.S. dollar-denominated monetary assets. Similarly, in periods where the U.S. dollar depreciates compared to the Russian ruble, we incur foreign exchange losses resulting from the downward revaluation of these assets. Other income also includes other non-operating gains and losses. In 2013, other income included a RUR 2,035 million gain from our sale of a 75% (less one ruble) interest in Yandex.Money to Sberbank.

	As of December 31,					
	2009	2010	2011	2012	2013	
	RUR	RUR	RUR	RUR	RUR	\$
	(in millions)					
Consolidated balance sheet data(1):						
Cash and cash equivalents	2,199	3,025	5,930	7,425	33,394	1,020.3
Term deposits (current and non-current)	1,882	3,289	7,133	14,959	15,180	463.8
Total assets	8,446	12,617	34,076	44,285	71,311	2,178.8
Total current liabilities	1,853	2,937	4,711	6,682	6,915	211.3
Total non-current liabilities(2)	57	65	412	556	17,799	543.8
Total shareholders' equity	6,536	9,615	28,953	37,047	46,597	1,423.7

- (1) Prior periods have been reclassified to reflect current period presentation. Balances related to assets held for sale (note 4) are reclassified from their historical presentation to assets held for sale and liabilities related to assets held for sale.
- (2) The total non-current liabilities as of December 31, 2013, mainly result from the convertible bond offering. Please refer to note 11 to our consolidated financial statements.

Exchange Rate Information

Our business is primarily conducted in Russia and almost all of our revenues are denominated in Russian rubles. We have presented our most recent annual results of operations in U.S. dollars for the convenience of the reader. Unless otherwise noted, all conversions from RUR to U.S. dollars and from U.S. dollars to RUR in this Annual Report were made at a rate of RUR 32.7292 to \$1.00, the official exchange rate quoted by the Central Bank of the Russian Federation as of December 31, 2013. On March 31, 2014, the exchange rate was RUR 35.6871 to \$1.00. Such U.S. dollar amounts are not necessarily indicative of the amounts of U.S. dollars that could actually have been purchased upon exchange of Russian rubles at the dates indicated.

The following table presents information on the exchange rates between RUR and the U.S. dollar for the periods indicated as quoted by the Central Bank of the Russian Federation:

<u>Period</u>	<u>RUR per U.S. dollar</u>			
	<u>Period-end</u>	<u>Average</u>	<u>Low</u>	<u>High</u>
2009	30.24	31.72	36.43	28.67
2010	30.48	30.37	31.78	28.93
2011	32.20	29.39	32.68	27.26
2012	30.37	31.09	34.04	28.95
2013	32.73	31.85	33.47	29.93
October 2013	32.06	32.06	32.48	31.66
November 2013	33.19	32.65	33.19	32.08
December 2013	32.73	32.89	33.26	32.63
January 2014	35.24	33.46	35.24	32.66
February 2014	36.05	35.23	36.05	34.60
March 2014	35.69	36.21	36.65	35.45

See “Risk Factors—Fluctuation in currency exchange rates, particularly depreciation of the Russian ruble, may materially adversely affect our business, financial condition and results of operations” for a discussion of the foreign currency exchange rate risks and uncertainties our business faces.

B. Risk Factors

Investing in our Class A shares involves a high degree of risk. The risks and uncertainties described below and elsewhere in this Annual Report, including in the section headed “Operating and Financial Review and Prospects”, could materially adversely affect our business. These are not the only risks that we face; additional risks and uncertainties of which we are unaware, or that we currently deem immaterial, may also become important factors that affect us. Any of these risks could adversely affect our business, financial condition and results of operations. In such case, the trading price of our Class A shares could decline.

Risks Related to Our Business and Industry

We face significant competition from major global and Russian internet companies, including Google and Mail.ru, which could negatively affect our business, financial condition and results of operations.

We face strong competition in various aspects of our business from global and Russian companies that provide internet search and other online services and content. Currently, we consider our principal competitors to be Google and Mail.ru.

Of the large global internet companies, we consider Google to be our principal competitor in the market for internet search, and for text-based advertising, online advertising network, advertising intermediary services, distribution arrangements and other services. Google’s share of the Russian search market, based on search traffic generated, was 27.2% for February 2014 and 26.2% for the full year 2013, compared with our market share of 61.9% and 61.8%, respectively, according to Liveinternet.ru. Google launched its Russian-language search engine in 2001, and opened its first office in Russia and introduced Russian-language morphology-based search capabilities in 2006. It conducts extensive online and offline advertising campaigns in Russia. In recent periods, Google has also aggressively marketed its Chrome browser in Russia, and has taken steps to attempt to ensure that its search engine is the default search function on its browser, which has created increased competition. In addition, with Android, its popular mobile platform, Google may exert significant influence over the increasingly important market for mobile and location-based search and advertising, including through its global arrangements with manufacturers of mobile devices and network operators to preinstall on an exclusive basis a set of Google’s mobile applications. We expect that Google will continue to use its brand recognition and financial and engineering resources to compete aggressively with us. In addition to Google, we also face competition from the Russian and international websites of Microsoft and Yahoo!

On the domestic level, our principal competitor is Mail.ru. Although we power paid search on Mail.ru properties, we also compete with Mail.ru in the market for display advertising and other services. Mail.ru offers a wide range of internet services, including the most popular Russian web mail service, and many other services that are comparable to ours. Mail.ru’s search market share was 8.5% and 8.6% in the full years 2012 and 2013 respectively. We also compete with Russian online advertising networks, such as Begun, which direct advertising to a number of popular Russian websites.

Although we have partnerships with a number of social networking sites, such as Facebook, Twitter, Vkontakte and Mail.ru’s Odnoklassniki and My World, and serve ads on some of these sites, we also view them as increasingly significant competitors. Such sites provide users with a wide range of information and services similar to those we offer, including search, real-time news and location-based information and updates. These sites derive a substantial portion of their revenues from online advertising and are experimenting with innovative ways of monetizing user traffic. In light of their large audiences and the significant amount of information they can access and analyze regarding their users’ needs, interests and habits, we believe that they may be able to offer highly targeted advertising that could create increased competition for us. The popularity of such sites may also reflect a growing shift in the way in which people find information, get answers and buy products, which may create additional competition to attract users. We also compete with other destination websites, which are sites that users

access primarily for content rather than search, that seek to increase their search-related traffic, as well as start-ups and other established companies that are developing search technologies and other internet services.

We cannot guarantee that we will be able to continue to compete effectively with current and future internet companies that may have greater ability to attract and retain users, greater name recognition, more personnel and other resources. If our competitors are successful in providing similar or better search results and other internet services compared with those we offer, we could experience a significant decline in user traffic. Any such decline in traffic could negatively affect our business, financial condition and results of operations.

We generate almost all of our revenues from advertising, which is cyclical in nature, and any reduction in spending by or loss of advertisers would materially adversely affect our business, financial condition and results of operations.

In the past three years, we generated on average more than 97% of our revenues from advertising. Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns, and can therefore fluctuate significantly. During the 2008/2009 global economic crisis, total advertising spending in Russia declined by 28% in ruble terms, from 2008 to 2009, while the growth in online advertising expenditures slowed, according to AKAR. The table below provides annual online and total advertising expenditures in Russia from 2009 to 2013:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(RUR in billion)				
Online advertising expenditures	19.1	26.7	41.8	56.3	71.7
Total advertising expenditures	215.0*	250.0*	263.4	297.8	327.8

* AKAR's revised estimates of the advertising expenditures for historical periods.

Although forecasts for online advertising spending in Russia indicate sustained annual growth through 2015, we anticipate that the rate of such growth will decelerate. Any decreases in or delays in online advertising spending due to economic conditions, or otherwise, would materially adversely impact our business, financial condition and results of operations.

Any decline in the internet as a significant advertising platform in the countries in which we operate could have a material adverse effect on our business, financial condition and results of operations.

We generate almost all our revenues from the sale of online advertising in Russia. The level of spending on advertising in Russia remains relatively low compared to that in more developed countries, and the use of the internet as a marketing channel is at a relatively early stage. The internet and broadband penetration rates in Russia are also relatively low compared to those in more developed countries. The internet competes with traditional advertising media, such as television, print, radio and outdoor advertising. Although advertisers are becoming more familiar with online advertising over recent years, some of our current and potential customers have limited experience with online advertising, and have not historically devoted a significant portion of their marketing budgets to online marketing and promotion. As a result, they may be less inclined to consider the internet effective in promoting their products and services compared with traditional media.

Any decline in the appeal of the internet generally in Russia or the other countries in which we operate, including potential decline caused by increasing governmental regulation of the internet, whether as a result of the growth in popularity of other forms of media, a decline in the attractiveness of the internet as an advertising medium or any other factor, could have a material adverse effect on our business, financial condition and results of operations.

More people are using mobile and other devices, rather than personal computers, to access the internet and search for information. If we are not successful in offering and monetizing popular search and other services on these mobile devices, our business, financial condition and results of operations could be adversely affected.

The number of people who access the internet through mobile devices rather than desktop and laptop personal computers, including mobile phones, smartphones, handheld computers such as netbooks and tablets, as well as through video game consoles, and television set-top devices, has increased significantly in the past few years. The lower resolution, functionality, and memory associated with mobile devices make the use of our products and services through such devices more difficult and the versions of our products and services developed for these devices may not be compelling to users, manufacturers or distributors of devices. Each manufacturer or distributor may establish unique technical standards for its devices, and our products and services may not work or be viewable on these devices as a result. Some manufacturers may also elect not to include our products on their devices. In addition, search queries are increasingly being undertaken via “apps” tailored to particular devices or social media platforms, which could affect our share of the search market over time. As new devices and platforms are continually being released, it is difficult to predict the problems we may encounter in adapting our products and services and developing competitive new products and services. In 2014, we released Yandex.Kit, a firmware for mobile devices on Android operating system, containing a user interface and selection of Yandex’s applications and services to be pre-installed on mobile devices by manufacturers.

We expect to continue to devote significant resources to the creation, support and maintenance of mobile products and services. If we are unable to attract and retain a substantial number of device manufacturers, distributors and users to our products and services, or if we are slow to develop products and technologies that are more compatible with such devices and platforms, we will fail to capture the opportunities available as consumers and advertisers transition to a dynamic, multi-screen environment. Furthermore, given the importance of distribution and application pre-installation arrangements with the most popular device manufacturers for successful operation of our business, failure to reach such arrangements may adversely affect our business, financial condition and results of operations.

Our users can switch at any time to our competitors at no cost. If we do not continue to innovate and provide services that are useful and attractive to our users, we may not retain them and may become less attractive to our advertisers, which could adversely affect our business, financial condition and results of operations.

Our success depends on providing search and other services that make using the internet a more useful and enjoyable experience for our users. Our competitors continuously develop innovations in search and other services, as well as online advertising services. As search technology continues to develop, our competitors may be able to offer search capabilities that are, or that are seen to be, substantially similar to or better than ours. This may force us to compete in different ways and expend significant resources to remain competitive.

If we are unable to continue to develop and provide our users with quality, up-to-date services, and to appropriately time them with market opportunities, or if we are unable to maintain the quality of such services, our user base may not grow, or may decline. Further, if we are unable to attract and retain a substantial share of internet traffic generated by mobile and other digital devices, or if we are slow to develop services and technologies that are compatible with such devices, our user base may not grow or may decline.

If our users move to our competitors, we will also become less attractive to advertisers and therefore to Yandex ad network partners, both of which could adversely affect our business, financial condition and results of operations.

Distribution arrangements with third parties are an important avenue for expanding our user base, and any failure to obtain or maintain such relationships on reasonable terms could have an adverse effect on our business, financial condition and results of operations.

To expand our user base and increase traffic to our sites and mobile applications, we enter into arrangements with leading software companies for the distribution of our technology. In particular, we have agreements, on a co-marketing basis, with certain internet browsers. In addition, several mobile device manufacturers include Yandex as the default search engine on certain models of handsets in Russia. As new methods for accessing the internet become available, including through new digital platforms and devices, we may need to enter into new or amended distribution agreements.

Our largest distribution partners in 2012 were Opera and Mozilla (which offers the Firefox browser). In July 2012, Mozilla switched to a different default search provider in its new version of the Firefox browser in Russia, although we continued to share revenues with respect to users of the previous version of the Firefox browser. During 2012, we entered into a multi-year extension of our distribution agreement with Opera, which remained our most important distribution partner in 2013. If we are unable to continue our arrangement with Opera, or enter into comparable arrangements with new distribution partners, this would likely have a negative effect on our search market share over time.

In the future, existing and potential distribution partners may not offer or renew distribution arrangements on reasonable terms for us, or at all, which could limit our ability to maintain and expand our user base, and could have a material adverse effect on our business, financial condition and results of operations.

We expect the rate of growth of our revenues to be lower in the future and we may experience downward pressure on our operating margin.

The effectiveness of text-based advertising as a medium has contributed to the rapid growth of our business since our inception. Advertising spending continues to shift from offline to online as the internet evolves and we expect that our business will continue to grow. However, we expect that our revenue growth rate will continue to decline over time as a result of a number of factors, including challenges in maintaining our growth rate as our revenues increase to higher levels, increasing competition, changes in the nature of queries, the evolution of the overall online advertising market and the declining rate of growth in the number of internet users in Russia as overall internet penetration increases.

Other factors which may cause our operating margin to fluctuate or decline are:

- the percentage of our advertising revenues that we derive from the Yandex ad network compared with our own websites. As our Yandex ad network grows, our operating margin generally declines because the operating margin we realize on revenues generated from partner websites is significantly lower than the operating margin generated from our own websites. We concluded an agreement with Mail.ru in July 2013 pursuant to which we power paid search on Mail.ru. Although this arrangement resulted in an increase in the aggregate share of text-based advertising that we serve in Russia, it exerted downward pressure on our margins. The margin we earn on revenue generated from the Yandex ad network could also decrease in the future if we are required to share with our partners a greater percentage of the advertising fees generated through their websites;
- increased depreciation and amortization expense related to recent capital expenditures for many aspects of our business, particularly the expansion of our data centers to support growth in both our current and new markets;

- relatively higher spending on advertising and marketing to further enhance our brand and promote our services in Russia, to build brand awareness in Turkey and to respond to competitive pressures, if these efforts do not drive revenue growth in the manner we anticipate;
- expenses in connection with the launch of new products and related advertising and marketing efforts, such as our Yandex browser, which may not result in the anticipated increase in revenues or market share;
- the possibility of higher fees or revenue sharing arrangements with our distribution partners that, for example, distribute our browser toolbar or search bar or otherwise direct search queries to our website. We expect to continue to expand the number of our distribution relationships in order to increase our user base and to make it easier for our existing users to access our services; and
- costs incurred in our international expansion efforts until we succeed in building the user base necessary to begin generating sufficient revenues in these markets to earn accretive operating margins there.

See “Operating and Financial Review and Prospects—Key Trends Impacting Our Results of Operations.”

As the growth rates of the Russian internet market mature, our future expansion will increasingly depend on our ability to generate revenues from new business models or in other markets.

As internet usage has spread in Russia, the rate of growth has been declining. The number of users increased by 17% from fall 2010 to fall 2011, 12% from fall 2011 to fall 2012, and 9% from fall 2012 to fall 2013, according to the Public Opinion Foundation of Russia, or FOM. As our core market matures, we will need to further exploit new business models, such as e-commerce, or expand in new geographic markets in order to continue to grow our revenues. Our efforts in this regard may not be successful, which would adversely affect our business, financial condition and results of operations.

We rely on our Yandex ad network partners for a material portion of our revenues and benefit from our relationships with them. If we lose these partners, or the quality of these partners decreases, it would adversely affect our business, financial condition and results of operations.

Revenues from advertising on our ad network partner websites represented 20.3% of our advertising revenues in 2013, compared with 17.4% in 2012. This increase reflects in part the impact of our agreement to power paid search results on Mail.ru, which we entered into in July 2013. We consider our ad partner network to be critical to the future growth of our business. Our agreements with our network partners, other than the agreement with Mail.ru, are generally terminable at any time without cause. Our competitors could offer more favorable terms to our current or potential network partners, including guaranteed minimum revenues or other more advantageous revenue-sharing arrangements, in an effort to take market share away from us. Additionally, some of our partners in the Yandex ad network, such as Mail.ru and Microsoft Bing, compete with us in one or more areas and may terminate their agreements with us in order to develop their own businesses. If our network partners decide to use a competitor’s advertising services, our revenues would decline.

Many of our key network partners operate high-profile websites, and we derive tangible and intangible benefits from this affiliation, such as increased user numbers, extended brand awareness and greater audience reach for our advertisers. If our agreements with any of these partners are terminated or not renewed and we do not replace those agreements with comparable agreements, our business, financial condition and results of operations would be adversely affected.

The number of paid clicks and amount of revenues that we derive from our partners in the Yandex ad network depends on, among other factors, the quality of their websites and their attractiveness to

users and advertisers. Although we screen new applicants and favor websites with high-quality content and stable audiences and strive to monitor the quality of the network partner websites on an ongoing basis, these websites are operated by independent third parties that we do not control. If our network partners' websites deteriorate in quality or otherwise fail to provide interesting and relevant content and services to their users, this may result in reduced attractiveness to their users and our advertisers, which may adversely impact our business, financial condition and results of operations.

Our business depends on a strong brand, and failing to maintain and enhance our brand would harm our ability to expand our base of users, advertisers and network partners and would materially adversely affect our business, financial condition and results of operations.

We believe that the brand identity that we have developed through the strength of our technology and our user focus has significantly contributed to the success of our business. We also believe that maintaining and enhancing the Yandex brand, including through continued significant marketing efforts, is critical to expanding our base of users, advertisers, advertising network partners, and other business partners. Maintaining and enhancing our brand will depend largely on our ability to continue to be a technology leader and a provider of high-quality, reliable services, which we may not continue to do successfully.

In July 2013, we sold to Sberbank a 75 percent (less one ruble) interest in our Yandex.Money business and entered into a joint venture arrangement with Sberbank in respect of the operation of the Yandex.Money business, which continues to operate under the Yandex.Money brand. Although we have sought to implement appropriate controls and protections, as the minority partner in this joint venture we may have limited ability to ensure that the business is always operated in a manner that is consistent with the broader Yandex brand.

If we or our joint venture partner fail to maintain and enhance the Yandex brand, or if we incur excessive expenses in our efforts to do so, our business, financial condition and results of operations would be materially adversely affected.

We spend significant resources expanding and enhancing our service offerings, and if these new or enhanced services are not widely adopted by users, our business, financial condition and results of operations could be adversely affected.

We continuously work to develop new and enhanced services to broaden and improve the overall quality of our service offerings. The cost we incur in these efforts, both in terms of product development expenses and advertising and marketing costs, can be significant. For instance, we incurred considerable development and marketing expenses in connection with launching our Yandex browser in the second half of 2012. Our Yandex browser has been gaining market share and, in February 2014, had a 6.8% visitors share of the browser market in Russia, according to Liveinternet.ru. There is strong competition in the browser market and we cannot guarantee that our browser's market share will continue to grow or maintain its current position. If our new or enhanced services are not widely adopted by users, our business, financial condition and results of operations could be adversely affected.

If we fail to manage effectively the growth of our operations, our business, financial condition and results of operations could be adversely affected.

We have experienced, and continue to experience, continuous growth in our operations, which has placed, and will continue to place, significant demands on our management and our operational and financial infrastructure. We have limited operational, administrative and financial resources, which may be inadequate to sustain the growth we seek to achieve. If we do not effectively manage our growth,

the quality of our services could suffer, which could adversely affect our brand, business, financial condition and results of operations.

As our user and advertiser bases expand, we will need to increase our investment in technology, infrastructure, facilities and other areas of operations, in particular product development and sales and marketing. As a result of such growth, we will also need to continue improving our operational and financial systems and managerial control and procedures. We will have to maintain close coordination among our technical, accounting, finance, marketing and sales personnel. If the improvements are not implemented successfully, our ability to manage our growth will be impaired and we may have to make significant additional expenditures, which could harm our business, financial condition and results of operations.

Our corporate culture has contributed to our success, and if we cannot maintain the focus on teamwork and innovation fostered by this environment, our business, financial condition and results of operations would be adversely affected.

We believe that a critical contributor to our success has been our corporate culture, which values and fosters teamwork and innovation. As we grow, and are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This would adversely affect our business, financial condition and results of operations.

The loss of any of our key personnel or a failure to attract, retain and motivate qualified personnel, may have a material adverse effect on our business, financial condition and results of operations.

Our success depends in large part upon the continued service of key members of our management team and technical personnel, as well as our continued ability to attract, retain and motivate other highly qualified engineering, programming, technical, sales, customer support, financial and managerial personnel.

Although we attempt to structure employee compensation packages in a manner consistent with the evolving standards of the markets in which we operate and to provide incentives to remain with Yandex, including equity awards under our employee incentive plan, we cannot guarantee that we will be able to retain our key employees. A number of our senior employees exercised share options in connection with our initial public offering and made significant gains, while a significant portion of our outstanding equity awards held by key employees have become, or will soon become, substantially vested. Although we grant additional equity awards to management personnel and other key employees from time to time, employees may be more likely to leave us after their initial award fully vests, especially if our shares have significantly appreciated in value relative to the exercise price. If any member of our senior management team or other key personnel should leave our company, our ability to successfully operate our business and execute our business strategy could be impaired. We may also have to incur significant costs in identifying, hiring, training and retaining replacements for departing employees.

The competition for software engineers and qualified personnel who are familiar with the internet industry in Russia is intense. We may encounter difficulty in hiring and/or retaining highly talented software engineers to develop and maintain our services. There is also significant competition for personnel who are knowledgeable about the accounting and legal requirements related to a NASDAQ listing, and we may encounter particular difficulty in hiring and/or retaining appropriate financial staff needed to enable us to continue to comply with the internal control requirements under the Sarbanes-Oxley Act and related regulations.

Any inability to successfully retain key employees and manage our personnel needs may have a material adverse effect on our business, financial condition and results of operations.

Growth in our operations internationally may create increased risks that could adversely affect our business, financial condition and results of operations.

We have limited experience with operations outside Russia and in 2013 derived only approximately 7% of our revenues from advertisers outside Russia. Part of our future growth strategy is to expand our operations geographically on an opportunistic basis. Our geographic expansion efforts generally require the expenditure of significant costs in the new geography prior to achieving the market share necessary to support the commercialization of our services, which allows us to begin generating revenues in the new geography. For example, in 2011 we launched operations in Turkey. In January 2014, our share of the internet search market in Turkey was 4% according to comScore qSearch and we have generated only nominal revenues there. Our ability to manage our business and conduct our operations across a broader range of geographies will require considerable management attention and resources and is subject to a number of risks relating to international markets, including the following:

- challenges caused by distance, language and cultural differences;
- managing our relationships with local partners should we choose to adopt a joint venture approach in our international expansion efforts;
- credit risk and higher levels of payment fraud in certain countries;
- pressure on our operating margins as we invest to support our expansion;
- currency exchange rate fluctuations and our ability to manage our currency exposure;
- foreign exchange controls that might prevent us from repatriating cash earned in certain countries;
- legal risks, including potential of claims for infringement of intellectual property and uncertainty regarding liability for services and content;
- adoption of new legislation and regulations, which may adversely impact our operations or may be applied in an arbitrary manner;
- potentially adverse tax consequences;
- deleterious changes in political environment; and
- higher costs and greater management time associated with doing business internationally.

In addition, compliance with complex and potentially conflicting foreign and Russian laws and regulations that apply to our international operations may increase our cost of doing business and may interfere with our ability to offer, or prevent us from offering, our services in one or more countries. These numerous laws and regulations include import and export requirements, content requirements, trade restrictions, tax laws, sanctions, internal and disclosure control rules, data protection, data retention, privacy and filtering requirements, labor relations laws, U.S. laws, such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to governmental officials. Violations of these laws and regulations may result in fines; criminal sanctions against us, our officers, or our employees; prohibitions on the conduct of our business; and damage to our reputation. Although we have implemented policies and procedures designed to ensure compliance with these laws, we cannot assure you that our employees, contractors or agents will not violate our policies. Any such violations may result in prohibitions on our ability to offer our services in one or more countries, and may also materially adversely affect our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, and our business, financial condition and results of operations.

Fluctuations in currency exchange rates, particularly depreciation of the Russian ruble, may materially adversely affect our business, financial condition and results of operations.

The Russian ruble has experienced significant fluctuations against foreign currencies, including the U.S. dollar, in recent years and, in particular, the Russian ruble has declined materially against the U.S. dollar in recent months. In 2013, the Russian ruble depreciated against the U.S. dollar by approximately 8%, and was on average 2% lower than the average value of the Russian ruble compared to the U.S. dollar during 2012. The currency exchange rate as of December 31, 2013 was RUR 32.7292 to \$1.00 and, as of March 31, 2014, the value of the Russian ruble as compared to the U.S. dollar had declined to RUR 35.6871 to \$1.00. Although our revenues and expenses are both primarily denominated in Russian rubles, the majority of our rent expenses, including the lease for our Moscow headquarters, are denominated in U.S. dollars. Additionally, a major portion of our capital expenditures, primarily for servers and networking equipment, although payable in rubles, are imported and can therefore be materially affected by changes in the U.S. dollar to Russian ruble exchange rate. If the Russian ruble were to experience a prolonged and significant decline against foreign currencies, we could face material foreign currency exchange exposure, which may materially adversely affect our business, financial condition and results of operations. See “Operating and Financial Review and Prospects—Quantitative and Qualitative Disclosures about Market Risk.”

Financial results for any particular period are not necessarily indicative of results for future periods.

Our historical results of operations may not be useful in predicting our future results. Our results of operations may fluctuate from period to period as a result of any of the risk factors described in this Annual Report and, in particular, due to:

- economic conditions generally and those specific to the internet and online advertising, both in Russia and globally;
- the level of use of internet search engines to find information;
- the amount of advertising purchased and market prices for online advertising;
- the volume of searches conducted, the amounts bid by advertisers or the number of advertisers that bid in our advertising system;
- our ability to compete effectively for users, advertisers, partner websites and content;
- the proportion of our revenues generated on our websites relative to those generated through the Yandex ad network or through distribution partners, as a result of the revenue-sharing arrangements we enter into and the overall volume of advertising we provide to our partners; and
- the legal framework applicable to regulation of online businesses in Russia and globally.

Due to the seasonal nature of advertising spending, future results of operations may fluctuate from period to period and from quarter to quarter, which may cause our share price to decline.

Advertising spending and user traffic tend to be seasonal, with internet usage, online spending and traffic historically slowing down during January, May and June and increasing significantly in the fourth quarter of each year. For these reasons, comparing our results of operations on a period-to-period basis may not be meaningful, and past results should not be relied upon as an indication of future performance. Quarterly and annual expenses as a percentage of revenues may be significantly different from historical or projected rates and may fall below market expectations in a given period, which may cause our share price to decline.

Index spammers could harm the integrity of our search results, which may damage our reputation, cause our users to be dissatisfied with our services and adversely affect our business, financial condition and results of operations.

So-called “index spammers” seek to develop ways to manipulate internet search results. For example, because our search technology ranks a webpage’s relevance based in part on the importance of the websites that link to it, people have attempted to link groups of websites together to manipulate search results. Although we constantly innovate to develop our search technologies to direct users to relevant information, we may be unable to counter such disruptive activity. If our efforts to combat these and other types of index spamming are unsuccessful, our reputation for delivering relevant results could be harmed. This could result in a decline in user traffic, which may adversely affect our business, financial condition and results of operations.

Our business, financial condition and results of operations could be adversely affected by malicious applications that interfere with or exploit security flaws in our services.

Third parties have in the past attempted, and may in the future attempt, to use malicious applications to interfere with our users’ internet experience, including hijacking queries to our search engine, altering or replacing Yandex search results, or otherwise disrupting our ability to connect with our users. Such interference often occurs without disclosure to or consent from users, resulting in a negative experience that users may associate with Yandex.

In addition, we offer applications and services that our users download to their computers or that they rely on to store information and transmit information to others over the internet. These services are subject to attack by viruses, worms and other malicious software programs, which could jeopardize the security of information stored in a user’s computer or in our computer systems and networks. If our efforts to combat these malicious applications are unsuccessful, or if our services have actual or perceived vulnerabilities, our reputation may be harmed, our user traffic could decline, and our communications with certain users could be impaired, which could adversely affect our business, financial condition and results of operations.

As with any other internet company, Yandex is at risk of becoming a target of cracking (efforts to defeat security or encryption protections), a distributed denial-of-service attack, or another computer attack, which could result in a temporary closing of the Yandex site or some of its services. Such an attack could also lead to the destruction or theft of information, potentially including confidential or proprietary information relating to Yandex’s intellectual property, content and users. For example, if a third party were to hack into our network, they could obtain access to our search code. This information could potentially be valuable to our competitors or to search engine optimizers who are looking to improve their clients’ site rankings within our search results pages. We are not presently aware of a situation where our code has been used in a way that would harm us, but we may be faced with such a situation in the future.

Certain technologies could block our ads, which may adversely affect our business, financial condition and results of operations.

Third parties have in the past, and may in the future, employ technologies to block the display of ads on webpages. Ad-blocking technology, if used effectively, would reduce the amount of revenue generated by the ads we serve and decrease the confidence of our advertisers and Yandex ad network partners in our advertising technology, which may adversely affect our business, financial condition and results of operations.

If we fail to detect click fraud or other invalid clicks, we may face litigation and may lose the confidence of our advertisers, which may adversely affect our business, financial condition and results of operations.

We are exposed to the risk of fraudulent and invalid clicks on our ads from a variety of potential sources. Invalid clicks are clicks that we have determined are not intended by the user to access the underlying content, including clicks resulting from click fraud. Click fraud usually occurs when an automated script or computer program is used to imitate a legitimate web browser user clicking on an ad. We monitor our own websites and those of our partners for click fraud and proactively seek to prevent click fraud and filter out fraudulent clicks. To the extent that we are unsuccessful in doing so, we credit our advertisers for clicks that are later attributed to click fraud. If we are unable to stop these invalid clicks, these credits to our advertisers may increase. If we find new evidence of past invalid clicks, we may retroactively issue credits to advertisers of amounts previously paid to our network partners. This negatively affects our profitability, and these invalid clicks may harm our brand.

As the internet evolves, an increasing amount of online content may be held in closed social networks or stored in proprietary document formats, which may limit the effectiveness of our search technology, which could adversely affect our brand, business, financial condition and results of operations.

Social networks are becoming increasingly important players in the internet market, and have a significant degree of control over the manner and extent to which information on their websites can be accessed through third-party search engines. For example, in early 2013 we launched our Wonder mobile application in the United States, which enabled personalized search of information available to users through their accounts with various social networks and services, including Facebook, Twitter, Instagram and Foursquare. Facebook subsequently blocked our access to its platform Application Programming Interface and launched a graph search service of its own.

In addition, a large amount of information on the internet is provided in proprietary document formats such as Microsoft Word and Adobe Acrobat. The providers of the software applications used to create these documents could engineer the document format to prevent or interfere with our ability to access the document contents with our search technology.

If social networks or software providers take steps to prevent their content or documents in their formats from being searchable, such content would not be included in our search results even if the content was directly relevant to a search request. These parties may also seek to require us to pay them royalties in exchange for giving us the ability to search content on their sites or documents in their format and provide links thereto in our search results. If these parties also compete with us in the search business, they may give their search technology a preferential ability to search their content or documents in their proprietary format. Any of these results could adversely affect our brand, business, financial condition and results of operations.

We may not be able to prevent others from unauthorized use of our intellectual property rights, which may adversely affect our competitive position, our business, financial condition and results of operations.

We rely on a combination of trademarks, trade secrets and copyrights, as well as nondisclosure agreements, to protect our intellectual property rights. Historically, we did not seek patent protection for the intellectual property we have developed. In 2012, we established our patent department, which is responsible for developing and implementing our group-wide patent protection strategy in selected jurisdictions. To date, we have filed several dozen patent applications and industrial designs, some of which have already resulted in issued patents.

The protection and enforcement of intellectual property rights in Russia and other markets in which we operate, however, may not be as effective as that in the United States or Western Europe. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant infringement of our intellectual property rights could harm our business, our brand and/or

our ability to compete, all of which could adversely affect our competitive position, our business, financial condition and results of operations.

We may be subject to intellectual property infringement claims, which are costly to defend, could result in significant damage awards, and could limit our ability to provide certain content or use certain technologies in the future.

A number of internet, technology, media and patent-holding companies own or are actively developing patents covering search, indexing, electronic commerce and other internet-related technologies, as well as a variety of online business models and methods. We believe that these parties will continue to take steps to protect these technologies, including, but not limited to, seeking patent protection in certain jurisdictions. As a result, disputes regarding the ownership of technologies and rights associated with online activities are likely to arise in the future. In addition, use of open-source software is often subject to compliance with certain license terms, which we may inadvertently breach.

With respect to any intellectual property rights claim, we may have to pay damages or compensation and/or stop using technology found to be in violation of a third party's rights. We may have to seek a license for the technology, which may not be available on reasonable terms or at all, and may significantly increase our operating expenses. We may be required to develop an alternative non-infringing technology, which may require significant effort, expense and time to develop. If we cannot license or develop technology for any potentially infringing aspects of our business, we may be forced to limit our service offerings and may be unable to compete effectively. We may also incur substantial expenses in defending against third-party infringement claims regardless of the merit of such claims.

We may be subject to claims from our current or former employees as well as contractors for copyright, trade secret and patent-related matters, which are costly to defend and if lost by us could adversely affect our business, financial condition and results of operation.

The software, databases, algorithms, images as well as patentable results and trade secrets (know-how) that we use for the operation of our services were generally developed, invented or created by our former or current employees or contractors during the course of their employment with us within the scope of their job functions or under the relevant contractor's agreement, as the case may be. As a matter of Russian law, we are deemed to have acquired copyright, related rights as well as rights to file patent applications with respect to such products, and have the intellectual property rights to their further use and disposal subject to compliance with certain requirements set in the Civil Code of Russia. We believe that we have appropriately followed such requirements, but they are defined in a broad and ambiguous manner and their precise application has never been definitively determined by the Russian courts. Therefore, former or current employees or contractors could either challenge the transfer of intellectual property rights over the products developed by them or with their contribution or claim the right to additional compensation for their works for hire and/or patentable results, in addition to their employment compensation. We may not prevail in any such action and any successful claim could adversely affect our business, financial condition and results of operation. Although the exact amount of compensation is not currently regulated by Russian law, the Russian government has previously proposed establishing a *de minimis* amount of required compensation for works and patentable results created by employees, which, if adopted, may affect the amount and structure of payments to our employees.

We may be held liable for information or content displayed on, retrieved by or linked to our websites, or distributed by our users, or we may be required to block certain content, which could harm our reputation and business.

The law and enforcement practice relating to the liability of providers of online services for the activities of their users is currently not settled in Russia and certain other countries in which we operate. Claims may be brought against us for defamation, libel, negligence, copyright, patent or trademark infringement, tort (including personal injury), fraud, other unlawful activity or other theories and claims based on the nature and content of information to which we link or that may be posted online via blogs and message boards, generated by our users or delivered or shared through our services such as email, chat rooms, hypertext links to third-party websites, or video, image and file storage services, including if appropriate licenses and/or rights holder's consents have not been obtained. For example, we have previously been involved in litigation regarding alleged copyright infringement in the United States. We are also regularly required to remove content uploaded by users on grounds of alleged copyright infringement, and from time to time we receive requests from individuals who do not want their names or websites to appear in our search results. Third parties may also seek to assert claims against us alleging unfair competition, data misappropriation, violations of privacy rights or failure to maintain the confidentiality of user data. Our defense of any such actions could be costly and involve significant time and attention of our management and other resources. If any of these complaints results in liability to us, the judgment or settlement could potentially be costly, encourage similar lawsuits, and harm our reputation and possibly our business.

The governments of the countries in which we operate are increasingly developing legislation aimed at regulation of the internet. For example, in August 2013, new amendments to Russian laws, including to the Russian Civil Code, came into effect aimed at the enhancement of intellectual property rights enforcement on the internet. Certain amendments to the Russian Civil Code aimed at information intermediaries liability regime regulation may be construed to establish liability for actions not previously actionable, such as linking to allegedly infringing materials. Also, in March 2014, the Russian government passed new amendments to the Russian Civil Code which introduced strict liability for infringement of intellectual property rights if such infringement is committed in connection with business activities. New legislation and regulations, such as these, may impose new requirements on us and our operations and lead to material legal liability, which can be difficult to foresee or limit.

A further set of laws in Russia introduced a system of information and website blocking measures both to protect copyright owners of motion pictures and TV series and to prevent dissemination of certain types of illegal information, such as child pornography, content encouraging suicides, drug use and information on minors hurt by illegal actions. The regulations generally require notification to be sent by governmental authorities to the administrator of the website or hosting provider requesting that they take down the allegedly infringing or illegal information prior to blocking the Internet Protocol address of the website. However, legislation whereunder blocking of alleged extremist information may be performed by governmental authorities prior to any notification is also currently in effect and being enforced by such authorities. The categories of information subject to the law may also be expanded. Based on these considerations and the uncertainties in application of these laws, we may be subject to arbitrary blocking measures, injunctions or court decisions that may require us to block or remove content and may adversely affect our services and operations.

Also, in February 2014, the Turkish government amended the law governing relations in the internet and expanded liability and requirements for internet service providers which may impact our operations in Turkey. In particular, the amended law increases the period of time within which internet service providers have to retain traffic information, expanded the obligation of internet service providers to respond to information requests from government officials and created new grounds for taking down content and blocking of websites on the internet. Based on the amended law, the Turkish

government will adopt subordinate regulations which may have further negative impact on our services and operations in Turkey.

Our ability to offer our services may be adversely affected by laws and regulations or user concerns regarding privacy and the protection of user data, any of which could materially adversely affect our business, financial condition and results of operations.

Current or future Russian and foreign laws and regulations may govern the collection, use, sharing and security of data that we receive from our users and partners. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with current practice. If so, we could face fines or orders requiring that we change our operating practices, which in turn could have a material adverse effect on our business, financial condition and results of operations. Increasing public awareness of these issues could lead to further restrictions on the use of such data, which could in turn affect our search performance and therefore our ability to generate advertising revenue. In addition, it is our policy to protect the privacy of our users and to keep confidential the data they provide to us, and as a result we may choose not to exploit certain opportunities to maximize revenues in ways that could jeopardize our users' trust in us in this regard.

Furthermore, we use cookies and other wide-spread technologies that assist us in improving the user experience and personalization of our products and services and ultimately benefit both our users and advertisers to the extent that we use a certain part of this collected information for behavioral targeting of the advertising. There is no clarity as to whether our practices are compliant with the requirements of applicable data protection legislation in Russia and abroad. There is a risk that such laws may be interpreted and applied in a manner that is not consistent with our current data protection practices.

Additionally, as our business grows in foreign jurisdictions beyond Russia and our services are offered to foreign users, we may encounter increased pressure from foreign state authorities with respect to production of information related to the users in circumvention of the international legal framework in that area. Any non-compliance with such requests may lead to liability and other adverse consequences.

We rely on third-party providers for our principal internet connections and equipment critical to our internet properties and services, and any errors, failures or disruption in the products and services provided by these third parties may materially adversely affect our brand, business, financial condition and results of operations.

Any disruption in the network access provided by third parties or any failure by them to handle current or higher volumes of use may significantly harm our business. We exercise little control over these third parties, which increases our vulnerability to problems with the services they provide. We have experienced and expect to continue to experience interruptions and delays in service. Furthermore, we depend on hardware and software suppliers for prompt delivery, installation and service of servers and other equipment to deliver our services. Any errors, failures, interruptions or delays experienced in connection with these third-party products and services may negatively impact our relationship with users and materially adversely affect our brand, business, financial condition and results of operations.

We may have difficulty scaling and adapting our existing technology architecture to accommodate increased traffic and technology advances or new requirements of our users and advertisers, which could adversely affect our business, financial condition and results of operations.

With some of the most highly visited websites in Russia, we deliver a growing number of services and page views to an increasing number of users. In addition, the services we offer have expanded and changed significantly and are expected to continue to do so in the future to accommodate bandwidth-

intensive technologies and means of content delivery, such as interactive multimedia and video. Our future success will depend on our ability to adapt to rapidly changing technologies, to adjust our services to evolving industry standards and to maintain the performance and reliability of our services. Rapid increases in the levels or types of use of our online services could result in delays or interruptions in our services.

As we expand our services, we will need to continue to invest in new technology infrastructure, including data centers. We may have difficulty in expanding our infrastructure to meet any rising demand for our services, including difficulties in obtaining suitable facilities or access to sufficient electricity supplies, particularly in and around Moscow. A failure to expand our infrastructure could materially and adversely affect our ability to maintain and increase our revenues and profitability and could adversely affect our business, financial condition and results of operations.

A systems failure or human error could prevent us from providing search results or ads, which could lead to a loss of users and advertisers and damage our reputation and materially adversely affect our business, financial condition and results of operations.

Although we have implemented network security measures, our systems are potentially vulnerable to damage or interruption from terrorist attacks, denial-of-service attacks, computer viruses or other cyber-attacks or attempts to harm our system, power losses, telecommunications failures, floods, fires, extreme weather conditions, earthquakes and similar events. Our data centers, which we maintain ourselves, are also potentially subject to break-ins, sabotage and intentional acts of vandalism, and to potential disruptions. The occurrence of a natural disaster or other unanticipated problems at our data centers could result in lengthy interruptions in our service, which could reduce our revenues and profits, and our brand could be damaged if people believe our services are unreliable.

From time to time, we have experienced power outages that have interrupted access to our services and impacted the functioning of our internal systems. Although we have installed back-up generators, these may not operate properly through a major sustained power outage or their fuel supply could be inadequate. Any unscheduled interruption in our service places a burden on our entire organization and would result in an immediate loss of revenue. If we experience frequent or persistent system failures on our websites, our reputation and brand could be permanently harmed. The steps we have taken to increase the reliability and redundancy of our systems are expensive, reduce our operating margin and may be insufficient to reduce the frequency or duration of unscheduled downtime.

In addition to physical damage and power outages, our systems are also vulnerable to human error. For example, in August 2011 we experienced a network outage resulting from human error, which resulted in more than two hours of system down time and which had a temporary negative effect on our search market share. We experienced two shorter periods of downtime in September 2012 and September 2013 due to coding errors, which had less serious impacts on our search share. Although we test updates before implementation, errors made by our employees in maintaining or expanding our systems may damage our brand and materially adversely affect our business, financial condition and results of operations.

Our business depends on the continued development and maintenance of the internet infrastructure in the countries in which we operate.

Our future success will depend on the continued development and maintenance of the internet infrastructure globally and particularly in the countries in which we operate. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security for providing reliable internet services. The internet infrastructure may be unable to support the demands placed on it by growing numbers of users and time spent online or increased bandwidth requirements. Any outages or delays resulting from inadequate internet infrastructure could reduce the level of internet

usage as well as our ability to provide our services to users, advertisers and network partners, which could materially adversely affect our business, financial condition and results of operations.

We may seek to acquire complementary businesses, teams and technologies in the future, and may fail to identify suitable targets, acquire them on acceptable terms or successfully integrate them, which may limit our ability to implement our growth strategy. Acquisition of new businesses may also lead to increased legal risks and other negative consequences which could have an adverse effect on our business, financial condition and results of operations.

We have limited experience with acquisitions, and the acquisitions we have made to date have been relatively small. For example, in October 2013 we completed the acquisition of KinoPoisk LLC, the largest and, we believe, most comprehensive Russian language website dedicated to movies, television programs and celebrities. In March 2014 we completed the acquisition of KitLocate Ltd. the developer of an energy efficient geolocation technology for mobile devices. We continue to evaluate selected potential acquisitions and, from time to time, may engage in discussions regarding potential acquisitions. Any of these transactions may be material to our business, financial condition and results of operations. The acquisition and integration of new businesses or technologies pose significant risks to our existing operations, including:

- additional demands placed on our management, who are also responsible for managing our existing operations;
- increased overall operating complexity of our business, requiring greater personnel and other resources;
- difficulties in expanding beyond our core expertise;
- significant initial cash expenditures or share dilution in connection with acquiring and integrating new businesses; and
- legal risks (including potential claims of the counterparty or of third parties), which may result from our lack of expertise in the field of the target's business, an incomplete or improper due diligence, misrepresentations on the part of counterparties, and/or other causes.

The integration of new businesses may be difficult for a variety of reasons, including differing cultures or management styles, poor financial records or internal controls on the part of the acquired companies, and an inability to establish control over cash flows. Furthermore, even if we are successful in integrating new businesses, expected cost and operating efficiencies may not materialize, the financial benefits from the acquisition may be less than anticipated, and we could be required to record impairment changes in respect of under-performing assets.

Moreover, our growth may suffer if we fail to identify suitable acquisition targets or are outbid by competing bidders. As a NASDAQ-listed company, we are subject to securities laws and regulations that, in certain circumstances, require that we file with the SEC audited historical financial statements for businesses we acquire that exceed certain materiality thresholds. Given financial reporting practices in Russia and other countries in which we operate, such financial statements and documented systems of internal controls over financial reporting are often not readily available or not capable of being audited to the standards required by U.S. securities regulations. As a result, we may be prevented from or delayed in pursuing acquisition opportunities that our competitors and other financial and strategic investors are able to pursue, which may limit our ability to implement our growth strategy.

If we are unable to license, acquire or create compelling content at reasonable costs, the number of users of our services may not grow as anticipated or may decline, which would adversely affect our business, financial condition and results of operations.

Our future success depends in part upon our ability to offer compelling content. We license from third parties much of the content of our services, such as news items, weather reports and TV program schedules. If we are unable to maintain and build relationships with third-party content providers this would likely result in a loss of user traffic. In addition, we may be required to make substantial payments to third parties from whom we license or acquire such content. An increase in the prices charged to us by third-party content providers would adversely affect our business, financial condition and results of operations.

Further, many of our content licenses with third parties are non-exclusive. Accordingly, other websites and other media such as radio or television may be able to offer similar or identical content. This increases the importance of our ability to aggregate compelling content in order to differentiate Yandex from other businesses. If other companies make available competitive content, the number of users of our services may not grow as anticipated, or may decline.

Our Yandex.Money joint venture may be used for fraudulent, illegal or improper purposes, which could materially adversely affect our brand, reputation, business, financial condition and results of operations.

The electronic payments system of our Yandex.Money joint venture with Sberbank is susceptible to fraud and to potentially illegal or improper uses, and we have on occasion identified or been informed of such uses in the past. These may include:

- illegal online gambling;
- fraudulent sales of goods or services or other merchant fraud;
- illicit sales of prescription medications, controlled substances, alcoholic beverages or tobacco products;
- software and other intellectual property piracy;
- bank or securities fraud, identity theft or money laundering;
- improper use of the service for business-to-business transactions;
- child pornography or trafficking; and
- other illegal or improper purposes.

Our ability to control the day-to-day operations of Yandex.Money following completion of the joint venture transaction in July 2013 is more limited than was the case while we were the sole owner of this business. If Yandex.Money is unable to prevent, detect or otherwise adequately address fraud or other improper uses of its services, users may lose confidence in the integrity and security of its services, which may result in a reduction in the number of users and transactions. Any negative publicity associated with the Yandex name in connection with such activities, including criminal proceedings against a user who conducts illegal activities using its services, could result in damage to our brand or reputation. If we are unable to manage these risks, our brand, reputation, business, financial condition and results of operations could be materially adversely affected.

Failure to maintain effective customer service may result in customer complaints and negative publicity and may adversely affect our business, financial condition and results of operations.

Customer complaints or negative publicity about our services or those offered by us or our Yandex.Money joint venture with Sberbank, or breaches of customers' privacy or of our security

measures, could diminish consumer confidence in and use of our services. Measures we implement to combat risks of fraud and breaches of privacy and security may be viewed as onerous by our customers or those of our joint venture and damage relations with them. Alternately, should breaches of customers' privacy or of security measures occur, we could be subject to investigations and claims from the governmental bodies, as well as from our customers. These measures heighten the need for prompt and accurate customer service to resolve irregularities and disputes. Effective customer service requires significant personnel expense, and such expense, if not managed properly, may impact our profitability or that of our Yandex.Money joint venture. Any inability by us or our Yandex.Money joint venture to manage or train our or their customer service representatives properly could compromise our or their ability to handle customer complaints effectively. If we or Yandex.Money fail to maintain effective customer service, our reputation may suffer and we may lose our customers' confidence, which may adversely affect our business, financial condition and results of operations.

The inherent limitations of the available data regarding internet usage and online advertising may make it difficult to assess our markets and our market position.

We rely on and refer to information and statistics from various third-party sources, as well as our own internal estimates, regarding internet usage and penetration and the online advertising markets in the countries in which we operate. The information and statistics used in our industry are subject to inherent limitations reflecting the differing metrics and measurement methods utilized and applied by different sources; for example, data derived from computer usage contrasted to that derived from user surveys. In addition, while we believe that the available data and research on the Russian market is of comparable quality to that available in most developed countries, the data for Ukraine, Kazakhstan, and Belarus are generally less consistent and reliable due to more limited measurement methods in those countries.

Risks Related to Doing Business and Investing in Russia and Other Countries in which We Operate

The current geopolitical conflict in Ukraine and other civil or military conflicts, or material disruptions in the political relations between Russia and the other countries of the CIS, may adversely affect the Russian economy and the value of investments in Russia, and could harm our business, financial conditions and results of operations.

Political, ethnic, religious, historical and other differences have, on occasion, given rise to tensions and, in certain cases, military conflict between Russia and other countries of the CIS, and in regions of the Russian Federation. For example, significant tensions are currently ongoing between Russia and Ukraine, where a powerful civil unrest has been gaining momentum since November 2013 and eventually resulted in the ousting of the Ukrainian President in February 2014. In response, on March 14, 2014 the Russian President requested that the upper chamber of the Russian Parliament grant permission for Russia to use military force in Ukraine. The stated goal of such military force is to protect the interests of the sizeable Russian populace of Ukraine and, in particular, that of Crimea, Ukraine's militarily sensitive and ethnically Russian southern province. On March 16, 2014, a referendum held in Crimea resulted in a vote for the region to secede from Ukraine and accede to Russia, and on March 18, 2014, Russia officially annexed the region.

Significant tensions currently exist between Russia and the West, including the United States and the European Union, as a result of actions related to the Ukrainian crisis. As of March 21, 2014, both the United States and the European Union had imposed sanctions on certain Russian government officials, arms sector figures, others deemed to be working on behalf of senior Russian officials, and, in the case of the United States sanctions, one Russian financial institution. These sanctions include banning visas and freezing their assets. There is still significant uncertainty regarding the extent or timing of any further political or economic sanctions, or the ultimate outcome of the Ukrainian crisis.

Political and economic sanctions may affect the ability of our international customers to operate in Russia, which would negatively impact our revenue and profitability. Sanctions could also impede our ability to effectively manage our legal entities and operations outside of Russia. We are domiciled in the Netherlands, while our wholly-owned primary operating subsidiary is organized under the laws of the Russian Federation. In 2013, we collected 7% of our revenues from outside of Russia and we are in the process of constructing a data center in Finland.

Political, civil or military conflicts between Russia and other countries could also negatively affect economies in the region, including the Russian economy. This, in turn, may result in a general lack of confidence among international investors in the region's economic and political stability and in Russian investments generally. Along with potential official government sanctions on Russia, U.S. and foreign investors may be pressured to reduce or withdraw their investments in Russia. Such circumstances may result in trading volatility, reduced liquidity and significant declines in the price of listed securities of companies with significant operations in Russia, including our Class A shares.

Emerging markets, such as Russia, are generally subject to greater financial, economic, legal and political risks than more developed markets. Such risks may have a material adverse effect on our business, financial condition and results of operations.

Emerging markets such as Russia are subject to greater risks than more developed markets, including in some cases, financial, economic, legal and political risks. Such risks or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment and adversely affect the economies of the countries in which we operate. For example, the current circumstances involving Ukraine may have deleterious macroeconomic and other effects on the regions in which we operate, including, among other things, increased volatility in currency values and a weaker overall business environment. In addition, such circumstances may harm or encourage volatility in our share price and in equity markets in general. These emerging market and economies are also subject to rapid change. For these reasons, our business, financial condition and results of operations may be materially adversely affected by any crises in Russia or other emerging markets in which we operate.

Economic crises may materially adversely affect our business, financial condition and results of operations.

The Russian economy was adversely affected by the global financial and economic crisis that began in the second half of 2008. The total spending on media advertising in Russia decreased by 43% in dollar terms and 27% in ruble terms in 2009 compared to 2008, according to AKAR. Although economic conditions have improved, the medium-term outlook is unsettled and we cannot assure you that the recovery of the economy in Russia and the other countries in which we operate will be sustained. Moreover, any renewed deterioration of the international economic situation would likely negatively impact the economies in the countries in which we operate and, as a result, adversely affect the profitability of our business.

In addition, the Russian economy is dependent on exports of natural resources, and therefore particularly sensitive to fluctuations in the world prices of crude oil, natural gas and other commodities. A sustained decline in the price of crude oil, natural gas and other commodities may further disrupt the Russian economy and result in reductions in consumer spending and therefore advertising spend.

Global recession and any downturns in the markets in which we operate could reduce advertising demand, constrain our ability to find new users and advertising customers or retain existing ones and to collect payments from them, and may prevent us from executing our growth strategy. Adverse economic conditions may also hurt our liquidity, which may have a material adverse effect on our business, financial condition and results of operations.

Inflation may increase our costs and exert downward pressure on our operating margin.

The Russian economy has generally been characterized by high rates of inflation in recent years. According to the Russian Federal State Statistics Service, Rosstat, the annual inflation rate in Russia was 6.1% in 2011, 6.6% in 2012, and 6.5% in 2013, as measured by the consumer price index. Because substantially all of our operations are in Russia, our costs are sensitive to increases in prices in Russia. As a result, high rates of inflation increase our costs, and these increases in cost could negatively impact our operating margin.

The legal system in Russia and other countries in which we operate can create an uncertain environment for investment and business activity that could have a material adverse effect on the value of our Class A shares, our business, financial condition and results of operations.

The legal framework supporting a market economy remains new and in flux in Russia and the other countries in which we operate and, as a result, the relevant legal systems can be characterized by:

- inconsistencies between and among laws and regulations;
- gaps in the regulatory structure resulting from the delay in adoption or absence of implementing regulations and a subordinate legal framework;
- selective and inconsistent enforcement of laws or regulations, sometimes in ways that have been perceived as being motivated by political or financial considerations;
- scarce judicial and administrative guidance on interpreting legislation;
- relatively limited experience of judges and courts in interpreting recent commercial legislation as well as in understanding specifics of business operations and international best practices in the sphere of information technology and other areas;
- a perceived lack of judicial and prosecutorial independence from political, social and commercial forces;
- inadequate court system resources;
- rapid or unexpected changes in the legislative framework;
- a high degree of discretion on the part of the judiciary and governmental authorities; and
- poorly developed bankruptcy procedures that are not infrequently abused.

Furthermore, a range of civil legislation in Russia is currently under review or has recently been adopted. In 2013, several laws were adopted to amend the Russian Civil Code, specifically related to (i) the principle of good faith (which was not previously clearly provided by the Russian Civil Code); (ii) certain aspects of invalidity of transactions; (iii) real estate; (iv) the formalization of a power of attorney; (v) conflicts of laws rules; (vi) pledging of rights and assets and (vii) certain other matters. Other amendments were adopted with regard to intellectual property regulations, including regulation of use of intellectual property rights in the internet and regulation of patents. Such amendments may significantly affect existing business practices and result in additional legal risks related to compliance with newly adopted civil legislation.

In addition, as is true of civil law systems generally, judicial precedents generally have no binding effect on subsequent court decisions, except in Russia within certain limited authority of the Higher *Arbitrazh* Court that issued rulings and guidelines that were binding on lower courts. However, the current status of rulings and guidelines of the Higher *Arbitrazh* Court is unclear due to recent overall reform and reorganization of Russian judicial system brought about by amendments to the Russian Constitution and legislation in 2014. In accordance with such amendments the Higher *Arbitrazh* Court should be liquidated in mid-2014. All cases within the jurisdiction of the Higher *Arbitrazh* Court will be

transferred to the Supreme Court of Russia. The Supreme Court of Russia, which through a separate division will handle commercial disputes after the judicial reorganization, and the entire system of courts of common jurisdiction, are known to be more rigid and conservative than the system of *arbitrazh* courts. This may result in reconsideration of the previous practices and rulings favorable to business activity (including abovementioned rulings and guidelines issued by the Higher *Arbitrazh* Court) and a significant change of the judicial climate in Russia.

Not all legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. Enforcement of Russian court rulings as well as recognition and enforcement of foreign state court awards may prove to be substantially problematic. All of these factors make judicial decisions difficult to predict and effective protection of rights and interests uncertain. Additionally, court claims and governmental prosecutions may be used in furtherance of what some perceive to be political aims.

In other countries in which we operate, limited and inconsistent enforcement with respect to certain laws and the rapid evolution of their legal systems may result in ambiguities, inconsistencies and anomalies in the application and interpretation of laws and regulations. Any of these factors may result in our being subject to unpredictable fines or requirements, affect our ability to enforce our rights under our contracts or to defend ourselves against claims by others, or result in our being subject to unpredictable requirements, and could have a material adverse effect on our Class A shares and our business, financial condition and results of operations. The fact that we are a high-profile company may heighten this risk. See “—Businesses in Russia, especially high-profile companies, may be subject to aggressive or arbitrary application of contradictory or ambiguous laws or regulations, or to politically motivated actions, which could materially adversely affect our business, financial condition and results of operation” and—“We face similar risks in other countries.”

The legal framework governing internet services and e-commerce in Russia and the other countries in which we operate is undeveloped, and we may be required to have additional licenses, permits or registrations, or to take additional actions in order to conduct our business, which may be costly or may limit our flexibility to run our business.

Although we believe that we currently have all material licenses and permits required to conduct our business, court interpretations and the applicability of Russian commercial legislation and regulations in relation to our business can be ambiguous or contradictory and it is possible that the authorities may determine that we are required to have additional licenses, permits or registrations. For example, we could fall within the following regulations that require receipt of licenses/permits or compliance with certain mandatory procedures:

- Currently, Russian law requires the receipt of a “telematics” license by a company if it provides services for a fee by means of telecommunications services. We do not charge for the internet services we provide to our users and therefore believe we are not required to hold a telematics license; we do, however, generate revenue from ads directed to our users. It is possible that a Russian court or a government agency may construe our advertising revenue as an indirect “fee” and determine that we are required to hold a telematics license. Additionally, as we may further develop certain user services that would be provided for a fee in the future, we cannot assure you that such services, if developed, would not trigger the licensing requirements referenced above.
- Russian law requires that “mass media” businesses be registered with the applicable governmental authority. Although Russian law does not specifically include internet enterprises in the list of mass media businesses, several internet businesses that publish news have been required to obtain an electronic mass media registration. Our principal operating subsidiary, which operates our search and most of our other user services and online properties, does not

hold a mass media registration. In November 2011, a legislative amendment was implemented, permitting electronic network publications (websites) to register on a voluntary basis as mass media under the procedures established by the law. We have determined that we are not required to register as a mass media business; however, we cannot assure you that we will not be required to register as a mass media business in the future, especially if the current law changes. Obtaining and maintaining such registration may be burdensome, time-consuming and costly, and may adversely affect our business, financial conditions and results of operations.

- Businesses that use certain encryption technologies in their products and services may be required to obtain a license from the Russian Federal Security Service unless they are covered by the exemptions set out in the licensing regulation approved by the government of the Russian Federation. We are using certain standard encryption protection measures in some of our services such as Yandex.Mail, and although we believe that such use of encryption is excluded from these licensing requirements, we cannot assure that the regulator may not take a different view.

We may have to apply for additional licenses, permits or registrations to comply with new or existing legal requirements, which may be costly or may limit our flexibility to run our business. If we fail to obtain and maintain required licenses, permits or registrations, we may face fines, penalties or sanctions. These may include a requirement that we permanently or temporarily cease certain of our business activities, administrative penalties or criminal prosecution of our officers. In addition, we might be unable to immediately comply with new regulations upon their implementation.

We may be subject to laws that impose restrictions on the collection and distribution of certain types of personal and other data via the internet, which may affect our ability to flexibly manage our business or make it more costly to do so, or subject us to fines or other penalties.

Current law imposes restrictions on the distribution of satellite images of certain areas in Russia and the other countries in which we operate and imposes requirements with respect to the information provided by the traffic monitoring service we offer. If we were found to be in violation of any such restrictions, we may be forced to suspend such services or may potentially be subject to fines or other penalties.

Collection and handling of personal data by any entity or person in Russia is subject to certain requirements and restrictions, including obtaining written consent from the relevant individual and using technical and encryption means for the protection of personal data. In addition, subject to several exemptions, a notification must be made to the appropriate Russian governmental body, Roscomnadzor, to process personal data. We do not collect or perform any operations on our users' personal data, except when such collection or processing is in accordance with our terms of services and privacy policies which are available on our websites. Due to the absence of established court practice and official guidelines on the application of exemptions, however, we cannot assure you that the regulator may not take a view that we nevertheless have to file a notification or comply with other requirements. If we are ultimately required to file such a notification or otherwise are determined to be subject to the rules regarding the collection and handling of personal data, we may be required to use special technical facilities and equipment and to adopt extensive internal compliance rules for the protection of personal data, which may adversely affect our ability to flexibly manage our business or make it more costly to do so.

Due to the nature of services we offer and the fact that we have presence in a number of countries, we may be subjected to personal data laws of other jurisdictions, especially laws regulating to cross-border transfer of personal data.

We may be subject to data retention regulations, requiring us to collect, store and produce to the state authorities certain types of data related to activity of our users, which may require us to acquire additional storage and make amendments to the services and products to implement the requirements.

A bill has been recently introduced to the State Duma of Russia which will require, if adopted and signed into law, internet service providers and website owners to retain broad range of data relating to and generated by the users (including potentially their stored or even deleted data and contents of all the communications) of our services for a period of six months and provide such data to security and investigation authorities at their request. While the final requirements which will be introduced by the law and subordinate regulations are unclear, compliance with such requirements may require significant expenditures by us such as potentially large expenditures on additional data centers, servers and other infrastructure or software development.

We may be subject to existing or new advertising legislation that could restrict the types and relevance of the ads we serve, which would result in a loss of advertisers and therefore a reduction in our revenues.

Russian law prohibits the sale and advertising of certain products, such as illegal drugs. In addition, advertising for certain regulated products and services may only be conducted by, or on behalf of, advertisers who possess the licenses, approvals and certificates required to market and sell such products and services. Ads for certain products and services, such as financial services, as well as ads aimed at minors and some others, must comply with specific rules and must in certain cases contain required disclaimers. Furthermore, a July 2012 amendment to Russian advertising legislation outlawed advertising of alcohol on the internet as well as in periodicals. Similar regulations were adopted in November 2013 with respect to the advertising of cigarettes, tobacco products and smoking accessories. In early 2014, new regulations were also adopted to limit or in certain cases even to prohibit advertising of medical services. Further amendments in this regard are still widely discussed, what may lead to certain changes in current approach. The application of these laws to parties, such as Yandex, that merely serve or distribute such ads and do not market or sell the product or service, however, can be unclear. Pursuant to our terms of service, we require that our advertisers have all required licenses or authorizations. If our advertisers do not comply with these requirements, and these laws were to be interpreted to apply to us, or if our ad-serving system failed to include necessary disclaimers, we may be exposed to administrative fines or other sanctions, and may have to limit the types of advertisers we serve.

The regulatory framework in Russia governing the use of behavioral targeting in online advertising is unclear. If new legislation were to be adopted, or current legislation were to be interpreted, to restrict the use of behavioral targeting in online advertising, our ability to enhance the targeting of our advertising could be significantly limited, which could result in a loss of advertisers or a reduction in the relevance of the ads we serve, which would reduce the number of clicks on the ads and therefore our revenues.

Our need to comply with applicable Russian laws and regulations could hamper our ability to offer services that compete effectively with those of our foreign competitors and may adversely affect our business, financial condition and results of operations.

Many of our global competitors, such as Google, Microsoft and Yahoo!, have their principal operations outside of Russia, putting them generally outside of the jurisdiction of Russian courts and government agencies, even though some of them have offices in Russia. Our systems and operations are located principally in Russia. Russian laws and regulations that are applicable to us, but not to our foreign competitors, may impede our ability to develop and offer services that compete effectively on a global scale as well as in Russia with those offered by our foreign-based competitors and generally available worldwide over the internet. For example, our foreign competitors may be able to offer certain content that is now, or may in the future be, restricted by Russian law. Any inability on our part

to offer services that are competitive with those offered by our foreign competitors may adversely affect our business, financial condition and results of operations.

Russian authorities could determine that we hold a dominant position in our markets, and could impose limitations on our operational flexibility which may adversely affect our business, financial condition and results of operations.

The Russian anti-monopoly legislation uses a criterion of a dominant market position and contains certain guidelines and restrictions for companies deemed to be dominant in the market. We believe that the anti-monopoly authorities have not to date addressed internet advertising in Russia to any significant extent; however, an antitrust authority official recently expressed the intention of the regulators to perform an analysis of the business of social networks in 2013 and 2014, which potentially could include scrutiny of the overall online advertising market. If, and when they do so, Russian authorities may conclude that, given our market share, we hold a dominant position in one or more of the markets in which we operate, which could result in limitations on our future acquisitions and a requirement that we pre-clear with the authorities any changes to our standard agreements with advertisers and Yandex ad network partners, as well as any specially negotiated agreements with business partners. In addition, if we were to decline to conclude a contract with a third party or terminate an existing agreement without sufficient substantiation this could, in certain circumstances, be regarded as abuse of a dominant market position. As a general rule, actions or omissions of a dominant company are prohibited if they lead or may lead to prevention, restriction or elimination of competition or infringement of third parties' interests, resulting in the imposition of disadvantageous contractual terms to the counterparty or terms not related to the subject of the contract; fixing different prices on the same commodity, where it is not economically or technologically justifiable; creating discriminatory conditions; or other consequences. Any abuse of a dominant market position could lead to administrative penalties and the imposition of fines of up to 15% of our prior year annual revenues in the relevant market. These limitations may reduce our operational and commercial flexibility and responsiveness, which may adversely affect our business, financial condition and results of operations.

Businesses in Russia, especially high-profile companies, may be subject to aggressive, arbitrary, contradictory or ambiguous laws or regulations, or to politically motivated actions, which could materially adversely affect our business, financial condition and results of operations.

Many commercial laws and regulations in Russia are relatively new and have been subject to limited interpretation. As a result, their application can be unpredictable. In addition, government authorities have a tendency to follow a very formal approach in certain cases and are entrusted with a high degree of discretion in Russia and have at times exercised their discretion in ways that may be perceived as selective or arbitrary, and sometimes in a manner that is seen as being influenced by political or commercial considerations. Such actions have included the termination or invalidation of contracts, withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions, administrative investigations and civil actions. Federal and local government entities have also used common defects in documentation as pretexts for court claims and other demands to invalidate and/or to void transactions, apparently for political purposes. We cannot assure you that regulators, judicial authorities or third parties will not challenge our compliance with applicable laws, decrees and regulations.

The Russian government has taken various actions in recent years against business people and companies operating in Russia that have been perceived as having been politically motivated, including actions for technical violations of law or violations of laws that have been applied retroactively, such as violations of tax laws, or interpretations of widely used practices in specific cases as impermissible. In 2008, for example, government officials publicly criticized transfer pricing arrangements used by a Russian-based company that is publicly traded in the United States, claiming that such arrangements constituted tax evasion. These claims resulted in a steep decline in that company's stock price. In 2013, stock prices of a Russian bank which is focused on distance banking services and company offering instant payment services dropped sharply after the news about possible introduction of new laws which could impact their operations. Government officials may apply contradictory or ambiguous laws or regulations in ways that have a material adverse effect on our business, financial condition and results of operations. Such actions have on occasion resulted in significant fluctuations in the market prices of the securities of businesses operating in Russia, a weakening of investor confidence in Russia and doubts about the progress of market and political reforms in Russia.

High-profile businesses in Russia, such as ours, can be particularly vulnerable to politically motivated actions. Some Russian television broadcasters, for example, have experienced what some would characterize as politically motivated actions, including efforts to facilitate change of control. Although we believe that our commitment to content neutrality principles lessens the risk of politically motivated actions against us, we cannot guarantee that we will not be affected by politically motivated actions that could materially adversely affect our operations. Moreover, although our Yandex.News service aggregates content by algorithm, without regard to viewpoint, other parties may perceive our Yandex.News service as reflecting a political viewpoint or agenda, which could subject us to politically motivated actions.

Restrictions on foreign ownership imposed by Russian legislation may prevent a takeover of our company by a non-Russian party.

The Russian Federal Law "On the Procedure for Foreign Investments in Companies which are Strategically Important for the State Defense and National Security" (the "Strategic Companies Law") restricts foreign ownership of companies involved in certain strategically important activities in Russia. The relevant activities are listed in the Strategic Companies Law and include activities connected with the use of encryption technologies that are subject to licensing. The internet and online advertising are not currently industries specifically covered by the Strategic Companies Law, but a draft amendment currently under consideration by the Russian State Duma, if adopted, would include certain internet companies that have large audiences within the scope of this law.

The Strategic Companies Law requires the prior approval of a Russian Governmental Commission chaired by the Prime Minister of Russia or post-transaction notification to the Russian Federal Antimonopoly Service (as the case may be) when obtaining control over a strategically important company. For example, under the provisions of the Strategic Companies Law, the direct or indirect acquisition of more than 25% of the voting power of a strategically important company or other ability to block decisions of the management bodies of a strategically important company by a foreign state, international organization or entity controlled by a foreign government, or international organization, or the direct or indirect acquisition of more than 50% of the voting power of such a company by any foreign investor or any of its controlled companies, requires the prior approval of the Russian Governmental Commission chaired by the Prime Minister. Failure to obtain the required governmental approval prior to an acquisition would render the acquisition null and void. If it is impossible to apply the consequences of invalidity to a void transaction, the state court may upon the lawsuit of the Russian Federal Antimonopoly Service adopt a decision:

- depriving the foreign investor of its right to vote at the shareholders' (participant's) meeting of a strategically important company; or

- invalidating the decisions of the management bodies of a strategically important company adopted after the establishment of control in breach of the Strategic Companies Law.

Post-transaction notification to the Russian Federal Antimonopoly Service is required in the case of acquisition of 5% or more of the shares of a strategically important company. In addition, foreign investors or their group companies that are controlled by a foreign state or international organization are prohibited from owning more than 50% of the voting power of a strategically important company.

We believe that our Yandex.Money joint venture is covered by the Strategic Companies Law due to the fact that PS Yandex.Money LLC currently holds encryption licenses which fall within the scope of the Strategic Companies Law. Since the conclusion of our joint venture in respect of the Yandex.Money business in July 2013 following the sale by Yandex N.V. to Sberbank of 75% (less one ruble) of the total participation interest in PS Yandex.Money LLC, we believe that the applicable restrictions in respect of private non-Russian persons no longer apply to Yandex N.V., but that the requirement to obtain prior approval from the Russian Government Commission chaired by the Russian Prime Minister continue to be applicable to non-Russian state, international organizations or entities controlled by a non-Russian government or international organization that would seek to acquire shares of Yandex N.V. or enter into an agreement that would establish direct or indirect control over Yandex N.V. and, therefore, trigger application of the Strategic Companies Law discussed above. There is also a risk that some of the rights granted to Yandex N.V. under the joint venture agreement with Sberbank could be interpreted by Russian authorities as establishing control by Yandex N.V. over PS Yandex.Money LLC, which would require the Russian Governmental Commission's preliminary consent for a broader number of transactions, including by private non-Russian persons.

These restrictions on ownership of our shares would be in addition to the restrictions on ownership of our shares provided for in our articles of association. See “—Risks Related to Ownership of our Class A Shares—Our Board of Directors and our priority shareholder have the right to approve accumulations of stakes in our company or the sale of our principal Russian operating subsidiary, which may prevent or delay change-of-control transactions,” “—Risks Related to ownership of our Class A Shares—Anti-takeover provisions in our articles of association and the shareholders agreement among our principal shareholders may prevent or delay change-of-control transactions.”

Moreover, considering that Yandex N.V. holds 25% (plus one ruble) in PS Yandex.Money LLC, there is a risk that a change of control in respect of Yandex N.V. would still require preliminary consent of the Central Bank of Russia, as Yandex N.V. could be considered to indirectly hold more than 10% of the voting power of a non-banking credit organization.

Businesses in Russia can be subject to aggressive actions by financial groups seeking to obtain control through the exercise of economic or political influence or government connections.

Well-funded, well-connected financial groups and so-called “oligarchs” have, from time to time, sought to obtain operational control and/or controlling or minority interests in attractive businesses in Russia by means that have been perceived as relying on economic or political influence or government connections. We may be subject to such efforts in the future and, depending on the political influence of the parties involved, our ability to thwart such efforts may be limited.

The Russian banking and financial system remains less developed than those in some more developed markets, and a banking crisis could place liquidity constraints on our business and materially adversely affect our business, financial condition and results of operations.

Russia's banking and other financial systems are less well developed and regulated than those of some more developed markets, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. Russian banks generally do not meet

international banking standards, and the transparency of the Russian banking sector lags behind international norms.

As a result, the banking sector remains subject to periodic instability. In 2013 the Central Bank of Russia conducted review of activities and operations of Russian banks, which in certain cases led to withdrawal of banking licenses. Another banking crisis, or the bankruptcy or insolvency of banks through which we receive or with which we hold funds, may result in the loss of our deposits or adversely affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

Some of our counterparties provide limited transparency in their operations, which could subject us to greater scrutiny and potential claims from government authorities.

We do business with a number of companies, especially small companies that do not always operate in a fully transparent manner and that may engage in aggressive or otherwise questionable practices with respect to tax obligations or compliance with other legal requirements. We have on occasion been approached by government authorities regarding potential tax claims or other compliance matters in connection with such transactions. As a larger and more transparent company with greater resources than such counterparties, governmental authorities may seek to collect taxes and/or penalties from us in relation to such transactions on the basis that we had knowledge of or aided such practices even when we did not.

Changes in the Russian tax system or unpredictable or unforeseen application of existing rules may materially adversely affect our business, financial condition and results of operations.

Russian tax, currency, and customs laws and regulations are subject to varying interpretations and changes, which may be frequently revised and reviewed by the authorities. As a result, our interpretation of such tax legislation may be challenged by the relevant authorities. For example, recent legislative developments in transfer pricing rules and anti-offshore initiatives that were announced in December 2013 may be implemented in a way which is not in line with the framework of the international legislation developments in this area or our interpretation. Moreover, under the current conditions of weak economic growth and reduced tax revenue, the authorities are taking more assertive position in their interpretation of the tax legislation and, as a result, it is possible that transactions and activities that have not been challenged in the past may now be put under question by the authorities. High-profile companies such as ours can be particularly vulnerable to such assertive position of the authorities.

Although we believe that our interpretation of relevant legislation is appropriate and is in accordance with the existing court practice, if the authorities were successful in enforcing differing interpretations, our tax liability may become greater than the estimated amount that we have expensed to date and paid or accrued on our balance sheets.

Generally, Russian taxpayers are subject to inspection of their activities for a period of three calendar years immediately preceding the year in which an audit is carried out. Tax audits are routinely undertaken at least every two years. A tax audit of our principal Russian subsidiary covering 2010, 2011 and 2012 commenced in June 2013 and is expected to be completed in 2014. Any additional tax liability, as well as any unforeseen changes in Russian tax laws, could have a material adverse effect on our business, financial condition and results of operation.

The Russian tax system imposes additional burdens and costs on our operations in Russia, and complicates our tax planning and related business decisions. These factors raise the risk of a sudden imposition of arbitrary or onerous taxes on our operations in Russia or fines, penalties and enforcement measures. This may materially adversely affect our business, financial condition and results of operations.

Taxes payable on dividends from our Russian operating subsidiaries to our parent company might not benefit from relief under the Netherlands-Russia tax treaty.

In accordance with Russian legislation, dividends paid by a Russian entity to a nonresident shareholder that is a legal entity are subject to Russian withholding tax at the rate of 15%. The Netherlands-Russia tax treaty generally reduces that rate to 5% for corporate shareholders that are tax resident in the Netherlands, provided that they do not have a permanent establishment in Russia and that certain other conditions, which we believe we satisfy, are met.

Yandex N.V. is incorporated in the Netherlands and our principal operating subsidiaries are incorporated in Russia. Our management seeks to ensure that we conduct our affairs in such a manner that our parent company is not regarded as tax resident in any jurisdiction other than the Netherlands and, in particular, is not deemed to be a tax resident of, or to have a permanent establishment in, Russia. Thus, dividends paid from our Russian operating subsidiaries to our parent company should generally be subject to Russian withholding tax at a 5% rate. If our parent company were not treated as a Dutch resident for tax purposes or if it were deemed to have a permanent establishment in Russia, or if the Russian tax authorities were to determine that other conditions for the application of the 5% rate are not met, dividends paid from our Russian operating subsidiaries to our parent company would be subject to Russian withholding tax at the rate of 15%. Prior to our corporate reorganization in 2007, our parent company was incorporated in Cyprus and dividends were paid to that company in reliance on similar provisions under the Cyprus-Russia tax treaty.

Our Russian operating subsidiaries have paid dividends to our parent company in reliance on the provisions of the Netherlands-Russia tax treaty. Russian tax rules, however, are characterized by significant ambiguities and limited interpretive guidance and are subject to change, and we can provide no assurance that dividend withholding tax relief may not be challenged by the Russian tax authorities based on the grounds mentioned above. Furthermore, Russian tax rules regarding residency are currently under review and may change, thus triggering changes in taxation of dividends from our Russian subsidiaries to our parent company in the future.

We may be required to record a significant deferred tax liability if we are unable to reinvest our earnings in Russia.

Our principal Russian operating subsidiary has significant accumulated earnings that have not been distributed to our Dutch parent company. Our current policy is to retain earnings at the level of our principal subsidiary for investment in Russia, and we did not pay any inter-company dividends in 2011, 2012 or 2013.

We currently deem any earnings to be permanently reinvested by our principal Russian operating subsidiary outside of the Netherlands and, accordingly, we have not recorded a deferred tax liability on these unremitted earnings. If circumstances change and we are unable to reinvest in that subsidiary's current operations or acquire suitable businesses in Russia, U.S. GAAP would require us to record a deferred tax liability representing the dividend withholding taxes that we would be required to pay if this subsidiary were to pay these unremitted accumulated earnings to our Dutch parent company as a dividend, even if such dividends were not actually declared and paid. As of December 31, 2013, the cumulative amount of unremitted earnings in respect of which dividend withholding taxes have not been provided is RUR 35,708 million. The applicable withholding tax rate is 5% and the amount of the unrecognized deferred tax liability related to these unremitted earnings was RUR 1,785 million as of December 31, 2013. We expect the amount of unremitted earnings to grow as our principal Russian operating subsidiary continues to generate net income. If we were required to record a deferred tax liability on an amount subsequently made available for distribution it may have a material adverse effect on our results of operations.

Ambiguities in Russian law regarding payments to individuals who are Yandex ad network partners may create employment-related tax obligations or require us to limit network partnership and may adversely affect our business, financial condition and results of operations.

Ambiguities in Russian law make it difficult to structure payments to third-party individuals without creating a deemed employer-employee relationship. Many of our Yandex ad network partners are individuals who own and operate their own websites. We have contractual relationships with third parties, including advertising agencies, who act as aggregators and that make payments to individual Yandex ad network partners for the fees to which they are entitled in connection with the ads we serve on their websites. In the event that an aggregator fails to make any required tax withholding or otherwise comply with applicable laws in respect of such payments, the authorities might seek to hold us liable. In addition, because of ambiguities in the law, a Russian court or agency might elect to disregard these aggregators and construe our indirect payments to any such individual as creating an employer-employee relationship between us and that individual, with associated tax obligations. If Russian law were interpreted in such a way, and if we were not able to develop a method of paying individual partners without triggering this law, we would most likely limit partnership in the Yandex ad network to legal entities and businesses to reduce our exposure to potential liability. This would result in fewer partners in the Yandex ad network, and may adversely affect our business, financial condition and results of operations.

We face similar risks in other countries.

In addition to Russia, we currently have operations in other countries in the CIS, including Ukraine, Belarus and Kazakhstan. We may acquire or establish additional operations in additional countries of the CIS. We also have limited operations in countries outside CIS, including the US, the Netherlands, Switzerland, Turkey, Hong Kong and Finland. In certain respects, the risks inherent in transacting business in Russia or on an international scale, as set out above, also apply to our business or operations in these jurisdictions.

Risks Related to Ownership of our Class A Shares

The price of our Class A shares has been and may continue to be volatile. Market fluctuations specific to high-growth technology companies may affect the performance of our Class A shares and could expose us to potential securities litigation, which could result in substantial costs and a diversion of our management's attention and resources.

The market for technology and other growth companies has experienced severe price and volume fluctuations that have often been disproportionate to the operating performance of those companies. These broad market and industry factors may impact the market price of our Class A shares regardless of our actual operating performance.

The trading price of our Class A shares has been and may continue to be volatile and subject to wide fluctuations in price in response to various factors, some of which are beyond our control. These factors include:

- quarterly variations in our results of operations or those of our competitors;
- fluctuations in our share of the internet search market;
- announcements of technological innovations or new services and media properties by us or our competitors;
- the emergence of new advertising channels in which we are unable to compete effectively;
- changes in governmental regulations;

- disruption to our operations or those of our partners;
- our ability to develop and launch new and enhanced services on a timely basis;
- commencement of, or our involvement in, litigation;
- any major change in our directors or management;
- changes in earnings estimates or recommendations by securities analysts;
- the operating and stock price performance of other companies that investors may deem comparable to us; or
- general global or Russian economic conditions and slow or negative growth or forecast growth of related markets.

Additionally, volatility or a lack of positive performance in the price of our Class A shares may adversely affect our ability to retain key employees, some of whom have been granted equity awards.

In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. Such litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

This volatility may affect the price at which holders of Class A shares may sell such shares and the sale of substantial amounts of our Class A shares could adversely affect the price of our Class A shares.

The concentration of voting power with our principal shareholders, including our founders, directors and senior management, limit your ability to influence corporate matters.

Our Class B shares have ten votes per share and our Class A shares have one vote per share. As of March 14, 2014, our founders, directors and senior management (and their affiliates) together own 76.0% of our outstanding Class B shares and 2.2% of our outstanding Class A shares, representing in the aggregate 56.3% of the voting power of our outstanding shares. In particular, our founder, Mr. Volozh, directly or indirectly controls 48.6% of our outstanding Class B shares representing 35.6% of the voting power of our outstanding shares. For the foreseeable future, therefore, our founder, directors, senior management and their affiliates will have significant influence over the management and affairs of our company and over all matters requiring shareholder approval, including the election of directors, the amendment of our articles of association and significant corporate transactions, such as a sale of our company or its assets. Because of this multiple class structure, these persons will continue to exert significant influence over all matters submitted to our shareholders for approval even if they come to own fewer than 50% of our outstanding shares by number.

In addition, our principal shareholders are parties to a shareholders agreement that, among other things, requires them to vote to elect those directors nominated by our Board of Directors for election or re-election, and limits their ability to vote in favor of amendments of the anti-takeover provisions of our articles of association. This concentrated control limits your ability to influence decisions on corporate matters. We may take actions that our public shareholders do not view as beneficial or as maximizing value for them. As a result, the market price of our Class A shares may be adversely affected.

Our Board of Directors and our priority shareholder have the right to approve accumulations of stakes in our company or the sale of our principal Russian operating subsidiary, which may prevent or delay change-of-control transactions.

Our Board of Directors has the right, acting by simple majority, to approve the accumulation by a party, group of related parties or parties acting in concert of the legal or beneficial ownership of shares representing 25% or more, in number or voting power, of our outstanding Class A and Class B shares (taken together). If our board grants its approval of such share accumulation, the matter is then submitted to the holder of our priority share, which has a further right of approval of such accumulation of shares. In addition, any decision by our Board of Directors to transfer all or substantially all of our assets to one or more third parties, including the sale of our principal Russian operating subsidiary, is subject to the prior approval of the priority shareholder.

Any holding, transfer or acquisition by a party, group of related parties or parties acting in concert of the legal or beneficial ownership of Class B shares representing 25% or more, in number or by voting power, of our outstanding Class A and Class B shares (taken together), without the prior approval of our Board of Directors, first, and then the priority shareholder, will be null and void. The acquisition of shares in excess of the thresholds permitted by our articles of association will be subject to certain notification requirements set forth in our articles of association. Failure to comply with those terms would render the transfer of such shares null and void. In addition, the holders of such shares would not be entitled to the dividend or voting rights attached to their excess shares. The rights of our Board of Directors and our priority shareholder to approve accumulations of stakes in our company may prevent or delay change-of-control transactions.

Anti-takeover provisions in our articles of association and the shareholders agreement among our principal shareholders may prevent or delay change-of-control transactions.

In addition to the rights of our board and of the priority shareholder to approve the accumulation of stakes of 25% or more, as described above, our multiple class share structure may discourage others from initiating any potential merger, takeover or other change-of-control transaction that our public shareholders may view as beneficial. Our articles of association also contain additional provisions that may have the effect of making a takeover of our company more difficult or less attractive, including:

- the staggered three-year terms of our directors, as a result of which only one-third of our directors are subject to election in any one year;
- a provision that our directors may only be removed by a two-thirds majority of votes cast representing at least 50% of our outstanding share capital;
- the authorization of a class of preference shares that may be issued by our Board of Directors in such a manner as to dilute the interest of any potential acquirer;
- requirements that certain matters, including an amendment of our articles of association, may only be brought to our shareholders for a vote upon a proposal by our Board of Directors;
- minimum shareholding thresholds, based on par value, for shareholders to call general meetings of our shareholders or to add items to the agenda for those meetings, which will be very difficult for Class A shareholders to meet given our multiple class share structure; and
- supermajority requirements for shareholder approval of certain significant corporate actions, including the legal merger or demerger of our company and the amendment of our articles of association.

In addition, the provisions of the shareholders agreement described above could have the effect of preventing or delaying a takeover of our company.

The Dutch public offer rules, which impose substantive and procedural requirements in connection with the attempted takeover of a Dutch public company, only apply in the case of Dutch target companies that have shares listed on a regulated market within the European Union. We have not listed our shares, and do not expect to list our shares, on a regulated market within the European Union, and therefore these rules do not apply to any public offer for our Class A shares.

Our Class A shares may not be traded on any exchange outside the United States.

Our Class A shares are listed only in the United States on the NASDAQ Global Select Market. As a result, a holder of our Class A shares outside the United States may not be able to effect transactions in our Class A shares as readily as the holder may if our securities were listed on an exchange in that holder's home jurisdiction.

We rely on NASDAQ Stock Market rules that permit us to comply with applicable Dutch corporate governance practices, rather than the corresponding domestic U.S. corporate governance practices, and therefore your rights as a shareholder differ from the rights you would have as a shareholder of a domestic U.S. issuer.

As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we are permitted in certain cases to follow Dutch corporate governance practices instead of the corresponding requirements of the NASDAQ Marketplace Rules. We follow Dutch corporate governance practices with regard to the quorum requirements applicable to meetings of shareholders and the provision of proxy statements for general meetings of shareholders. In accordance with Dutch law and generally accepted business practices, our articles of association do not provide quorum requirements generally applicable to general meetings of shareholders. Although we do provide shareholders with an agenda and other relevant documents for the general meeting of shareholders, Dutch law does not have a regulatory regime for the solicitation of proxies and the solicitation of proxies is not a generally accepted business practice in the Netherlands. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

We do not comply with all the provisions of the Dutch Corporate Governance Code. This may affect your rights as a shareholder.

As a Dutch company we are subject to the Dutch Corporate Governance Code, or DCGC. The DCGC contains both principles and best practice provisions for management boards, supervisory boards, shareholders and general meetings of shareholders, financial reporting, auditors, disclosure, compliance and enforcement standards. The DCGC applies to all Dutch companies listed on a government-recognized stock exchange, whether in the Netherlands or elsewhere, including the NASDAQ Global Select Market. The principles and best practice provisions apply to the board (in relation to role and composition, conflicts of interest and independency requirements, board committees and remuneration), shareholders and the general meeting of shareholders (for example, regarding anti-takeover protection and obligations of the company to provide information to its shareholders) and financial reporting (such as external auditor and internal audit requirements). The DCGC requires that companies either "comply or explain" any noncompliance and, in light of our compliance with NASDAQ requirements and as permitted by the DCGC, we have elected not to comply with all of the provisions of the DCGC. This may affect your rights as a shareholder and you may not have the same level of protection as a shareholder in a Dutch company that fully complies with the DCGC.

Risks for U.S. Holders

We cannot assure you that we will not be classified as a passive foreign investment company for any taxable year, which may result in adverse U.S. federal income tax consequence to U.S. holders.

Based on certain management estimates with respect to our gross income and average value of our gross assets and on the nature of our business, we believe that we were not a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes for the 2013 tax year, and do not expect to be a PFIC in the foreseeable future. However, because our PFIC status for any taxable year will depend on the composition of our income and assets and the value of our assets in such year, and because this is a factual determination made annually after the end of each taxable year and there are uncertainties in the application of the rules, there can be no assurance that we will not be considered a PFIC for the current taxable year or any future taxable year. In particular, the value of our assets may be determined in large part by reference to the market price of our Class A shares, which have fluctuated, and may continue to fluctuate, significantly. If we were to be treated as a PFIC for any taxable year during which a U.S. holder held our Class A shares, certain adverse U.S. federal income tax consequences could apply to the U.S. holder. See “Taxation—Taxation in the United States—U.S. federal income tax consequences to U.S. holders—Passive foreign investment company considerations.”

Any U.S. or other foreign judgments you may obtain against us may be difficult to enforce against us in Russia or the Netherlands.

We have only very limited operations in the United States, most of our assets are located in Russia, our company is incorporated in the Netherlands, and most of our directors and senior management are located outside the United States. As a result, it may be difficult to serve process on us or these persons within the United States. Although arbitration awards are generally enforceable in Russia and the Netherlands, and Russian courts may elect to enforce foreign court judgments as a matter of international reciprocity and judicial comity, you should note that judgments obtained in the United States or in other foreign courts, including those with respect to U.S. federal securities law claims, may not be enforceable in Russia or the Netherlands. There is no mutual recognition treaty between the United States and the Russian Federation or the Netherlands, and no Russian federal law or Dutch law provides for the recognition and enforcement of foreign court judgments. Therefore, it may be difficult to enforce any U.S. or other foreign court judgment obtained against our company, any of our operating subsidiaries or any of our directors in Russia or the Netherlands.

The rights and responsibilities of our shareholders are governed by Dutch law and differ in some important respects from the rights and responsibilities of shareholders under U.S. law.

Our corporate affairs are governed by our articles of association and by the laws governing companies incorporated in the Netherlands. The responsibilities of members of our Board of Directors under Dutch law are different than under the laws of some U.S. jurisdictions. In the performance of its duties, our Board of Directors is required by Dutch law to consider the interests of Yandex, its shareholders, its employees and other stakeholders and not only those of our shareholders. Also, as a Dutch company, we are not required to solicit proxies or prepare proxy statements for general meetings of shareholders.

In addition, the rights of our shareholders are governed by Dutch law and our articles of association, and differ from the rights of shareholders under U.S. law. For example, Dutch law does not grant appraisal rights to a company’s shareholders who wish to challenge the consideration to be paid upon a merger or consolidation of the company.

Item 4. Information on the Company.

History and Development of the Company; Organizational Structure.

Our founders began the development of our search technology in 1989, and launched the yandex.ru website in 1997. Our principal Russian operating subsidiary, Yandex LLC, was formed in 2000, as a wholly owned subsidiary of our former Cypriot parent company. In 2007, we undertook a corporate restructuring, as a result of which Yandex N.V. became the parent company of our group. Yandex N.V. is a Dutch public company with limited liability. Its registered office is in The Hague, the Netherlands, and its business office is at Schiphol Boulevard 165, 1118 BG, Schiphol, the Netherlands (tel: +31 202066970). The executive offices of our principal operating subsidiary are located at 16, Leo Tolstoy Street, Moscow 119021, Russian Federation (tel. +7-495-739-7000).

Business Overview

Our Business

Yandex is one of the largest European internet companies and the leading search provider in Russia. Yandex's mission is to help users solve their everyday problems by building people-centric products and services. Based on innovative technologies, we provide the most relevant, locally tailored experience on all digital platforms and devices. Yandex is the leading search service in Russia and also serves Turkey, Ukraine, Belarus and Kazakhstan. We generated 61.8% of all search traffic in Russia in 2013 and 61.9% in February 2014, and, according to comScore, our Yandex sites attracted 66 million unique visitors in Russia, 13.8 million in Turkey and 102.1 million worldwide in January 2014. In December 2013, Yandex websites attracted 8.8 million unique visitors in Ukraine and 2.6 million in Belarus, according to Gemius and 2.4 million unique visitors in Kazakhstan according to TNS.

We utilize our capabilities in applied mathematics and data analysis and our in-depth knowledge of the languages, cultures and preferences of internet users in our markets to develop advanced search technology and information retrieval services. We also aggregate and organize extensive local, national and international content and offer a broad range of additional services. Our search and many of our services are location-based and are available in versions tailored for mobile and other digital platforms and devices.

Benefiting from Russia's long-standing educational focus on mathematics and engineering, we have drawn upon the considerable local talent pool to create a leading technology company. For over 20 years, our founding team has been developing and optimizing search technology, which has formed the core of our business and helped Yandex become one of the best known brands in Russia. Our users are our first priority, and we are committed to advancing our technology to continuously improve their internet experience.

Our search engine uses our proprietary algorithms to provide relevant results, which we structure and present in an editorially neutral and user-friendly manner. With a focus on our principal geographic markets, our search technology allows us to provide local search results in more than 1,500 cities. We also feature "parallel" search, which presents on a single page the results from both our main web index and our specialized information resources, including news, shopping, blogs, images and videos. We offer convenient access to our search engine through personal computers, mobile phones, tablets, and navigation and other digital devices. We also offer a wide range of specialized search, personalized and location-based services, including Yandex.News, Yandex.Market, Yandex.Mail and Yandex.Maps.

Our homepage attracted 56.9 million unique visitors in January 2014, accounting for 76% of the Russian internet audience that month, according to comScore, and provides a gateway to the wealth of information available online. Users can find answers to their explicit questions through our search box, as well as their implicit questions through current news, weather and road traffic reports, TV and

movie schedules, personal email and other services. Our homepage can easily be customized by users to address their individual interests.

We derive substantially all of our revenues from online advertising. We enable advertisers to deliver targeted, cost-effective ads that are relevant to our users' needs, interests and locations. Most of our revenues are derived from text-based advertising, which uses keywords selected by our advertisers to deliver ads based on a particular user query, the content of a website or webpage being viewed, or user behavior or characteristics. We derive a smaller portion of our revenues from display advertising, which principally consists of graphical ads that appear on specific webpages. Our ads are clearly marked and are separate from our organic search results and from the content of the webpages on which they may also appear. We do not serve intrusive ads, such as "pop-ups," that might detract from our users' experience.

In addition to serving ads on our own search results and other webpages, we deliver ads to the thousands of third-party websites that make up our Yandex ad network. Through our ad network, we generate revenue for both our network partners and us and extend the audience reach of our advertisers. Our Yandex.Direct service, the largest automated, auction-based system for the placement of text-based advertising in Russia, makes it easy for advertisers to bid for desired keywords and to obtain the best price for their ads. We served ads for 277,000 advertisers in the fourth quarter of 2013 and more than 460,000 in the full year 2013, compared with 213,000 in the fourth quarter of 2012 and more than 350,000 in the full year 2012.

Our Services for Users

We offer a broad range of search, location-based, personalized and mobile services that are free to our users and that enable them to find relevant and objective information quickly and easily and to communicate and connect over the internet, from both their desktops and mobile devices.

Yandex Search

Our search engine offers almost instantaneous access to the vast range of information available online. We utilize linguistics, mathematics and statistical analysis to develop proprietary algorithms that efficiently extract, compile, systematize and present relevant information to users. Our organic search results are ranked by computer algorithms based exclusively on relevance, and we clearly segregate organic results from paid results to avoid confusing our users. Our advertising services do not affect the way we generate or rank our organic search results because we do not accept payment for rankings or for inclusion in our organic search results, or allow parties to pay to include additional pages in our web indexes. Our anti-spam protection detects and downgrades pages with low informational content, made-for-advertising and "doorway" sites, pages with pop-under banners, content farms and scraped-content pages. We do not manipulate or interfere with our search algorithms in order to favor paid or affiliated sites or services, including those of our Yandex ad network partners, and do not adjust for political censorship. We supplement the results from our main web index with results from our "parallel" search system, which blends listings from all available Yandex specialized and vertical searches according to their relative relevance, such as Yandex.News, Yandex.Market, Yandex.Maps, Yandex.Auto, Yandex.Realty, Yandex.Music, Yandex.Image and Yandex.Video. Yandex search is responsive to real-time queries, recognizing when a query requires the most current information, such as breaking news or the most recent post on Twitter on a particular topic, and presenting these results graphically separated from other search results. We are also increasingly focusing on social networking search, and have enhanced the social component of search by integrating data from the largest Russian social networks, including VKontakte, Facebook, LiveJournal and Odnoklassniki, as well as the full feed of all public posts on Twitter. We also offer personalized search that provides search suggestions as well as search results that are highly aligned with individual interests of our users. Our Spectrum search technology is designed to capture the entire spectrum of possible meanings, based on query statistics.

In 2010, we launched yandex.com, our platform for beta testing and improving non-Russian language search, and in 2011, we launched yandex.com.tr, our Turkish language search product. We seek to enhance our search capabilities by regularly expanding our algorithms to process additional languages, including most European languages, and our index of international webpages. In 2012, we significantly expanded the size of our global search index.

In 2013 we introduced a number of important innovations in search. We rolled out our new search program Dublin, offering users better personalized searches based on both their short-term and long-term interests. We also announced Islands, a new search results page concept. Islands allows our users to interact with websites directly from the search engine results page where answers are presented in the forms of blocks accommodating various kinds of information including texts, videos, pictures, and interactive information. Islands is currently available in beta stage and a number of large websites have already launched their interactive answers or Islands. Also in 2013, we introduced our new concept called Atom that allows any web resource to be personalized, even if a user has not visited the web resource before but has a search history at Yandex. In early 2014, we announced our agreement with Facebook, which provides Yandex with full access to the social network's "fire hose" of public data. Public content from Facebook users in Russia, Ukraine, Belarus, Kazakhstan, other CIS countries and Turkey is available for indexing by Yandex as soon as it has been published.

Yandex Homepage

Our homepage provides a gateway to the wealth of information available online. Users can find answers to their explicit questions through our search box, as well as to their implicit questions through current news, weather and road traffic reports, TV and movie schedules, and other services. In January 2014, our homepage had 56.9 million unique visitors in Russia, according to comScore.

We also offer localized homepages for specific geographic markets. We launched our Ukrainian homepage yandex.ua in 2005, our Kazakh homepage yandex.kz in 2009, our Belarusian homepage yandex.by in 2010 and our Turkish homepage yandex.com.tr in 2011. According to Gemius, in December 2013, yandex.ua had 6 million unique visitors in Ukraine and yandex.by had 1.8 million unique visitors in Belarus. Yandex.kz had 1.6 million unique visitors in Kazakhstan in December 2013, according to TNS. According to comScore, in January 2014, Yandex sites had 13.8 million unique visitors in Turkey. Yandex automatically detects users' locations based on their IP addresses and defaults to the relevant local homepage. We are focused on providing an increasing amount of content in the local language and believe that we provide better support for local language search in these markets than our competitors.

Specialized Search Services

In addition to our core search engine, we offer the following specialized search services:

- **Yandex.News.** Our news aggregation and information service, the most visited online news aggregation service in Russia, providing a comprehensive media overview for our Russian, Ukrainian and Turkish audiences, aggregating and presenting local, national and international news, currently from more than 5,800 news sources worldwide. The selection of news is fully automated and neutral from an editorial perspective.
- **Yandex.Market.** Our e-commerce gateway service, the most popular such service in Russia, providing product information, price comparisons and consumer-generated reviews of products and online retailers. We aggregate price, product and availability information from thousands of active online and "brick-and-mortar" retailers, and currently feature more than 60 million offerings in more than 150 product categories by more than 14,000 participating retailers. In 2013 we began transforming Yandex.Market into a full cycle shopping service, introducing a cost-per-action (CPA) model and launching a unified basket for purchases on various partnering

shops. In early 2014, Yandex entered into a cooperation agreement with MultiShip, a logistics services aggregator, whereby Yandex purchased MultiShip's software platform and made a financial investment in the company's development.

- **Kinopoisk.ru.** The largest Russian language website dedicated to movies, television programs and celebrities. The service allows users to read expert and user-generated film reviews, discover most popular movies, watch trailers, get movie news and personalized recommendations, as well as how times and tickets.
- **Other Specialized Search.** We provide numerous other targeted and seasonal search services, including for images, video, music, theatre, television, weather, jobs, transportation, cars and real estate.

Personal Services

Yandex.Mail. Yandex.Mail provides users fast and easy access to their email accounts, featuring social authentication via their accounts on VKontakte, Odnoklassniki, Facebook, Google, Mail.ru or Twitter, through a dynamic user interface, instantaneous message display and unlimited storage space. A number of features are available to enhance users' experience, including threaded and unthreaded views; Auto-tagging, which automatically recognizes and tags certain types of emails (for example, those from social networks, e-tickets and calendar events); Smart first lines, which allows our users to see the first line of any email in their inbox without having to open it; and Address book, which recognizes and links both Latin and Cyrillic transliterations of names, and aggregates all emails from the same sender regardless of the language used.

Our mobile "push-email" technology allows for the instantaneous delivery of new emails to mobile inboxes. Users can also send and receive instant messages and communicate their coordinates through Yandex.Maps, and the service recognizes and allows users to call phone numbers in emails. Yandex.Mail also offers users the ability to create personal domain email accounts, with all the features available to users of Yandex.Mail.

We seek to offer email free of spam and viruses, and our users can choose not to view ads on this service. Our users' accounts in Yandex.Mail are protected by Spamooborona, Yandex's proprietary server-side spam filtering solution, which performs comprehensive analysis of thousands of email properties, measuring their significance and ensuring precise filtering of spam, while distinguishing legitimate emails including legitimate automated or list mails. Spamooborona also adaptively "learns" a user's personal preferences so that it can effectively include or filter out emails based on their individual history. Yandex.Mail is also equipped with Dr.Web, a popular third-party Russian antivirus program.

In 2013 we introduced a new approach to e-mail focused on helping users complete their tasks. Our new proprietary Marker technology recognizes different types of correspondence such as notifications from social networks and internet stores, electronic tickets or notices about discounts, and offers the user appropriate tools to work with these items.

In January 2014, Yandex.Mail had 25.9 million unique visitors from Russia, according to comScore. We believe this makes us the second largest provider of free email services in Russia. The number of unique visitors to Yandex.Mail worldwide, according to comScore, was 38.7 million.

Yandex.Disk. In 2012, we made our Yandex.Disk service available to the general public. This cloud-based storage service allows users to upload, store and share files in various formats and sizes. Users can store photos, videos or documents online so that they can be accessed at any moment from any device—PC, laptop, tablet or smartphone—connected to the internet. The Yandex.Disk mobile app is compatible with any iOS, Android-based or Windows Phone smartphone. Yandex.Disk also serves as

a basis for another new service launched in 2013—Yandex.Pereezd (or Move) which helps users transfer all their data when changing their mobile devices.

Maps and Location-based Services

Yandex.Maps. Our map service is the most popular map service in Russia, with 25.6 million unique visitors from Russia in January 2014, according to comScore. The total number of unique visitors of our maps worldwide was 36.8 million, according to comScore.

This service provides high-quality, detailed maps of more than 1,100 cities and towns in Russia and more than 220 cities in Ukraine, Kazakhstan and Belarus, as well as a detailed map of Turkey. In addition to graphical maps, we offer satellite images and hybrid maps (an amalgamation of satellite images and graphic maps), panoramic views, public transportation routes and driving directions in browsers and mobile device applications.

Our mobile version of Yandex.Maps allows users to determine their current location, to find a nearby business, to monitor road traffic congestion along particular routes and to determine the best routes based on real-time road traffic congestion updates. Mobile Yandex.Maps is available on a variety of mobile platforms. We believe that Yandex.Maps is among the most popular mobile applications in Russia.

Yandex.Maps is also available via application programming interfaces, or APIs, which allow web developers to embed and use interactive maps in third-party websites for free, together with the ability to add extra layers of information—for example, to offer a map showing the location of a restaurant or a hotel.

We have partnerships with local directories that allow us to integrate local business listings, recommendations and user reviews in our maps. Our Geo-Direct Business Directory service enables advertisers to pay for premium placement in order to enable users to find them more easily.

We use our technology and licenses to create and edit maps from raw data, including satellite images, GPS tracks and live user feedback. This in-house team of skilled cartographers allows us to keep our maps fresh and up-to-date and to offer location-based services to our users. This service also integrates our Public Map, a crowd-sourced service that presents user-generated local maps and data.

We also offer real-time road traffic congestion monitoring in key cities through Yandex.Traffic, the most popular service of its kind in Russia. We were the first service in Russia, and we believe one of the first in the world, to use GPS data from users' mobile devices (in anonymous form and with user consent) in assembling our real-time congestion information.

In November 2013, Yandex.Maps moved to a new unified platform and started featuring detailed maps supporting the route planning feature for the majority of large cities in the world on both desktop and mobile.

Yandex.Navigator. In 2012 we launched Yandex.Navigator, a free mobile application for drivers providing users with regularly updated maps, a route planner using real-time traffic information, and a route guidance system.

Yandex.Taxi. Launched in 2011 Yandex.Taxi quickly became one of the most popular online taxi booking services in Moscow and later launched in a number of cities across Russia. Today the service works with around 200 Russian taxi companies operating around 20 thousand cabs. The service processed 3.5 million orders in 2013.

Yandex.Browser

Our browser makes surfing the internet safe and convenient. It is based on Chromium open source license, Yandex's own technologies and cloud-based services. The WebKit engine, supported by many browser developers, is supplemented by Opera Software's Turbo technology, which speeds up download of pages even if the connection speed is low. It also features Yandex's proprietary anti-virus protection and Kaspersky Labs's secure system, built-in the browser, as well as our proprietary translation capabilities. Yandex.Browser is also able to re-establish broken file loading, has automatically compiled tableau menu featuring up to 20 widgets, synchronization between desktop and mobile versions, "quick call" capability, among other things. In 2013 we rolled out mobile versions of Yandex.Browser for iOS and Android smartphones and tablets.

The share of searches processed through Yandex.Browser in Russia reached 10.6% in February 2014, and our browser's share in terms of the number of visitors (cookies) on the Russian browser market reached 6.8% in February, according to Liveinternet.ru.

Mobile Applications

We offer downloadable applications for the most popular mobile and digital platforms and devices, and have introduced mobile versions of many of our services. We support mobile phones, tablet devices, internet-connected TVs and navigation devices. Our mobile apps include Yandex.Browser, Yandex.Maps, Yandex.Shell, Yandex.Kit, Yandex.Navigator, Yandex.Mail, Yandex.Metro, Yandex.Trains, Yandex.Taxi, Yandex.Music, Yandex.Market, Yandex.Disk, Yandex.Money, Yandex.Fotki, Yandex.Translate, Yandex.Direct, Yandex.Weather, Yandex.Auto, Yandex.Timetables and Yandex.Pereezd.

Yandex is currently included as the default search engine on certain mobile handsets sold in Russia. Yandex services and applications are distributed by a number of OEMs, retailers, browser makers, and telecom operators. In 2013, Yandex was added as one of the search options in Apple's iOS7. We believe that these efforts are an important part of our overall marketing strategy and serve to increase our user base.

We are continuing to expand the scope of our mobile offering with respect to both apps and platforms. In November 2011, we acquired SPB Software, which enabled us to expand our offerings for the Android platform, and launched Yandex.Store, where users have access to more than 100,000 apps, including enhanced mobile user interface offerings. In March 2012, we launched Yandex.Shell, our enhanced mobile user interface for Android-based devices. During several past quarters, we introduced a number of services and apps for mobile devices, including the iPhone and iPad as well as Android-based devices. Among them are Yandex.Browser, Yandex.Taxi., Yandex.Navigator and others advertisers can also manage and track their campaigns through our Yandex.Direct and Yandex.Metrica mobile app.

Our Monetization and Advertiser Services

We offer advertisers both text-based advertising and display advertising. We also offer Yandex.Market, our e-commerce gateway service, which provides another platform for retailers to reach consumers in a highly targeted manner.

Text-based ads are principally targeted to the particular user query, the content of a particular website or webpage being viewed or user behavior or characteristics and are generally used to generate specific sales. Such ads are clearly marked as paid advertising and are separate from our organic search results. Display ads, which principally consist of graphical ads that appear on specific pages, are generally used to increase brand awareness or generate demand for particular products or services. Most of our revenues are generated from text-based advertising, on a pay-per-click basis, with a smaller portion generated from display advertising, based on the number of impressions delivered. Starting in

late 2013, we offered some of the merchants participating in Yandex.Market to sell goods and services using the CPA model. In addition to targeting ads on the basis of user queries and website content, we are also able to target ads on the basis of users' demographics as well as behavioral patterns, characteristics and locations, and have developed algorithms that can predict with a high degree of accuracy the age and gender of a user based on behaviour, as well as a probability of click.

We actively monitor the ads we serve, both automatically and manually, in order to help ensure the relevance of the ads as well as compliance with applicable laws, with the goal of providing ads that serve as additional information resources for our users.

Yandex.Direct

Yandex.Direct is our auction-based advertising placement service, which uses the most advanced auction theory and relies on our distributed infrastructure to process millions of auctions every day. Yandex.Direct lets advertisers cost-effectively deliver relevant text-based ads targeted at particular search queries or content on Yandex websites or third-party websites in the Yandex ad network. Yandex.Direct enables advertisers to present ads to users at the precise moment they are looking for information related to the advertiser's product or service. Advertisers may use our automated tools, often with little or no assistance from us, to create text-based ads, bid on keywords that are likely to trigger the display of their ads, and set total spending budgets. Yandex.Direct features an automated, low-cost online sign-up process that enables advertisers to create and quickly launch their advertising campaigns. Advertisers may access Yandex.Direct through interfaces in Russian, Ukrainian and English. Advertisers may also work with our sales staff to design and implement more specialized or sophisticated advertising campaigns. In late 2012 we also introduced our Yandex.Direct mobile app to better facilitate advertisers' access to our service to manage their advertising campaigns.

Text-based ads on the search engine results page (SERP) appear in one of two general categories: top placement (appearing above the organic search results and featuring up to three paid links) and southern block (appearing below organic search results and featuring up to four paid links). Placement in a particular category is determined by the revenue generation potential of the ad—its cost-per-thousand-SERPs (CPT), which is a product of the click-through-rate (CTR) and the cost-per-click (CPC). Within a given category, ads are ranked based on their CPC. To get into the top placement, ads must have the highest CPT and must exceed a defined CPT threshold.

Our technology allows us to identify most spam ads, which are usually placed in large numbers by a single advertiser and have a very low CTR. In order to discourage spamming behavior we automatically increase the minimum bid for such ads.

In addition, Yandex.Direct identifies ads that contain information that is subject to mandatory legal licensing or disclaimer requirements, such as ads for pharmaceuticals, and places the required legal disclaimers next to them.

Yandex.Direct offers advertisers the following additional benefits:

Access to the Yandex ad network. Yandex.Direct provides advertisers with an extended reach, beyond Yandex's own sites, to thousands of partner websites, including paid search on Rambler, Bing and Mail.ru search engine results.

Effective advertising campaign management. Yandex.Direct gives advertisers hands-on control over most elements of their online ad campaigns. For example, advertisers can specify the relevant keywords for each of their ads or manage expenditures by setting a maximum budget and determining how much

they are willing to pay per click. We also offer a number of features that make it easy to set up, manage and monitor the effectiveness of advertising campaigns, including:

- **Professional and Easy Interfaces.** We offer both Professional Interface, which allows advertisers to control and customize every element of their campaign, and Easy Interface for novice advertisers. All settings in the Easy Interface are set automatically to maximize campaign efficiency.
- **AutoFocus and Additional Relevant Keywords.** Our automated AutoFocus system refines keywords associated with specific ads based on usage statistics to increase ads' CTR. This system is used only if the ad is close to being suspended from appearing on the SERP as a result of a low CTR. Our Additional Relevant Keywords feature, on the other hand, is designed to automatically expand keyword phrases to increase the chance of an ad appearing on the SERP.
- **AutoBroker.** Our AutoBroker auction feature automatically adjusts pricing so that our advertisers never pay more than one unit over the next highest bid for a given keyword. This system saves advertisers money by minimizing the price they pay per click, while relieving them of the need to constantly monitor and adjust their CPCs
- **Metrica.** Metrica allows advertisers in near real-time to analyze the “post-click” behavior of users to evaluate the key efficiency parameters of their advertising campaigns. For example, they can analyze the conversion rate (the proportion of visitors who make a purchase or another desired action out of the total number of visitors to the website), and the cost of attracting visitors who perform the required action. Based on this data, our advertising customers are able to choose the most efficient tools and settings for their advertising campaigns. Metrica includes features that will enable us to transition to pay-per-action billing. Metrica can also be integrated with Yandex.Market partner websites to allow them to track online orders and conversion statistics.
- **Virtual Business Cards.** Virtual Business Cards allow businesses that do not have their own websites to quickly prepare a short web description of their products or services, together with contact information, which will be served as ads where relevant. This feature is important in the countries in which we operate, where many small businesses do not have websites.

Display advertising

In addition to auction-based sales of text-based ads, we offer display ads, generally designed to build brand awareness and promote products and/or points of sale. We allow advertisers to place display ads on our homepage as well as several other services, including Yandex.Mail, Yandex.News and Yandex.Weather. More than half of our revenues from display advertising are generated from our homepage banner. Display ads are generally priced on a CPM basis.

We also offer a media-contextual banner, a display product that is only shown to users who search for certain topics on Yandex.Search or visit sites of the Yandex ad network dedicated to a particular area of interest.

We are constantly experimenting with new advertising offerings. In 2011 we launched Crypta, which is rooted in our proprietary machine learning mechanism MatrixNet. The Crypta technology allows us to differentiate users according to their social-demographic characteristics and use this data to better target advertising.

In 2012, we announced the launch of the Real Time Bidding system, a technological platform that accommodates interaction between advertising placement systems that have different interfaces, algorithms and terms of displaying ads. Our Real Time Bidding platform allows these systems to participate in a single auction among participating placement systems, including Yandex's own advertising system, Yandex.Direct and AWAPS.

In February 2014, we announced advertising partnership for Real Time Bidding. Through this partnership, DoubleClick Bid Manager, Google's demand-side platform will be connected to Yandex's Real Time Bidding system, while Yandex's demand-side platform, AWAPS will join Google's real time bidding marketplace, DoubleClick AdExchange.

Yandex.Market

Our Yandex.Market e-commerce gateway service gives retailers an additional platform to reach customers seeking specific retailer, product or price information. Retailers submit their product catalogs and price lists to us in a structured online format, enabling us to provide detailed information in response to relevant user queries, either through our search engine or our Yandex.Market service. Yandex.Market is priced on a CPC basis, similar to Yandex.Direct. In 2013, in order to accommodate the transformation of Yandex. Market, we also introduced a CPA model for Yandex.Market participants and also offered a single shopping basket to the service. In early 2014, we signed a cooperation agreement with MultiShip, a logistics services aggregator. Cooperation with MultiShip and utilization of their software platform will help us to improve the delivery aspect of our Yandex.Market service.

Yandex Ad Network

Our Yandex ad network partners include search websites, for which we provide search capabilities, as well as contextual network partners, where we serve ads based on user behavior or characteristics or website content. Among our partners are some of the largest websites on the Russian internet, including Mail.ru, Rambler, Bing, Livejournal, Avito.ru and others.

We help third-party website owners monetize their content while extending the reach of our advertisers. Through the Yandex ad network, our partners can deliver Yandex.Direct ads on their search results pages or websites. Our technology delivers relevant ads by analyzing the search results or content of partner websites and pages, as well as the search history, behavioral patterns and location of users. In 2011 we applied our proprietary MatrixNet technology to our advertising algorithms, which considerably improved click prediction and, therefore, CTR on the network. At the same time, we do not serve ads at the expense of our users' experience and, therefore, allow them to opt out of personalized ad targeting on network partner sites by changing the settings through our homepage.

We screen applicants for the Yandex ad network and favor websites with high-quality content and stable audiences. We believe that we will continue to attract high-quality websites to our network due to our solid relationships with advertisers, our track record in monetizing internet traffic and content, and our attractive revenue-sharing propositions.

We monitor the conversion rate from our partner websites, seeking to maintain it at an appropriate level, comparable to the conversion rate from our search engine results page. If conversion rates are lower than such level, we proportionally reduce the CPC for clicks from such sites to protect our advertisers from low-quality traffic.

We share a significant portion of the revenues generated from ads displayed on sites of Yandex ad network partners with those partners. To date, we have not guaranteed any minimum revenues to our network partners but may consider doing so on a selective basis in the future.

We believe that the key benefit we offer to content owners in the Yandex ad network is convenience and cost-effective access to advertisers. Many small website operators and content providers do not have the time or resources to develop effective programs for generating revenues from online advertising. Even larger websites, with dedicated sales teams, may find it difficult to generate revenues from pages with a disparate range of content and to attract a broad and diverse range of advertisers. The Yandex ad network promotes effective revenue generation by providing partners,

including very small websites, with access to our large base of advertisers and their broad collection of ads.

Yandex Location-Based Priority Placement

Through partnerships with dozens of regional business directories, we compile and update our own Yandex.Spravochnik—a business directory covering the whole of Russia and other neighboring countries. We supplement the business directory with data mined from the web, as well as with direct submissions from participating businesses. Yandex.Spravochnik data appear both in our search results and on our maps, including our mobile application, in response to search queries within the specified area.

Our Geo-Direct Business Directory service allows businesses to pay for a premium placement on our maps, including maps returned in our search results, highlighting their address and allowing users to access their contact details with a single click. This advertising product is designed first and foremost for small and local businesses—for example, hairdressing salons and repair shops, as well as restaurants or bank chains. We offer this service for a fixed price on a fixed-term basis, and it can be ordered through our regional partners and advertising agencies, as well as directly through our online interface.

Yandex for Businesses

We offer a number of free services and tools designed for businesses, including:

- **Yandex.Webmaster.** Our service allowing webmasters to control how their website is “seen” by our search engine. This tool enables webmasters to tag certain information on their websites to facilitate the extraction and structured presentation of relevant information by our search engine through our enhanced snippets and fast links features.
- **Yandex.Metrica.** In addition to helping advertisers, our powerful web statistics analysis tool allows website owners or webmasters to measure traffic to their sites, see where the traffic is coming from, track visitor behavior, record time spent by visitors on a webpage and evaluate the efficiency of advertising campaigns.
- **Yandex Site Search.** A search tool we offer to webmasters and website owners, which allows them to provide their users with search functionality on their own websites.
- **Yandex.Mail for Domain Owners.** Our service allowing users to create email accounts with their own domain names. The owner of one domain can have up to one hundred accounts—enough to serve a small company or the staff of a school.
- **Yandex APIs.** Our APIs enable developers to use Yandex technologies in their own businesses. For example, developers can embed our Yandex.Maps service and use its functionality for free. In addition to Yandex.Maps, Yandex offers APIs of Yandex.Elements and Yandex.Direct.
- **Yandex.Money.** Yandex.Money, our secure online payment system, offers an easy way to pay for goods and services online. Launched in 2002, Yandex.Money currently has more than 17.5 million registered users, and processes more than 150,000 payments daily for thousands of participating merchants, including a wide range of well-known Russian and international companies. Yandex advertisers can also use Yandex.Money to pay for advertising placed through Yandex.Direct. In July 2013, we sold a 75 percent (less 1 ruble) interest in our Yandex.Money business to Sberbank and entered into a joint venture arrangement with Sberbank in respect of the future operation of Yandex.Money.

Our Technology

We have achieved our leading position in the Russian search and internet markets principally by employing world-class talent in the development of our key technologies. Although we have from time to time acquired businesses with technologies that we have integrated into our service offerings, all of our key technologies have been created and developed in-house. Together, these technologies constitute state-of-the-art internet search, user services and advertising platform.

Internet search technologies

Our search technologies allow us to sort through a vast and growing amount of information in our online indexes to deliver relevant and useful search results in response to user queries. The key components of our internet search technologies include the following:

Language understanding. We believe that the continuing success of Yandex in Russia is built on our long-term emphasis on the linguistic analysis of both webpages and user queries. In Russian, a word may have dozens of different morphological forms with basically the same meaning. Yandex was one of the first web search engines to pioneer the incorporation of linguistics into search technology in Russia. We believe that our global search competitors did not begin to focus on the intricacies and nuances of the Russian-language search until the mid-2000s.

We have expanded our original language analysis capabilities from an understanding of morphology (relating to word stems) into an advanced understanding and analysis of word classification, synonyms, acronyms, abbreviations, orthographic variants, cross-language transliteration and query translation. By combining linguistic knowledge with statistics from large data sets and from query and click-through logs, we have built our spelling suggestion and correction algorithms, as well as Spectrum, our query categorization technology. Our Autocomplete feature aims to predict the meaning of users' queries, maximizing their satisfaction with the search results. The wide spectrum of search results returned are intended to match different user intents and are based on the frequency of user searches of particular terms. Another Yandex technology feature based on language understanding is our fact extraction feature, which we use widely throughout our services. For example, in web searches, this feature extracts names of persons and companies and scans geographical addresses to tag pages and sites geographically. In Yandex.News, it serves as a basis for our Yandex press portraits—a service that automatically generates biographies of public personalities mentioned in Yandex.News. The fact extraction feature is also a core component of our data provision used widely throughout our specialized search services.

As we continue to strive to make our search more personalized, in 2011 we introduced Reykjavik, our search platform delivering search results based on user language preferences. We built on this foundation to introduce our latest search platform, Kaliningrad, in late 2012. This platform offers personalized search, which returns search results and search suggestions based on the individual interests and preferences of users, determined by analyzing their search history, clicks on results and language preferences. In 2013, we enriched our personalized search with implementation of Dublin technology that takes into account immediate user interest.

We continue to innovate and improve our language analysis technologies both through a deep understanding of Russian-language semantics, syntax and morphology and by enhancing our language understanding of other languages, including Ukrainian, Kazakh, Tatar, Belarusian and Turkish.

Machine-Learned Ranking. Ranking is the process of finding the webpages most relevant to a user query and presenting them in the order most convenient for user consumption. Our search technologies use hundreds of different factors, both query-dependent and query-independent, to determine the relevance of a webpage to a particular search query. Our technology relies heavily on statistical machine learning techniques. In addition, our team analyzes click-through data to monitor relevance,

and also maintains a database of tens of thousands of examples rated by human assessors which allows us to approximate human intuition without the need for a detailed understanding of all the concepts involved in semantic analysis.

Our MatrixNet machine learning technology runs on hundreds of computers simultaneously and allows our search service to take into account tens of thousands of factors when considering the relevance of search results, which enables us to fine-tune our ranking algorithm. MatrixNet significantly improves the relevance of the search results we deliver.

Our ranking features are numeric parameters that define both the general quality of a webpage and how well it matches a search query. The ranking features also take into account the geographic and temporal circumstances and properties of the user, the site and the query. We work hard to discover new and high-quality features and to use them effectively to increase user satisfaction. Each ranking feature is the result of significant research and analysis. Our efficient and automated machine-learned ranking technology helps us to keep our ranking algorithms up-to-date, as both the web and user interests rapidly evolve.

Web crawling technology. We believe that having the most thorough and complete website databases in the Russian and CIS markets is an important competitive strength. Our search index includes billions of webpages, many of which are in English and other major European languages other than Russian.

To find pages relevant to user queries, Yandex builds a map of the internet (a web-graph), which describes how different webpages are connected to each other. By continuously evaluating this web-graph as new pages are added, Yandex is able to choose high-quality pages even before it “crawls” them. Our intelligent content sourcing system measures page quality in real time, allowing Yandex to discover pages with breaking news within minutes of their upload on the web and return them as results to related user queries.

Content-Based Image Retrieval. Our content-based image retrieval and image recognition technologies allow us to process billions of images in our image search. One of the key features is our face-detection algorithms, which can identify individual and group facial portraits in the face-filter feature of our image search. Our technologies are able to detect and/or search for image duplicates and semi-duplicates on the web.

Advertising technology

Our advertising platform supports both contextual and behavioral ad targeting. It places ads both on Yandex pages and on partner sites through the Yandex ad network. Our advertising platform operates on a 24/7 basis, relying on servers located at data centers in multiple locations that provide redundancy and the ability to compensate for system faults. Our advertising platform provides advertisers with powerful interactive tools, enabling them to control their campaigns in real time, as each event (ad display or user click) becomes known to the advertiser within minutes of the event.

Our ad platform also supports the ad serving and auction features for Yandex.Market listings, as well as serving display ads, which can be accessed as separate products as well as in a common auction with Yandex.Direct. Our ad platform allows display advertisers to analyze search behavior and user demographics to target ad campaigns towards specific groups of web users and their specific needs.

Our click-fraud prevention technology detects situations in which malicious parties simulate real-user behavior and produce fraudulent clicks. There are generally two types of click fraud. In the first, a party, usually an advertiser’s competitor, repeatedly clicks on an ad in the search results to run up the advertiser’s expenditures. In the second, a member of the Yandex ad network repeatedly clicks on an ad served by Yandex.Direct on that member’s website. Click fraud prevention is critical in providing a healthy ad marketplace and in maintaining the confidence of our advertisers. We analyze

our logs in order to understand typical patterns of both natural and artificial click behavior, and use these patterns to detect and filter fraudulent clicks both in real time and after the fact. We continuously update these algorithms to detect new patterns of fraud.

Yandex distributed infrastructure

We seek to ensure the speed and reliability of our services regardless of the user's location by operating our own network of data centers in major cities throughout Russia and the other countries in which we operate. This network allows us to support reliable 24/7 operations, including server-based computations, research and development work, and user and advertiser services. We use proprietary computer architecture to link these clusters of servers, as well as proprietary computational software that operates across these distributed servers, including software that enables us to deploy and monitor software across our systems. This allows us to use relatively inexpensive off-the-shelf servers as the foundation of our robust and effective systems for redundant, distributed data storage, retrieval and distributed calculations.

We operate data centers in and around Moscow, Russia and in Amsterdam, the Netherlands, as well as in Las Vegas, Nevada. A new data center in Finland is currently under construction. We have points-of-presence in a number of cities in Russia and elsewhere. The geographic distribution of our servers decreases the cost of internet usage for our users, increases the access speed for our services and increases the stability and dependability of our service offerings. This structure provides redundant fail-safe capacity such that the failure of a single facility would not cause our websites to stop functioning.

Sales and Advertiser Support

We have an extensive sales and support infrastructure, with Russian sales offices in Moscow, St. Petersburg, Kazan, Ekaterinburg, Novosibirsk and Rostov-on-Don; Ukrainian sales offices in Odessa and Kiev; and a Western European sales office in Lucerne, Switzerland. We attract advertising customers through both online and offline sales channels.

The substantial majority of our advertisers use our automated Yandex.Direct service to establish accounts, create ads, target users and launch and manage their advertising campaigns. We provide email and telephone support for these customers. Our assisted-sales team focuses on attracting and supporting companies in Russia with the largest advertising budgets. These companies may request strategic support services, which include a dedicated accounts team, to help them set up and manage their campaigns. Our assisted-sales team specialists are able to help advertisers with tasks such as selecting relevant keywords, creating effective ads and audience targeting, thus measuring and improving advertisers' return on investment.

The Yandex ad network program follows a similar model. Most of the websites in the network submit their applications through Yandex.Direct's automated partner interface. Our direct sales force focuses on building relationships with major websites. Our support team concentrates on helping Yandex ad network partners get the most out of their relationship with us.

We also have relationships with different advertising sales agencies placing text-based and display advertising.

Marketing

We engage in significant marketing efforts directed first and foremost at internet users, as well as advertising agencies, advertisers and webmasters.

Our marketing efforts are focused above all on delivering the optimal user experience with every Yandex product and service. We believe that satisfied users are the best and most credible advocates

for our services. In order to improve user satisfaction and loyalty and to continue to use our products and services as marketing tools, we constantly experiment with and improve the design, technology and interface of these products and services. We use in-depth marketing research methods to better understand and measure users' choices and preferences. We utilize traditional marketing surveys and online panels as well as detailed analysis of user behavior on Yandex websites by means of our own innovative technologies and analytical tools. Each change in our products or services is implemented only after extensive tests and solid demonstration of improvement in user experience. We believe our strength lies in the diversity of our team, where mathematicians and engineers work side by side with creative marketing staff.

Although we believe that word of mouth is the best advertising strategy, we also view advertising campaigns in online and traditional media as an important element of our efforts to promote our brand, as well as key services, such as our browser, as in Russia and the CIS countries where we present, so in our new markets such as Turkey. We also promote our brand at various social events. Our knowledge of the national and local culture allows us to communicate our message more efficiently and to promote our brand values more effectively, which we believe, in turn, results in a long-lasting increase in brand awareness in Russia. We also organize and sponsor a wide range of informational seminars, including industrial events for professionals, such as seminars on Yandex.Direct for advertisers and on APIs for web developers, as well as educational seminars for university students, as we consider them to be valuable current and future partners and public opinion leaders.

Educational and Start-Up Support

We actively contribute to the advancement of information search and retrieval, computer science and mathematics in Russia. Our initiatives include the Yandex School of Data Analysis, which we founded in 2007 and from which we recruit developers, and Yandex Tolstoy Startup Camp, a two-month workshop devoted to creating a project from scratch through which we seek to foster innovation and identify potential new partners and team members.

Advertisers

We served ads for 277,000 advertisers in the fourth quarter of 2013 and for more than 460,000 in the full year 2013, compared with 213,000 in the fourth quarter of 2012 and more than 350,000 in the full year 2012. Our advertisers include individuals and small, medium and large businesses throughout the countries in which we operate, as well as large multinationals. Small and medium-size enterprises purchase the bulk of our text-based advertising. No particular advertiser accounted for more than 1% of our total revenues in 2011, 2012 or 2013.

Employees and Workplace Culture

We place a high value on technological innovation and compete aggressively for talent. We strive to hire the best computer scientists and engineers, as well as talented sales, marketing, content and financial and administrative staff. We seek to create a dynamic, fulfilling work environment with the best features of a "start-up company" atmosphere, encouraging participation, creativity, the exchange of ideas and teamwork.

Our total headcount increased from 3,312 at December 31, 2011, to 3,761 at December 31, 2012 and 4,902 at December 31, 2013. As of December 31, 2013, we had 2,924 employees in product development, 1,591 in sales, general and administration, and 387 in cost of sales. Our total headcount as of December 31, 2011 and December 31, 2012 includes 238 and 275 Yandex.Money employees, respectively. Following the disposition of 75 percent (less 1 ruble) of our participation interest in Yandex.Money in July 2013, its employees are no longer included in our headcount as of December 31, 2013.

Intellectual Property

We rely principally on a combination of trademark, copyright, related rights, patent and trade secret laws in Russia and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We enter into confidentiality and patent assignment agreements with our employees and consultants and confidentiality agreements with other third parties, and we rigorously control access to our proprietary technology. We license patented technology underlying our Yandex.Money service from the party from which we purchased that service.

In 2012, we established our patent department, which is responsible for developing and implementing our group-wide IP protection strategy in selected jurisdictions. To date, we have filed several dozen patent applications and industrial designs, several of which have already been issued. We have also established internal procedures for invention disclosures, patent filings, patent acquisitions, freedom-to-operate analyses and patentability searches.

Yandex is a registered well-known trademark in Russia for certain services (classes 35 and 38 under the International Classification of Goods and Services) among relevant consumers on the basis of intensive use. Under Russian law, the protection granted to well-known trademarks is extended to non-homogenous goods and services if customers associate specific use of the designation by third parties with the rights holder and the rights holder's legitimate interests are infringed. Yandex is also a registered trademark in Ukraine, the United States, the European Union and other countries under the Madrid Agreement and Protocol. We have other registered trademarks in Russia, which include Yandex.Narod and Spamooborona. We continue to file applications to register new trademarks and widen the country coverage of our existing trademarks. Most of the software used by our services or distributed by Yandex to our users is either developed by our employees or by independent contractors who transfer all rights to Yandex.

We enter into written license and use arrangements with providers of a significant portion of the content we offer. Our agreements with most of the news content providers in Russia are on "content-for-traffic" terms, pursuant to which we obtain access to news content for free in consideration of the user traffic that accesses the content providers' websites through our search engine. We license or purchase other additional content. We do not knowingly include content on our websites that we do not have the legal right to include.

We do not own the content generated or posted by users on our websites. As with all websites that host user-generated content, we are potentially liable for any intellectual property infringement committed by the creator of that content. If we receive a complaint from a party that user-generated content on our websites infringes that party's copyright or related rights, we examine the content in question. If we are unable to confirm the violation independently, we request a formal letter of complaint from the notifying party. We then contact the party that has posted the content, and give that person two options: either remove the content, or allow us to provide his or her personal details to the notifying party so that that party may defend its rights. In the event of any court decision in the matter, we comply with the decision. If the potentially offending party does not respond, we remove the content.

Competition

We operate in a market characterized by rapid commercial and technological change, and we face significant competition in many aspects of our business. We currently operate principally in Russia, Ukraine, Belarus, Kazakhstan and Turkey. We face competition from global players such as Google and local players such as Mail.ru, both of which offer proprietary search and other services.

Globally, we consider Google to be our primary competitor. Google launched its Russian-language search engine, google.ru, in 2001 and established its first office in Russia in 2006. In addition to its

search solutions, Google offers online advertising and information and other search services similar to ours, including services similar to Yandex.Direct and Yandex.Maps. We expect that Google will continue to use its brand recognition and financial and engineering resources to compete with us.

In terms of domestic players, our principal competitor is Mail.ru. In early 2010, Mail.ru launched its own search platform and in July 2013, announced that it fully switched to its proprietary search technology in organic search results. Additionally, Mail.ru entered into a partnership with Yandex and, after a testing period, switched to the Yandex.Direct advertising system that now powers paid search results on Mail.ru properties. Mail.ru offers many communication services, including Russia’s most popular webmail social networking and messenger services.

The following table presents a comparison of Russian search market share, according to Liveinternet.ru, based on search traffic generated:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>February 2014</u>
Yandex	63.3%	60.2%	61.8%	61.9%
Google	23.4%	26.2%	26.2%	27.2%
Mail.ru	7.1%	8.5%	8.6%	8.1%

We also face competition from the Russian and international websites of Microsoft and Yahoo!, as well as start-ups and other established companies that are developing search and online advertising technologies. In certain vertical areas, we compete with niche services, including e-commerce, video search, online news aggregators and dictionaries, real estate and automobile services, and specialized search apps for mobile devices. We also compete with online advertising networks, such as Google and Begun, which direct text-based advertising on a number of popular Russian websites.

We anticipate that social networking sites, such as Facebook, Twitter, Vkontakte and Mail.ru’s Odnoklassniki and My World services, may become significant competitors for online ad budgets. These sites derive a growing portion of their revenues from online advertising, and are experimenting with innovative ways of monetizing user traffic. In light of their very large audiences and the significant amount of proprietary information they can access and analyze regarding their users’ needs, interests and habits, we believe that they may be well positioned to offer highly targeted advertising which could create enhanced competition for us. The popularity of such sites may also reflect a growing shift in the way in which people find information, get answers and buy products, which may result in increased competition for users.

We also face competition with other search and service providers in establishing relationships with device manufacturers, such as mobile and tablet computer makers, and access providers, such as internet service providers. Such companies have a significant degree of control over the distribution of products and services, including by offering or establishing exclusive arrangements for “default” search features or other services and bundling them with their offerings. Our users typically have direct relationships with these companies, and may be influenced by economic or other factors in deciding which search or other services to use.

We compete to attract and retain relationships with users, advertisers, Yandex ad network partners and business partners in different ways:

- *Users.* Most of the services we offer to users are free, so we do not compete on price. Instead, we compete on the basis of the relevance, usefulness and accessibility of our search results and the features and ease of use of our services.
- *Advertisers.* We compete for advertisers principally on the basis of the return on investment they can achieve and the breadth of audience we offer, as well as the features and ease of use of our advertising solutions and the quality of our customer service.

- *Yandex ad network partners.* We compete to attract and retain network partners based on the size and quality of our advertiser base, our ability to help partners generate revenues from advertising through our targeted ad-serving technology, and the commercial terms we offer our partners.
- *Business partners.* We compete for relationships with content providers, distribution partners, online merchants and other business partners on a variety of bases, including the user traffic we are able to direct to them and the commercial terms we offer.

Facilities

We currently lease a total of approximately 30,000 square meters in a single location in central Moscow that serves as our company's headquarters. At the end of 2013, we signed an agreement to rent additional space of 18,500 square meters in the same location to accommodate our organic headcount growth in future. We also lease office space in the following Russian cities: St. Petersburg, Ekaterinburg, Kazan, Novosibirsk, Rostov-on-Don, and Nizhny Novgorod. In Ukraine, we lease offices in Kiev, Odessa and own an office space in Simferopol. We also lease offices in Palo Alto, California; Istanbul, Turkey; Zurich and Lucerne, Switzerland; Minsk, Belarus; and Schiphol, The Netherlands; and in January 2014, we opened an office in Berlin, Germany. We operate data centers in Moscow and other regions of Russia, in Amsterdam, the Netherlands, and in Las Vegas, Nevada. A new data center in Finland is currently under construction. We continue to evaluate the need for and location of our data centers. We have points-of-presence in a number of cities in Russia and elsewhere. We believe that all of our leases and co-location agreements are on competitive market terms. Taking into account the projected demand for our services, we continuously evaluate the capacity and locations of our data centers to determine the most cost effective manner to deliver reliable service to our users.

Legal Proceedings

We are not currently involved in any material legal proceedings.

Government Regulation

We are subject to an extensive and constantly developing legal framework resulting in a number of laws and regulations in Russia and other jurisdictions applicable to the internet business. As explained in more detail below, there are also a significant number of additional laws and regulations currently being debated and considered for adoption in Russia (in particular, the Russian Civil Code) and other countries where we operate which, in the event of adoption, might require us to make substantial adjustments to our business practices.

Advertising Regulation

The principal Russian law governing advertising, including online advertising, is the Federal Law No. 38-FZ "On Advertising," dated March 13, 2006 (as amended) (the "Russian Advertising Law"). The Russian Advertising Law renders impermissible advertisements for certain regulated products and services without the required certification, licensing or approval. Advertisements for products such as tobacco, pharmaceuticals and medical equipment, food supplements and infant food, financial instruments or securities and financial services as well as incentive sweepstakes and advertisements aimed at minors and some other products and services must comply with specific requirements and must in certain cases be accompanied by certain required disclaimers. The amendments to the Russian Advertising Law which came into force in July 2012 outlawed the advertising of alcohol on the internet as well as in periodicals, among other platforms. In addition, the distribution of advertisements over the internet (for example, by email) may require the prior express consent of recipients. In some cases,

violation of the Russian Advertising Law can lead to civil action by third parties who suffered damages, or administrative penalties imposed by the Federal Antimonopoly Service of Russia (the “FAS”).

We seek to comply with all advertising laws and regulations. At the same time, the application of the advertising laws, in particular in relation to products or services requiring certification, licensing or approval, can be ambiguous and inconsistent. The application of these laws in an unanticipated manner, or the failure of our compliance efforts, may expose us to substantial liability as distributors of advertising and may restrict our ability to provide some of our services.

Other laws or interpretations of laws, including those of foreign jurisdictions, may also restrict advertising and negatively impact our business. For example, some French courts have interpreted French trademark laws in ways that would limit the ability of competitors to advertise in connection with generic keywords. Adoption of similar interpretations by Russian or other national courts may adversely affect our business. In addition, Russian law does not specifically regulate behavioral targeting in relation to advertising, which is a standard tool widely used in the online business. Any future interpretation of Russian law affecting the regulation of behavioral targeting could have a negative impact on our business.

Furthermore, there is no clarity regarding the approach Russian law and court practice will take with respect to the use of third parties’ trademarks in keywords for the purposes of search and contextual advertising. There is a practice of lower courts recognizing that the use of trademarks in keywords should not be considered a breach of exclusive trademark rights and that the operator of the advertising platform allowing the use of keywords for ad targeting should not be held liable for such use. However, inconsistent decisions among different courts and in different regions are not uncommon in Russia. Therefore, our operations might be adversely affected depending upon the approach the Russian courts take in this respect.

Intellectual Property Regulation

Part IV of the Civil Code of Russia (as amended), which came into force in 2008, is the major body of Russian law providing the legal framework for intellectual property regulation, including with respect to the acquisition, maintenance, protection and enforcement of exclusive rights. Additionally, Russia acceded to the World Trade Organization in the summer of 2012 and also become a party to the 1994 WTO TRIPS Agreement governing the principal aspects of the intellectual property protection afforded to the parties thereto.

In principle, the acquisition, protection and enforcement of intellectual property rights in Russia are addressed in line with international standards. In particular, literary, artistic and scientific works are subject to copyright protection without any registration and enjoy legal protection simply by virtue of being created in an objective form perceivable by third parties. Although the registration of software and databases with the Federal Service for Intellectual Property (“Rospatent”) is possible, the procedure is voluntary and is not commonly performed. We take the approach that registration with Rospatent of the software and databases we develop is excessive since we believe that we are adequately protected by the existing legal framework as the holder of all copyrights and related rights to our software and databases.

Mandatory registration with Rospatent is required for “hard IP” such as trademarks and patents (available in Russia for inventions, utility models and industrial designs) in order for the rights holder to acquire exclusive rights. Trademarks registered abroad under the Madrid Agreement Concerning the International Registration of Trademarks dated April 14, 1891 and/or the Protocol to the Agreement, dated June 27, 1989, have the same legal protection in Russia as locally registered trademarks. Our main brand and branding materials for our key services have trademark protection in the jurisdictions where we operate, either through national trademarks or international registrations; however, until recently we did not register figurative logos that we use on our websites on the basis that they are changed and upgraded from time to time and we also hold copyrights in these logos. We are currently intensifying our efforts to obtain broader trademark protection.

Under Russian law, we are entitled to receive exclusive rights to trade secrets (know how) only if we have complied with a legal requirement to introduce an internal commercial secrecy regime, which may be burdensome and formalistic to implement. As we rely extensively in our operations on the protection afforded to trade secrets, we implemented a set of measures required by the Federal Law No. 98-FZ of July 29, 2004 “On Commercial Secrecy” in order to protect these trade secrets (know how). However, there is a risk that our measures will be deemed insufficient and, as a result, we will fail to acquire rights to these trade secrets under Russian law.

One of the known problems and risks in Russian business practice relates to acquiring exclusive rights to works for hire and patentable results from employees as well as third-party contractors. By operation of Russian law, the exclusive rights to works for hire and patentable results are assigned to the employer if the intellectual property is created by an employee during the course of his ordinary job duties (or, in the case of patents, pursuant to a specific request by the employer). A similar rule is applicable in the context of agreements specifically providing for the creation of software. Uncertainties and disputes might arise with respect to whether exclusive rights have actually been transferred to the employer or contractor on the basis of an employment or other agreement if intellectual property has been created outside the scope of the employee or contractor’s employment (in the case of works for hire), or a legal entity has failed to properly document its relations with its own employees and subcontractors and, as a result, is unable to transfer any rights to its customer. Russian courts of common jurisdiction (as opposed to *arbitrazh* commercial state courts) may be more inclined to follow an overly formalistic approach and may take a pro-employee position in the event of uncertainty in a dispute of this nature.

Nonetheless, under Russian law, subject to the risks outlined above, we are deemed to have acquired copyrights and rights to file patent applications with respect to works for hire and patentable results created by our employees during the course of their employment with us and within the scope of their job duties, and have the exclusive rights to their further use and disposal subject to compliance with the requirements of the Civil Code of Russia.

Liability of Online Service Providers

Laws relating to the liability of online service providers for the activities of their users and other third parties are still being developed in Russia. It is anticipated that specific provisions addressing liability of online service providers will be included in Part IV of the Civil Code which is currently under consideration in the Russian Federation State Duma. Although there are certain judicial precedents, including at the level of the Higher *Arbitrazh* Court of Russia (the highest commercial court), which relate primarily to the liability of hosting service providers, there is no legislation limiting liability for online services providers or outlining procedures for interaction between rights holders and users, or clarifying any other aspects of service provider liability. Additionally, these court precedents provide no clarity with respect to which legal framework is applicable to liability for online service providers performing operations other than hosting, and take a generalized approach with respect to all service providers.

The court precedents described above, in the absence of a legal framework, tend to impose on the service provider additional monitoring obligations by providing that actual knowledge of the infringement may be acquired by the service provider from the discussion of its operations in the mass media. More recent cases related to the liability of online service providers and business entities operating in similar environments (such as retail chain stores which are unable to verify absence of infringement with respect to each article sold) demonstrate inconsistency and an approach which often deviates from the liability standards elaborated in Western countries. Under certain circumstances and in the absence of clear provisions governing limitation of the online service provider’s liability, we may be held liable to third parties for information or content displayed on, retrieved from, or linked to our websites, or distributed through our services to other website users.

There is no established judicial precedent in Russia that specifically addresses the liability of online service providers in relation to their users, and court decisions vary substantially case-by-case.

The amendments of the Part IV of the Civil Code of the Russian Federation introduced provisions aimed at establishing a framework for limitation of liability of online service providers. In particular, the law currently contains a rule that service providers transmitting information in communication networks will not be held liable in the event the provider has neither initiated transmission nor selected recipients and performs no modification of the transmitted material. A hosting provider, on the other hand, may be exempt from liability in the event it possesses no actual or constructive knowledge of the infringement and timely undertakes necessary and sufficient measures to cease infringement following receipt of written notification identifying the rights holder and the location of the allegedly infringing material. Although adoption of these provisions may be a step forward in terms of clarifying the limitations of online service provider liability, there is still a possibility that substantial ambiguity would remain, particularly because these provisions contain no guidance as to what would constitute “necessary and sufficient measures” in this regard (for example, whether they would include a requirement to monitor re-uploading of the same work by the same or other users) and provide no clarity on the limitation of liability with respect to other types of online service providers (such as those performing caching or providing information location tools). In light of this, our exposure to liability will significantly depend on interpretation of these new provisions by the courts and officials.

Regulation of Electronic Payments

Federal Law No.161-FZ “On the National Payment System,” dated June 26, 2011, entered into force on September 29, 2011 and provides a legal definition of the term “electronic money” (or “digital money”). Under these regulations, payments with digital money fall into the sphere of banking activities and such payments are regarded as a special transaction entered into without the need to open an account. Such transactions, however, have to be performed by a credit organization supervised by the Central Bank of Russia. To comply with this law, the Yandex.Money joint venture established a new, non-banking credit organization subsidiary, which obtained the license required from the Central Bank of Russia for the performance of non-banking credit operations and assumed operation of the Yandex.Money business in September 2012. Most of the contractual obligations of PS Yandex.Money LLC have been transferred to its non-banking credit organization subsidiary. However, if not all contractual obligations were successfully transferred from PS Yandex.Money, there is a risk that that entity may be found not to be in compliance with all applicable legal requirements.

As PS Yandex.Money LLC is the holder of a participation interest constituting more than 20% of the charter capital of a non-banking credit organization, the preliminary consent of the Central Bank of Russia is required for any establishment of direct or indirect control in respect of PS Yandex.Money LLC. Accordingly, any change of control in respect of Yandex N.V. may be considered a change of indirect control in respect of PS Yandex.Money, and there is a risk that the Central Bank of Russia may not grant the required consent for the indirect change of control and, consequently, prohibit or restrict the transaction giving rise to such indirect change of control.

In July 2013, we formed our Yandex.Money joint venture with Sberbank, upon the completion of Sberbank’s acquisition from us of a 75% (less one ruble) interest in PS Yandex.Money LLC. Following this transaction, however, there is a risk that a change of control in respect of Yandex N.V. would still require preliminary consent of the Central Bank of Russia, as Yandex N.V. could be considered to indirectly hold more than 20% of the voting power of the non-banking credit organization.

Mass Media Regulation

Dissemination of news and similar information to a wide audience in Russia is regulated by the Russian Federation Law No. 2124-1 “On Mass Media”, dated December 27, 1991 (as amended) (the

“Mass Media Law”). This law requires certain parties that disseminate news and similar mass communications and information to be registered with Roscomnadzor, and to comply with restrictions regarding the content of the information they distribute. In November 2011 an amendment to the Mass Media Law came into force to permit electronic network publications (websites) to register as mass media under the procedures established by the law. As registration under this amendment is voluntary, we elected not to follow the registration procedures established by the Mass Media Law for our online properties.

Encryption Activity License

The licensing of encryption activity is governed by Federal Law No. 99-FZ “On Licensing of Specific Types of Activities”, dated May 4, 2011 (as amended). Under the law, a variety of activities related encryption require a special permit (license) granted by the Federal Security Service (the “FSS”) subject to the applicant’s continued compliance with a number of licensing requirements, including the requirement to use only certified encryption means and equipment and to ensure timely extension of such certification when its terms expires.

Our Yandex.Money joint venture with Sberbank, which uses encryption algorithms for the protection of transfers performed by its customers, received four licenses from the FSS in October 2010 in relation to its encryption activities. These licenses are valid until October 2015 and were obtained by PS Yandex.Money LLC on the basis of an earlier legal framework. The requirements for the grant and maintenance of licenses as set out in these earlier laws as well as current laws are very broad and unclear, leaving the regulator with much discretion in applying and enforcing these laws.

As discussed above, following the introduction of electronic payments regulation in Russia requiring participants of the market to obtain a license from the Central Bank of Russia, Yandex.Money has been required to establish a non-banking credit organization subsidiary for these purposes. As the subsidiary obtained no encryption licenses and has no intention of applying for such licenses, PS Yandex.Money LLC continues to maintain encryption licenses and now provides encryption and information protection services to its subsidiary.

Strategic Companies Law

In accordance with the Strategic Companies Law, there are restrictions with respect to the acquisition of voting shares or participation interests and establishment of control by foreign legal entities, individuals as well as states, international organizations and entities controlled by them, with respect to business entities with strategic importance. The internet and online advertising are not currently industries specifically covered by the Strategic Companies Law, but a draft amendment currently under consideration by the Russian State Duma, if adopted, would include certain internet companies that have large audiences within the scope of this law. In addition, entities holding licenses to use encryption technologies are covered by this law. As discussed above, Yandex.Money joint venture holds encryption licenses and is thus subject to the Strategic Companies Law.

Under the provisions of the Strategic Companies Law, the direct or indirect acquisition in excess of 25% of the voting power of a strategically important entity by a foreign state, foreign governmental organization, international organization or entity controlled by a foreign government or international organization, or the acquisition of shares representing in excess of 50% of the voting power of such a company by any other foreign investor or any of its affiliated companies, requires the prior approval of a Russian Government Committee chaired by the Prime Minister. In addition, foreign investors or their group of companies that are controlled by a foreign state or a foreign government or international organization are prohibited from owning shares representing more than 50% of voting power of a strategically important company. Moreover, the acquisition of 5% or more of the shares of a strategically important company triggers a requirement to submit notification to the FAS. Failure to

obtain the required governmental approval prior to an acquisition would render the acquisition invalid. The Strategic Companies Law also applies to entirely foreign transactions entered into by foreign entities abroad (in other words, the law applies on the basis of the effects of such transactions in Russia). In the event invalidation of the transaction is not possible in the specific circumstances the court is entitled to deprive the foreign investor of its voting rights with respect to the acquired shares or participation interest.

Because our parent company held its interest in PS Yandex.Money LLC at the time that Yandex.Money became a strategically important company, we believe that our ownership of Yandex.Money was in compliance with the Strategic Companies Law. Additionally, in July 2013, we disposed 75 percent (less 1 ruble) of our participation interest in Yandex.Money in a sale to Sberbank. Upon completion of the transaction, we entered into a joint venture agreement with Sberbank in respect of the future operation of this business.

Upon the completion of the Yandex.Money participation interest acquisition by Sberbank Yandex N.V. in July 2013, which reduced our participation to 25% plus 1 ruble of charter capital, non-Russian persons may be permitted to acquire shares in Yandex N.V. without previously applicable limitations since it will no longer control Yandex.Money. Nonetheless, it is likely that the necessity to obtain preliminary approval from the Russian Government Committee would be still applicable to a non-Russian state, governmental organization, international organization or entity controlled by a non-Russian government or international organization that would seek to acquire shares of Yandex N.V. or enter into an agreement that would establish direct or indirect control over Yandex N.V. (in other words, such an investor would be considered to hold an indirect blocking stake of Yandex.Money under the Strategic Companies Law). There is also a risk that some of the rights granted to Yandex N.V. under the joint venture agreement with Sberbank could be interpreted by Russian authorities as establishing control by Yandex N.V. over Yandex.Money, which would require the Governmental Committee's preliminary consent for a broader number of transactions as specified above, including by private non-Russian persons.

In December 2011, a set of amendments to the Strategic Companies Law came into force, which liberalized the regime of investments in strategic companies by narrowing the list of strategic industries and types of activities and providing an exemption for certain categories of international financial institutions established on the basis of the international treaty to which Russia is a party (the list is to be approved by the Russian Government), as well as strategic entities ultimately controlled by the Russian Federation or Russian citizens who are simultaneously Russian tax residents, provided that they do not have multiple citizenship.

In particular, according to the above amendments, the following activities have been removed from the list of strategically important activities: distribution and maintenance of encryption equipment and encryption services so long as these activities are performed by banks which have no Russian state-owned shares. These amendments were enacted for the benefit of, and refer only to, banks without providing a definition of what is to be considered a bank for these purposes. In the absence of a definition, this provision is likely to be interpreted narrowly as not applying to non-banking credit organizations, which are likely still considered strategically important.

Privacy and Personal Data Protection Regulation

We are subject to Russian and foreign laws regarding privacy and the protection of our users' personal data. We publish on our websites our privacy policies and practices concerning the use, processing, storage and disclosure of user data. Any failure by us to comply with our privacy policies as well as Russian or other applicable laws and regulations relating to privacy and the protection of user data may result in proceedings against us by governmental authorities, individuals or other third parties,

which may adversely impact our business. In addition, the interpretation of data protection laws, and their application to internet operations, is often unclear and is in a constant state of development.

For instance, Russian data protection laws provide that an individual must consent to the production of her/his personal data in a free manner, at her/his own discretion and interest. Such consent must be concrete, informed and conscious, and may be provided in any form evidencing the fact that consent has been provided, unless otherwise established by federal law, which requires that it be made in writing, signed by digital electronic signature or evidenced in a similar manner prescribed by laws and regulations.

We, like our peers, seek this consent from our users by asking them to click on a button or select a check-box in appropriate circumstances prior to commencement of the account registration process indicating the user's consent to our collection, use, storage and processing of personal data. Furthermore, most of our services do not require the creation of an account prior to their use and we collect only limited information in these circumstances. In particular, we perform placement of cookies and use other wide-spread technologies that assist us in improving user experience of our products and services and ultimately benefit both our users and advertisers to the extent that we use a certain part of this collected information for behavioral targeting of advertising. No clear legislative guidelines have been provided addressing whether our practices are compliant with the requirements of the data protection legislation in Russia and abroad. There is a risk that such laws may be interpreted and applied in a manner that is not consistent with our current data protection practices. Complying with various regulations in this area may cause us to incur additional costs or to change our business practices. Further, any failure by us to protect our users' privacy and data may result in a decrease of user confidence in our services, and may ultimately result in a loss of users, which would adversely affect our business.

Licenses for the Provision of Communication Services

Pursuant to the Federal Law No. 126-FZ "On Communication", dated July 7, 2003 (as amended), entities that provide certain telecommunication services for a fee are required to obtain a "telematics" licenses from the Roscomnadzor. We do not charge a fee for our services, and therefore, we believe that we are not required to hold a telematics license. We do, however, generate revenue from ads directed to our users. As a result, it is possible that a Russian court or government agency may construe our advertising revenue as a fee and determine that we are required to hold a telematics license, which would require us to apply for and comply with the terms of any such license.

Additionally, as we might further develop certain user services that would be provided for a fee this might trigger the risk that such operations could be considered as violating the licensing requirements described above.

Protection of Minors from Harmful Information

The Federal Law No. 436-FZ "On Protection of Minors from the Information Harmful to their Health and Development", dated December 29, 2010 (the "Minors Protection Law"), which came into effect as of September 1, 2012, restricts circulation of certain identified categories of publicly available and distributed information that may be harmful for minors. In particular, there is a requirement to take administrative and technical measures to prevent dissemination of restricted information. In addition, the circulation of information products designated for specific age categories of minors must be accompanied by a relevant mark identifying the age restriction category of information. Advertising of information products must also be accompanied by a category identification mark.

Prior to the Minors Protection Law becoming effective, significant amendments were approved. In particular, the requirement for age category identification for information made available on the internet was abolished (except for the websites registered as mass media) and is now voluntary.

Furthermore, administrators of websites registered as mass media have been expressly relieved from the responsibility for age category identification with respect to commentaries and messages posted by users of the websites at their discretion.

Blacklist of Websites Containing Illegal Information

The amendments introduced to the Minors Protection Law referenced above have been accompanied by a set of rules included in Federal Law No. 149-FZ “On Information, Information Technologies and Protection of Information”, dated July 27, 2006 (as amended), establishing a system for the blocking of websites on the internet that make available specific categories of illegal information related to child pornography, encouraging suicide or drug use as well as other restricted information. The uniform register of domain names, website page locators and network addresses enabling identification of websites on the internet commenced operation as of November 1, 2012. Roscomnadzor is responsible for maintaining and operating the register.

This register is intended to operate as follows: after the inclusion of a specific website or webpage in the registry at the decision of the relevant state authority (in the event of child pornography, information related to suicides and drug use) or on the basis of a court ruling (any other restricted information), Roscomnadzor notifies the website hosting provider within 24 hours, which must, in turn, notify within 24 hours the administrator of the website in question. If following notification the website administrator fails to take down the information, the hosting provider must restrict the access to such information. Provided that the information is still accessible within 3 days after notice is given to the hosting provider, Roscomnadzor will include the IP address of the website in the registry, which must be blocked by all Russian internet service providers and telecommunication service operators. Nevertheless, it is possible to request exclusion of the IP address from the registry in the event the information in question has been taken down by the website administrator or hosting provider.

The legal framework related to this blacklist of websites is controversial, and the procedures established by this law have been heavily criticized by the general public, industry players and legal scholars, and may well be revised. Roscomnadzor issued a clarification on November 30, 2012 specifying that search engines, news aggregators and cached information used in the course of their operation will not be included in the registry because they fall outside the scope of the law. At the same time, the regulator’s approach may change and our operations could face intervention by inappropriate application of the websites blacklist legislation.

Further legislation is currently in place in Russia and utilized by authorities that allows blocking of websites that contain extremist information (including containing calls for mass rioting, extremist activity and participation in mass assemblies conducted in violation of established procedure) at the request of certain governmental authorities without prior notification. Only a subsequent post-blocking notification to relevant website owner or hosting provider is required. See “Risk Factors—We may be liable for information or content displayed on, retrieved by or linked to our websites, or distributed by our users, or we may be required to block certain content, which could harm our reputation and business.”

Securities Regulation

The Federal Law No. 39-FZ “On the Securities Market”, dated April 22, 1996 (as amended) (the “Securities Law”), contains the principal regulations governing the issuance and circulation of securities and certain financial instruments in Russia and outside Russia (when issued by a Russian issuer), and sets forth the rules for the placement and circulation of foreign securities and financial instruments in Russia. The Securities Law requires Russian companies that intend to place or initiate trading of their securities abroad to obtain a preliminary approval from the Central Bank.

Russian companies listing their securities on an exchange outside of Russia are required by law to first list their securities concurrently on a licensed Russian stock exchange and to offer their securities in Russia. Our parent company Yandex N.V., whose Class A shares are listed on the NASDAQ Global Select Market, is not covered by such requirement, as it is incorporated outside Russia. The Russian securities regulator, the FSFM, has, however, previously stated that it believes that foreign issuers with substantial assets in Russia should be required to undertake concurrent listings in Russia, and has proposed changes to the securities regulations with the view to making such requirement mandatory. There are currently no laws or regulations requiring this; however, we cannot be certain that we will not face future governmental pressure or legal obligation to list our Class A shares in Russia.

Circulation of our Class A shares is restricted in Russia to “qualified investors” as defined by Russian law unless the Class A shares are admitted to public circulation in Russia.

Antimonopoly Regulation

The Federal Law No. 135-FZ “On Protection of Competition”, dated of July 26, 2006 (as amended), grants to the FAS as the antimonopoly regulator wide powers and authorities to maintain competition in the market, including approval or monitoring of mergers and acquisitions, establishment of rules of conduct for market players occupying dominant positions, prosecution of any wrongful abuse of a dominant position, and the prevention of cartels and other anti-competitive agreements or practices. The regulator may impose significant administrative fines (up to 15% of the annual revenue derived in the market where the violation occurred) on market players that abuse their dominant position or otherwise restrict competition, and is entitled to challenge contracts, agreements or transactions that are performed in violation of the antimonopoly regulation. We have a substantial market share in the online advertising market, however, we are not recognized by the regulator as occupying a dominant position in any market. However, we understand that the regulator from time to time focuses on internet services and could in the future recognize online advertising as a separate market, and could identify dominant players and impose conduct limitations and other restrictions.

Taxation Regulation

Taxation of legal entities and individuals in Russia is regulated primarily by the Tax Code of the Russian Federation. The scope and application of the Tax Code is elaborated by numerous regulations and clarifications from the Ministry of Finance of Russia and by the Federal Tax Service, which enforces the tax laws. Russian tax law and procedures are still not sufficiently developed and local divisions of the Federal Tax Service have considerable autonomy in tax law interpretation and often interpret tax rules inconsistently. Also, there is extensive court practice on the construction of the Code’s provisions, which can sometimes be unpredictable or even contradictory. Both the substantive provisions of the Russian tax law and the interpretation and application of those provisions by the Russian tax authorities and by Russian courts may be subject to rapid and unpredictable change.

Applicability of Other Regulations

Because our services are accessible to Russian-language speakers worldwide and are becoming increasingly available to other users globally, certain foreign jurisdictions, including those in which we have not established a local office, employees or infrastructure, may require us to comply with their local laws.

Item 4A. Unresolved Staff Comments.

None.

Item 5. Operating and Financial Review and Prospects.

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the “Selected Consolidated Financial Information” section of this Annual Report and our consolidated financial statements and related notes appearing elsewhere in this Annual Report. In addition to historical information, this discussion contains forward-looking statements based on our current expectations that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the “Risk Factors” and “Forward-Looking Statements” sections and elsewhere in this Annual Report.

Overview

We are one of the largest European internet companies, operating Russia’s most popular search engine and most visited website. Our principal constituencies are:

- *Users.* We provide our users with advanced search capabilities and an extensive range of online services that enable them to find relevant, objective information quickly and easily, as well as communicate, connect and shop over the internet.
- *Advertisers.* Our online advertising platform allows advertisers to reach a large audience of users in their markets and deliver cost-effective text-based and display advertising. With Yandex.Direct, our auction-based advertising platform, advertisers can promote their products and services through relevant ads targeted to a particular user query, the content of a website or webpage being viewed, or user behavior or characteristics. Our Yandex.Market service allows merchants to advertise their goods and services either using a traditional CPC advertising model or using a CPA model that charges advertisers only when it delivers a paying customer.
- *Yandex ad network partners.* We have relationships with a large number of third-party websites, which we refer to as the Yandex ad network. In addition to serving ads on our own websites, we also serve ads on our network partners’ websites and share the fees generated by these ads with our partners, providing an important revenue stream for them.

Our yandex.ru website first began generating revenue in 1998. We became profitable in 2003 and have been profitable every year since then. We operate as a single business segment.

Advertising revenues accounted for 97.9%, 97.7% and 98.3% of our total revenues in 2011, 2012 and 2013, respectively. Our advertising revenues consist of fees charged to advertisers for serving text-based and display ads on our websites and those of our partners in the Yandex ad network. Most of our revenues are generated from text-based advertising, with a smaller portion generated from display advertising. We place the significant majority of our text-based ads through Yandex.Direct and the remainder through Yandex.Market, our e-commerce gateway service. We generally sell our text-based ads on a prepaid basis. Our Yandex.Direct and Yandex.Market advertisers pay us on a CPC basis, which means that we recognize revenue only when a user clicks on one of our advertisers’ ads. Our display advertising is generally sold on a cost-per-thousand (CPM) impressions basis. An “impression” is a single instance of sending an ad for display on a web browser or other connected internet application. For these ads, we recognize as revenue the fees charged to advertisers when their ads are displayed. In November 2013, we introduced CPA advertising in our Yandex.Market service and recognize revenue from these ads only when the desired action has occurred.

We recognize our advertising revenues net of value added tax (currently 18.0% in Russia), sales commissions and customer credits. Although the major part of our revenues is generated by direct sales to our advertisers, a significant portion of our advertising sales are sold through media agencies. We recognize revenues from those advertising sales net of the commissions paid to these agencies.

We benefit from a large and diverse base of advertisers. We had more than 350,000 in 2012 and more than 460,000 in 2013. Our advertisers include individuals and small, medium and large enterprises across Russia and the other countries in which we operate, as well as large multinational corporations. No particular advertiser accounted for more than 1% of our total revenues in 2011, 2012 or 2013. On a geographical basis, we generated more than 95% of our total revenues in each of 2011 and 2012, and more than 93% of our total revenues in 2013, from advertisers and other customers with billing addresses in Russia, including the Russian offices of large multinational advertisers.

We serve ads both on our own websites and on the websites of our partners in the Yandex ad network. For text-based ads served on the websites of our partners in the Yandex ad network, we recognize as revenue the fees paid to us by advertisers each time a user clicks on one of their text-based ads or, for those advertisers paying for display ads on a cost-per-thousand impressions basis, as their ads are displayed. We pay our partners in the Yandex ad network fees for serving our advertisers' ads on their websites. These fees are primarily based on revenue-sharing arrangements. As such, the fees paid to our partners in the Yandex ad network are calculated as a percentage of the revenues we earn by serving ads on partners' websites. We account for the fees we pay to our partners in the Yandex ad network as traffic acquisition costs, a component of cost of revenues. Since we launched our Yandex ad network in 2006, these costs annually have, in aggregate, amounted to more than one-half of the revenues we have earned from serving ads on the Yandex ad network and we expect them to continue to do so in the foreseeable future. Yandex ad network partners do not pay us any fees associated with our serving ads on their websites.

Our agreements with our partners in the Yandex ad network generally have an indefinite term but may be terminated by either party at will with no termination fees. Agreements with larger partners in the Yandex ad network are individually negotiated and vary in duration but typically renew automatically. Our agreement with Mail.ru provides for mutual, material early termination penalties under specified circumstances. In 2011, 2012, and 2013, none of our ad network partners accounted for more than 10% of our total revenues. In 2013, Mail.ru became our most significant partner after we started to provide paid search for them. We expect Mail.ru's share of our total revenues to increase in 2014 as compared to 2013 as we will provide paid search for them for the entire year as compared to six months in 2013.

We believe the most significant factors that influence our ability to continue to increase our advertising revenues include the following:

- the level of internet penetration and usage in Russia and the other markets in which we operate;
- the traffic on our own websites and those of our partners in the Yandex ad network;
- the relevance, objectivity and quality of our search results and the quality of our other services and of the Yandex ad network;
- our search market share, with a larger market share allowing us to better monetize our users' search activity and attract and retain advertisers, as well as partners in our Yandex ad network;
- the demand for online advertising in Russia and the other markets in which we operate, particularly among small and medium-size businesses that have not previously used the internet as an advertising medium; and
- our ability to effectively monetize traffic generated by our websites and those of the Yandex ad network partners, including through improvements to our advanced auction and advertising placement system, while maintaining an attractive return on investment for our advertisers.

Key Trends Impacting Our Results of Operations

Our business and revenues have grown rapidly since inception. The effectiveness of text-based advertising as a medium has contributed to the rapid growth of our business. Advertising spending continues to shift from offline to online as the internet evolves and we expect that our business will continue to grow. However, we expect that our revenue growth rate will continue to decline over time as a result of a number of factors, including challenges in maintaining our growth rate as our revenues increase to higher levels, increasing competition, changes in the nature of queries, the evolution of the overall online advertising market and the declining rate of growth in internet users in Russia as overall internet penetration increases.

Our operating margins, representing our income from operations as a percentage of revenues, may fluctuate in the future depending on the percentage of our advertising revenues that we derive from the Yandex ad network compared with our own websites. The operating margin we realize on revenues generated from the websites of our partners in the Yandex ad network is significantly lower than the operating margin generated from our own websites. This lower operating margin arises because of the cost of revenues we incur given that we pay to our partners, on average, more than one-half of the advertising fees we earn from serving ads on Yandex ad network websites. The percentage of our advertising revenues derived from the Yandex ad network increased from 14.9% in 2011 to 17.4% in 2012, and to 20.3% in 2013 and contributed to the overall decline in our operating margin. We currently expect that the portion of our advertising revenues derived from the Yandex ad network will continue to grow in 2014, resulting in a further decline in our operating margin. The principal driver of this is our agreement to power paid search on Mail.ru, which began in July 2013. Furthermore, the margin we earn, on average, on revenue generated from the Yandex ad network could decrease in the future if we are required to share with our partners a greater percentage of the advertising fees generated through their websites.

Growth in mobile search may also have an impact on our operating margins. The number of search queries from mobile telephones, including both smartphones and feature phones, and tablet devices is growing more quickly than desktop queries. Queries from mobile phones and tablet devices still, however, represented 14% of our total search queries and slightly more than 10% of total revenues for the year ended December 31, 2013. To date, growth in mobile usage has not had a material impact on our pricing, revenues or operating margins; however, we have seen some evidence that this growth may exert modest downward pressure on our operating margins in the future.

Recent and future capital expenditures may also put pressure on our operating margins. Our capital expenditures decreased from RUR 5,530 million in 2011 to RUR 3,984 million in 2012, and then increased to RUR 4,936 million in 2013. We spent approximately 73.5% of our total capital expenditures in 2013 on servers and data center expansion to support growth in our current operations and potential international expansion. Our depreciation and amortization expense, however, fluctuated as a percentage of revenues from 9.4% in 2011 to 10.3% in 2012 and back down to 9.4% in 2013. We currently expect our capital expenditures in 2014 to increase as a percentage of revenues in comparison to 2013 due to the construction of a new data center and the expansion of another.

To support further brand enhancement and respond to competitive pressures, we spent larger amounts in 2012 and 2013 on advertising and marketing than we have spent historically, both in absolute terms and as a percentage of revenue. A significant portion of our advertising and marketing expense in 2012 and 2013 relates to our efforts to build our brand and expand market share in Turkey, as well as to promote our Yandex.Browser in Russia. We expect to continue to invest significantly in advertising and marketing. This spending could negatively impact our operating margin if it does not drive revenue growth in the manner that we anticipate.

Our operating margin may also decline as a result of entering into more arrangements with partners that distribute our Yandex.Elements collection of services or that otherwise direct search

queries to our website. We generally compensate our distribution partners on either a revenue-sharing basis or on the basis of the number of our browser toolbars or search bars installed. We expect to continue to expand the number of our distribution relationships in order to increase our user base and to make it easier to access our services.

One of our strategic objectives is to expand internationally. Toward that end, in September 2011, we officially launched our site in Turkey and now offer a variety of services and apps for both desktop and mobile platforms localized for that market, including search, mail, news, maps, traffic, weather, music, browser and mobile shell. As we seek to increase our Turkish user base, we will incur costs to tailor our site to address the preferences and needs of users in Turkey and to acquire local content and services, such as additional maps and other offerings. International expansion also requires the development of new technologies, such as technology for storing web documents in different languages and document prioritization technology. Our international expansion efforts will require us to incur additional costs that may contribute to a decline in our operating margins until we succeed in building the user base necessary to begin generating sufficient revenues in these new jurisdictions to earn accretive operating margins there. In addition, in certain countries we may choose to pursue joint venture arrangements as a means of developing our local offerings. Such arrangements may entail additional financial commitments and risks.

Our revenues are impacted by seasonal fluctuations in internet usage and seasonality in advertising expenditures. Internet usage and advertising expenditures generally slow down during the months of January, May, June and July, when there are extended Russian public holidays and vacations, and are significantly higher in the fourth quarter of each year. Moreover, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions, retail patterns and advertising budgeting and buying patterns.

Inflation in Russia has also impacted our results of operations and may continue to do so. According to the Russian Federal State Statistics Service (Rosstat), the consumer price index in Russia increased by 6.1%, 6.6% and 6.5% in 2011, 2012, and 2013, respectively. Although the annual rate of inflation has been relatively stable over the last few years, we can provide no assurance that it will remain so. Higher rates of inflation may accelerate increases in our operating expenses, most notably personnel expenses, and reduce the value and purchasing power of our ruble-denominated assets, such as cash, cash equivalents and term deposits.

Changes in the value of the U.S. dollar compared with the Russian ruble can also negatively affect our results of operations. See “Quantitative and Qualitative Disclosures About Market Risk—Foreign Currency Exchange Risk.”

Recent Acquisitions

SPB Software

In November 2011, we acquired the mobile software business of SPB Software. In connection with the acquisition, we made initial cash payments to the sellers aggregating \$24.3 million (RUR 745 million at the exchange rate as of the acquisition date) on closing. We also agreed to make further aggregate contingent cash payments to the sellers of a maximum aggregate amount of \$14.1 million (RUR 433 million at the exchange rate as of the acquisition date), payable on the achievement of specified performance milestones and the continued employment of the relevant sellers. We paid \$7.1 million (RUR 216 million) of this contingent consideration in November 2012, \$4.1 million (RUR 126 million) in February 2013, and the remaining \$2.9 million (RUR 90 million) in November 2013. In accordance with U.S. GAAP, we did not record these contingent payments as purchase price consideration but instead accrued for them as compensation expense included within our product development and selling, general and administrative expenses in 2012 and 2013.

The accrual of this compensation expense, along with additional amortization expense related to the intangible assets acquired in this acquisition, negatively affected our operating margins. See “—Results of Operations—Operating Costs and Expenses”.

Blekko

In August 2011, we completed the acquisition of a 9.7% ownership interest in Blekko, Inc., a US-based internet search engine for \$15.0 million (RUR 478 million at the exchange rate as of the acquisition date). In June 2013, the Company increased its ownership interest in Blekko to 11.2% and received a warrant for Blekko shares representing 0.5% of its outstanding share capital in exchange for settlement of Blekko’s obligation to the Company of \$3.5 million (RUR 112 million at the exchange rate as of the acquisition date).

Seismotech

In July 2012, we completed the acquisition of a 25% ownership interest in Seismotech LLC, a Russian-based geophysical data processing company, for \$0.9 million. We also have a 3-year option to buy another 25% interest in that company at a fixed price.

KinoPoisk

In October 2013, we completed the acquisition of a 100% ownership interest in KinoPoisk LLC and its subsidiary, the operator of the largest and most comprehensive Russian-language website dedicated to movies, television programs and celebrities. In connection with this acquisition, we paid cash consideration of \$80.0 million (RUR 2,577 million at the exchange rate as of the acquisition date) in full upon the closing of the deal, including \$3.0 million (RUR 97 million at the exchange rate as of the acquisition date) paid into an escrow account. The amount in escrow will be paid to the sellers on the second anniversary of the closing assuming no warranty claims. A further description of the acquisition and its accounting implications can be found in note 4 of our audited consolidated financial statements included elsewhere in this Annual Report.

KitLocate

In March 2014, we completed the acquisition of a 100% ownership interest in KitLocate Ltd., the developer of an energy-efficient geolocation technology for mobile devices, for a cash consideration of up to \$10.2 million (RUR 370 million at the exchange rate as of the acquisition date). The components of the consideration include \$4.0 million (RUR 146 million at the exchange rate as of the acquisition date) paid in full upon closing of the deal, \$3.9 million (RUR 142 million at the exchange rate as of the acquisition date) paid into an escrow account that will be released periodically during the four years following the completion date to the KitLocate’s founders subject to their continued employment, and \$2.3 million (RUR 82 million at the exchange rate as of the acquisition date) of earn-out payments to be paid on the achievement of certain distribution milestones.

Recent Dispositions

Face.com

In July 2012, we completed the sale of our ownership interest in Face.com, Inc. (formerly Vizi Information Labs Ltd.) to a subsidiary of Facebook, Inc. for cash consideration of \$5.7 million and 142,479 shares of Facebook, of which we sold 93,971 shares in 2013 and 48,508 shares in 2014.

Yandex.Money

In July 2013, we completed the sale of a 75% (less one ruble) interest in Yandex.Money to Sberbank for \$59.1 million (RUR 1,964 million at the exchange rate as of the acquisition date) in cash. Concurrent with the sale of our interest in Yandex.Money, we formed a joint venture with Sberbank in respect of this business, which continues under the Yandex.Money brand. As of December 31, 2012, Yandex.Money's assets and liabilities were classified as assets held for sale and liabilities related to assets held for sale. As a result of this sale, we deconsolidated Yandex.Money and no longer show its online payment commissions as revenue. Since July 2013, we have accounted for Yandex.Money using the equity method, and, therefore, we record our share of the results of operations of the joint venture within the other income, net, line on our consolidated statements of income.

Results of Operations

The following table presents our historical results of operations as a percentage of revenues for the periods indicated:

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Revenues	100.0%	100.0%	100.0%
Operating costs and expenses:			
Cost of revenues	23.5	25.0	26.8
Product development	15.6	14.8	14.8
Sales, general and administrative	16.4	17.0	16.5
Depreciation and amortization	9.4	10.3	9.4
Total operating costs and expenses	<u>64.9</u>	<u>67.1</u>	<u>67.5</u>
Income from operations	35.1	32.9	32.5
Interest income	1.1	3.5	4.3
Other income, net	0.3	0.4	5.5
Net income before income taxes	36.5	36.8	42.3
Provision for income taxes	7.7	8.2	8.2
Net income	<u>28.8%</u>	<u>28.6%</u>	<u>34.1%</u>

Our operating margin has decreased each year under review from 35.1% in 2011 to 32.9% in 2012 and 32.5% in 2013. This decrease was primarily due to increases in traffic acquisition costs paid to our partners in the Yandex ad network each year as a percentage of our total revenues.

Revenues

The following table presents our revenues, by source, in absolute terms and as a percentage of total revenues for the periods presented:

	Year ended December 31,					
	2011		2012		2013	
	RUR	% of Revenues	RUR	% of Revenues	RUR	% of Revenues
(in millions of RUR, except percentages)						
Advertising revenues(1):						
Text-based advertising:						
Yandex websites	14,590	72.8%	20,610	71.6%	27,584	69.8%
Yandex ad network websites	2,922	14.6	4,898	17.1	7,885	20.0
Total text-based advertising	17,512	87.4	25,508	88.7	35,469	89.8
Display advertising	2,096	10.5	2,592	9.0	3,379	8.5
Total advertising revenues	19,608	97.9	28,100	97.7	38,848	98.3
Online payment commissions(2)	383	1.9	552	1.9	394	1.0
Other revenues	42	0.2	115	0.4	260	0.7
Total revenues	20,033	100.0%	28,767	100.0%	39,502	100.0%

(1) We record revenue net of VAT, commissions and discounts. Because it is impractical to track commissions and discounts for advertising revenues generated on our own websites and on those of our partners in the Yandex ad network separately, we have allocated commissions and discounts between our own websites and those of our partners in the Yandex ad network proportionally to their respective revenue contributions.

(2) In connection with our sale of a 75% (less one ruble) interest in Yandex.Money to Sberbank, we ceased recording online payment commissions as revenues as of July 2013 and now account for Yandex.Money using the equity method. See “Recent Dispositions.”

Advertising revenues. Total advertising revenues increased by RUR 10,748 million, or 38.2%, from 2012 to 2013 and by RUR 8,492 million, or 43.3%, from 2011 to 2012. Advertising revenue growth over the periods under review resulted primarily from growth in sales of text-based ads, driven by an increase in the number of paid clicks and fluctuations in average cost-per-click paid by our advertisers. Paid clicks on our own websites together with those of our Yandex ad network partners increased 38% from 2012 to 2013 and 43% from 2011 to 2012. The average cost-per-click on our own websites together with those of our partners in the Yandex ad network increased 1% from 2012 to 2013 and 2% from 2011 to 2012, reflecting supply and demand dynamics.

During the periods under review, the year-over-year rates of change in paid clicks and average cost-per-click on a quarterly basis were as follows:

<u>Quarter</u>	<u>Year-over-year growth in paid clicks, %</u>	<u>Year-over-year growth in cost-per-click, %</u>
First Quarter 2011	51	7
Second Quarter 2011	47	8
Third Quarter 2011	68	(1)
Fourth Quarter 2011	65	(7)
First Quarter 2012	61	(5)
Second Quarter 2012	62	(7)
Third Quarter 2012	35	5
Fourth Quarter 2012	26	11
First Quarter 2013	18	14
Second Quarter 2013	29	5
Third Quarter 2013	50	(5)
Fourth Quarter 2013	52	(7)

The fluctuations in paid clicks and in average cost-per-click during the periods under review were driven primarily by the following factors:

- *Growth in the number of internet users in Russia.* The number of internet users in Russia grew at a compound annual growth rate of 13% from fall 2010 to fall 2013, reaching 66.5 million, according to FOM. As internet usage has spread, the rate of growth has been declining, with the number of users in Russia increasing by 17% from fall 2010 to fall 2011, 12% from fall 2011 to fall 2012, and 9% from fall 2012 to fall 2013, according to FOM.
- *Increased traffic and search market share.* We experienced a significant increase in traffic on our own websites, consistent with the growth in the number of internet users in Russia, augmented by a steady increase in our search market share through the first half of 2011, bringing our share of the Russian internet search market to 65% according to Liveinternet.ru. Due to increased competition and the aggressive roll-out of Google’s Chrome browser in Russia, our share declined to 62% in the second half of 2011 and to 60% in 2012. However, our share of the Russian internet search market increased from 60% to 62% in 2013, principally as a result of improvements in our search engine algorithms and more traffic being delivered through new and existing distribution partners. Mobile search traffic, as a percentage of our overall search traffic, has been continually growing and in the full year 2013 comprised 14% of all search queries compared with 10% in 2012 and 6% in 2011.
- *Growth in the size of the Russian online advertising market.* The total Russian online advertising market grew from RUR 41.8 billion in 2011, to RUR 56.3 billion in 2012 and to RUR 71.7 billion in 2013, according to the Russian Association of Communication Agencies (“AKAR”). According to our internal calculations (based on AKAR data), our share of the Russian online advertising market was 57% in 2013.

The rate of change in paid clicks and average cost-per-click, and their correlation with the rate of increase in our revenues, may fluctuate from period to period based on the factors described above, as well as other factors such as seasonality, advertiser competition for keywords, our ability to launch enhanced advertising products that seek to deliver increasingly targeted ads, the fees advertisers are willing to pay based on how they manage their advertising costs, and general economic conditions.

Display advertising revenues. Display advertising revenues accounted for approximately 8.5% of total revenues in 2013, compared with 9.0% in 2012.

Online payment commissions Online payment commissions decreased from 1.9% of total revenues for 2012 to 1.0% of total revenues for 2013, reflecting our sale of a 75% (less one ruble) interest in Yandex.Money to Sberbank in July 2013, following which we no longer record Yandex.Money's online payment commissions as revenue. We concurrently formed a joint venture with Sberbank with respect to the Yandex.Money business and now account for Yandex.Money using the equity method of accounting.

Other revenues. Other revenues principally represent paid services and sublease revenues. Other revenues doubled due to the development of paid non-advertising services such as earned from Yandex.Taxi and the sublease of rented premises.

Operating Costs and Expenses

Our operating costs and expenses consist of cost of revenues; product development expenses; sales, general and administrative expenses; and depreciation and amortization expense. In addition to the reasons discussed below with respect to each category, we generally expect our total operating costs and expenses to increase in absolute terms in the near term, which may also result in an increase as a percentage of revenues; see “—Key Trends Impacting Our Results of Operations”.

Cost of revenues. Cost of revenues consists primarily of traffic acquisition costs. Traffic acquisition costs are the amounts paid to our partners in the Yandex ad network for serving our text-based and display ads on their websites and to our partners who distribute our Yandex.Elements collection of services or otherwise direct search queries to our websites. These amounts are primarily based on revenue-sharing arrangements. Some of our distribution partners are compensated on the basis of the number of Yandex browser toolbars or search bars installed.

The agreements with our distribution partners provide for payment of fees to them on a non-refundable basis following the period in which the distribution fees are earned. We do not have a standard term or termination provision that applies to agreements with our distribution partners. Our two largest distribution partners in 2012, Mozilla and Opera, accounted in aggregate for 48% of our distribution costs in 2012 and 58% in 2011. In July 2012, Mozilla switched to a different default search provider in its new version of the Firefox browser in Russia, although we continued to share revenues with Mozilla with respect to users of the previous version of the Firefox browser. During 2012, we entered into a multi-year extension of our distribution agreement with Opera. The Opera agreement also provides for a 12-month “revenue tail” period should that agreement be terminated. Opera represented 28% of our distribution costs in 2013.

Cost of revenues also includes the expenses associated with the operation of our data centers, including related personnel costs, rent, utilities, telecommunications bandwidth costs, as well as content acquisition costs.

The following table presents the primary components of our cost of revenues in absolute terms and as a percentage of revenues for the periods presented:

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(in millions of RUR, except percentages)		
Traffic acquisition costs:			
Traffic acquisition costs related to the Yandex ad network . . .	1,853	3,128	5,377
Traffic acquisition costs related to distribution partners . . .	1,145	1,652	2,473
Total traffic acquisition costs	2,998	4,780	7,850
<i>as a percentage of revenues</i>	<i>15.0%</i>	<i>16.6%</i>	<i>19.9%</i>
Other cost of revenues	1,709	2,408	2,756
<i>as a percentage of revenues</i>	<i>8.5%</i>	<i>8.4%</i>	<i>7.0%</i>
Total cost of revenues	4,707	7,188	10,606
<i>as a percentage of revenues</i>	<i>23.5%</i>	<i>25.0%</i>	<i>26.8%</i>

Cost of revenues increased by RUR 3,418 million, or 47.6%, from 2012 to 2013, primarily due to a RUR 3,070 million increase in traffic acquisition costs, and by RUR 2,481 million, or 52.7%, from 2011 to 2012, primarily due to an increase of RUR 1,782 million in traffic acquisition costs. The majority of our traffic acquisition costs relate to the Yandex ad network, with a smaller portion relating to distribution relationships. Traffic acquisition costs relating to the Yandex ad network increased by RUR 2,249 million from 2012 to 2013 and by RUR 1,275 million from 2011 to 2012, representing our Yandex ad network partners' share in an increased amount of Yandex ad network revenue for the period, with the principal driver of this increase being our agreement to power paid search on Mail.ru starting from July 1, 2013. In addition, the amounts paid to our distribution partners increased by RUR 821 million from 2012 to 2013 and by RUR 507 million from 2011 to 2012 due to growth in our existing distribution relationships, as well as the addition of new distribution partners. As a percentage of total revenues, traffic acquisition costs increased from 15.0% in 2011 to 16.6% in 2012 and 19.9% in 2013, representing the increase in our Yandex ad network revenues as a share of total revenues. While total traffic acquisition costs increased, network partner traffic acquisition costs as a percentage of network partner revenues remained flat, at 66% in 2013 compared with 64% in 2012 and 63% in 2011, and distribution traffic acquisition costs as a percentage of text-based revenues from our own sites remained flat, at 8% of text-based revenue in 2011 and 2012 and at 9% of text-based revenue in 2013.

Other cost of revenues decreased as a percentage of total revenues from 8.4% in 2012 to 7.0% in 2013, but increased by RUR 348 million in absolute terms mainly due to growth in personnel and data center-related costs. The personnel and data center related costs include an increase in personnel costs of RUR 168 million, RUR 32 million in additional costs for outsourced services and RUR 28 million in additional share-based compensation expense. The increases were partly offset by the absence of the cost of online payment commissions and other cost of revenues related to Yandex.Money of RUR 50 million starting with July 2013. The increase in personnel costs over those periods was driven primarily by growth in our headcount that is allocated to cost of revenues, from 325 as of December 31, 2011 to 380 as of December 31, 2012, including 51 and 67 employees of Yandex.Money, respectively, and to 387 as of December 31, 2013.

In 2012, other cost of revenues increased by RUR 699 million compared to 2011 primarily due to an additional RUR 239 million in rent and utilities costs related mainly to our data centers, an increase in personnel costs of RUR 109 million, RUR 259 million in additional costs for outsourced services, and RUR 94 million in costs of sales related to Yandex.Money.

We anticipate that cost of revenues will continue to increase in absolute terms and as a percentage of revenues in the near term, primarily as a result of increases in traffic acquisition, content and data center costs. The primary drivers of increases in our future traffic acquisition costs as a percentage of advertising revenues are the percentage of revenues derived from our own websites compared with the percentage of revenues derived from the websites of our partners in the Yandex ad network, as well as the extent to which we use distribution partners to direct search queries to our website. In addition, our traffic acquisition costs as a percentage of advertising revenues may fluctuate in the future based on whether we are successful in negotiating more Yandex ad network and distribution arrangements that provide for lower revenue-sharing obligations or, alternatively, increased competition for these arrangements with existing and potential new partners results in less favorable revenue-sharing arrangements.

Product development. Product development expenses consist primarily of personnel costs incurred for the development, enhancement and maintenance of our search engine and other Yandex services and technology platforms. We also include rent and utilities attributable to office space occupied by development staff in product development expenses. We expense product development costs as they are incurred.

The following table presents our product development expenses in absolute terms and as a percentage of revenues for the periods presented:

	Year ended December 31,		
	2011	2012	2013
	(in millions of RUR, except percentages)		
Product development expenses	3,124	4,274	5,827
<i>as a percentage of revenues</i>	<i>15.6%</i>	<i>14.9%</i>	<i>14.8%</i>

Product development expenses increased by RUR 1,150 million, or 36.8%, from 2011 to 2012 and by RUR 1,553 million, or 36.3%, from 2012 to 2013. These increases were primarily due to increases in personnel expenses, share-based compensation and office rent expenses resulting from increases in headcount and salary over the periods. Development personnel headcount increased from 1,842 as of December 31, 2011 to 2,027 as of December 31, 2012, including 69 and 71 employees of Yandex.Money, respectively, and to 2,924 as of December 31, 2013. As a percentage of revenues, product development expenses decreased slightly from 2012 to 2013 reflecting more rapid growth in revenues from the Yandex ad network as compared to revenues from Yandex websites. Because product development expenses are primarily attributable to Yandex websites and services development, expansion of the Yandex ad network does not require proportionate increases in this expense category. As a percentage of revenues, product development expenses decreased from 2011 to 2012 primarily due to the fact that we achieved economies of scale in our product development team. The significant growth in the Russian internet advertising market means that the services and technology platforms developed and supported by our software engineers are utilized by a growing number of users and internet advertisers. We also increased the utilization of our Moscow office space, allowing us to increase headcount without a commensurate increase in office rent expense, and accelerated headcount growth in our regional development offices. Thus, our internet advertising revenues have been growing faster than our costs in this functional area.

We anticipate that product development expenses will increase in absolute terms and may increase as a percentage of revenues as we continue to hire product development personnel, add additional office space and expand the breadth and depth of our service offerings.

Sales, general and administrative. Sales, general and administrative expenses consist of compensation and office rent expenses for personnel engaged in customer service, sales, sales support,

finance, human resources, facilities, information technology and legal functions; fees for professional services; and advertising and marketing expenditures.

The following table presents our sales, general and administrative expenses in absolute terms and as a percentage of revenues for the periods presented:

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(in millions of RUR, except percentages)		
Sales, general and administrative expenses	3,294	4,900	6,537
as a percentage of revenues	16.4%	17.0%	16.5%

Sales, general and administrative expenses increased by RUR 1,637 million, or 33.4%, from 2012 to 2013 and by RUR 1,606 million, or 48.8%, from 2011 to 2012, but decreased as a percentage of revenues from 2012 to 2013. The increase in absolute terms was primarily due to increases in advertising and marketing expenses of RUR 808 million in 2013 compared to 2012 and of RUR 536 million in 2012 compared to 2011 driven primarily by increased advertising and marketing expenses in Russia and in Turkey. Increases in personnel expenses of RUR 672 million in 2012 compared to 2011 and of RUR 210 million in 2013 compared to 2012 also contributed to the overall increase in sales, general and administrative expenses. The increase in personnel expenses resulted from a rise in sales, general and administrative headcount from 1,145 as of December 31, 2011 to 1,354 as of December 31, 2012, including 118 and 137 employees of Yandex.Money, respectively, and to 1,591 as of December 31, 2013. In addition, increased headcount resulted in corresponding increases in allocable office rent and utilities of RUR 99 million in 2013 compared to 2012 and of RUR 150 million in 2012 compared to 2011. The increase in headcount across all functional areas from 2013 to 2012 also resulted in increases in general and administrative expenses, such as an increase of RUR 122 million in business travel expenses partially driven by the geographical expansion of our business, and RUR 52 million in recruiting and training expenses. With respect to 2013 compared to 2012, additional factors contributing to the overall increase were an increase of RUR 143 million in legal, audit and consulting expenses, an increase of RUR 136 million in share-based compensation expense, and an increase of RUR 83 million in bank commission expenses as we started to record commissions for online payments processing by Yandex.Money since its disposal in July 2013. With respect to 2012 compared to 2011, an additional factor contributing to the overall increase was an increase of RUR 149 million in legal, audit and consulting expenses.

While sales, general and administrative expenses increased in absolute terms, the corresponding decrease of sales, general and administrative expenses as a percentage of revenues in 2013 compared to 2012 reflects a more robust growth in revenues than in these types of expenses.

We anticipate that our sales, general and administrative expenses will continue to increase in absolute terms in 2014 and future periods and may increase as a percentage of revenues as we continue to expand our business. These increases will relate primarily to increased personnel and office rent expenses, as well as anticipated increases in advertising and marketing expenses.

Depreciation and amortization. Depreciation and amortization expense relates to the depreciation of our property and equipment, mainly servers and networking equipment, leasehold improvements, data center equipment and office furniture, and the amortization of our intangible assets with definite lives.

The following table presents our depreciation and amortization expense in absolute terms and as a percentage of revenues for the periods presented:

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(in millions of RUR, except percentages)		
Depreciation and amortization expense	1,874	2,951	3,695
<i>as a percentage of revenues</i>	9.4%	10.3%	9.4%

Depreciation and amortization expense increased by RUR 744 million, or 25.2%, from 2012 to 2013 and by RUR 1,077 million, or 57.5%, from 2011 to 2012. The increases in absolute terms for 2013 as compared to 2012 and for 2012 as compared to 2011 were primarily due to RUR 539 million and RUR 751 million increases, respectively, in depreciation expense related to server and network equipment and infrastructure systems, RUR 138 million and RUR 107 million increases, respectively, in depreciation expense related to purchased technologies and licenses, and RUR 27 million and RUR 57 million increases, respectively, in depreciation expense related to leasehold improvements. For 2012 as compared to 2011, the increase in absolute terms was also attributable to a RUR 91 million increase in amortization expense related to intangible assets. The increases in depreciation expense for these categories was the result of capital expenditures in 2011, 2012 and 2013 and the acquisition of SPB Software in November 2011.

We anticipate that depreciation and amortization expense will increase in absolute terms and may increase as a percentage of revenues in future periods as we continue to invest in our technology infrastructure and in business acquisitions.

Share-based compensation. In our consolidated statements of income, share-based compensation expense is recorded in the same functional area as the expense for the recipient's cash compensation. As a result, share-based compensation expense is allocated among our cost of revenues, product development expenses and sales, general and administrative expenses.

The following table presents our aggregate share-based compensation expense in absolute terms and as a percentage of revenues for the periods presented:

	<u>Year ended</u> <u>December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(in millions of RUR, except percentages)		
Share-based compensation expense	329	376	754
<i>Share-based compensation expense as a percentage of revenues</i>	1.6%	1.3%	1.9%

Share-based compensation expense increased by RUR 378 million, or 100.5%, from 2012 to 2013, primarily because of new equity-based awards granted in 2012 and 2013.

Share-based compensation expense increased by RUR 47 million, or 14.3%, from 2011 to 2012, primarily because of new equity-based awards granted in 2011 and 2012.

Interest Income, Net

Interest income, net consists of interest earned on our cash, cash equivalents, term deposits and investments in debt securities, partially offset by interest expense representing coupon and amortization of debt discount and issuance costs related to our convertible debt issued in December 2013. We derive a considerable portion of our interest income from ruble term deposits held in major Russian banks. Investments in term deposits, money market funds and debt securities held in the Netherlands generally yield considerably lower returns.

Interest income, net increased from RUR 222 million in 2011 to RUR 1,002 million in 2012 and to RUR 1,717 million in 2013, principally as a result of investing more of our cash from operating activities in Russia, where our investments earn significantly higher returns.

Other (Expense)/Income, Net

Our other (expense)/income primarily consists of foreign exchange gains and losses generally resulting from changes in the value of the U.S. dollar compared with the Russian ruble, and other non-operating gains and losses, including gains from the sale of equity securities/subsidiaries.

The following table presents the components of our other (expense)/income in absolute terms and as a percentage of revenues, for the periods presented:

	Year ended December 31,		
	2011	2012	2013
	(in millions of RUR, except percentages)		
Foreign exchange (losses)/gains	101	(57)	139
Gain from sale of equity securities/subsidiaries	—	234	2,137
Other	(39)	(59)	(117)
Total other (expense)/income, net	62	118	2,159
<i>Total other (expense)/income, net, as a percentage of revenues</i>	<i>0.3%</i>	<i>0.4%</i>	<i>5.5%</i>

Because the functional currency of our operating subsidiaries in Russia is the Russian ruble, changes in the ruble value of these subsidiaries' monetary assets and liabilities that are denominated in other currencies (primarily the U.S. dollar) due to exchange rate fluctuations are recognized as foreign exchange gains or losses in our income statement. During the periods under review, we recorded in our primary Russian subsidiary as other (expense)/income a RUR 98 million gain, a RUR 57 million loss and a RUR 127 million gain in 2011, 2012 and 2013, respectively, arising from changes in the value of the U.S. dollar compared with the Russian ruble during the year. Although the U.S. dollar value of our U.S. dollar-denominated cash, cash equivalents and term deposits was not impacted by these currency fluctuations, they resulted in upward and downward re-valuations of the ruble equivalent of these U.S. dollar-denominated monetary assets.

In 2012, gain from the sale of equity securities/subsidiaries represents the gain from the sale of our ownership interest in Face.com Inc. In 2013, gain from the sale of equity securities/subsidiaries primarily consisted of a RUR 2,035 million gain from our sale of a 75% (less one ruble) interest in Yandex.Money to Sberbank in July 2013.

Other (expense)/income also includes the equity income from securities/subsidiaries, changes in the fair value of derivative instruments and other non-operating gains and losses.

Provision for Income Taxes

The following table presents our provision for income taxes and effective tax rate for the periods presented:

	Year ended December 31,		
	2011	2012	2013
	(in millions of RUR, except percentages)		
Provision for income taxes	1,545	2,351	3,239
Effective tax rate	21.1%	22.2%	19.4%

Our provision for income taxes increased by RUR 888 million from 2012 to 2013 and by RUR 806 million from 2011 to 2012, primarily as a result of an increase in taxable income.

Our effective tax rate decreased by 2.8 percentage points from 2012 to 2013, primarily reflecting a significant non-taxable gain from the sale of Yandex.Money in July 2013. Adjusted for this gain, our effective tax rate for 2013 would have been 22.1%.

Our effective tax rate increased by 1.1 percentage points from 2011 to 2012 primarily reflecting the effect of contingent consideration payable to former SPB Software owners which is expensed under U.S. GAAP but non-deductible for tax purposes.

See “Critical Accounting Policies, Estimates and Assumptions—Tax Provisions” for additional information about our provision for income taxes.

A reconciliation of our statutory income tax rate to our effective tax rate is set forth in note 10 of our audited consolidated financial statements included elsewhere in this Annual Report.

Quarterly Results of Operations

The following tables present our unaudited quarterly results of operations in rubles and as a percentage of revenue for the eight consecutive quarters ended December 31, 2013. You should read the following tables together with our consolidated financial statements and related notes contained elsewhere in this Annual Report. We have prepared the unaudited quarterly information on the same basis as our audited consolidated financial statements. These tables include normal recurring adjustments that we consider necessary for a fair presentation of our results of operations for the quarters presented.

Both seasonal fluctuations in internet usage and seasonality in advertising expenditures have affected, and are likely to continue to affect, our business. Internet usage and advertising expenditures generally slow down during the summer months and increase significantly in the fourth quarter of each year. Moreover, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns.

Because the functional currency of our operating subsidiaries in Russia is the Russian ruble, changes in the ruble value of these subsidiaries’ monetary assets and liabilities that are denominated in other currencies (primarily the U.S. dollar) due to exchange rate fluctuations are recognized as foreign exchange gains or losses in our income statement. As a result, our quarterly results of operations have been and will likely continue to be affected by the impact of foreign currency fluctuations on our reported results of operations, particularly changes in the value of the U.S. dollar as compared to the Russian ruble.

Our operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year.

	Quarter ended							
	Mar 31, 2012	Jun 30, 2012	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013
	(in millions of RUR)							
Consolidated statements of income data:								
Revenues	5,874	6,801	7,273	8,819	7,999	9,199	10,218	12,086
Operating costs and expenses:								
Cost of revenues(1)	1,518	1,749	1,845	2,076	1,976	2,158	2,931	3,541
Product development(1)	1,066	1,059	1,034	1,115	1,328	1,381	1,467	1,651
Sales, general and administrative(1)	1,070	1,052	1,117	1,661	1,363	1,530	1,661	1,983
Depreciation and amortization	661	696	734	860	879	912	914	990
Total operating costs and expenses	<u>4,315</u>	<u>4,556</u>	<u>4,730</u>	<u>5,712</u>	<u>5,546</u>	<u>5,981</u>	<u>6,973</u>	<u>8,165</u>
Income from operations	1,559	2,245	2,543	3,107	2,453	3,218	3,245	3,921
Interest income, net	167	234	268	333	368	452	483	414
Other (expense)/income, net	(124)	53	147	42	26	17	2,022	94
Income before income taxes	1,602	2,532	2,958	3,482	2,847	3,687	5,750	4,429
Provision for income taxes	344	549	667	791	601	772	783	1,083
Net income	<u>1,258</u>	<u>1,983</u>	<u>2,291</u>	<u>2,691</u>	<u>2,246</u>	<u>2,915</u>	<u>4,967</u>	<u>3,346</u>

(1) These amounts exclude depreciation and amortization expense, which is presented separately, and include share-based compensation expense.

	Quarter ended							
	Mar 31, 2012	Jun 30, 2012	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013
As a percentage of revenues:								
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:								
Cost of revenues(1)	25.8	25.7	25.4	23.5	24.7	23.5	28.7	29.3
Product development(1)	18.2	15.6	14.2	12.6	16.6	15.0	14.4	13.7
Sales, general and administrative(1)	18.2	15.5	15.3	18.8	17.0	16.6	16.3	16.4
Depreciation and amortization	11.3	10.2	10.1	9.9	11.0	9.9	8.9	8.2
Total operating costs and expenses	<u>73.5</u>	<u>67.0</u>	<u>65.0</u>	<u>64.8</u>	<u>69.3</u>	<u>65.0</u>	<u>68.3</u>	<u>67.6</u>
Income from operations	26.5	33.0	35.0	35.2	30.7	35.0	31.7	32.4
Interest income	2.9	3.4	3.7	3.8	4.6	4.9	4.8	3.4
Other (expense)/income, net	(2.1)	0.8	2.0	0.5	0.3	0.2	19.8	0.8
Income before income taxes	27.3	37.2	40.7	39.5	35.6	40.1	56.3	36.6
Provision for income taxes	5.9	8.0	9.2	9.0	7.5	8.4	7.7	8.9
Net income	<u>21.4%</u>	<u>29.2%</u>	<u>31.5%</u>	<u>30.5%</u>	<u>28.1%</u>	<u>31.7%</u>	<u>48.6%</u>	<u>27.7%</u>

(1) These amounts exclude depreciation and amortization expense, which is presented separately, and include share-based compensation expense.

Liquidity and Capital Resources

As of December 31, 2013, we had RUR 48,574 million in cash, cash equivalents, and term deposits. Cash equivalents consist of bank deposits with original maturities of three months or less, current term deposits consist of bank deposits with original maturities of more than three months but no more than one year, and non-current term deposits are bank deposits with original maturities of more than one year. Our current treasury policy permits us to hold up to 50% of our total cash, cash equivalents, term deposits and debt securities in U.S. dollars and, additionally, to accumulate U.S. dollars for repayment of our convertible debt in 2018. In order to achieve this split of our currency holdings, we currently convert a portion of the rubles received from operations, as well as from maturing deposits, into U.S. dollars. We maintain our U.S. dollar-denominated accounts principally in the Netherlands and, to a lesser extent, in Russia. Our U.S. dollar-denominated holdings as of December 31, 2013 account for approximately 60.5% of our cash, cash equivalents and term deposits.

The proceeds to us from our IPO in May 2011 were \$401.4 million, net of underwriting discounts and commissions and other offering expenses incurred on the company's account. The net proceeds to us in December 2013 from the sale of our 1.125% convertible senior notes due December 15, 2018, were approximately \$593.9 million, excluding net proceeds of \$89.2 million related to the exercise of the underwriters' over-allotment option in January 2014. The notes are convertible into cash, our Class A shares or a combination of cash and Class A shares, at our election, under certain circumstances, based on an initial conversion rate of 19.4354 Class A shares per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$51.45 per share), subject to adjustment on the occurrence of certain events. A further description of the accounting treatment related to the notes can be found in note 11 of our audited consolidated financial statements included elsewhere in this Annual Report. Those proceeds were received by our parent company, a Dutch holding company that generates no operating cash flow itself.

Other than the proceeds from our IPO and convertible note offering, our principal source of liquidity has been cash flow generated from the operations of our Russian subsidiaries. Under current Russian legislation, there are no restrictions on our ability to distribute dividends from our Russian operating subsidiaries to our parent other than a requirement that dividends be limited to the cumulative net profits of our Russian operating subsidiaries, calculated in accordance with Russian accounting principles. The cumulative net profit of our Russian subsidiaries calculated in accordance with Russian accounting principles differs from the cumulative net profit calculated in accordance with U.S. GAAP primarily due to the treatment of accrued expenses (such as rent, sales agency commissions, unused vacation, deferred tax and bad debt reserves) and differences arising from the capitalization and depreciation of property and equipment. In addition, these dividends cannot result in negative net assets at our Russian subsidiaries or render them insolvent. Pursuant to applicable Russian statutory rules, the amount that our Russian operating subsidiary would be permitted to pay as a dividend to our parent company as of December 31, 2013 was approximately RUR 35,708 million (\$1,091.0 million). We have not provided for dividend withholding taxes on the unremitted earnings of our Russian subsidiaries because they are considered permanently reinvested in Russia. We are required to pay a 5% withholding tax on all dividends paid from our Russian operating subsidiaries to our parent company. See "Risk Factors—Taxes payable on dividends from our Russian operating subsidiaries to our parent company might not benefit from relief under the Netherlands-Russia tax treaty." We do not have any current plan to pay cash dividends on our shares in the near term.

As of December 31, 2013, we had no outstanding indebtedness other than the convertible notes due 2018. We do not currently maintain any line of credit or other similar source of liquidity.

Cash Flows

In summary, our cash flows were:

	Year ended December 31,		
	2011	2012	2013
	(in millions of RUR)		
Net cash provided by operating activities	7,506	11,529	14,705
Net cash used in investing activities	(17,552)	(10,190)	(710)
Net cash provided by financing activities	11,598	361	11,461
Effect of exchange rate changes on cash	1,353	(205)	513

Cash provided by operating activities. Cash provided by operating activities consists of net income adjusted for certain non-cash items, including depreciation and amortization expense, share-based compensation expense, deferred tax benefit/expense, foreign exchange gains and losses, and the effect of changes in working capital.

Cash provided by operating activities increased by RUR 3,176 million from 2012 to 2013. This increase was primarily due to an increase of RUR 5,251 million in net income, offset by a decrease of RUR 1,301 million in non-cash adjustments to net income and a decrease of RUR 774 million in cash provided by changes in working capital. The change in adjustments for non-cash items was primarily due to gain of RUR 1,903 million from the sale of equity securities, reflecting our sale of a 75% (less one ruble) interest in Yandex.Money in July 2013. Cash provided by working capital decreased between the periods primarily due to significant increases in accounts receivable, following growth in advertising revenues, and in prepaid expenses and other assets.

From 2011 to 2012, cash provided by operating activities increased by RUR 4,023 million. This increase was primarily due to an increase of RUR 2,450 million in net income, an increase of RUR 1,343 million in non-cash adjustments to net income, and an increase of RUR 230 million in cash provided by changes in working capital. The change in adjustments for non-cash items was primarily due to the effect of an increase in depreciation and amortization expense of RUR 1,077 million.

We believe that our existing cash, cash equivalents and cash generated from operations will be sufficient to satisfy our currently anticipated cash requirements through at least the next 12 months. To the extent that our cash, cash equivalents and cash from operating activities are insufficient to fund our future activities, we may be required to raise additional funds through equity or debt financings, including bank credit arrangements. Additional financing may not be available on terms favorable to us or at all.

Cash used in investing activities.

Cash used in investing activities in 2013 decreased by RUR 9,480 million compared to 2012 as a result of increases of RUR 3,448 million in proceeds from maturities of debt securities, RUR 1,849 million in proceeds from sale of non-marketable equity securities and by a decrease of investments in term deposits (net of proceeds) of RUR 7,913 million, partly offset by RUR 2,438 million paid for the acquisition of a 100% ownership interest in KinoPoisk LLC and its subsidiary. Proceeds from the sale of equity securities consists of proceeds of RUR 1,960 from our sale of a 75% (less one ruble) interest in Yandex.Money to Sberbank in July 2013 and of proceeds of RUR 63 for the sale of Facebook shares received in connection with the sale of our ownership interest in Face.com.

Cash used in investing activities in 2012 decreased by RUR 7,362 million compared to 2011 as a result of decreases in capital expenditures of RUR 1,546 million, proceeds from maturities of debt securities of RUR 1,521 million in 2012 that replaced investment in debt securities of

RUR 6,548 million in 2011, proceeds from sale of non-marketable equity securities of RUR 174 million and cash released from escrow of RUR 219 million related to contingent compensation payable to former SPB Software owners, included in cash used in operating activities, partly offset by increase of investments in term deposits (net of proceeds) of RUR 4,245 million. Sale of non-marketable securities consists of proceeds from sale of ownership interest in Face.com Inc.

Our total capital expenditures were RUR 4,936 million in 2013 and RUR 3,984 million in 2012. Our capital expenditures have historically consisted primarily of the purchase of servers and networking equipment. We also incurred significant capital expenditures in 2012 and 2013 related to the construction of one of our larger data centers. To manage enhancements in our search technology, expected increases in internet traffic, advertising transactions and new services, and to support our overall business expansion, we will continue to invest heavily in data center operations, technology, corporate facilities and information technology infrastructure in 2014 and thereafter. Moreover, we may spend a significant amount of cash on acquisitions and licensing transactions from time to time.

Cash used in/provided by financing activities.

For 2013, cash provided by financing activities was RUR 11,461 million, reflecting RUR 19,719 in proceeds from the issuance of our convertible notes and RUR 439 million in proceeds from share option exercises, offset by RUR 8,518 million used to fund our open market share repurchase program and RUR 179 million in convertible debt issuance costs.

In 2012, financing activities provided RUR 361 million in cash, representing principally proceeds from options exercises; compared to RUR 11,598 million in cash in 2011, representing primarily the proceeds from our IPO.

Off-Balance Sheet Items

We do not currently engage in off-balance sheet financing arrangements, and do not have any interest in entities referred to as variable interest entities, which include special purposes entities and other structured finance entities.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2013:

	Payments due by period				Thereafter
	Total	Through 2014	2015 through 2016	2017 through 2018	
	(in millions of RUR)				
Operating lease obligations	12,776	3,021	4,002	3,583	2,170
Data center-related purchase obligations	2,041	1,813	228	—	—
Other purchase obligations	2,384	872	679	540	293
Total contractual obligations	17,201	5,706	4,909	4,123	2,463

The table above presents our long-term rent obligations for our office and data center facilities, contractual purchase obligations related to data center operations and facility build-outs, as well as other purchase obligations primarily related to fixed utilities fees, technology licenses and other services. For agreements denominated in U.S. dollars, the amounts shown in the table above are based on the U.S. dollar/Russian ruble exchange rate prevailing on December 31, 2013. All amounts shown include value added tax.

Critical Accounting Policies, Estimates and Assumptions

Our accounting policies affecting our financial condition and results of operations are more fully described in our consolidated financial statements for the years ended December 31, 2011, 2012 and 2013, included elsewhere in this Annual Report. The preparation of these consolidated financial statements requires us to make judgments in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe our critical accounting policies that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements are as follows:

Share-Based Compensation Expense

We estimate the fair value of share options and share appreciation rights (together, “Share-Based Awards”) that are expected to vest using the Black-Scholes-Merton (BSM) pricing model and recognize the fair value ratably over the requisite service period using the straight-line method. We used the following assumptions in our option-pricing model when valuing Share-Based Awards:

	Year ended December 31,		
	2011	2012	2013
Expected life of the awards (years)	6.12 - 6.17	5.51 - 7.02	5.44 - 7.04
Expected annual volatility	65%	54%	49%
Risk-free interest rate	1.60%	0.78%	1.77%
Expected dividend yield	—	—	—

To determine the expected option term, we use the “simplified method” as allowed under the SEC’s accounting guidance, which represents the weighted- average period during which our awards are expected to be outstanding.

With respect to price volatility, because we were a newly public company in 2011, we did not have sufficient history to estimate the volatility of our ordinary share price over the expected term of our Share-Based Awards. We used comparable public companies as a basis for our expected volatility to calculate the fair value of our awards. For grants made since the beginning of 2012, we have used historical volatility of our own share price.

Prior to our IPO in May 2011, we based the risk-free interest rate that we use in our option-pricing model on the implied yield currently available on Russian Eurobonds with a remaining term approximating the expected term of the award being valued. For periods after May 2011, we used the risk-free interest rates based on the U.S. Treasury yield curve in effect at the grant date.

In the past, we have declared and paid dividends. We did not declare any dividends with respect to 2011, 2012 or 2013. Currently, we do not have any plans to pay dividends in the near term. When we have declared dividends, we followed the practice of paying optionees bonuses calculated as an amount per vested option share equal to the amount of the dividend declared per share. Because optionees were generally compensated for dividends and we have no plans to pay cash dividends in the near term, we used an expected dividend yield of zero in our option pricing model for awards granted in the years ended December 31, 2011, 2012 and 2013.

We determine the amount of share-based compensation expense based on awards that we ultimately expect to vest, taking into account estimated forfeitures. U.S. GAAP requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures

differ from those estimates. Historically, we typically only granted share-based awards to senior employees who had been with our company for at least one year. To estimate forfeitures at that time, we had analyzed our historical forfeiture trends and adjusted them as appropriate for exceptional circumstances, such as the departure of two senior employees who had a disproportionate number of option awards. Excluding the effect of these two departures, our forfeiture rate had been insignificant. As a result, we applied an estimated forfeiture rate of zero before 2012. In 2012, as less senior employees began to receive share-based awards, we began calculating the forfeiture rate by reference to our historical employee turnover rate. If our actual forfeiture rate is materially different from the estimate, share-based compensation expense could be materially lower than what has been recorded.

Prior to our IPO, when there was no public market for our shares, our board of directors regularly determined the fair value of our shares and set the exercise price of option awards on the basis of valuations of our company arrived at by employing the “income approach” and the “market approach” valuation methodologies. This approach was consistent with the methods outlined in the AICPA Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*.

Tax Provisions

Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Effective January 1, 2007, we adopted the new FASB authoritative guidance on accounting for uncertainty in income taxes that requires a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest. Our actual Russian taxes may be in excess of the estimated amount expensed to date and accrued as of December 31, 2013, due to ambiguities in, and the evolution of, Russian tax legislation, varying approaches by regional and local tax inspectors, and inconsistent rulings on technical matters at the judicial level. See “Risk Factors—Risks Related to Doing Business and Investing in Russia and the Other Countries in which we Operate—Changes in the Russian tax system or unpredictable or unforeseen application of existing rules may materially adversely affect our business, financial condition and result of operations.”

In addition, significant management judgment is required in determining whether deferred tax assets will be realized. A valuation allowance is recognized to reduce deferred tax assets to amounts that are more likely than not to ultimately be utilized based on our ability to generate sufficient future taxable income. If actual events differ from management’s estimates, or to the extent that these estimates are adjusted in the future, any changes in the valuation allowance could materially impact our consolidated financial statements.

Recognition and Impairment of Goodwill and Intangible Assets

The FASB authoritative guidance requires us to recognize our share in the assets of businesses acquired and respective liabilities assumed based on their fair values. Our estimates of the fair value of the identified intangible assets of businesses acquired are based on our expectations of the future results of operations of such businesses. The fair value assigned to identifiable intangible assets acquired is supported by valuations that involve the use of a large number of estimates and assumptions provided by management.

We assess the carrying value of goodwill arising from business combinations on an annual basis and the carrying value of intangible assets if events or changes in circumstances indicate that such carrying value may not be recoverable. Other than our annual review, factors we consider important that could trigger an impairment review include: under-performance of our business compared with our internal budgets or changes in projected results, changes in the manner of utilization of the asset, and negative market conditions or economic trends. Therefore, our judgment as to the future prospects of our business has a significant impact on our results and financial condition. If these future prospects do not materialize as expected or there is a future adverse change in market conditions, we may be unable to recover the carrying amount of an asset, resulting in future impairment losses.

Recently Adopted Accounting Pronouncements

Effective January 1, 2013, we adopted the FASB accounting standards update on disclosures about offsetting assets and liabilities. The adoption of this update did not have a significant impact on our consolidated financial position, results of operations, cash flows or disclosures.

Effective January 1, 2013, we adopted the FASB accounting standards update on the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified to net income in its entirety in the same reporting period. For other amounts not required to be reclassified in their entirety to net income in the same reporting period, a cross-reference to other disclosures that provide additional detail about the reclassification amounts is required. The adoption of this update did not have a significant impact on our consolidated financial position, results of operations, cash flows, or disclosures. Refer to note 5 of our audited consolidated financial statements included elsewhere in this Annual Report for disclosure of reclassifications for the years ended December 31, 2011, 2012 and 2013.

Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk

The functional currency of our Russian operating subsidiaries, which account for the significant majority of our operations, is the Russian ruble. Therefore, our reported results of operations are impacted by fluctuations in exchange rates to the extent that we recognize foreign exchange gains and losses on monetary assets and liabilities denominated in currencies other than the ruble, primarily the U.S. dollar. Total U.S. dollar denominated cash, cash equivalents and term deposits held in Russia amounted to RUR 6,919 million and RUR 19 million as of December 31, 2013 and 2012, respectively. If the U.S. dollar had been stronger/weaker by 15% relative to the value of the Russian ruble as of December 31, we would have recognized additional foreign exchange gains/losses before tax of RUR 972 million and RUR 32 million in 2013 and 2012, respectively.

Furthermore, the revenue and expenses of our Russian operating subsidiaries are primarily denominated in Russian rubles. However, as is customary in the Russian real estate market, the majority of our rent expenses, including the lease for our Moscow headquarters, is denominated in U.S.

dollars. Additionally, a major portion of our capital expenditures, primarily servers and networking equipment imported by Russian suppliers, can also be materially affected by changes in the dollar-ruble exchange rate. In the event of a material appreciation of the U.S. dollar against the ruble, the ruble equivalent of these U.S. dollar-denominated expenditures will increase and negatively impact our net income and cash flows.

In 2011, we entered into two lease agreements for an aggregate of approximately 12,000 additional square meters of office space located in our headquarters complex in Moscow. These leases have seven-year terms and entail outstanding commitments of approximately RUR 1,702 million as of December 31, 2013. The rent under these leases is denominated in U.S. dollars, but payable in rubles at the then-current exchange rate quoted by the Central Bank of Russia. The leases protect the landlord against depreciation of the U.S. dollar against the ruble, although we are not protected from any potential appreciation. The landlord's protection from U.S. dollar depreciation represents an embedded derivative that must be bifurcated and accounted for separately under U.S. GAAP. At the end of each period, we re-measure the fair value of this embedded derivative and record any change in fair value as foreign exchange gains or losses in the income statement. We estimate the fair value of this derivative instrument using a model that is sensitive to changes in the U.S. dollar to Russian ruble exchange rate. If the U.S. dollar had been weaker by 15% relative to the value of the Russian ruble as of December 31, 2013, we would have recognized additional foreign exchange losses before tax of RUR 29 million in 2013. If the U.S. dollar had been stronger by 15% relative to the value of the Russian ruble as of December 31, 2013, we would have recognized additional foreign exchange gains before tax of RUR 4 million in 2013.

The functional currency of our Dutch parent company and our Dutch and U.S. subsidiaries is the U.S. dollar. The functional currency of our Ukrainian subsidiary is the Ukrainian hryvnia. The financial statements of these non-Russian entities have been translated into rubles using the current rate method, where balance sheet items are translated into rubles at the period-end exchange rate and revenue and expenses are translated using a weighted average exchange rate for the relevant period. The resulting translation gains and losses for the years ended December 31, 2011, 2012 and 2013 are included as a foreign translation adjustment recorded as part of other comprehensive income on our consolidated balance sheets. U.S. dollar cash, cash equivalents and term deposits comprise the largest portion of our net assets in the Netherlands subsequent to the IPO. Total U.S. dollar denominated cash, cash equivalents and term deposits held in the Netherlands amounted to RUR 22,143 million and RUR 11,906 million as of December 31, 2013 and 2012, respectively. If the U.S. dollar had been stronger/weaker by 15% relative to the value of the Russian ruble as of December 31, we would have recognized additional other comprehensive gains/losses of RUR 1,153 million and RUR 2,212 million in 2013 and 2012, respectively.

Since December 31, 2013, the Russian ruble has significantly depreciated against foreign currencies, including the U.S. dollar. The currency exchange rate as of December 31, 2013 was RUR 32.7292 to \$1.00 and, as of March 31, 2014, the value of the Russian ruble as compared to the U.S. dollar had declined to RUR 35.6871 to \$1.00.

Interest Rate Risk

We had cash, cash equivalents and term deposits of RUR 48,574 million and held debt securities of RUR 2 million as of December 31, 2013. We do not believe that we have any material exposure to changes in the fair value of our cash, cash equivalents, term deposits and debt securities balances as a result of changes in interest rates. We do not enter into investments for trading or speculative purposes. Declines in interest rates, however, will reduce future investment income.

In December 2013, we issued and sold \$600.0 million (RUR 19,719 million at the exchange rate as of sale date) in aggregate principal amount of 1.125% convertible senior notes due December 15, 2018.

We carry the convertible notes at face value less unamortized discount on our balance sheet. The fair value of the notes changes when the market price of our stock or interest rates fluctuate.

Item 6. Directors, Senior Management and Employees.

The following table sets forth certain information with respect to each of our executive officers and directors and their respective age and position as of the date of this Annual Report:

<u>Name</u>	<u>Age</u>	<u>Date of Expiration of Current Term of Office</u>	<u>Director or Executive Officer Since</u>	<u>Title</u>
Alfred Fenaughty	87	2014	2000	Chairman and Non-Executive Director
Arkady Volozh	50	2014	2000	Executive Director and Chief Executive Officer
John Boynton	48	2015	2000	Non-Executive Director
Esther Dyson	62	2015	2006	Non-Executive Director
Elena Ivashentseva . . .	47	2014	2000	Non-Executive Director
Rogier Rijnja	51	2014	2013	Non-Executive Director
Charles Ryan	46	2016	2011	Non-Executive Director
Alexander Voloshin . .	57	2016	2010	Non-Executive Director
Alexander Shulgin . . .	36	N/A	2010	Chief Financial Officer

Mr. Fenaughty has been a non-executive director since 2000 and became the Chairman of our board of directors in July 2008. Mr. Fenaughty is a co-founder, chairman of the board of directors and chief executive officer of InfiNet Wireless, a provider of wireless networking technology in Russia, as well as a co-founder and chairman of the board of the Center of Telephony Integration, a supplier of IP telephony systems. From 1993 to 2003, Mr. Fenaughty was a director of CompTek International. From 1965 to 1993, he served as president and chief executive officer of Information International. Prior to that, Mr. Fenaughty was vice president and general manager of the Western Division of Computer Control. Mr. Fenaughty received a bachelor’s degree in engineering from Columbia University in 1946 and a master’s degree in electrical engineering in 1947.

Mr. Volozh is the principal founder of Yandex and has been our Chief Executive Officer and a director since 2000. A serial entrepreneur with a background in computer science, Mr. Volozh co-founded several successful IT enterprises, including InfiNet Wireless, a Russian provider of wireless networking technology, and CompTek International, one of the largest distributors of network and telecom equipment in Russia. In 2000, Arkady left his position as CEO at CompTek International to become the CEO of Yandex. Mr. Volozh started working on search in 1989, which led to him establishing Arkadia Company in 1990, a company developing search software. His early achievements in this field include the development of electronic search for use in patents, Russian classical literature and the Bible. Mr. Volozh holds a degree in applied mathematics from the Gubkin Institute of Oil and Gas.

Mr. Boynton has been a non-executive director since 2000. Mr. Boynton is the president of Firehouse Capital Inc., a privately held investment company with investments in a variety of early stage companies. He also serves on the boards of several non-profit organizations. Mr. Boynton served as a founder and managing director of Wilson Alan LLC from 2001 through 2006, as vice president of corporate strategy and development at Forrester Research from 1997 to 2001, as a strategy consultant with Mercer Management Consulting from 1995 to 1997, and as co-founder and president of CompTek International from 1990 to 1995. Mr. Boynton graduated from Harvard College.

Ms. Dyson has been a non-executive director since 2006. Ms. Dyson is an active investor and board member in a variety of IT, health care and aerospace start-ups, and also sits on the board of WPP Group, a global communications company. She started her career as a fact-checker for Forbes

Magazine, and then spent five years as a security analyst on Wall Street. At New Court Securities, Ms. Dyson comprised the sell-side research department, and worked on the initial public offering of Federal Express, among others. At Oppenheimer & Co., she followed the nascent software and personal computer markets. From 1982 to 2004, as the owner of EDventure Holdings, she edited the newsletter Release 1.0 and ran the annual PC Forum conference. She sold EDventure to CNET in 2004, and reclaimed the name when she left CNET at the beginning of 2007. Her Russian interests have included advisory board seats with both IBS Group and SUP/Live Journal, and investments in the technology companies AlterGeo, TerraLink, Epam and UCMS. In the U.S., she is on the boards of 23andMe, Meetup, Eventful and others. She is on the boards of listed companies WPP Group and Luxoft, based in Moscow and Kiev. She was an early investor in Flickr and del.icio.us (sold to Yahoo!), Medstory and Powerset (sold to Microsoft), Brightmail (sold to Symantec), and Postini (sold to Google), among others. She is the author of “Release 2.0: A design for living in the digital age” (1997), which has been translated into 18 languages. She has a B.A. in economics from Harvard University.

Ms. Ivashentseva has been a non-executive director since 2000. Ms. Ivashentseva is a senior partner at Baring Vostok Capital Partners, a Russian private equity firm. Baring Vostok structured and led the initial investment in Yandex in 2000 by Internet Search Investments Limited (the parent of ru-Net B.V.), in which a Baring Vostok fund was the founder and Baring Vostok funds were, together, the largest shareholder. Since 2000, Ms. Ivashentseva has been responsible for the investment in Yandex on behalf of Internet Search Investments Limited. She is also a member of the board of Avito, Centre for Financial Technologies, Enforta, ER-Telecom, Family Doctor, InfiNet Wireless Ltd., Ivi.ru and Ozon and was previously a member of the board of directors of CTC Media, Inc., a leading NASDAQ listed Russian television broadcaster, and other portfolio companies of Baring Vostok funds. From 1994 to 1998, Ms. Ivashentseva was a director of EPIC Russia, where she led telecom and media investments of the Sector Capital Fund. Ms. Ivashentseva received a master’s degree in finance and accounting from the London School of Economics and a diploma with honors in economics from Novosibirsk University. She is a charterholder of the CFA Institute.

Mr. Rijnja has been a non-executive director since May 2013. He is an independent consultant, and served as Senior Vice President of Human Resources and a member of the executive committee at D.E Master Blenders, a Dutch public company listed on the Amsterdam Stock Exchange, from 2011 to February 2014. Prior to joining D.E Master Blenders, Mr. Rijnja served as head of the human resources departments at several international companies, including Maxeda (2008 to 2011), Numico N.V. (2004 to 2008) and Amazon.com (2002 to 2004). He was previously the director of global management development at Reckitt Benckiser PLC from 1998 to 2002, and a human resources manager for Nike Europe from 1996 to 1998. Mr. Rijnja held several positions at Apple between 1989 and 1996 in The Netherlands and the United States. Mr. Rijnja has a degree in law studies from Leiden University in The Netherlands

Mr. Ryan has been a non-executive director since May 2011. A finance professional with 25 years of experience in both the Russian and international markets, Mr. Ryan co-founded United Financial Group (UFG) and became its Chairman and CEO in 1994. In 1998, Mr. Ryan initiated the New Technology Group within UFG Asset Management, which sponsored an early stage technology investment in ru-Net Holdings whose investments include Yandex. In 2006, Deutsche Bank acquired 100% of UFG’s investment banking business, and Mr. Ryan was appointed chief country officer and CEO of Deutsche Bank Group in Russia and remained in that position until the end of 2008, when he became chairman of UFG Asset Management. From 2008 through the end of 2010, Mr. Ryan was a consultant for Deutsche Bank. Prior to founding UFG, Mr. Ryan worked as a financial analyst with CS First Boston from 1989 to 1991 and as an associate and principal banker with the European Bank for Reconstruction and Development in London from 1991 to 1994. Mr. Ryan has a degree in Government from Harvard University.

Mr. Voloshin has been a non-executive director of Yandex since August 2010 after serving as an advisor to the company for two years. Mr. Voloshin serves as the Chairman of the Board of Directors of Uralkali and of Freight One. Prior to joining our Board of Directors, Mr. Voloshin served as Chairman of the Board of MMC Norilsk Nickel from 2008 to 2010 and as Chairman of the Board of Directors of RAO “UES of Russia” from 1999 to 2008. From 1999 to 2003, Mr. Voloshin headed the Russian Presidential Administration. Prior to becoming Chief of Staff of the Russian President, he worked as Deputy Chief of Staff from 1998 to 1999, and as Assistant to the Chief of Staff from 1997 to 1998. He graduated from the Moscow Institute of Transport Engineers in 1978 and holds a degree in economics from the All-Russia Foreign Trade Academy.

Mr. Shulgin joined Yandex as Chief Financial Officer in May 2010. A finance professional with 13 years of experience in the FMCG industry, Mr. Shulgin worked in different finance positions in Coca-Cola Hellenic from 1997 until 2007. In 2007, he was appointed country chief financial officer of Coca-Cola Hellenic Russia. Mr. Shulgin has a degree in Management from Rostov-on-Don State University.

Compensation and Share Ownership of Executive Officers and Directors.

The aggregate cash compensation paid or accrued in 2013 for members of our senior management (a total of 21 persons), as a group, was RUR 142 million (\$4.3 million).

In May 2011, we granted each of our non-executive directors an option to acquire 28,000 Class A shares at the initial public offering price of \$25.00 per share, effective on the closing of our initial public offering. Such options vest over a four-year period. In May 2013, we granted to our new non-executive director an option to acquire 28,000 Class A shares at a price of \$27.74 per share.

For information on share ownership and options held by our directors and senior management, please see “Major Shareholders and Related Party Transactions”.

Corporate Governance

We have an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of these committees.

Audit Committee

Our audit committee consists of Messrs. Ryan (chairperson) and Boynton and Ms. Dyson. Each member satisfies the “independence” requirements of the NASDAQ listing standards, and Mr. Ryan qualifies as an “audit committee financial expert,” as defined in Item 16A of Form 20-F and as determined by our board of directors. The audit committee oversees our accounting and financial reporting processes and the audits of our consolidated financial statements. The audit committee is responsible for, among other things:

- making recommendations to our board of directors regarding the appointment by the shareholders of our independent auditors;
- overseeing the work of the independent auditors, including resolving disagreements between management and the independent auditors relating to financial reporting;
- pre-approving all audit and non-audit services permitted to be performed by the independent auditors;
- reviewing the independence and quality control procedures of the independent auditors;
- discussing material off-balance sheet transactions, arrangements and obligations with management and the independent auditors;

- reviewing and approving all proposed related-party transactions;
- discussing the annual audited consolidated and statutory financial statements with management;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately with the independent auditors to discuss critical accounting policies, recommendations on internal controls, the auditor’s engagement letter and independence letter and other material written communications between the independent auditors and the management; and
- attending to such other matters as are specifically delegated to our audit committee by our board of directors from time to time.

Compensation Committee

Our compensation committee consists of Messrs. Boynton (chairperson), Fenaughty and Rijnja and Ms. Ivashentseva. Each member satisfies the “independence” requirements of the NASDAQ listing standards. The compensation committee assists the board of directors in reviewing and approving or recommending our compensation structure, including all forms of compensation relating to our directors and management. Members of our management may not be present at any committee meeting while the compensation of our chief executive officer is deliberated. Subject to the terms of the remuneration policy approved by our general meeting of shareholders from time to time, as required by Dutch law, the compensation committee is responsible for, among other things:

- reviewing and making recommendations to the board of directors with respect to compensation of our executive and non-executive directors;
- reviewing and approving the compensation, including equity compensation, change-of-control benefits and severance arrangements, of our chief financial officer and such other members of our management as it deems appropriate;
- overseeing the evaluation of our management;
- reviewing periodically and making recommendations to our board of directors with respect to any incentive compensation and equity plans, programs or similar arrangements;
- exercising the rights of our board of directors under any equity plans, except for the right to amend any such plans unless otherwise expressly authorized to do so; and
- attending to such other matters as are specifically delegated to our compensation committee by our board of directors from time to time.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Messrs. Boynton (chairperson) and Fenaughty and Ms. Ivashentseva. Each member satisfies the “independence” requirements of the NASDAQ listing standards. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board of directors and its committees. The nominating and corporate governance committee is responsible for, among other things:

- recommending to the board of directors persons to be nominated for election or re-election as directors at any meeting of the shareholders;
- overseeing the board of directors’ annual review of its own performance and the performance of its committees; and

- considering, preparing and recommending to the board of directors a set of corporate governance guidelines applicable to the company.

Employment Agreements

Substantially all of our employees are employed by our operating subsidiaries. Our employment agreements generally contain the minimum statutory notice periods required under Russian law. The employment agreements between our subsidiaries and certain senior managers and other employees contain non-competition and non-solicitation provisions, although we understand that such provisions are generally unenforceable under Russian law.

Employees

The following table indicates the composition of our workforce as of December 31 each year indicated:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Russia	3,062	3,415	4,312
Other	250	346	590
Total	3,312	3,761	4,902
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Product development	1,842	2,027	2,924
Sales, general and administration	1,145	1,354	1,591
Data center infrastructure	325	380	387
Total	3,312	3,761	4,902

We also typically employ several hundred contract workers on a part-time basis, and the numbers of such contract workers generally varies in line with the numbers of full-time staff.

Our employees are not represented by any collective bargaining agreements and we have never experienced a work stoppage. We believe our employee relations are good.

Employee Plans

Our Third Amended and Restated 2007 Equity Incentive Plan (the “2007 Plan”) provides for the grant of equity awards in the form of share options, share appreciation rights, restricted shares and restricted share units (or so-called “deferred shares”). The total number of shares available for issuance under the plan is equal to 10% of the aggregate number of Class A and Class B shares outstanding from time to time.

Plan administration. Our board of directors or its compensation committee administers our 2007 Plan. Although our 2007 Plan sets forth certain terms and conditions of our equity awards, our board of directors or its compensation committee determines the provisions and terms and conditions of each grant. These include, among other things, the vesting schedule, repurchase provisions, forfeiture provisions, and form of payment upon exercise.

Eligibility. We may grant equity awards to employees and directors of and consultants to our company and its subsidiaries.

Exercise price and term of equity awards. The exercise price or measurement price of equity awards is the closing price per Class A share on the NASDAQ Global Select Market on the grant date. Equity awards are generally exercisable up until the tenth anniversary of the grant date so long as the grantee’s relationship with us has not terminated.

Vesting schedule. The notice of grant specifies the vesting schedule. Awards generally vest over a four-year period, with $\frac{4}{16}$ ths vesting on the first anniversary of grant and an additional $\frac{1}{16}$ th vesting each quarter thereafter. When a grantee's employment or service is terminated, the grantee may generally exercise his or her options that have vested as of the termination date within ninety days of termination or as determined by our plan administrator.

Class A and Class B Shares. Outstanding options granted prior to October 2008 may be exercised, pursuant to their terms and the terms of the 2007 Plan, as follows:

- In the event that an optionee intends to exercise an option and immediately sell the shares acquired, we will issue Class A shares upon such exercise.
- In the event that an optionee intends to exercise an option and hold the shares acquired for some period of time, we will issue Class B shares upon such exercise. Such Class B shares will be subject to the transfer and conversion provisions applicable to all Class B shares.

Equity awards granted since October 2008 are in respect of Class A shares only, in accordance with their terms and the terms of the 2007 Plan.

Amendment and Termination. Our board of directors may at any time amend, suspend or terminate our 2007 Plan. Prior to any such amendment, suspension or termination, our board of directors must first make a determination that share options already granted will not be adversely affected. Unless terminated earlier, our 2007 Plan will continue in effect until October 2017. Our board of directors adopted amendments to the 2007 plan in November 2011 and again in February 2012.

In addition, in May 2011, the Company granted ex-plan to all of its employees an aggregate of 77,230 phantom share units, which fully vested and were settled in cash in December 2011. We recognized share based compensation expense of RUR 43 million (\$1.3 million) related to these grants in 2011.

Item 7. Major Shareholders and Related Party Transactions.

The following table contains information concerning each shareholder known by us to beneficially own more than five percent of each class of our outstanding ordinary shares. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting or investment power with respect to our shares.

The number of shares outstanding used in calculating the percentage for each listed shareholder includes the shares underlying options held by such shareholder that are exercisable within 60 days of March 14, 2014. Percentage of beneficial ownership is based on 259,051,344 Class A shares and 70,870,411 Class B shares outstanding as of March 14, 2014. All holders of our ordinary shares,

including those shareholders listed below, have the same voting rights with respect to such shares. Class A shares have one vote per share, and Class B shares have 10 votes per share.

Name of Beneficial Owner	Shares Beneficially Owned as at March 14, 2014					
	Class A Shares		Class B Shares		Total Percentage	
	Number of Shares	%	Number of Shares	%	By Voting Power(1)	By Number of Shares
Directors and Senior Management:						
Arkady Volozh	0	—	34,459,684	48.62%	35.61%	10.44%
Alfred Fenaughty(2)	19,250	*	1,400,000	1.98%	1.45%	*
John Boynton(3)	1,010,650	*	0	—	*	*
Esther Dyson(4)	179,250	*	0	—	*	*
Elena Ivashentseva(5)	2,767,955	1.07%	17,493,699	24.68%	18.36%	6.14%
Rogier Rijnja(6)	3,000	*	0	—	*	*
Charles Ryan(7)	1,646,812	*	530,743	*	*	*
Alexander Voloshin(8)	69,250	*	0	—	*	*
Alexander Shulgin(9)	130,625	*	0	—	*	*
All current directors and senior management as a group (9 persons)(10)						
	5,826,792	2.25%	53,884,126	76.03%	56.28%	18.10%
Principal Shareholders:						
Baring Vostok Private Equity						
Funds(11)	2,767,955	1.07%	17,493,699	24.68%	18.36%	6.14%
Capital Group International, Inc.(12)	14,644,859	5.65%	0	—	1.51%	4.44%
Morgan Stanley Investment						
Management Inc.(13)	14,761,698	5.70%	0	—	1.53%	4.47%
Thornburg Investment						
Management Inc.(14)	18,226,289	7.04%	0	—	1.88%	5.52%
Oppenheimer Funds, Inc.(15)	25,408,818	9.81%	0	—	2.63%	7.70%
Vladimir Ivanov	2,600,000	1.00%	10,618,884	14.98%	11.24%	4.01%
Total shares held by directors, management and 5% holders						
	81,468,456	31.45%	64,503,010	91.02%	75.07%	44.24%

* Represents beneficial ownership of less than one percent of such class.

- (1) Percentage of total voting power represents voting power with respect to all of our Class A and Class B shares, voting together as a single class. Each holder of Class B shares is entitled to ten votes per Class B share and each holder of Class A shares is entitled to one vote per Class A share on all matters submitted to our shareholders for a vote. The Class A shares and Class B shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by Dutch law or our articles of association. Each Class B share is convertible at any time by the holder into one Class A share and one Class C share.
- (2) Consists of 1,400,000 Class B shares held by the Alfred and Riqueza Fenaughty Revocable Living Trust, the beneficiaries of which include Mr. Fenaughty or members of his family and includes 19,250 Class A shares subject to an option that is currently exercisable. Excludes options to purchase 8,750 Class A shares that are not exercisable within 60 days after March 14, 2014.
- (3) Includes (a) 391,400 Class A shares held by trusts, the beneficiaries of which include Mr. Boynton or members of his family, (b) 425,000 Class A shares held by the John W. Boynton Trust of 2006, (c) 175,000 Class A shares held by The Diomedes Foundation, a charitable organization and (d) 19,250 Class A shares subject to an option that is currently exercisable. Other than in respect

of the shares held by the John W. Boynton Trust of 2006, Mr. Boynton disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein. Excludes options to purchase 8,750 Class A shares that are not exercisable within 60 days after March 14, 2014.

- (4) Includes 19,250 Class A shares subject to an option that is currently exercisable. Excludes options to purchase 8,750 Class A shares that are not exercisable within 60 days after March 14, 2014.
- (5) Consists of shares held by BC&B Holdings B.V. (“BC&B”). This includes 19,250 Class A shares subject to an option that is currently exercisable, but excludes options to purchase 8,750 Class A shares that are not exercisable within 60 days after March 14, 2014. These options were granted to BC&B, which holds the options on behalf of the Baring Vostok Private Equity Funds. Ms. Ivashentseva is a senior partner of Baring Vostok Capital Partners Limited, a Cypriot limited company, which is a sub-adviser to Baring Vostok Capital Partners Limited, a limited liability company incorporated under the laws of and registered in Guernsey (“BVCPL”) which acts as the investment advisor with respect to the investment by Baring Vostok Private Equity Funds in BC&B. See note 11. Ms. Ivashentseva disclaims beneficial ownership of these shares except to the extent of her pecuniary interest therein.
- (6) Excludes options to purchase 28,000 Class A shares that are not exercisable within 60 days after March 14, 2014.
- (7) Includes 944,221 Class A shares held by Kameson Management Limited on behalf of UFG Private Equity Fund II LP (the “UFG Fund”), and 530,743 Class B shares and 683,341 Class A shares held by trusts, the beneficiaries of which include Mr. Ryan or members of his family, and by Mr. Ryan directly. Mr. Ryan is a General Partner of the UFG Fund and in such capacity has investment control over the shares held by that fund. Mr. Ryan disclaims beneficial ownership of the shares held by the UFG Fund except to the extent of his pecuniary interest therein. Includes 19,250 Class A shares subject to an option that is currently exercisable. Excludes options to purchase 8,750 Class A shares that are not exercisable within 60 days after March 14, 2014.
- (8) Consists of options to purchase 69,250 Class A shares that are exercisable within 60 days after March 14, 2014. Excludes options to purchase 8,750 Class A shares that are not exercisable within 60 days after March 14, 2014.
- (9) Consists of options to purchase 130,625 Class A shares that are exercisable within 60 days after March 14, 2014. Excludes options to purchase 24,375 Class A shares that are not exercisable within 60 days after March 14, 2014.
- (10) Includes options to purchase 296,125 shares that are exercisable within 60 days after March 14, 2014. Excludes options to purchase 104,875 shares that are not exercisable within 60 days after March 14, 2014.
- (11) Consists of 2,748,705 Class A shares and 17,493,699 Class B shares held by BC&B and 19,250 Class A shares subject to an option that is currently exercisable. Excludes options to purchase 8,750 Class A shares that are not exercisable within 60 days after March 14, 2014. BC&B is 100% owned by Strickland Holdings Limited, a Cyprus registered limited liability company (“Strickland”). The share capital of Strickland is held as follows: 52.35% by Chouet Nominees Limited (“CNL”); 23.89% by Baring Vostok Nominees Limited (“BVNL”); and 23.76% by Dehus Dolmen Nominees Limited (“DDNL”). Each of CNL, BVNL and DDNL is a limited liability company incorporated under the laws of and registered in Guernsey, Channel Islands. CNL acts as a nominee holding company for the limited partnerships comprising the Baring Vostok Private Equity Fund (“BVPEF II”); BVNL acts as a nominee holding company for the limited partnerships comprising Baring Vostok Private Equity Fund III (“BVPEF III”); and DDNL acts as a nominee holding company for the limited partnerships comprising Baring Vostok Private Equity Fund IV (“BVPEF IV”) (BVPEF II, BVPEF III and BVPEF IV collectively being the “BV Funds”). Each

of the BV Funds which holds an interest in our shares has a separate general partner dedicated to that fund. For BVPEF II, the general partner is Baring Vostok Fund (GP) L.P., whose general partner in turn is Baring Vostok Fund Managers Limited. For BVPEF III, the general partner is Baring Vostok Fund III (GP) L.P., whose general partner in turn is Baring Vostok Fund III Managers Limited. And for BVPEF IV, the general partner is Baring Vostok Fund IV (GP) L.P., whose general partner in turn is Baring Vostok Fund IV Managers Limited. Each of Baring Vostok Fund Managers Limited, Baring Vostok Fund III Managers Limited and Baring Vostok Fund IV Managers Limited, being the ultimate general partner to BVPEF II, BVPEF III and BVPEF IV, respectively (each an “Ultimate General Partner”), is owned by Baring Vostok Manager Holding Limited (Guernsey) (“BVMHL”). BVMHL is owned by Peter Touzeau, Barry McClay and Mike Calvey. Each of these persons holds his shares in BVMHL in trust on behalf of certain other persons, one of whom is Ms. Ivashentseva. See note 6. Voting and investment power over the investments held by each of the BV Funds is held and exercised by the Ultimate General Partner to such fund. BVCPL, as investment advisor to the general partner of each BV Fund, has no voting or investment control over the BV Funds. An investment committee has been formed whose function is to make recommendations to the general partner to each BV Fund. The general partner, through its Ultimate General Partner, makes decisions based on recommendations received from the investment committee. The members of the investment committee are Rahul Bhasin, Chris Brotchie, Michael Calvey, John Dare, Terry English, Jean Salata, Rory Landman, and Antonio Bonchristiano. Decisions with respect to the sale of Yandex shares held by BC&B are governed by a shareholders agreement between CNL, BVNL and DDNL which allows each shareholder to unilaterally cause Strickland to take decisions as necessary to effect a sale of such underlying shareholder’s interests in Yandex. Therefore, CNL, BVNL and DDNL, acting pursuant to instructions from the Ultimate General Partner to the BV Fund for which they act as nominee, have the right to control the voting and disposition of the Class A shares and Class B shares held by BC&B. BVPEF II, BVPEF III and BVPEF IV, as well as CNL, BVNL and DDNL, disclaim beneficial ownership of the shares held by BC&B except to the extent of their pecuniary interest therein. The business address of the BV Funds and of each Ultimate General Partner is c/o Ipes (Guernsey) Limited, 1 Royal Plaza, Royal Avenue, St Peter Port, Guernsey GY1 2HL.

- (12) The number of shares reported is based solely on the Schedule 13G filed by Capital Group International, Inc. on February 13, 2014.
- (13) The number of shares reported is based solely on the Schedule 13G filed by Morgan Stanley Investment Management Inc. on February 11, 2014.
- (14) The number of shares reported is based solely on the Schedule 13G filed by Thornburg Investment Management Inc. on January 21, 2014.
- (15) The number of shares reported is based solely on the Schedule 13G filed by Oppenheimer Funds, Inc. on February 10, 2014.

Holdings by U.S. Shareholders

As of March 14, 2014, there was one holder of record of Class A shares (Cede & Co., as nominee for DTC) and there were three holders of record of Class B shares located in the United States, together holding in the aggregate approximately 95.27% and 2.72% of our outstanding Class A and B shares by number, respectively, representing in the aggregate approximately 27.50% of our outstanding shares by voting power.

Related Party Transactions

Shareholders Agreement

Shareholders holding an aggregate of approximately 83 million Class A and Class B shares, representing approximately 71.0% of the voting power of our outstanding shares, are parties to a shareholders agreement, the principal terms of which are as follows:

Board composition. The parties have agreed to vote all of our shares held by them in favor of electing or re-electing those persons nominated by our board of directors for election or re-election as a director at any general meeting of our shareholders.

Compliance with foreign ownership laws. The parties have agreed to comply with any applicable laws from time to time in effect that regulate the owners of Yandex by non-Russian parties.

Amendments to articles of association. The parties have agreed that they will vote against any proposal to amend the articles of association in such a way as to eliminate:

- our multiple class share structure, with differential voting rights;
- the staggered three-year terms of our directors;
- the provision that our directors may only be removed by a two-thirds majority of votes cast representing at least 50% of our outstanding share capital;
- the authorized preference shares;
- requirements that certain matters, including an amendment of our articles of association, may only be brought to our shareholders for a vote upon a proposal by our board of directors;
- the supermajority requirements for shareholder approval of certain significant corporate actions, including a legal merger or demerger of our company or the amendment of our articles of association;
- the right of our board of directors to approve the accumulation by a party, group of related parties or parties acting in concert of the legal or beneficial ownership of 25% or more, in number or by voting power, of our outstanding Class A and Class B shares (taken together); or
- the rights of the holder of the priority share.

Term and Amendment. The shareholders agreement will remain in effect so long as any Class B shares remain outstanding. The agreement may be terminated and amended, and any provision thereof waived, with the prior written consent of parties to the agreement holding shares representing more than 66 $\frac{2}{3}$ % of the voting power of the outstanding share capital held by parties to the agreement. The agreement will terminate with respect to any particular shareholder upon its affirmative election if it no longer holds any Class B Shares, as a result of the transfer of all Class B shares held by it, or the voluntary or mandatory conversion of all Class B Shares held by it into Class A Shares.

Registration Rights Agreement

We are party to a registration rights agreement with our major shareholders that allows them to require us to register Class A shares held by them under the U.S. Securities Act of 1933, as amended (the “Securities Act”), under certain circumstances.

Demand registration rights. Shareholders party to the agreement together holding approximately 64 million Class A and Class B shares have the right to require that we register their securities for sale. Certain other shareholders have the right to join in a demand registration. We have the right not to effect a demand registration (a) if we have already effected one demand registration, (b) if the

aggregate price, net of underwriters' discounts or commissions, of all registrable securities included in such registration is less than \$7,500,000, (c) if the initiating shareholders propose to register securities that may be immediately registered on Form F-3, or (d) in a jurisdiction where we would be required to qualify to do business or execute a general consent to service of process in effecting such a registration. We have the right to defer filing of a registration statement for up to 120 days if our board of directors determines in good faith that filing of a registration statement would be detrimental to us, but we cannot exercise such deferral right more than once in any 12-month period.

Piggyback registration rights. If we propose to file a registration statement for a public offering of our securities other than relating to an employee share option, share purchase or similar plan or pursuant to a merger, exchange offer, or similar transaction, then we must offer holders of registrable securities an opportunity to include in this registration all or any part of their registrable securities. We must use our best effort to cause the underwriters in any underwritten offering to permit the shareholders who so requested to include their shares on the same terms and conditions as our securities to be registered.

Form F-3 registration rights. When we are eligible to use Form F-3, one or more shareholders party to the agreement holding shares with an aggregate market value of at least \$50,000,000 have the right to request that we file a registration statement on Form F-3. We are not obligated to file a registration statement on Form F-3 if (a) we have already effected two registrations on Form F-3 for holders of registrable securities during the 12-month period preceding a registration request, (b) the aggregate price, net of underwriters' commissions or discounts, of registrable securities included in such registration is less than \$10 million, or (c) in a jurisdiction where we would be required to qualify to do business or execute a general consent to service of process in effecting such a registration. We have the right to defer filing of a registration statement for up to 120 days if our board of directors determines in good faith that filing of a registration statement would be detrimental to us, but we cannot exercise such deferral right more than once in any 12-month period.

Expenses of registration. We will pay all expenses relating to any demand, piggyback or F-3 registration, other than underwriting commissions and discounts.

Relationship with Sberbank

Sberbank is a major financial institution and the largest savings bank in the Russian Federation. Approximately 51% of its voting shares are held by the Central Bank of the Russian Federation.

Priority Share

In September 2009, we issued our priority share to Sberbank for its nominal value of €1.00. As the holder of our priority share, Sberbank has the right to approve the accumulation by a party, group of related parties or parties acting in concert, of the legal or beneficial ownership of shares representing 25% or more, in number or by voting power, of our outstanding Class A and Class B shares (taken together), if our board of directors has otherwise approved such accumulation of shares. In addition, any decision by our board of directors to sell, transfer or otherwise dispose of, directly and indirectly, all or substantially all of our assets to one or more third parties in any transaction or series of related transactions, including the sale of our principal Russian operating subsidiary, is subject to the prior approval of the holder of our priority share. The priority share does not carry any rights to control the management or operations of our company, and its economic rights are limited to its pro rata entitlement to dividends and other distributions. Our articles of association provide that the priority share may only be held by a party that is specifically nominated by our board of directors for this purpose. The rights of the priority share would terminate if any law is adopted or amended in Russia that restricts the ownership by non-Russian parties of internet businesses in Russia.

Our board of directors and shareholders approved the priority share mechanism with the objective of strengthening control over our company's ownership structure and providing transparency into changes in share ownership. We believe that this structure allows us to avoid the dominance of any single group of investors. In addition, we believe that this mechanism allows us to attract appropriate levels of both Russian and non-Russian investment.

In nominating Sberbank as the party to which the priority share would be issued, our board of directors considered three principal criteria: the holder had to be controlled by the Russian government, the holder had to be public, and the holder could not have interests in the internet or media sectors that would conflict with the interests of our business. Our board also considered Sberbank to be an appropriate holder of the priority share in light of what our board believes to be its respected and professional management team. Because our board views the holder of the priority share as playing a valuable role in contributing to the stability of our business and the transparency of our shareholder base, and because the priority share carries only an immaterial economic interest in our company, we issued the priority share for only nominal consideration.

Yandex.Money Joint Venture

In July 2013, we sold a 75 percent (less 1 ruble) interest in our Yandex.Money business to Sberbank for \$60 million in cash and entered into a joint venture arrangement with Sberbank in respect of the future operation of this business, which continues under the Yandex.Money brand. Our joint venture agreement with Sberbank provides for standard minority protections and will address corporate governance matters such as veto rights, deadlock mechanisms and rights of first refusal and co-sale.

Following the sale of the controlling interest and deconsolidation of Yandex.Money in July 2013, we retained a non-controlling interest and significant influence over Yandex.Money's business. We continue to use Yandex.Money for payment processing and subleases to Yandex.Money part of its premises. The amount of revenues from subleasing and online payment commissions was RUR 34 million (\$1.0 million) and RUR 56 million (\$1.7 million), respectively, for the year ended December 31, 2013. As of December 31, 2013, the amount of receivables related to payment processing was RUR 6 million (\$0.2 million). We believe that the terms of the agreements with Yandex.Money are comparable to the terms obtained in arm's-length transactions with unrelated similarly situated customers and suppliers of the Company.

Item 8. Financial Information.

See the financial statements beginning on page F-1.

Dividends

We do not have any present plan to pay cash dividends on our shares in the near term. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

If and when we pay dividends in the future, they will be payable on a *pari passu* basis on the outstanding Class A and Class B shares and the priority share. Although our Class C shares are technically entitled to a maximum dividend of €0.01 per share when we declare dividends on our Class A and Class B shares, we intend to repurchase all Class C shares issued upon conversion of our Class B shares promptly following their issuance such that no dividends would be payable on our Class C shares. Cash dividends on our shares, if any, will be paid in U.S. dollars.

Item 9. The Listing.

Markets.

Our Class A ordinary shares are currently listed on The NASDAQ Global Select Market, under the symbol “YNDX”.

The following table sets forth the high and low closing sale prices on The NASDAQ Global Market for our Class A ordinary shares for (1) the three most recent years, (2) the each quarter of the two most recent full financial years and any interim period, and (3) the six most recent months.

	<u>High</u>	<u>Low</u>
Annual Highs and Lows	\$	\$
2013	43.15	20.07
2012	27.30	16.66
2011 (from May 24)	38.84	16.95
Quarterly Highs and Lows		
First Quarter 2014	44.22	28.75
Fourth Quarter 2013	43.15	35.54
Third Quarter 2013	37.93	27.49
Second Quarter 2013	29.26	20.07
First Quarter 2013	25.66	22.53
Fourth Quarter 2012	24.78	20.62
Third Quarter 2012	25.06	17.84
Second Quarter 2012	27.30	16.66
First Quarter 2012	26.87	18.30
Monthly Highs and Lows		
March 2014	34.31	28.75
February 2014	41.21	35.01
January 2014	44.22	35.34
December 2013	43.15	37.42
November 2013	39.89	36.09
October 2013	41.04	35.54

On December 31, 2013, the closing sale price per share on The NASDAQ Global Select Market was \$43.15.

Item 10. Additional Information.

Memorandum and Articles of Association

We incorporate by reference into this Annual Report the description of our amended articles of association contained in our F-1 registration statement (File No. 333-173766) originally filed with the SEC on April 28, 2011, as amended. Our articles of association were amended as of May 21, 2012, 2012 and May 22, 2013.

Material Contracts

We issued and sold \$690 million in aggregate principal amount of 1.125% convertible senior notes due 2018, to qualified institutional buyers in reliance on Rule 144A under the United States Securities Act of 1933, as amended, in transactions closing December 17, 2013, and January 14, 2014.

In connection with the offering of the notes, we entered into an Indenture, dated December 17, 2013, with the Bank of New York Mellon, a New York banking corporation, as trustee, which includes the terms and conditions upon which the notes are to be authenticated, issued and delivered. The notes

are convertible into cash, Class A shares of Yandex or a combination of cash and Class A shares, at our election, based on an initial conversion rate of 19.4354 Class A shares per US\$1,000 principal amount of notes, which is equivalent to an initial conversion price of approximately US\$51.45 per Class A share, subject to adjustment on the occurrence of certain events. Prior to June 15, 2018, the notes are convertible only upon the occurrence of certain events and during certain periods, and thereafter, at any time until the close of business on the business day immediately preceding the maturity date of the notes.

The notes bear interest at a rate of 1.125% per year, payable semi-annually in arrears on June 15 and December 15 of each year, beginning on June 15, 2014. The notes mature on December 15, 2018, unless earlier repurchased, redeemed or converted in accordance with their terms. The notes are senior unsecured obligations of the Company and we do not have the right to redeem the notes prior to maturity, except in connection with certain changes in tax laws.

The net proceeds from the convertible note offering were approximately US\$683 million, after deducting the initial purchasers' discount and estimated offering expenses.

Exchange Controls

Under existing laws of the Netherlands, there are no exchange controls applicable to the transfer to persons outside of the Netherlands of dividends or other distributions with respect to, or of the proceeds from the sale of, shares of a Dutch company.

Taxation

Taxation in the Netherlands

General

The information set out below is a general summary of the material Dutch tax consequences in connection with the acquisition, ownership and transfer of our Class A shares. The summary does not purport to be a comprehensive description of all the Dutch tax considerations that may be relevant for a particular holder of our Class A shares, who may be subject to special tax treatment under any applicable law, and this summary is not intended to be applicable in respect of all categories of holders of the Class A shares. In particular, this summary is not applicable in respect of any holder who is, is deemed to be or is treated as a resident of the Netherlands for Dutch tax purposes nor to a holder that owns 5% or more of the nominal paid-in capital or voting rights in our company.

The summary is based upon the tax laws of the Netherlands as in effect on the date of this Annual Report, as well as regulations, rulings and decisions of the Netherlands and its taxing and other authorities available on or before such date and now in effect. All references in this summary to the Netherlands and Netherlands law are to the European part of the Kingdom of The Netherlands and its law, respectively, only. All of the foregoing is subject to change, which could apply retroactively and could affect the continuing validity of this summary. As this is a general summary, we recommend that investors or shareholders consult with their own tax advisors as to the Dutch or other tax consequences of the acquisition, ownership and transfer of our Class A shares, including, in particular, the application to their particular situations of the tax considerations discussed below.

The following summary does not address the tax consequences arising in any jurisdiction other than the Netherlands in connection with the acquisition, ownership and transfer of our Class A shares.

Our company currently takes the view that it is a resident of the Netherlands for tax purposes, including for purposes of tax treaties concluded by the Netherlands, and this summary so assumes. This summary further assumes that the holders of Class A shares will be treated for Dutch tax purposes as

the absolute beneficial owners of those Class A shares and any dividends (as defined below) received or realized with respect to such shares.

Dividend Withholding Tax

General

Dividends paid on the Class A shares to a holder of such shares are generally subject to Dutch dividend withholding tax at a rate of 15%. The term “dividends” for this purpose includes, but is not limited to:

- distributions in cash or in kind, deemed and constructive distributions, and repayments of paid-in capital not recognized for Dutch dividend withholding tax purposes;
- liquidation proceeds, proceeds of redemption of shares or, generally, consideration for the repurchase of shares in excess of the average paid-in capital recognized for Dutch dividend withholding tax purposes;
- the par value of shares issued to a shareholder or an increase of the par value of shares, as the case may be, to the extent that it does not appear that a contribution to the capital recognized for Dutch dividend withholding tax purposes was made or will be made; and
- partial repayment of paid-in capital, recognized for Dutch dividend withholding tax purposes, if and to the extent that there are net profits (*zuivere winst*), within the meaning of the Dutch Dividend Withholding Tax Act 1965 (*Wet op de dividendbelasting 1965*), unless the general meeting of our shareholders has resolved in advance to make such a repayment and provided that the par value of the shares concerned has been reduced by a corresponding amount by way of an amendment of our articles of association.

Generally we are responsible for the withholding of taxes at source and the remittance of the amounts withheld to the Dutch tax authorities; the dividend withholding tax will not be for our account.

If we have received a profit distribution from a foreign subsidiary located (a) in a jurisdiction with which the Netherlands has concluded a treaty for the avoidance of double taxation or (b) in Bonaire, St. Eustatius, Saba, Aruba, Curacao or St. Maarten, in which subsidiary we hold at least 25% of the nominal paid-up capital or if the relevant tax treaty therein provides, we hold at least 25% of the voting rights, which distribution is exempt from Dutch corporate income tax and has been subject to a foreign withholding tax of at least 5%, we are not required to transfer to the Dutch tax authorities the full amount of Dutch dividend withholding tax in respect of dividends distributed by our company. The amount that does not have to be transferred to the Dutch tax authorities can generally not exceed the lesser of (i) 3% of the portion of the dividends distributed by our company that is subject to Dutch dividend withholding tax; and (ii) 3% of the profit distributions our company received from qualifying foreign subsidiaries in the calendar year in which our company distributes the dividends (up to the moment of such dividend distribution) and the two previous calendar years; further limitations and conditions apply.

The amount of Dutch withholding tax that we may retain reduces the amount of dividend withholding tax that we are required to pay to the Dutch tax authorities, but does not reduce the amount of tax we are required to withhold from dividends paid to a holder of our Class A shares. Upon request, a holder of our Class A shares will be notified by our company of the amount of the Dutch withholding tax that was retained by us.

Non-residents of the Netherlands (including but not limited to U.S. holders)

The following is a description of the material Dutch tax consequences to a holder of Class A shares who is not treated as a resident of the Netherlands for purposes of Dutch taxation (a “Non-Resident of the Netherlands”) and who is considered to be a resident of (i) Aruba, Curacao or St. Maarten under the provisions of the Tax Convention for the Kingdom of the Netherlands (*Belastingregeling voor het Koninkrijk*), (ii) Bonaire, St. Eustatius or Saba under the provisions of the Tax Arrangement for the country of the Netherlands (*Belastingregeling voor het land Nederland*); or (iii) a country other than the Netherlands under the provisions of a double taxation convention the Netherlands has concluded with such country. Such holder may, depending on the terms of and subject to compliance with the procedures for claiming benefits under the Tax Convention for the Kingdom of the Netherlands, the Tax Arrangement for the country of the Netherlands or such double taxation convention, be eligible for a full or partial exemption from or a reduction or refund of Dutch dividend withholding tax.

Further, entities (i) that are resident in another EU Member State, in a by Ministerial Decree appointed State of the EEA i.e. Iceland, Norway and Liechtenstein, or a country outside the EU/EEA which has an arrangement for the exchange of tax information with the Netherlands; and (ii) that are not subject to taxation by reference to profits in such State, in principle have the possibility to obtain a full refund of Dutch dividend withholding tax, provided such entities would not have been subject to Dutch corporate income tax either had they been resident within the Netherlands, and provided further that such entities do not perform a similar function to that of a tax exempt investment institutions or fiscal investment institutions as referred to in the Dutch Corporate Income Tax Act 1969, and with respect to entities resident in a country outside the EU/EEA which has an arrangement for the exchange of tax information with the Netherlands, provided such entities hold their Class A shares as a portfolio investment, i.e. such shares are not held with a view to the establishment or maintenance of lasting and direct economic links between such holder of Class A shares and our company, and these shares do not allow such holder to effectively participate in the management or control of our company.

A holder of Class A shares who is considered to be a resident of the United States and is entitled to the benefits of the 1992 Double Taxation Treaty between the United States and the Netherlands (“U.S. holder”), as amended most recently by the Protocol signed March 8, 2004 (the “Treaty”) will generally be subject to Dutch dividend withholding tax at the rate of 15% unless such U.S. holder is an exempt pension trust as described in article 35 of the Treaty, or an exempt organization as described in article 36 of the Treaty.

U.S. holders that are exempt pension trusts or exempt organizations as described in articles 35 and 36, respectively, of the Treaty may qualify for an exemption from Dutch withholding tax and may generally claim (i) in the case of an exempt pension trust full exemption at source by timely filing two completed copies of form IB 96 USA signed by the U.S. holder accompanied with U.S. form 6166 (as issued by the U.S. Internal Revenue Service and valid for the relevant tax year) or (ii) in the case of either an exempt pension trust or an exempt organization a full refund by filing through the withholding agent as mentioned in article 9 of the Dutch Dividend Withholding Tax Act 1965 (which is generally the company) one of the following forms signed by the U.S. holder within three years after the end of the calendar year in which the withholding tax was levied:

- if the U.S. holder is an exempt pension trust as described in article 35 of the Treaty: two completed copies of Form IB 96 USA accompanied with U.S. Form 6166 as issued by the U.S. Internal Revenue Service valid for the relevant tax year and
- if the U.S. holder is an exempt organization as described in article 36 of the Treaty: two completed copies of Form IB 95 USA accompanied with U.S. Form 6166 as issued by the U.S. Internal Revenue Service, valid for the relevant tax year.

Taxes on Income and Capital Gains

General

The description of taxation set out in this section of this Annual Report is not intended for any holder of Class A shares who is:

- an individual for whom the income or capital gains derived from the Class A shares are attributable to employment activities the income from which is taxable in the Netherlands; or
- an individual who holds, or is deemed to hold, a Substantial Interest (*aanmerkelijk belang*) in our company (as defined below).

Generally, a holder of Class A shares will have a substantial interest in our company (“Substantial Interest”) if he holds, alone or together with his partner, whether directly or indirectly, the ownership of, or certain other rights over, shares representing 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of shares), or rights to acquire shares, whether or not already issued, that represent at any time 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of shares) or the ownership of, or certain other rights over, profit participating certificates that relate to 5% or more of the annual profit and/or to 5% or more of our liquidation proceeds. A holder of Class A shares will also have a Substantial Interest in our company if certain relatives of that holder or of his partner have a Substantial Interest in our company. If a holder of Class A shares does not have a Substantial Interest, a deemed Substantial Interest will be present if (part of) a Substantial Interest has been disposed of, or is deemed to have been disposed of, on a non-recognition basis. Please note that under Dutch tax law an individual is considered as a holder of Class A shares if he/she is deemed to hold an interest in the Class A shares pursuant to the attribution rules of article 2.14a of the Dutch Income Tax Act 2001, with respect to property that has been segregated, for instance in a trust or a foundation.

Non-residents of the Netherlands (including, but not limited to, U.S. holders)

A Non-Resident of the Netherlands who holds Class A shares is generally not subject to Dutch income or corporate income tax (other than dividend withholding tax described above) on the income and capital gains derived from the Class A shares, provided that:

- such Non-Resident of the Netherlands does not derive profits from an enterprise or deemed enterprise, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder) which enterprise is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands or effectively managed in the Netherlands and to which enterprise or part of an enterprise, as the case may be, the Class A shares are attributable or deemed attributable;
- in the case of a Non-Resident of the Netherlands which is an entity, such entity does not have a Substantial Interest or deemed Substantial Interest in our company, or if such holder does have such Substantial Interest, it forms part of the assets of an enterprise or it is not held with the primary purpose or one of the primary purposes of avoiding the levy of Dutch income tax or Dutch dividend withholding tax with someone else;
- in the case of a Non-Resident of the Netherlands who is an individual, (a) such individual does not carry out any activities in the Netherlands with respect to the Class A shares that exceed ordinary active asset management (*normaal vermogensbeheer*), (b) the benefits derived from such Class A shares are not intended as remuneration for activities performed by a holder of Class A shares or by a person connected to such holder as meant by article 3.92b paragraph 5 of the Dutch Income Tax Act 2001 and (c) such individual does not derive income or capital gains from

the Class A shares that are taxable as benefits from “other miscellaneous activities” in the Netherlands (*resultaat uit overige werkzaamheden in Nederland*);

- in the case of a Non-Resident of the Netherlands which is an entity, it is neither entitled to a share in the profits of an enterprise effectively managed in the Netherlands, nor co-entitled to the net worth of such enterprise, other than by way of the holding of securities, to which enterprise the Class A shares or payments in respect of the Class A shares are attributable; and
- in the case of a Non-Resident of the Netherlands who is an individual, such individual is not entitled to a share in the profits of an enterprise effectively managed in the Netherlands, other than by way of the holding of securities or, through an employment contract, to which enterprise the Class A shares or payments in respect of Class A shares are attributable.

A U.S. holder that is entitled to the benefits of the Treaty and whose Class A shares are not attributable to a Dutch enterprise or deemed enterprise, will generally not be subject to Dutch taxes on any capital gain realized on the disposal of such Class A shares.

Gift, Estate or Inheritance Taxes

No Dutch gift, estate or inheritance taxes will arise on the transfer of Class A shares by way of a gift by, or on the death of, a holder of Class A shares who is neither resident nor deemed to be resident in the Netherlands, unless in the case of a gift of the Class A shares by an individual who at the date of the gift was neither resident nor deemed to be resident in the Netherlands (i) such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in the Netherlands; or (ii) the gift of the Class A shares is made under a condition precedent and the holder of these shares is resident, or is deemed to be resident, in the Netherlands at the time the condition is fulfilled.

For purposes of Dutch gift, estate and inheritance taxes, an individual who holds the Dutch nationality will be deemed to be resident in the Netherlands if he or she has been resident in the Netherlands at any time during the ten years preceding the date of the gift or his or her death. Additionally, for purposes of Dutch gift tax, an individual not holding the Dutch nationality will be deemed to be resident in the Netherlands if he or she has been resident in the Netherlands at any time during the twelve months preceding the date of the gift. Applicable tax treaties may override deemed residency.

Value-Added Tax

There is no Dutch value-added tax payable in respect of payments in consideration for the sale of the Class A shares (other than value added taxes on fees payable in respect of services not exempt from Dutch value added tax).

Other Taxes and Duties

There is no Dutch registration tax, capital tax, customs duty, stamp duty or any other similar documentary tax or duty other than court fees payable in the Netherlands by a holder of Class A shares in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of the Netherlands) of the Class A shares.

Residence

Other than as set forth above, a holder of Class A shares will not become or be deemed to become a resident of the Netherlands, nor will a holder of Class A shares otherwise become subject to taxation in the Netherlands, solely by reason of holding the Class A shares.

Taxation in the United States

The following summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our Class A shares is based upon current law and does not purport to be a comprehensive discussion of all the tax considerations that may be relevant to a decision to purchase our Class A shares. This summary is based on current provisions of the Internal Revenue Code, existing, final, temporary and proposed United States Treasury Regulations, administrative rulings and judicial decisions, in each case as available on the date of this Annual Report. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

This section summarizes the material U.S. federal income tax consequences to U.S. holders, as defined below, of Class A shares. This summary addresses only the U.S. federal income tax considerations for U.S. holders that hold the Class A shares as capital assets. This summary does not address all U.S. federal income tax matters that may be relevant to a particular U.S. holder, nor does it address any state, local or foreign tax matters or matters relating to any U.S. federal tax other than the income tax. **Each investor should consult its own professional tax advisor with respect to the tax consequences of the purchase, ownership and disposition of the Class A shares.** This summary does not address tax considerations applicable to a holder of Class A shares that may be subject to special tax rules including, without limitation, the following:

- certain financial institutions;
- insurance companies;
- dealers or traders in securities, currencies, or notional principal contracts;
- tax-exempt entities;
- regulated investment companies;
- persons that hold the Class A shares as part of a wash sale, hedge, straddle, conversion, constructive sale or similar transaction;
- persons that hold the Class A shares through partnerships or certain other pass-through entities;
- persons that own (or are deemed to own) 10% or more of our voting shares; and
- persons that have a “functional currency” other than the U.S. dollar.

Further, this summary does not address alternative minimum tax consequences or indirect effects on the holders of equity interests in entities that own our Class A shares. In addition, this discussion does not consider the U.S. tax consequences to non-U.S. holders of Class A shares.

For the purposes of this summary, a “U.S. holder” is a beneficial owner of Class A shares that is, for U.S. federal income tax purposes:

- an individual who is either a citizen or resident of the United States;
- a corporation, or other entity that is treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state of the United States or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over its administration and one or more “United States persons,” within the meaning of the Internal Revenue Code, have the authority to control all of the substantial decisions of such trust.

If a partnership holds Class A shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership.

We will not seek a ruling from the U.S. Internal Revenue Service (“IRS”) with regard to the U.S. federal income tax treatment of an investment in our Class A shares, and we cannot assure you that that the IRS will agree with the conclusions set forth below.

Distributions. Subject to the discussion under “*Passive Foreign Investment Company Considerations*” below, the gross amount of any distribution (including any amounts withheld in respect of Dutch withholding tax) actually or constructively received by a U.S. holder with respect to Class A shares will be taxable to the U.S. holder as a dividend to the extent paid out of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. Distributions in excess of our current and accumulated earnings and profits will be non-taxable to the U.S. holder to the extent of, and will be applied against and reduce, the U.S. holder’s adjusted tax basis in the Class A shares. Distributions in excess of our current and accumulated earnings and profits and such adjusted tax basis will generally be taxable to the U.S. holder as capital gain from the sale or exchange of property. However, since we do not calculate our earnings and profits under U.S. federal income tax principles, it is expected that any distribution will be reported as a dividend, even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. The amount of any distribution of property other than cash will be the fair market value of that property on the date of distribution. The U.S. holder will not be eligible for any dividends-received deduction in respect of the dividend otherwise allowable to corporations.

Under the Internal Revenue Code, qualified dividends received by certain non-corporate U.S. holders (*i.e.*, individuals and certain trusts and estates) currently are subject to a maximum income tax rate of 20%. This reduced income tax rate is applicable to dividends paid by “qualified foreign corporations” to such non-corporate U.S. holders that meet the applicable requirements, including a minimum holding period (generally, at least 61 days during the 121-day period beginning 60 days before the ex-dividend date). We believe that we are a qualified foreign corporation under the Internal Revenue Code. Accordingly, dividends paid by us to non-corporate U.S. holders with respect to Class A shares that meet the minimum holding period and other requirements are expected to be treated as “qualified dividend income.” However, dividends paid by us will not qualify for the 20% U.S. federal income tax rate cap if we are treated, for the tax year in which the dividends are paid or the preceding tax year, as a “passive foreign investment company” for U.S. federal income tax purposes, as discussed below. Dividends paid by us that are not treated as qualified dividends will be taxable at the normal (and currently higher) ordinary income tax rates, except to the extent that they are taxable otherwise if we are a passive foreign investment company as described below.

Dividends received by a U.S. holder with respect to Class A shares generally will be treated as foreign source income for the purposes of calculating that holder’s foreign tax credit limitation. Subject to applicable conditions and limitations, and subject to the discussion in the next two paragraphs, any Dutch income tax withheld on dividends may be deducted from taxable income or credited against a U.S. holder’s U.S. federal income tax liability. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us generally will constitute “passive category income” (but, in the case of some U.S. holders, may constitute “general category income”).

A “United States person,” within the meaning of the Internal Revenue Code, that is an individual, an estate or a nonexempt trust is generally subject to a 3.8% surtax on the lesser of (i) the United States person’s “net investment income” for the year and (ii) the excess of the United States person’s “modified adjusted gross income” for that year over a threshold (which, in the case of an individual, will be between \$125,000 and \$250,000, depending on the individual’s U.S. tax filing status). A U.S. holder’s net investment income generally will include, among other things, dividends on, and gains from

the sale or other taxable disposition of, our Class A shares, unless (with certain exceptions) those dividends or gains are derived in the ordinary course of a trade or business. Net investment income may be reduced by deductions properly allocable thereto; however, the U.S. foreign tax credit may not be available to reduce the surtax.

Upon making a distribution to shareholders, we may be permitted to retain a portion of the amounts withheld as Dutch dividend withholding tax. See “—Taxation in the Netherlands—Dividend Withholding Tax—General.” The amount of Dutch withholding tax that we may retain reduces the amount of dividend withholding tax that we are required to pay to the Dutch tax authorities but does not reduce the amount of tax we are required to withhold from dividends paid to U.S. holders. In these circumstances, it is likely that the portion of dividend withholding tax that we are not required to pay to the Dutch tax authorities with respect to dividends distributed to U.S. holders would not qualify as a creditable tax for U.S. foreign tax credit purposes.

Sale or other disposition of Class A shares. A U.S. holder will generally recognize gain or loss for U.S. federal income tax purposes upon the sale or exchange of Class A shares in an amount equal to the difference between the U.S. dollar value of the amount realized from such sale or exchange and the U.S. holder’s tax basis for those Class A shares. Subject to the discussion under “*Passive Foreign Investment Company Considerations*” below, this gain or loss will be capital gain or loss and will generally be treated as from sources within the United States. Capital gain or loss will be long-term capital gain or loss if the U.S. holder held the Class A shares for more than one year at the time of the sale or exchange; in general, long-term capital gains realized by non-corporate U.S. holders are eligible for reduced rates of tax. The deductibility of losses incurred upon the sale or other disposition of capital assets is subject to limitations.

Passive foreign investment company considerations. A corporation organized outside the United States generally will be classified as a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes in any taxable year in which, after applying the applicable look-through rules, either: (i) at least 75% of its gross income is passive income, or (ii) at least 50% of the average gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. In arriving at this calculation, a pro rata portion of the income and assets of each corporation in which we own, directly or indirectly, at least a 25% interest by value, must be taken into account. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. We believe that we were not a PFIC for the 2012 and 2013 taxable years. Based on estimates of our gross income and the average value of our gross assets, and on the nature of the active businesses conducted by our “25% or greater” owned subsidiaries, we do not expect to be a PFIC in the current taxable year and do not expect to become one in the foreseeable future. However, because our status for any taxable year will depend on the composition of our income and assets and the value of our assets for such year, and because this is a factual determination made annually after the end of each taxable year, there can be no assurance that we will not be considered a PFIC for the current taxable year or any future taxable year. In particular, the value of our assets may be determined in large part by reference to the market price of our Class A shares, which may fluctuate considerably. If we were a PFIC for any taxable year during which a U.S. holder held Class A shares, gain recognized by the U.S. holder on a sale or other disposition (including a pledge) of the Class A shares would be allocated ratably over the U.S. holder’s holding period for the Class A shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability for that taxable year. Similar rules would apply to the extent any distribution in respect of Class A shares exceeds 125% of the average of the annual distributions on Class A shares received by a U.S. holder during the preceding three years or the holder’s holding period, whichever is shorter. Elections

may be available that would result in alternative treatments (such as a mark-to-market treatment) of the Class A shares. In addition, if we are considered a PFIC for the current taxable year or any future taxable year, U.S. holders will be required to file annual information returns for such year, whether or not the U.S. holder disposed of any Class A shares or received any distributions in respect of Class A shares during such year.

Backup Withholding and Information Reporting. U.S. holders generally will be subject to information reporting requirements with respect to dividends on Class A shares and on the proceeds from the sale, exchange or disposition of Class A shares that are paid within the United States or through U.S.-related financial intermediaries, unless the U.S. holder is an “exempt recipient.” In addition, certain U.S. holders who are individuals may be required to report to the IRS information relating to their ownership of the Class A shares, subject to certain exceptions (including an exception for shares held in an account maintained by a U.S. financial institution). U.S. holders may be subject to backup withholding (currently at 28%) on dividends and on the proceeds from the sale, exchange or disposition of Class A shares that are paid within the United States or through U.S.-related financial intermediaries, unless the U.S. holder provides a taxpayer identification number and a duly executed IRS Form W-9 or otherwise establishes an exemption. Backup withholding is not an additional tax and the amount of any backup withholding will be allowed as a credit against a U.S. holder’s U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

Documents on Display.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at Judiciary Plaza, 100 F Street, N.E., Washington, D.C. 20549, and at the regional office of the Securities and Exchange Commission located at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Item 11. Quantitative and Qualitative Disclosures About Market Risk.

See “Operating and Financial Review and Prospects—Quantitative and Qualitative Disclosures about Market Risk.”

PART II.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

Use of Proceeds

The following “Use of Proceeds” information relates to our initial public offering, at \$25.00 per share, of 57,391,493 Class A shares, of which 16,940,000 shares were offered by our company and 40,451,493 shares were offered by our selling shareholders (in each case, including the over-allotment option that was exercised by the underwriters). The aggregate offering price was \$1,434,787,325, before underwriting discounts and commissions and offering expenses. The registration statement on Form F-1 (File No. 333-173766) for our initial public offering was declared effective by the SEC on May 23, 2011. On May 24, 2011, we completed our initial public offering after all of the registered securities were sold. Morgan Stanley & Co. Incorporated, Deutsche Bank Securities Inc., Goldman, Sachs & Co., Piper Jaffray & Co. and Pacific Crest Securities LLC were the underwriters for our initial public offering.

We received proceeds of \$401.4 million from our initial public offering, net of underwriting discounts and commissions and offering expenses incurred on the company’s account. To date, we have used all of the net proceeds of the offering, including \$41.5 million to invest into data centers outside of Russia and to otherwise fund international expansion, \$38.4 million to purchase SPB Software in November 2011 (including contingent payments), \$80.0 million to purchase KinoPoisk LLC in October 2013, and \$241.5 to in part fund our open market share repurchase program.

Item 15. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The company’s management, with the participation of the company’s chief executive officer and chief financial officer, evaluated the effectiveness of the company’s disclosure controls and procedures as of December 31, 2013. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the company’s disclosure controls and procedures as of December 31, 2013, the company’s chief executive officer and chief financial officer concluded that, as of such date, the company’s disclosure controls and procedures were effective.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate “internal control over financial reporting,” as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. This rule defines internal control over financial reporting as a process designed by, or under the supervision of, a company’s chief executive officer and chief financial officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the

maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Management assessed the design and operating effectiveness of our internal control over financial reporting as of December 31, 2013. This assessment was performed under the direction and supervision of our chief executive officer and chief financial officer, and based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, we concluded that as of December 31, 2013, our internal control over financial reporting was effective.

No change in the company's internal control over financial reporting occurred during the fiscal year ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by ZAO Deloitte & Touche CIS, our independent registered public accounting firm. Their report may be found below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Yandex N.V.:

We have audited the internal control over financial reporting of Yandex N.V. and subsidiaries, (together “the Company”) as December 31, 2013, based on criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated April 4, 2014 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the translation of Russian ruble amounts into U.S. dollar amounts presented solely for the convenience of readers in the United States of America.

/s/ ZAO DELOITTE & TOUCHE CIS
Moscow, Russia
April 4, 2014

Item 16A. Audit Committee Financial Expert.

Mr. Ryan qualifies as an “audit committee financial expert,” as defined in Item 16A of Form 20-F and as determined by our board of directors

Item 16B. Code of Ethics.

We have adopted a written code of ethics applicable to directors, members of senior management and employees of the company and any of the company’s direct and indirect subsidiaries. Our code of ethics is posted on our company website at:

http://files.shareholder.com/downloads/YNDX/2922636862x0x555143/d62ce4dc-15b3-46b5-8083-caf95620de2f/Code_of_Business_Ethics_and_Conduct.pdf.

Any amendments to our code of ethics will be disclosed on our website within five business days of the occurrence.

Item 16C. Principal Accountant Fees and Services.

The following table summarizes the fees of ZAO Deloitte & Touche CIS, our independent registered public accounting firm, or its affiliates billed to us for each of the last two fiscal years.

	<u>2012</u>	<u>2013</u>
	<u>(RUR in million)</u>	
Audit Fees(1)	22.3	27.1
Audit Related Fees(2)	6.0	7.8
Tax Fees(3)	0.2	0.9
All Other Fees	<u>—</u>	<u>—</u>
Total Fees	<u>28.5</u>	<u>35.8</u>

- (1) Audit fees for 2012 and 2013 were for professional services provided for the review of interim financial statements and the audit of our consolidated annual financial statements included in our Annual Reports on Form 20-F or services normally provided in connection with statutory and regulatory filings or engagements for those fiscal years.
- (2) Audit-related fees consist of fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and which are not reported under “Audit Fees”.
- (3) Tax fees consist of fees for tax compliance and tax advice services. The tax advice services relate to tax advice on our revised employee incentive plan.

Pre-Approval Policies for Non-Audit Services

In 2011, we established a policy pursuant to which we will not engage our auditors to perform any non-audit services unless the audit committee pre-approves the service. The audit committee pre-approved 100% of the non-audit services performed for us by Deloitte & Touche during 2013.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**ISSUER PURCHASES OF EQUITY SECURITIES**

<u>Period</u>	<u>(a) Total Number of Shares Purchased(1)</u>	<u>(b) Average Price Paid per Shares(2)</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(3)</u>
January 1 - 31, 2013	—	—	—	—
February 1 - 28, 2013	—	—	—	—
March 1 - 31, 2013	520,000	\$22.7492	520,000	11,480,000
April 1 - 30, 2013	1,668,049	\$21.8972	1,668,049	9,811,951
May 1 - 31, 2013	799,170	\$26.9168	799,170	9,012,781
June 1 - 30, 2013	761,840	\$26.6090	761,840	8,250,941
July 1 - 31, 2013	481,000	\$30.0237	481,000	7,769,941
August 1 - 31, 2013	940,100	\$32.9218	940,100	6,829,841
September 1 - 30, 2013	820,000	\$35.4432	820,000	6,009,841
October 1 - 31, 2013	983,522	\$38.3779	983,522	5,026,319
November 1 - 30, 2013	840,000	\$37.8657	840,000	4,186,319
December 1 - 31, 2013	860,000	\$40.2825	860,000	6,326,319
Total	<u>8,673,681</u>	<u>\$30.9890</u>	<u>8,673,681</u>	<u>6,326,319</u>

(1) As of trade date

(2) Weighted average per month

(3) On March 11, 2013, we announced that our board of directors had authorized a program to repurchase up to 12 million of our Class A shares from time to time in open market transactions. On December 10, 2013, we announced that our board of directors had authorized an increase in our existing 12 million share repurchase program by 3 million shares, to a total of up to 15 million shares. The amended repurchase program may be in effect through November 20, 2014.

Item 16F. Changes in Registrant's Certifying Accountant

None.

Item 16G. Corporate Governance.

The Sarbanes Oxley Act of 2002, as well as related rules subsequently implemented by the SEC, requires foreign private issuers, including our company, to comply with various corporate governance practices. In addition, NASDAQ rules provide that foreign private issuers may follow home country practice in lieu of the NASDAQ corporate governance standards, subject to certain exceptions and except to the extent that such exemptions would be contrary to U.S. federal securities laws. The home country practices followed by our company in lieu of NASDAQ rules are described below:

- We do not follow NASDAQ's quorum requirements applicable to meetings of shareholders. In accordance with Dutch law and generally accepted business practice, our articles of association do not provide quorum requirements generally applicable to general meetings of shareholders.
- We do not follow NASDAQ's requirements regarding the provision of proxy statements for general meetings of shareholders. Dutch law does not have a regulatory regime for the solicitation of proxies and the solicitation of proxies is not a generally accepted business practice

in the Netherlands. We do intend to provide shareholders with an agenda and other relevant documents for the general meeting of shareholders.

We intend to take all actions necessary for us to maintain compliance as a foreign private issuer under the applicable corporate governance requirements of the Sarbanes Oxley Act, the rules adopted by the SEC and NASDAQ's listing standards. As a Dutch company listed on a government recognized stock exchange, we are required to apply the provisions of the Dutch Corporate Governance Code as released in 2003 and amended in 2009, or explain any deviation from the provisions of such code in our Dutch Annual Report required by Dutch law.

PART III.

Item 17. Financial Statements

See “Item 18. Financial Statements.”

Item 18. Financial Statements.

See the financial statements beginning on page F-1.

Item 19. Exhibits.

Exhibit Number	Description of Document
1.2	Amended Articles of Association of the Company, amended as of May 22, 2013 (incorporated by reference to Exhibit 99.1 to our form 6-K filed with the Securities and Exchange Commission on December 10, 2013)
4.1	Indenture dated as of December 17, 2013 between the Company, and The Bank of New York Mellon, as trustee.
7.1	Amended and Restated Shareholders Agreement (incorporated by reference to Exhibit 10.1 from our Registration Statement on Form F-1 (file no. 333-173766) filed with the Securities and Exchange Commission on April 28, 2011)
7.2	Amended and Restated Registration Rights Agreement (incorporated by reference to Exhibit 10.2 from our Registration Statement on Form F-1 (file no. 333-173766) filed with the Securities and Exchange Commission on April 28, 2011)
8.1	Principal Subsidiaries
12.1	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification by Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of ZAO Deloitte & Touche CIS, Independent Registered Public Accounting Firm
101	The following financial information formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2012 and 2013, (ii) Consolidated Statements of Income for the Years Ended December 31, 2011, 2012 and 2013, (iii) Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2011, 2012 and 2013, (iv) Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2012 and 2013, (v) Consolidated Statements of Shareholders’ Equity for the Years Ended December 31, 2011, 2012 and 2013, and (vi) Notes to Consolidated Financial Statements

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

YANDEX N.V.

By: /s/ ARKADY VOLOZH

Name: Arkady Volozh

Title: *Chief Executive Officer*

Date: April 4, 2014

YANDEX N.V.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Yandex N.V.:

We have audited the accompanying consolidated balance sheets of Yandex N.V. and subsidiaries (together the “Company”) as of December 31, 2012 and 2013, and the related consolidated statements of income, comprehensive income, cash flows and shareholders’ equity for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Yandex N.V. and subsidiaries as of December 31, 2012 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2013 based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 4, 2014, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Our audits also comprehended the translation of Russian ruble amounts into U.S. dollar amounts and, in our opinion, such translations have been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers in the United States of America.

/s/ ZAO DELOITTE & TOUCHE CIS

Moscow, Russia
April 4, 2014

YANDEX N.V.
CONSOLIDATED BALANCE SHEETS

(In millions of Russian rubles (“RUR”) and U.S. dollars (“\$”), except share and per share data)

	Notes	As of December 31,		
		2012 RUR	2013 RUR	2013 \$
ASSETS				
Current assets:				
Cash and cash equivalents	5	7,425	33,394	1,020.3
Marketable securities	5	76	87	2.7
Term deposits		4,629	—	—
Accounts receivable, net	5	1,767	2,785	85.1
Prepaid expenses		597	689	21.0
Assets held for sale	4	2,024	—	—
Deferred tax assets	10	456	596	18.2
Other current assets	5	1,217	1,332	40.7
Total current assets		18,191	38,883	1,188.0
Property and equipment, net	8	8,095	9,729	297.3
Intangible assets, net	9	323	664	20.2
Goodwill	9	750	2,915	89.1
Long-term prepaid expenses		695	1,042	31.8
Restricted cash	5	214	104	3.2
Term deposits		10,330	15,180	463.8
Investments in non-marketable equity securities	5	500	1,250	38.2
Investments in debt securities	5	4,810	2	0.1
Deferred tax assets	10	35	3	0.1
Other non-current assets	5	342	1,539	47.0
TOTAL ASSETS		44,285	71,311	2,178.8
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	5	2,513	3,710	113.3
Taxes payable		1,455	1,688	51.6
Deferred revenue		1,092	1,501	45.9
Liabilities related to assets held for sale	4	1,619	—	—
Deferred tax liabilities	10	3	16	0.5
Total current liabilities		6,682	6,915	211.3
Convertible debt	11	—	16,429	502.0
Deferred tax liabilities	10	448	1,245	38.0
Other accrued liabilities		108	125	3.8
Total liabilities		7,238	24,714	755.1
Commitments and contingencies				
Shareholders' equity:				
Priority share: €1 par value; 1 share authorized, issued and outstanding	13	—	—	—
Preference shares: €0.01 par value; 2,000,000,001 shares authorized, nil shares issued and outstanding	13	—	—	—
Ordinary shares: par value (Class A €0.01, Class B €0.10 and Class C €0.09); shares authorized (Class A: 2,000,000,000 and 2,000,000,000, Class B: 159,494,722 and 102,115,140, and Class C: 159,494,722 and 102,115,140); shares issued (Class A: 202,318,864 and 256,998,306, Class B: 125,441,218 and 72,923,447, and Class C: 27,972,630 and 23,110,819, respectively); shares outstanding (Class A: 202,318,864 and 250,732,061, Class B: 125,441,218 and 72,923,447, and Class C: nil)	13	445	242	7.4
Treasury shares at cost (Class A: nil and 6,266,245)	13	—	(6,886)	(210.4)
Additional paid-in capital		13,617	15,701	479.7
Accumulated other comprehensive income	2, 5	961	2,042	62.4
Retained earnings		22,024	35,498	1,084.6
Total shareholders' equity		37,047	46,597	1,423.7
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		44,285	71,311	2,178.8

The accompanying notes are an integral part of the consolidated financial statements.

YANDEX N.V.
CONSOLIDATED STATEMENTS OF INCOME

(In millions of Russian rubles and U.S. dollars, except share and per share data)

	Notes	Year ended December 31,			
		2011	2012	2013	2013
		RUR	RUR	RUR	\$
Revenues	15	20,033	28,767	39,502	1,206.9
Operating costs and expenses:					
Cost of revenues(1)		4,707	7,188	10,606	324.1
Product development(1)		3,124	4,274	5,827	178.0
Sales, general and administrative(1) . . .		3,294	4,900	6,537	199.7
Depreciation and amortization		1,874	2,951	3,695	112.9
Total operating costs and expenses . .		<u>12,999</u>	<u>19,313</u>	<u>26,665</u>	<u>814.7</u>
Income from operations		7,034	9,454	12,837	392.2
Interest income, net		222	1,002	1,717	52.5
Other income, net	4	62	118	2,159	65.9
Net income before income taxes		7,318	10,574	16,713	510.6
Provision for income taxes	10	1,545	2,351	3,239	98.9
Net income		<u>5,773</u>	<u>8,223</u>	<u>13,474</u>	<u>411.7</u>
Net income per Class A and Class B share:					
Basic	3	<u>18.30</u>	<u>25.21</u>	<u>41.25</u>	<u>1.26</u>
Diluted	3	<u>17.59</u>	<u>24.50</u>	<u>40.27</u>	<u>1.23</u>
Weighted average number of Class A and Class B shares outstanding					
Basic	3	315,541,639	326,210,948	326,657,778	326,657,778
Diluted	3	328,155,087	335,690,596	334,571,212	334,571,212

(1) These balances exclude depreciation and amortization expenses, which are presented separately, and include share-based compensation expenses of:

Cost of revenues	26	33	61	1.9
Product development	153	221	435	13.3
Sales, general and administrative	150	122	258	7.9

The accompanying notes are an integral part of the consolidated financial statements.

YANDEX N.V.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions of Russian rubles and U.S. dollars)

	Notes	Year ended December 31,			
		2011	2012	2013	2013
		RUR	RUR	RUR	\$
Net income		5,773	8,223	13,474	411.7
Foreign currency translation adjustment:					
Foreign currency gains / (losses), net of tax, nil		1,680	(867)	1,027	31.4
Reclassification translation adjustment, net of tax, nil		—	—	54	1.6
Foreign currency translation adjustment, net of tax, nil	5	1,680	(867)	1,081	33.0
Total other comprehensive income / (loss)		1,680	(867)	1,081	33.0
Comprehensive income		7,453	7,356	14,555	444.7

The accompanying notes are an integral part of the consolidated financial statements.

YANDEX N.V.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of Russian rubles and U.S. dollars)

	Notes	Years ended December 31,			
		2011 RUR	2012 RUR	2013 RUR	2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		5,773	8,223	13,474	411.7
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization of property and equipment		1,826	2,812	3,584	109.5
Amortization of acquisition-related intangible assets		48	139	111	3.4
Amortization of debt discount and issuance costs		—	—	24	0.7
Share-based compensation expense		286	376	754	23.1
Deferred income taxes		(169)	72	(197)	(6.0)
Foreign exchange (gains)/losses		(101)	57	(139)	(4.2)
Gain from sale of equity securities/subsidiaries		—	(234)	(2,137)	(65.3)
Other		40	51	(28)	(0.9)
Changes in operating assets and liabilities excluding the effect of acquisitions:					
Accounts receivable, net		(436)	(526)	(966)	(29.5)
Prepaid expenses and other assets		(974)	(923)	(1,301)	(39.8)
Accounts payable and accrued liabilities		1,044	1,277	1,195	36.5
Deferred revenue		347	195	401	12.3
Assets held for sale		(530)	(411)	(156)	(4.8)
Liabilities related to assets held for sale		352	421	86	2.6
Net cash provided by operating activities		<u>7,506</u>	<u>11,529</u>	<u>14,705</u>	<u>449.3</u>
CASH FLOWS USED IN INVESTING ACTIVITIES:					
Purchase of property and equipment		(5,530)	(3,984)	(4,936)	(150.8)
Acquisitions of businesses, net of cash acquired	4	(735)	—	(2,438)	(74.5)
Investments in non-marketable equity securities	4	(478)	(47)	(14)	(0.5)
Proceeds from sale of equity securities	4	—	174	2,023	61.8
Investments in debt securities		(6,548)	—	—	—
Proceeds from maturity of debt securities		—	1,521	4,969	151.8
Investments in term deposits		(13,028)	(16,585)	(11,450)	(349.8)
Maturities of term deposits		9,200	8,512	11,290	345.0
Loans granted		—	—	(279)	(8.5)
Escrow cash deposit	4	(433)	219	125	3.8
Net cash used in investing activities		<u>(17,552)</u>	<u>(10,190)</u>	<u>(710)</u>	<u>(21.7)</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:					
Proceeds from exercise of share options		231	361	439	13.4
Repurchase of share options		(8)	—	—	—
Proceeds from issuance of convertible debt	11	—	—	19,719	602.5
Payment of debt discount and issuance costs	11	—	—	(179)	(5.4)
Proceeds from issuance of ordinary shares		11,403	—	—	—
Ordinary shares issuance costs		(28)	—	—	—
Repurchases of ordinary shares		—	—	(8,518)	(260.3)
Net cash provided by financing activities		<u>11,598</u>	<u>361</u>	<u>11,461</u>	<u>350.2</u>
Effect of exchange rate changes on cash and cash equivalents		<u>1,353</u>	<u>(205)</u>	<u>513</u>	<u>15.6</u>
Net change in cash and cash equivalents		<u>2,905</u>	<u>1,495</u>	<u>25,969</u>	<u>793.4</u>
Cash and cash equivalents at beginning of period		<u>3,025</u>	<u>5,930</u>	<u>7,425</u>	<u>226.9</u>
Cash and cash equivalents at end of period		<u>5,930</u>	<u>7,425</u>	<u>33,394</u>	<u>1,020.3</u>
Supplemental disclosure of cash flow information:					
Cash paid for income taxes		1,669	1,991	2,944	90.0
Cash paid for acquisitions	4	745	—	2,481	75.8
Non-cash investing activities:					
Change in accounts payable for property and equipment		183	16	193	5.9
Non-cash consideration from sale of equity securities	4	—	144	—	—
Non-cash consideration for purchase of equity securities	4	—	—	112	3.4

The accompanying notes are an integral part of the consolidated financial statements.

YANDEX N.V.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions of Russian rubles and U.S. dollars, except share and per share data)

	Priority Share Issued and Outstanding		Ordinary Shares Issued and Outstanding		Treasury shares at cost	Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Total
	Shares	Amount	Shares	Amount					
		RUR		RUR	RUR	RUR	RUR	RUR	RUR
Balance as of January 1, 2011	1	—	303,815,518	972	—	467	148	8,028	9,615
Share-based compensation expense	—	—	—	—	—	286	—	—	286
Exercise of share options	—	—	3,083,212	1	—	230	—	—	231
Repurchase of share options	—	—	—	—	—	(8)	—	—	(8)
Class B shares conversion	—	—	—	(385)	—	385	—	—	—
Issuance of shares at IPO	—	—	16,940,000	7	—	11,396	—	—	11,403
Primary offering expenses	—	—	—	—	—	(27)	—	—	(27)
Foreign currency translation adjustment	—	—	—	—	—	—	1,680	—	1,680
Net income	—	—	—	—	—	—	—	5,773	5,773
Balance as of December 31, 2011	1	—	323,838,730	595	—	12,729	1,828	13,801	28,953
Share-based compensation expense	—	—	—	—	—	376	—	—	376
Share-based compensation tax benefits	—	—	—	—	—	2	—	—	2
Exercise of share options	—	—	3,921,352	1	—	359	—	—	360
Class B shares conversion	—	—	—	(151)	—	151	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	(867)	—	(867)
Net income	—	—	—	—	—	—	—	8,223	8,223
Balance as of December 31, 2012	1	—	327,760,082	445	—	13,617	961	22,024	37,047
Share-based compensation expense	—	—	—	—	—	754	—	—	754
Exercise of share options (Note 14)	—	—	4,494,804	1	—	439	—	—	440
Class B shares conversion	—	—	—	(204)	—	204	—	—	—
Repurchases of shares (Note 13)	—	—	(8,599,377)	—	(8,518)	—	—	—	(8,518)
Reissue of shares for options exercised	—	—	—	—	1,632	(1,632)	—	—	—
Issuance of convertible debt	—	—	—	—	—	2,319	—	—	2,319
Foreign currency translation adjustment, including reclassification	—	—	—	—	—	—	1,081	—	1,081
Net income	—	—	—	—	—	—	—	13,474	13,474
Balance as of December 31, 2013	1	—	323,655,509	242	(6,886)	15,701	2,042	35,498	46,597
Balance as of December 31, 2013, \$	—	—	—	7.4	(210.4)	479.7	62.4	1,084.6	1,423.7

The accompanying notes are an integral part of the consolidated financial statements.

YANDEX N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013
(in millions of Russian rubles and U.S. dollars, except share and per share data)

1. ORGANIZATION AND DESCRIPTION OF THE BUSINESS

Yandex N.V., together with its consolidated subsidiaries (together, the “Company”), is an internet and technology company and operates Russia’s largest internet search engine. The Company generates substantially all of its revenues from online advertising. Until July 2013, it also generated revenues from online payment commissions.

Yandex N.V. was incorporated under the laws of the Netherlands in June 2004 and is the holding company of Yandex LLC, incorporated in the Russian Federation in October 2000, and other subsidiaries.

The Company has a single reportable segment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The accompanying consolidated financial statements differ from the financial statements prepared by the group’s individual legal entities for statutory purposes in that they reflect certain adjustments, not recorded in the accounting records of the group’s individual legal entities, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP. Distributable retained earnings of the Company are based on amounts reported in statutory accounts of individual entities and may significantly differ from amounts calculated on the basis of U.S. GAAP.

Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and the entities it controls. All inter-company transactions and balances within the Company have been eliminated upon consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. The most significant estimates relate to fair values of share-based awards, financial instruments, intangible assets and goodwill, useful lives of property and equipment and intangible assets, income taxes, contingencies, accounts receivable allowance, and impairment assessments. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

YANDEX N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013
(in millions of Russian rubles and U.S. dollars, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation

The functional currency of the Company's parent company is the U.S. dollar. The functional currency of the Company's operating subsidiaries domiciled in Russia is the Russian ruble. The Company has elected the Russian ruble as its reporting currency. All balance sheet items are translated into Russian rubles based on the exchange rate on the balance sheet date and revenue and expenses are translated at weighted average rates of exchange. Translation gains and losses are recorded as currency translation adjustments in other comprehensive income. Foreign exchange transaction gains and losses are included in other income, net in the accompanying consolidated statements of income.

Certain Risks and Concentrations

The Company's revenues are principally derived from online advertising, the market for which is highly competitive and rapidly changing. Significant changes in this industry or changes in users' internet preferences or advertiser spending behavior could adversely affect the Company's financial position and results of operations.

In addition, the Company's principal business activities are within the Russian Federation. Laws and regulations affecting businesses operating in the Russian Federation are subject to frequent changes, which could impact the Company's financial position and results of operations.

The majority of the Company's revenue is collected on a prepaid basis; credit terms are extended only to certain sales agencies and to larger loyal clients. Accounts receivable are typically unsecured and are derived from revenues earned from customers located in the Russian Federation.

No individual customer or groups of affiliated customers represented more than 10% of the Company's revenues or accounts receivable in 2011, 2012, and 2013.

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist, in addition to accounts receivable, primarily of cash, cash equivalents and term deposits. The primary focus of the Company's investment strategy is to preserve capital and meet liquidity requirements.

The Company's investment policy addresses the level of credit exposure by working with different geographically diversified banking institutions, subject to their conformity to an established minimum credit rating for banking relationships. To manage the risk exposure, the Company maintains its portfolio of investments in a variety of highly-rated debt instruments issued by financial institutions, term deposits and money market funds.

Revenue Recognition

The Company recognizes revenues when the services have been rendered, the price is fixed or determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured. Revenue is recorded net of value added tax ("VAT").

YANDEX N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013
(in millions of Russian rubles and U.S. dollars, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's principal revenue streams and their respective accounting treatments are discussed below:

Advertising Revenues

The Company's advertising revenue is generated from serving both text-based and display ads on its own websites and on Yandex ad network members' websites. Advance payments received by the Company from advertisers are recorded as deferred revenue on the Company's consolidated balance sheets and recognized as advertising revenues in the period services are provided.

Advertising sales commissions that are paid to agencies are accounted for as an offset to revenues and amounted to RUR 1,916, RUR 2,631 and RUR 3,171 (\$96.9) in 2011, 2012 and 2013, respectively.

In accordance with U.S. GAAP, the Company reports advertising revenue gross of fees paid to Yandex ad network members, because the Company is the primary obligor to its advertisers and retains collection risk. The Company records fees paid to ad network members as traffic acquisition costs, a component of cost of revenues.

The Company recognizes advertising revenue based on the following principles:

Text-Based Advertising

The Company's Yandex.Direct service offers advertisers the ability to place text-based ads on Yandex and Yandex ad network member websites targeted to users' search queries or website content. The Company recognizes as revenues fees charged to advertisers as "click-throughs" occur. A "click-through" occurs each time a user clicks on one of the text-based ads that are displayed next to the search results or on the content pages of Yandex or Yandex ad network members' websites.

Display Advertising

The Company recognizes revenue from display advertising on its websites and on Yandex ad network member websites as "impressions" are delivered. An "impression" is delivered when an advertisement appears in pages viewed by users.

Online Payment Commissions

The Company recognized revenue from online payment commissions until the deconsolidation of Yandex.Money on July 4, 2013. Yandex.Money earned commissions from processing electronic payment transactions for its customers. Commission revenues resulting from processing an electronic payment transaction were recognized once the transaction was complete.

Cost of Revenues

Cost of revenues primarily consists of traffic acquisition costs. Traffic acquisition costs consist of amounts ultimately paid to Yandex ad network members and to certain other partners ("distribution partners") who distribute the Company's toolbar and other products. These amounts are primarily

YANDEX N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013

(in millions of Russian rubles and U.S. dollars, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

based on revenue-sharing arrangements with ad network members and distribution partners. Traffic acquisition costs are expensed as incurred. Cost of revenues also includes expenses associated with the operation of the Company's data centers, including personnel costs, rent, utilities and bandwidth costs; as well as content acquisition costs.

Product Development Expenses

Product development expenses consist primarily of personnel costs incurred for the development of, enhancement to and maintenance of the Company's search engine and other Company websites and technology platforms. Product development expenses also include rent and utilities attributable to office space occupied by development staff.

Advertising and Promotional Expenses

The Company expenses advertising and promotional costs in the period in which they are incurred. For the years ended December 31, 2011, 2012 and 2013, promotional and advertising expenses totaled approximately RUR 364, RUR 900 and RUR 1,708 (\$52.2), respectively.

Government Funds Contributions

The Company makes contributions to governmental pension, medical and social funds on behalf of its employees. In Russia, the amount was calculated using a flat rate (34% in 2011) of the annual compensation of each employee, not to exceed certain pre-determined amounts of compensation and a regressive rate (from 30% to 10% in 2012 and 2013) based on the annual compensation of each employee. These contributions are expensed as incurred.

Share-Based Compensation

The Company grants share options, share appreciation rights ("SARs") and restricted share units ("RSUs") (together, "Share-Based Awards") to its employees and consultants.

The Company estimates the fair value of share options and SARs that are expected to vest using the Black-Scholes-Merton ("BSM") pricing model and recognizes the fair value on a straight-line basis over the requisite servicing period. The assumptions used in calculating the fair value of Share-Based Awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the Company's share-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected pre-vesting award forfeiture rate, as well as the probability that performance conditions that affect the vesting of certain awards will be achieved, and only recognizes expense for those shares expected to vest. The Company estimates the forfeiture rate based on historical experience of the Company's Share-Based Awards that are granted and cancelled before vesting. If the Company's actual forfeiture rate is materially different from the Company's original estimate, the share-based compensation expense could be significantly different from what the Company has recorded in the current period. Changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation expense, as the effect of adjusting

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the forfeiture rate for all current and previously recognized expense for unvested awards is recognized in the period the forfeiture estimate is changed.

The Company measures the fair value of RSUs on the fair market values of the underlying share on the dates of grant.

Cancellation of an award accompanied by the concurrent grant of a replacement award is accounted for as a modification of the terms of the cancelled award (“modification awards”). The compensation costs associated with the modification awards are recognized if either the original vesting condition or the new vesting condition has been achieved. Such compensation costs cannot be less than the grant-date fair value of the original award. The incremental compensation cost is measured as the excess of the fair value of the replacement award over the fair value of the cancelled award at the cancellation date. Therefore, in relation to the modification awards, the Company recognizes share-based compensation over the vesting periods of the new awards, which comprises, (1) the amortization of the incremental portion of share-based compensation over the remaining vesting term and (2) any unrecognized compensation cost of the original award, using either the original term or the new term, whichever is higher for each reporting period.

The Company uses the “with and without” approach in determining the order in which tax attributes are utilized. As a result, the Company only recognizes a tax benefit from Share-Based Awards in additional paid-in capital, if an incremental tax benefit is realized after all other tax attributes currently available to the Company have been utilized.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carry-forwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on the classification of the underlying balance sheet account or, if unrelated to a balance sheet account, the timing of expected realization. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Uncertain income tax positions are recognized in the financial statements if it is more likely than not that they will be sustained on audit by the tax authorities, including resolution of related appeals or litigation processes, if any. These tax benefits are measured as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

The Company recognizes interest and penalties related to unrecognized income tax benefits within the income tax expense line in the accompanying consolidated statement of operations. Accrued

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

interest and penalties are included within the other accrued liabilities line together with the unrecognized income tax benefits.

Comprehensive Income

Comprehensive income is defined as the change in equity during a period from non-owner sources. U.S. GAAP requires the reporting of comprehensive income in addition to net income. Comprehensive income of the Company includes net income and foreign currency translation adjustments. For the years ended December 31, 2011, 2012 and 2013 total comprehensive income included, in addition to net income, the effect of translating the financial statements of the Company's legal entities domiciled outside of Russia into Russian rubles.

Accumulated other comprehensive income of RUR 961 as of December 31, 2012 and RUR 2,042 (\$62.4) as of December 31, 2013 solely comprises cumulative foreign currency translation adjustments.

Fair Value of Financial Instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, term deposits, restricted cash, investments in debt and equity securities, accounts receivable, loans to employees, accounts payable, accrued liabilities and convertible debt. The carrying amounts of cash and cash equivalents, term deposits, restricted cash, the host contract of the capital-protected index-linked note, accounts receivable, accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of those instruments. Accordingly, no credit valuation adjustment has been recorded in the consolidated financial statements for any period presented.

Term Deposits

Bank deposits are classified depending on their original maturity as (i) cash and cash equivalents if the original maturities are three months or less; (ii) current term deposits if the original maturities are more than three months, but no more than one year; and (iii) non-current term deposits if the original maturities are more than one year.

Investments in Debt Securities

As the Company has both the positive intent and the ability to hold debt securities to maturity, the Company's investments in debt securities are classified as held to maturity and are measured and presented at amortized cost, except for the capital protected index-linked note for which the host-contract is recorded at amortized cost and the embedded derivative component is recorded at fair value. The interest related to investments in debt securities is reported as a part of interest income in the consolidated statements of income.

The Company evaluates the investments periodically for possible other-than-temporary impairment. A decline of fair value below amortized costs of debt securities is considered an other-than-temporary impairment if the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of the entire amortized cost basis. In

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

those instances, an impairment charge equal to the difference between the fair value and the amortized cost basis is recognized in earnings. Regardless of the Company's intent or requirement to sell a debt security, an impairment is considered other-than-temporary if the Company does not expect to recover the entire amortized cost basis; in those instances, a credit loss equal to the difference between the present value of the cash flows expected to be collected based on credit risk and the amortized cost basis of the debt security is recognized in earnings.

Investments in Equity Securities

Investments in the stock of entities in which the Company can exercise significant influence but does not own a majority equity interest or otherwise control are accounted for using the equity method. The Company records its share of the results of these companies within the other income, net, line on the consolidated statements of income. Investments in the non-marketable stock of entities in which the Company can exercise little or no influence are accounted for using the cost method. Both equity and cost method accounted investments are included in investments in non-marketable equity securities on the consolidated balance sheets.

The Company's marketable equity securities are classified as trading and are reported at fair value, with change in value recognized in net income.

The Company reviews its investments for other-than-temporary impairment whenever events or changes in business circumstances indicate that the carrying value of the investment may not be fully recoverable. Investments identified as having an indication of impairment are subject to further analysis to determine if the impairment is other-than-temporary and this analysis requires estimating the fair value of the investment. The determination of fair value of the investment involves considering factors such as current economic and market conditions, the operating performance of the companies including current earnings trends and forecasted cash flows, and other company and industry specific information.

Accounts Receivable, Net

Accounts receivable are stated at their net realizable value. The Company provides an allowance for doubtful accounts based on management's periodic review for recoverability of accounts receivable from customers and other receivables. The Company evaluates the collectability of its receivables based upon various factors, including the financial condition and payment history of major customers, an overall review of collections experience of other accounts and economic factors or events expected to affect the Company's future collections.

Property and Equipment

Property and equipment are recorded at cost and depreciated over their useful lives. All capital expenditures incurred before property and equipment are ready for their intended use are capitalized as assets not yet in use.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation and amortization is computed under the straight-line method using estimated useful lives as follows:

	Estimated useful lives
Servers and network equipment	3 years
Infrastructure systems	3 - 10 years
Office furniture and equipment	3 years
Buildings	10 - 20 years
Leasehold improvements	the shorter of 5 years or the remaining period of the lease term
Other equipment	3 - 5 years
Purchased technologies and licenses .	the shorter of 5 years or the underlying license terms with a weighted-average life of 4.1 years

Land is not depreciated.

Depreciation of assets included in assets not yet in use commences when they are ready for the intended use.

Goodwill and Other Acquired Intangible Assets

Goodwill represents the excess of purchase consideration over the Company's share of fair value of the net assets of acquired businesses. Goodwill is not subject to amortization but is tested for impairment at least annually.

Intangible assets with definite lives are amortized over their estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate an asset's carrying value may not be recoverable. The Company currently amortizes acquired intangible assets with definite lives using the straight-line method and estimated useful lives of assets ranging from 0.9 to 15.0 years, with a weighted-average life of 7.3 years:

	Estimated useful lives
Content and software	1.0 - 10.0 years
Customer relationships	1.1 - 15.0 years
Contracts with suppliers	0.9 - 5.9 years
Patents and licenses	3.4 - 7.1 years
Non-compete agreements	1.1 - 3.0 years
Trade names and domain names	8.7 - 10.0 years

Impairment of Long-lived Assets

Goodwill is reviewed for impairment as of the end of each fiscal year. The Company performs a qualitative assessment to determine whether further impairment testing on goodwill is necessary. If the Company believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, a quantitative impairment test is required. Otherwise, no further testing is required. The quantitative impairment test is performed by comparing

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the carrying value of each reporting unit's net assets (including allocated goodwill) to the fair value of those net assets. If the reporting unit's carrying amount is greater than its fair value, then a second step is performed whereby the portion of the fair value that relates to the reporting unit's goodwill is compared to the carrying value of that goodwill. The Company recognizes a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds the fair value. The Company has determined that there are no impairment losses in respect of goodwill for any of the periods covered by these financial statements.

The Company evaluates the carrying value of long-lived assets other than goodwill for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. When such a determination is made, management's estimate of undiscounted cash flows to be generated by the assets is compared to the carrying value of the assets to determine whether impairment is indicated. If impairment is indicated, the amount of the impairment recognized in the consolidated financial statements is determined by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value. This fair value is usually determined based on estimated discounted cash flows.

Recently Adopted Accounting Pronouncements

Effective January 1, 2013, the Company adopted the Financial Accounting Standards Board ("FASB") accounting standards updates on disclosures about offsetting assets and liabilities. The adoption of these updates did not have a significant impact on the Company's consolidated financial position, results of operations, cash flows or disclosures.

Effective January 1, 2013, the Company adopted the FASB accounting standards update on the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified to net income in its entirety in the same reporting period. For other amounts not required to be reclassified in their entirety to net income in the same reporting period, a cross reference to other disclosures that provide additional detail about the reclassification amounts is required. The adoption of this update did not have a significant impact on the Company's consolidated financial position, results of operations, cash flows, or disclosures. Refer to Note 5 for disclosure of reclassifications for the years ended December 31, 2011, 2012 and 2013.

Effect of Recently Issued Accounting Pronouncements

In July 2013, the FASB issued an accounting standards update on presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance is effective prospectively for reporting periods beginning after December 15, 2013. The Company does not expect the adoption of this guidance to have a material effect on its financial statements.

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3. NET INCOME PER SHARE

Basic net income per Class A and Class B ordinary share for the years ended December 31, 2011, 2012 and 2013 is computed on the basis of the weighted average number of ordinary shares outstanding using the two class method. Basic net income per share is computed using the weighted average number of ordinary shares outstanding during the period, including restricted shares. Diluted net income per ordinary share is computed using the effect of the outstanding Share-Based Awards calculated using the “treasury stock” method.

The computation of the diluted net income per Class A share assumes the conversion of Class B shares, while the diluted net income per Class B share does not assume the conversion of those shares. The net income per share amounts are the same for Class A and Class B shares because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation. The number of Share-Based Awards excluded from the diluted net income per ordinary share computation, because their effect was antidilutive for the years ended December 31, 2011, 2012 and 2013, was 1,128,660, 1,139,956 and 1,346,000, respectively.

The Company’s outstanding convertible debt provides for a flexible settlement feature. The Company intends to settle upon conversion the principal amount of the debt for cash and the conversion premium for Class A shares. The convertible debt is included in the calculation of diluted net income per share if its inclusion is dilutive under the treasury stock method. The convertible debt was anti-dilutive in the year ended December 31, 2013.

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3. NET INCOME PER SHARE (Continued)

The components of basic and diluted net income per share were as follows:

	For the year ended December 31,							
	2011		2012		2013			
	Class A RUR	Class B RUR	Class A RUR	Class B RUR	Class A RUR	Class A \$	Class B RUR	Class B \$
Net income, allocated for basic	1,785	3,988	4,564	3,659	9,674	295.6	3,800	116.1
Reallocation of net income as a result of conversion of Class B to Class A shares	3,988	—	3,659	—	3,800	116.1	—	—
Reallocation of net income to Class B shares	—	(18)	—	22	—	—	37	1.1
Net income, allocated for diluted	5,773	3,970	8,223	3,681	13,474	411.7	3,837	117.2
Weighted average ordinary shares outstanding—basic	97,579,615	217,962,024	181,039,148	145,171,800	234,522,372	234,522,372	92,135,406	92,135,406
Dilutive effect of: Conversion of Class B to Class A shares	217,962,024	—	145,171,800	—	92,135,406	92,135,406	—	—
Ordinary Share-Based Awards	12,613,448	7,683,679	9,479,648	5,129,207	7,913,434	7,913,434	3,138,966	3,138,966
Weighted average ordinary shares outstanding—diluted	328,155,087	225,645,703	335,690,596	150,301,007	334,571,212	334,571,212	95,274,372	95,274,372
Net income per share attributable to ordinary shareholders:								
Basic	18.30	18.30	25.21	25.21	41.25	1.26	41.25	1.26
Diluted	17.59	17.59	24.50	24.50	40.27	1.23	40.27	1.23

4. BUSINESS COMBINATIONS AND INVESTMENT TRANSACTIONS

Acquisition in 2013

KinoPoisk

In October 2013, the Company completed the acquisition of a 100% ownership interest in KinoPoisk LLC and its subsidiary (“KinoPoisk”), operating the largest and most comprehensive Russian-language website dedicated to movies, television programs and celebrities, for cash consideration of \$80.0 (RUR 2,577 at the exchange rate as of the acquisition date) paid in full upon closing of the deal, including \$3.0 (RUR 97 at the exchange rate as of the acquisition date) paid into an escrow account. The amount in escrow will be paid to the sellers on the second anniversary of the completion closing assuming no warranty claims.

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4. BUSINESS COMBINATIONS AND INVESTMENT TRANSACTIONS (Continued)

Set out below is the condensed balance sheet of KinoPoisk as of October 14, 2013, reflecting an allocation of the purchase price to the net assets acquired:

	October 14, 2013
	RUR
ASSETS:	
Cash and cash equivalents	39
Current assets	59
Property and equipment	3
Intangible assets	440
Goodwill	2,140
Non-current assets	<u>1</u>
Total assets	<u>2,682</u>
LIABILITIES:	
Current liabilities	20
Deferred tax liabilities	<u>85</u>
Net assets	<u>2,577</u>
Total purchase consideration	<u>2,577</u>

The RUR 2,140 (\$65.4) assigned to goodwill primarily arises due to an assembled workforce that does not qualify for separate recognition and specific synergies that result from the distribution capabilities and market position of the Company. Of the RUR 440 (\$13.4) assigned to intangible assets, approximately RUR 224 (\$6.8) relates to trade names and approximately RUR 135 (\$4.1) relates to portal content that will be amortized over a period of 10.0 years. The remaining RUR 81 (\$2.5) assigned to intangible assets represents website and applications (RUR 63 (\$2.0)), non-compete agreements (RUR 14 (\$0.4)) and customer relationships (RUR 4 (\$0.1)).

The results of operations of KinoPoisk for the period prior to acquisition would not have had a material impact on the Company's results of operations for the years ended December 31, 2012 and 2013. Accordingly, no pro forma financial information is presented. The results of operations of KinoPoisk did not have a material impact on the Company's results of operations for the year ended December 31, 2013.

Blekko

In August 2011, the Company completed the acquisition of a 9.7% ownership interest in Blekko, Inc. ("Blekko"), a US-based internet search engine for \$15.0 (RUR 478 at the exchange rate as of the acquisition date). In June 2013, the Company increased its ownership interest in Blekko to 11.2% and received a warrant for Blekko shares representing 0.5% of its outstanding share capital in exchange for settlement of Blekko's obligation to the Company of \$3.5 (RUR 112 at the exchange rate as of the acquisition date).

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4. BUSINESS COMBINATIONS AND INVESTMENT TRANSACTIONS (Continued)

The Company does not exercise significant influence over Blekko and accordingly accounts for this investment under the cost method.

Disposal in 2013

Yandex.Money

In July 2013, the Company completed the sale of a 75% less one ruble interest in the charter capital of Yandex.Money to Sberbank for a cash consideration of RUR 1,964 (\$59.1 at the exchange rate as of the sale date). A gain on sale and deconsolidation of the subsidiary in the amount of RUR 2,035 (\$62.2) was recognized as other income, net.

The Company retained a non-controlling interest (25% plus one ruble) and significant influence over Yandex.Money's business as its electronic money system continues to be one of the primary payment means for the Company's advertising services. Accordingly, Yandex.Money's results of operations before the sale of a 75% less one ruble interest are classified within continuing operations and the remaining investment is accounted for under the equity method within Investments in non-marketable equity securities.

Yandex.Money's assets held for sale and liabilities related to assets held for sale as of December 31, 2012 and July 4, 2013 (the date of sale) consisted of the following:

	December 31, 2012	July 4, 2013
	RUR	RUR
Assets held for sale		
Cash and cash equivalents	1,164	1,195
Term deposits	150	280
Funds receivable, net	190	192
Goodwill	378	378
Other	142	120
Total assets held for sale	<u>2,024</u>	<u>2,165</u>
Liabilities related to assets held for sale		
Funds payable and amounts due to customers	1,596	1,653
Other	23	52
Total liabilities related to assets held for sale	<u>1,619</u>	<u>1,705</u>

Acquisition in 2012

Seismotech

In July 2012, the Company completed the acquisition of a 25% ownership interest in Seismotech LLC ("Seismotech"), a Russian-based geophysical data processing company, for RUR 27. The Company also has a 3-year option to buy another 25% interest in Seismotech at a fixed price that

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4. BUSINESS COMBINATIONS AND INVESTMENT TRANSACTIONS (Continued)

is accounted for at fair value (Notes 6 and 7). The Company exercises significant influence over Seismotech and accordingly accounts for this investment under the equity method.

Disposal in 2012

Face.com

In July 2012, the Company completed the sale of its ownership interest in Face.com, Inc. (formerly Vizi Information Labs Ltd. (“Vizi Labs”)) to a subsidiary of Facebook, Inc. (“Facebook”) for cash consideration of RUR 174 and 142,479 shares of Facebook. A gain on sale in the amount of RUR 234 was recognized as other income, net.

Acquisitions in 2011

SPB

In November 2011, the Company completed the acquisition of the SPB Software group (“SPB”), a mobile software developer offering a suite of mobile solutions including a mobile user interface engine for smartphones and tablets, in order to obtain a product development team and rights for technologies and software. The transaction included the acquisition of a 100% ownership in the three legal entities—SPB Software, Inc. (USA), SPB Software, Ltd. (Hong Kong), and SPB Software Co., Ltd (Thailand); as well as the acquisition of the business assets and employees of Phonesoft Consulting, Ltd. (Russia), for cash consideration of approximately \$24.3 (RUR 745 at the exchange rate as of the acquisition date). The Company also paid an additional consideration of \$14.1 (RUR 433 at the exchange rate as of the acquisition date) on the achievement of certain milestones and the continued employment of the former SPB shareholders on the first and the second anniversary of the closing of the transaction. \$7.1 (RUR 216 at the exchange rate as of the acquisition date) of this consideration was paid in November 2012, \$4.1 (RUR 126 at the exchange rate as of the acquisition date) in February 2013, and the remaining \$2.9 (RUR 90 at the exchange rate as of the acquisition date) in November 2013. The Company has not recorded these contingent payments as purchase price consideration but instead records them as compensation expense on a straight-line basis as the former SPB shareholders completed their requisite service periods. The Company’s consolidated financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets

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4. BUSINESS COMBINATIONS AND INVESTMENT TRANSACTIONS (Continued)

acquired and liabilities assumed. The following is the condensed balance sheet of SPB as of November 23, 2011, reflecting an allocation of the purchase price to the net assets acquired:

	November 23, 2011
	RUR
ASSETS:	
Cash and cash equivalents	10
Current assets	16
Property and equipment	4
Intangible assets	390
Goodwill	470
Total assets	<u>890</u>
LIABILITIES:	
Current liabilities	17
Non-current liabilities	81
Deferred tax liabilities	47
Net assets	<u>745</u>
Total purchase consideration	<u>745</u>

The RUR 470 assigned to goodwill primarily arises due to an assembled workforce that does not qualify for separate recognition and specific synergies that result from integration of the Company's cloud services and technologies into SPB's mobile user interface engine. Of the RUR 390 assigned to intangible assets, approximately RUR 233 relates to software that will be amortized over a period of approximately 7.1 years. The remaining RUR 157 assigned to intangible assets represents patents (RUR 78), customer relationships (RUR 62) and non-compete agreements (RUR 17).

The results of operations of SPB for the period prior to acquisition would not have had a material impact on the Company's results of operations for the year ended December 31, 2011. Accordingly, no pro forma financial information is presented.

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5. CONSOLIDATED FINANCIAL STATEMENTS DETAILS

Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2012 and 2013 consisted of the following:

	<u>2012</u>	<u>2013</u>	<u>2013</u>
	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Cash	926	2,293	70.0
Cash equivalents:			
Bank deposits	5,530	16,730	511.2
Investments in money market funds	969	14,371	439.1
Total cash and cash equivalents	<u>7,425</u>	<u>33,394</u>	<u>1,020.3</u>

Non-current restricted cash as of December 31, 2012 consisted of the cash reserved in a special escrow account to pay for the contingent consideration in relation to the acquisition of SPB Software group (Note 4). Non-current restricted cash as of December 31, 2013 consisted of the cash reserved in a special escrow account before lapse of the claim period for warranties received in relation to the acquisition of KinoPoisk (Note 4).

Accounts Receivable, Net

Accounts receivable as of December 31, 2012 and 2013 consisted of the following:

	<u>2012</u>	<u>2013</u>	<u>2013</u>
	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Trade receivables	1,842	2,858	87.3
Allowance for doubtful accounts	(75)	(73)	(2.2)
Total accounts receivable, net	<u>1,767</u>	<u>2,785</u>	<u>85.1</u>

Movements in the allowance for doubtful accounts are as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
	<u>RUR</u>	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Balance at the beginning of the period	64	89	75	2.3
Charges to expenses	25	17	21	0.6
Utilization	—	(31)	(23)	(0.7)
Balance at the end of the period	<u>89</u>	<u>75</u>	<u>73</u>	<u>2.2</u>

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5. CONSOLIDATED FINANCIAL STATEMENTS DETAILS (Continued)

Other Current Assets

Other current assets as of December 31, 2012 and 2013 consisted of the following:

	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RUR	RUR	\$
Interest receivable	558	423	12.9
VAT reclaimable	502	704	21.5
Prepaid taxes	18	63	1.9
Other receivables	85	49	1.5
Loans granted	—	32	1.0
Inventory	8	—	—
Other	46	61	1.9
Total other current assets	<u>1,217</u>	<u>1,332</u>	<u>40.7</u>

Other Non-current Assets

Other non-current assets as of December 31, 2012 and 2013 consisted of the following:

	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RUR	RUR	\$
Interest receivable	—	728	22.2
Loans to employees	199	447	13.7
Loans granted	—	246	7.5
VAT reclaimable	36	116	3.5
Other receivables	68	2	0.1
Marketable securities (Note 7)	39	—	—
Total other non-current assets	<u>342</u>	<u>1,539</u>	<u>47.0</u>

Investments in Debt Securities

Investments in debt securities as of December 31, 2012 and 2013 consisted of the following:

	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RUR	RUR	\$
Capital protected index-linked note (Note 7)	2,378	—	—
Credit-linked notes	2,430	—	—
Other	2	2	0.1
Total investments in debt securities	<u>4,810</u>	<u>2</u>	<u>0.1</u>

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5. CONSOLIDATED FINANCIAL STATEMENTS DETAILS (Continued)

Investments in Equity Securities

Investments in non-marketable equity securities as of December 31, 2012 and 2013 consisted of the following:

	<u>2012</u>	<u>2013</u>	<u>2013</u>
	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Blekko Inc (Note 4)	456	605	18.5
Yandex.Money (Note 4)	—	583	17.8
Seismotech LLC (Note 4)	35	36	1.1
Other	<u>9</u>	<u>26</u>	<u>0.8</u>
Total investments in non-marketable equity securities	<u>500</u>	<u>1,250</u>	<u>38.2</u>

The Company exercises significant influence over Seismotech and Yandex.Money and accordingly accounts for these investments under the equity method. The Company records its share of the results of these investees in the amount of gain of RUR 2 and loss of RUR 6 (\$0.2) for the years ended December 31, 2012 and 2013, respectively, within other income, net line in the consolidated statements of income.

The Company does not exercise significant influence over Blekko and accordingly accounts for this investment under the cost method.

Marketable securities of RUR 76 and RUR 87 (\$2.7) and non-current marketable securities of RUR 39 and nil as of December 31, 2012 and December 31, 2013, respectively, are comprised of shares of Facebook received in connection with the sale of Face.com (Note 4). The non-current portion of marketable securities is presented within other non-current assets within the consolidated balance sheet.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of December 31, 2012 and 2013 comprise the following:

	<u>2012</u>	<u>2013</u>	<u>2013</u>
	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Trade accounts payable and accrued liabilities	2,081	3,298	100.8
Salary and other compensation expenses payable/accrued to employees	<u>432</u>	<u>412</u>	<u>12.5</u>
Total accounts payable and accrued liabilities	<u>2,513</u>	<u>3,710</u>	<u>113.3</u>

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5. CONSOLIDATED FINANCIAL STATEMENTS DETAILS (Continued)

Reclassifications Out of Accumulated Other Comprehensive Income

Reclassifications of losses out of accumulated other comprehensive income for the years ended December 31, 2011, 2012 and 2013 were as follows:

	<u>Location</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	
		RUR	RUR	RUR	\$
Foreign Currency Translation Adjustments, net of tax of nil	Other income, net	—	—	54	1.6

For the year ended December 31, 2013, the reclassification resulted from the sale of a 75% less one ruble interest in the charter capital of Yandex.Money (Note 4).

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company does not enter into derivative arrangements for hedging, trading or speculative purposes. However, some of the Company's contracts have embedded derivatives that are bifurcated and accounted for separately from the host agreements. None of these derivatives are designated as hedging instruments.

The Company recognizes such derivative instruments as either assets or liabilities on the accompanying consolidated balance sheets at fair value and records changes in the fair value of the derivatives in the accompanying consolidated statements of income as other income, net.

The fair value of derivative instruments as of December 31, 2012 and 2013 is as follows:

	<u>Balance Sheet Location</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
		RUR	RUR	\$
Derivative assets:				
Foreign exchange contracts	Investments in debt securities	12	—	—
Equity purchase contracts	Investments in non-marketable equity securities	<u>8</u>	<u>22</u>	<u>0.7</u>
Total derivative assets		<u>20</u>	<u>22</u>	<u>0.7</u>
Derivative liabilities:				
Foreign exchange contracts	Accounts payable and accrued liabilities	1	—	—
Foreign exchange contracts	Other accrued liabilities	<u>49</u>	<u>9</u>	<u>0.3</u>
Total derivative liabilities		<u>50</u>	<u>9</u>	<u>0.3</u>

The effect of derivative instruments not designated as hedging instruments on income for the years ended December 31, 2011, 2012 and 2013 amounted to a gain of RUR 42, a loss of RUR 18 and a gain of RUR 27 (\$0.8) respectively.

7. FAIR VALUE MEASUREMENTS

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A three-tier fair value

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7. FAIR VALUE MEASUREMENTS (Continued)

hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1—observable inputs that reflect 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 or indirectly; and

Level 3—inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial assets and liabilities as of December 31, 2012 consisted of the following:

	Fair value measurement using			
	Level 1	Level 2	Level 3	Total
	RUR	RUR	RUR	RUR
Assets				
Cash equivalents:				
Bank deposits(1)	—	5,530	—	5,530
Investments in money market funds	969	—	—	969
Term deposits, current	—	4,629	—	4,629
Term deposits, non-current	—	10,330	—	10,330
Marketable securities, current(2)	76	—	—	76
Marketable securities, non-current(2)	39	—	—	39
Restricted cash	214	—	—	214
Loans to employees	—	199	—	199
Derivative contracts (Notes 4, 6)(2)	—	—	8	8
Capital protected index-linked note—host contract (Note 5)	—	2,366	—	2,366
Capital protected index-linked note—derivative(2) (Note 5)	—	12	—	12
	<u>1,298</u>	<u>23,066</u>	<u>8</u>	<u>24,372</u>
Liabilities				
Derivative contracts(2)	—	50	—	50

(1) Bank deposits with original maturities of three months or less are included in cash equivalents. Bank deposits with maturities of more than three months are classified as term deposits.

(2) Amounts are measured at fair value on a recurring basis.

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7. FAIR VALUE MEASUREMENTS (Continued)

The fair value of financial assets and liabilities as of December 31, 2013 consisted of the following:

	Fair value measurement using				
	Level 1 RUR	Level 2 RUR	Level 3 RUR	Total RUR	Total \$
Assets					
Cash equivalents:					
Bank deposits(1)	—	16,730	—	16,730	511.2
Investments in money market funds . .	14,371	—	—	14,371	439.1
Term deposits, non-current	—	15,180	—	15,180	463.8
Marketable securities, current(2)	87	—	—	87	2.7
Restricted cash	104	—	—	104	3.2
Loans to employees	—	447	—	447	13.7
Loans granted	—	278	—	278	8.4
Derivative contracts (Notes 4, 6)(2)	—	—	22	22	0.6
	<u>14,562</u>	<u>32,635</u>	<u>22</u>	<u>47,219</u>	<u>1,442.7</u>
Liabilities					
Derivative contracts(2)	—	9	—	9	0.3
	<u>—</u>	<u>9</u>	<u>—</u>	<u>9</u>	<u>0.3</u>

(1) Bank deposits with original maturities of three months or less are included in cash equivalents. Bank deposits with maturities of more than three months are classified as term deposits.

(2) Amounts are measured at fair value on a recurring basis.

The fair values of the Company's Level 1 financial assets are based on quoted market prices of identical underlying securities. The fair values of the Company's Level 2 financial assets and liabilities are based on quoted prices and market observable data of similar instruments.

There were no transfers of financial assets and liabilities between the levels of the fair value hierarchy during the years ended December 31, 2011, 2012 and 2013.

The total gains attributable to bank deposits and investments in money market funds amounted to RUR 204, RUR 910 and RUR 1,651 (\$50.4) in 2011, 2012 and 2013, respectively. Such amounts are included in interest income in the consolidated statements of income.

The Company had no other financial assets or liabilities measured at fair value on a recurring basis during the years ended December 31, 2011, 2012 and 2013. The Company measures at fair value nonfinancial assets and liabilities recognized as a result of business combinations.

The Company measures the fair value of investments in debt instruments carried at amortized cost and convertible debt for disclosure purposes. The fair values of investments in debt instruments and convertible debt are considered to be Level 2 as the Company has access to the respective quoted

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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7. FAIR VALUE MEASUREMENTS (Continued)

prices, but does not have visibility to the volume and frequency of trading for these securities. The carrying amounts and fair values of debt securities and convertible debt as of December 31, 2012 and 2013 were as follows:

	2012		2013			
	Carrying amount	Fair value	Carrying amount		Fair value	
	RUR	RUR	RUR	\$	RUR	\$
Credit-linked notes	2,430	2,404	—	—	—	—
Convertible debt	—	—	(16,429)	(502.0)	(21,647)	(661.4)
Total	2,430	2,404	(16,429)	(502.0)	(21,647)	(661.4)

The Company did not estimate the fair value of non-marketable equity investments carried at cost because it did not identify events or changes in circumstances that might have had a significant adverse effect on the fair value of these investments. Furthermore, the Company believes it is not practicable to estimate the fair value of these equity investments since quoted market prices are not available and the cost of obtaining independent valuations appears excessive considering the materiality of the investments to the Company.

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net of accumulated depreciation and amortization, as of December 31, 2012 and 2013 consisted of the following:

	2012	2013	2013
	RUR	RUR	\$
Servers and network equipment	7,517	9,739	297.6
Infrastructure systems	3,092	3,409	104.2
Land and buildings	823	1,172	35.8
Office furniture and equipment	731	1,002	30.6
Leasehold improvements	577	611	18.6
Other equipment	82	64	2.0
Assets not yet in use	568	1,599	48.9
Purchased technologies and licenses	1,598	2,466	75.3
Total	14,988	20,062	613.0
Less: accumulated depreciation and amortization	(6,893)	(10,333)	(315.7)
Total property and equipment, net	8,095	9,729	297.3

Assets not yet in use primarily represent computer equipment and other assets under installation, including related prepayments, and comprise the cost of the assets and other direct costs applicable to purchase and installation. Leasehold improvements in the amount of RUR 26 and RUR 13 (\$0.4) are included in assets not yet in use as of December 31, 2012 and 2013, respectively.

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8. PROPERTY AND EQUIPMENT, NET (Continued)

Depreciation expenses related to property and equipment, except for purchased technologies and licenses, for the years ended December 31, 2011, 2012 and 2013 amounted to RUR 1,620, RUR 2,498 and RUR 3,132 (\$95.7), respectively. Amortization expenses related to purchased technologies and licenses for the years ended December 31, 2011, 2012 and 2013 amounted to RUR 206, RUR 314 and RUR 452 (\$13.8), respectively.

The accumulated amortization of purchased technologies and licenses included in property and equipment was RUR 537 and RUR 904 (\$27.6) as of December 31, 2012 and 2013, respectively. Estimated amortization expense over the next five years for purchased technologies and licenses included in property and equipment, net as of December 31, 2013 are as follows:

	RUR	\$
For the year ending December 31, 2014	572	17.5
For the year ending December 31, 2015	455	13.9
For the year ending December 31, 2016	331	10.1
For the year ending December 31, 2017	157	4.8
For the year ending December 31, 2018	47	1.4
Thereafter	—	—
Total	1,562	47.7

9. GOODWILL AND INTANGIBLE ASSETS, NET

In 2013, the Company acquired KinoPoisk (Note 4). This acquisition was accounted for under the acquisition method resulting in the recognition of RUR 2,140 (\$65.4) of acquired goodwill. The changes in the carrying amount of goodwill are as follows:

	2012	2013	2013
	RUR	RUR	\$
Balance at the beginning of the period	754	750	22.9
Goodwill acquired	—	2,140	65.4
Foreign currency translation adjustment	(4)	25	0.8
Balance at the end of the period	750	2,915	89.1

The Company has not recorded any impairment on goodwill to date.

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9. GOODWILL AND INTANGIBLE ASSETS, NET (Continued)

Intangible assets, net of amortization, as of December 31, 2012 and 2013 consisted of the following intangible assets acquired as part of business combinations:

	2012			2013			
	Cost	Less: Accumulated amortization	Net carrying value	Cost	Less: Accumulated amortization	Net carrying value	Net carrying value
	RUR	RUR	RUR	RUR	RUR	RUR	\$
Content and software	283	(114)	169	489	(173)	316	9.7
Patents and licenses	161	(66)	95	167	(106)	61	1.8
Customer relationships	62	(13)	49	71	(18)	53	1.6
Contracts with suppliers	23	(19)	4	23	(22)	1	—
Non-compete agreements	17	(11)	6	14	(1)	13	0.4
Trade names and domain names	—	—	—	224	(4)	220	6.7
Total intangible assets	546	(223)	323	988	(324)	664	20.2

Amortization expenses of intangible assets for the years ended December 31, 2011, 2012 and 2013 were RUR 48, RUR 139 and RUR 111 (\$3.4), respectively.

Estimated amortization expense over the next five years for intangible assets included in the accompanying consolidated balance sheet as of December 31, 2013 are as follows:

	RUR	\$
For the year ending December 31, 2014	131	4.0
For the year ending December 31, 2015	91	2.8
For the year ending December 31, 2016	84	2.6
For the year ending December 31, 2017	80	2.4
For the year ending December 31, 2018	80	2.4
Thereafter	198	6.0
Total	664	20.2

10. INCOME TAX

Income taxes are computed in accordance with Russian Federation and Dutch tax laws. The taxable income of Yandex LLC was subject to federal and local income tax at a combined nominal rate of 20% for 2011, 2012 and 2013. Yandex N.V. is incorporated in the Netherlands, and its taxable profits were subject to income tax at the rate of 25% in 2011, 2012 and 2013.

Dividends paid to Yandex N.V. by its Russian subsidiaries are subject to a 5% dividend withholding tax, computed in accordance with the laws of the Russian Federation. Due to the so-called participation exemption, dividends distributed by the Company's Russian subsidiaries to Yandex N.V. are exempt from tax in the Netherlands.

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10. INCOME TAX (Continued)

Provision for income taxes for the years ended December 31, 2011, 2012 and 2013 consisted of the following:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RUR	RUR	RUR	\$
Current provision for income tax—Russia	(1,689)	(2,281)	(3,325)	(101.6)
Current provision for income tax—other	(25)	2	(111)	(3.3)
Deferred income tax (expense)/ benefit—Russia . .	115	(58)	175	5.3
Deferred income tax (expense)/ benefit—other . .	54	(14)	22	0.7
Total provision for income taxes	<u>(1,545)</u>	<u>(2,351)</u>	<u>(3,239)</u>	<u>(98.9)</u>

The components of net income before income taxes for the years ended December 31, 2011, 2012 and 2013 are as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RUR	RUR	RUR	\$
Net income before income taxes—Russia	7,713	11,350	15,716	480.2
Net income before income taxes—other	(395)	(776)	997	30.4
Total net income before income taxes	<u>7,318</u>	<u>10,574</u>	<u>16,713</u>	<u>510.6</u>

The significant majority of the Company's revenues and taxable income is generated in the Russian Federation. Yandex N.V., the Company's Dutch parent company, has no operations and primarily generates interest income and incurs corporate expenses. Therefore, the Company has reconciled its effective tax rate to its Russian statutory rate instead of to its Dutch statutory rate in the table below. The statutory Russian income tax rate reconciled to the Company's effective income tax rate is as follows for the years ended December 31, 2011, 2012 and 2013:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RUR	RUR	RUR	\$
Expected provision at Russian statutory income tax rate of 20%	1,464	2,115	3,343	102.1
Effect of:				
Tax on dividends	—	13	14	0.4
Non-deductible share-based compensation	49	75	146	4.5
Other expenses not deductible for tax purposes	49	183	83	2.5
Difference in foreign tax rates	(15)	(39)	(68)	(2.1)
Participation exemption on sale of equity investments .	—	—	(393)	(12.0)
Other	(2)	4	(33)	(1.0)
Change in valuation allowance	—	—	147	4.5
Provision for income taxes	<u>1,545</u>	<u>2,351</u>	<u>3,239</u>	<u>98.9</u>

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10. INCOME TAX (Continued)

Movements in the valuation allowance are as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RUR	RUR	RUR	\$
Balance at the beginning of the period	—	—	—	—
Charges to expenses	—	—	(147)	(4.5)
Balance at the end of the period	<u>—</u>	<u>—</u>	<u>(147)</u>	<u>(4.5)</u>

As of December 31, 2012 and 2013, the Company included accruals for unrecognized income tax benefits totaling RUR 25 and RUR 10 (\$0.3), respectively, as a component of other accrued liabilities and nil and RUR 15 (\$0.5), respectively, as a component of accounts payable and accrued liabilities. RUR 21 (\$0.6) of unrecognized income tax benefits, if recognized, would affect the effective tax rate. The changes in 2011, 2012 and 2013 include an increase of RUR 15 and decreases of RUR 13 and RUR 1 (\$0.0), respectively, associated with interest and penalties. The interest and penalties recorded as a part of provision for income tax in 2011, 2012 and 2013 resulted in benefit of nil, RUR 13 and RUR 1 (\$0.0), respectively. The decrease in 2012 relates to a change in the tax accounting method for software in SPB Software, Inc. (USA). The Company does not anticipate significant increases or decreases in unrecognized income tax benefits over the next twelve months.

The Company believes it is more likely than not that all recognized income tax benefits will be sustained upon examination. However, income tax benefits in the amount of RUR 6 (\$0.2) have a reasonable possibility of successfully being challenged by the tax authorities. The Company does not believe that any of the recognized income tax benefits have a reasonable possibility of successfully being challenged by the tax authorities within twelve months of December 31, 2013.

A reconciliation of the total amounts of unrecognized income tax benefits is as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RUR	RUR	RUR	\$
Balance at the beginning of the period	15	97	25	0.8
Increases/(decreases) related to prior years tax positions . .	89	(72)	(3)	(0.1)
Increases related to current year tax positions	—	2	2	0.1
Settlements	(10)	—	—	—
Foreign currency translation adjustment	3	(2)	1	—
Balance at the end of the period	<u>97</u>	<u>25</u>	<u>25</u>	<u>0.8</u>

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10. INCOME TAX (Continued)

Temporary differences between the tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities as of December 31, 2012 and 2013:

	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RUR	RUR	\$
Assets/(liabilities) arising from tax effect of:			
Deferred tax asset			
Accrued expenses	222	387	11.9
Net operating loss carryforward	271	324	9.9
Other	8	40	1.2
Valuation allowance	—	(147)	(4.5)
Total deferred tax asset	501	604	18.5
Deferred tax liability			
Convertible debt discount	—	(802)	(24.5)
Property and equipment	(325)	(268)	(8.2)
Intangible assets	(85)	(155)	(4.7)
Other	(51)	(41)	(1.3)
Total deferred tax liability	(461)	(1,266)	(38.7)
Net deferred tax asset/(liability)	40	(662)	(20.2)
Net deferred tax asset, current	456	596	18.2
Net deferred tax asset, non-current	35	3	0.1
Net deferred tax liability, current	(3)	(16)	(0.5)
Net deferred tax liability, non-current	(448)	(1,245)	(38.0)

As of December 31, 2013, Yandex N.V. had net operating loss carryforwards (“NOLs”) for Dutch income tax purposes of RUR 501 (\$15.3). These NOLs expire in 2020, 2021 and 2022. As of December 31, 2013, a benefit of RUR 45 (\$1.4) related to the Dutch NOLs described above and RUR 339 (\$10.4) related to other tax effects would be recorded by the Company in additional paid-in capital if and when realized.

The Company has not provided for dividend withholding taxes on the unremitted earnings of its foreign subsidiaries because they are considered permanently reinvested outside of the Netherlands. As of December 31, 2013, the cumulative amount of unremitted earnings upon which dividend withholding taxes have not been provided is approximately RUR 35,708 (\$1,091.0). The Company estimates that the amount of the unrecognized deferred tax liability related to these earnings is approximately RUR 1,785 (\$54.5).

The tax years 2010 - 2013 remain open for examination by the Russian tax authorities with respect to Yandex LLC. As of December 31, 2013, Yandex LLC was under audit by the tax inspectorate for the 2010, 2011 and 2012 tax years. The tax years 2008 - 2013 remain open for examination by the Dutch tax authorities with respect to Yandex N.V.

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11. CONVERTIBLE DEBT

In December 2013, the Company issued and sold \$600.0 (RUR 19,719 at the exchange rate as of sale date) in aggregate principal amount of 1.125% convertible senior notes due December 15, 2018 (the “Notes”) at par. The Company also granted to the initial purchasers a right to purchase up to an additional \$90.0 in aggregate principal amount of notes solely to cover over-allotments. Interest at an annual rate of 1.125% is payable semi-annually on June 15 and December 15 of each year, beginning on June 15, 2014. The Notes are convertible into cash, Class A shares of the Company or a combination of cash and Class A shares, at the Company’s election, under circumstances described below, based on an initial conversion rate of 19.44 Class A shares per \$1,000 principal amount of Notes (which represents an initial conversion price of approximately \$51.45 per share), subject to adjustment on the occurrence of fundamental change as defined in the agreement. The Notes are convertible, at the option of the holder, prior to June 15, 2018, if i) the last reported sale price of the Class A shares for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days is greater than or equal to 130% of the conversion price on each applicable trading day; ii) during a 5 business day period after any 10 consecutive trading day period in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our Class A shares and the conversion rate on each such trading day; or iii) upon the occurrence of specified corporate events. On or after June 15, 2018, the Notes can be converted at the option of the holder regardless of the foregoing circumstances at any time until the close of business on the business day immediately preceding the maturity date of the Notes. The Company will not have the right to redeem the Notes prior to maturity, except in connection with certain changes in tax laws. As of December 31, 2013, none of the conditions allowing the conversion of the Notes had been met.

The net proceeds to the Company from the sale of the Notes (excluding over-allotments) were approximately RUR 19,518 (\$596.3). Debt issuance costs were approximately RUR 201 (\$6.1), of which RUR 33 (\$1.0) was allocated to additional paid-in capital and RUR 168 (\$5.1) was allocated to deferred issuance costs and will be amortized as interest expense over the term of the Notes. As of December 31, 2013, unamortized deferred issuance cost was RUR 166 (\$5.1).

The Company separately accounts for the liability and equity components of the Notes. The carrying value of the liability component of RUR 16,475 (\$503.4) as of the date of issuance was recognized at the present value of its cash flows using a discount rate of 4.84%, the Company’s estimated borrowing rate at the date of the issuance for a similar debt instrument without the conversion feature. Debt discount is amortized using the effective interest method over the period from the origination date through the stated maturity date. The value of the equity component of RUR 3,245 (\$99.1) as of the date of issuance was calculated by deducting the fair value of the liability component from the initial proceeds ascribed to the convertible debt instrument as a whole and was recorded as a debt discount. The carrying value of the equity component remains unchanged from the date of issuance.

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11. CONVERTIBLE DEBT (Continued)

The carrying value of the Notes as of December 31, 2012 and 2013 consisted of the following:

	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RUR	RUR	\$
1.125% Convertible Senior Notes due December 2018	—	19,638	600.0
Unamortized debt discount	—	(3,209)	(98.0)
Total convertible debt	—	<u>16,429</u>	<u>502.0</u>

The remaining unamortized debt discount of RUR 3,209 (\$98.0) as of December 31, 2013 will be amortized over the remaining life of the Notes, which is approximately 5.0 years.

The Company recognized RUR 25 (\$0.8) as interest expenses related to the contractual interest coupon, amortization of the debt discount and issuance expenses for the year ended December 31, 2013. The effective interest rate on the liability component for the period was 5.0%.

12. COMMITMENTS AND CONTINGENCIES

Lease and Other Commitments

In December 2008, the Company signed an agreement for a ten-year lease of office space in Moscow. In April 2011, the Company entered into two more lease agreements to increase the size of its rented office space located in its headquarters complex in Moscow for the remaining period of the original lease. In December 2013, the Company further extended its headquarters complex signing a preliminary seven-year lease agreement for additional office space.

As of December 31, 2013, future minimum lease payments due under the Moscow leases and other non-cancellable operating leases for more than one year are as follows:

<u>Payments due in the years ending December 31,</u>	<u>Moscow</u> <u>headquarters</u> <u>lease</u>	<u>Other</u> <u>leases</u>	<u>Total</u>	<u>Total</u>
	RUR	RUR	RUR	\$
2014	2,288	733	3,021	92.4
2015	1,644	457	2,101	64.2
2016	1,625	276	1,901	58.1
2017	2,040	157	2,197	67.1
2018 and thereafter	3,495	61	3,556	108.6
Total	<u>11,092</u>	<u>1,684</u>	<u>12,776</u>	<u>390.4</u>

For the purposes of the disclosure above, the Company assumed no changes in the rented space or rental price specified in existing as of reporting date rental agreements.

For the years ended December 31, 2011, 2012 and 2013, rent expenses under operating leases totaled approximately RUR 1,199, RUR 1,656 and RUR 1,790 (\$54.7), respectively.

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12. COMMITMENTS AND CONTINGENCIES (Continued)

Additionally, the Company has entered into purchase commitments in excess of one year for other goods and services, which total RUR 556 (\$17.0) in 2014, RUR 568 (\$17.4) in 2015, RUR 339 (\$10.4) in 2016, RUR 296 (\$9.0) in 2017, RUR 244 (\$7.5) in 2018 and RUR 293 (\$9.0) thereafter.

Legal Proceedings

In the ordinary course of business, the Company is a party to various legal proceedings, and subject to claims, certain of which relate to copyright infringement. The Company believes that its liability, if any, in all such pending litigation, other legal proceedings or other matters will not have a material effect upon its financial condition, results of operations or the liquidity of the Company.

Environment and Current Economic Situation

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses continue to change rapidly and tax and regulatory frameworks are subject to varying interpretations.

In particular, taxes are subject to review and investigation by a number of authorities authorized by law to impose fines and penalties. Although the Company believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above factors may create tax risks for the Company. In addition to the obligations shown in the lease commitments section above, approximately RUR 21 (\$0.6) of unrecognized tax benefits have been recorded as liabilities, and the Company is uncertain as to if or when such amounts may be settled (Note 10). Related to unrecognized tax benefits, the Company has also recorded a liability for potential penalties of RUR 3 (\$0.1) and interest of RUR 1 (\$0.0). As of December 31, 2013, except for the income tax contingencies described above, the Company accrued RUR 43 (\$1.3) for contingencies related to non-income taxes.

The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the price of oil and gas on the world market.

13. SHARE CAPITAL

The Company has three authorized classes of ordinary shares, Class A, Class B and Class C with €0.01, € 0.10 and €0.09 par value, respectively. The principal features of the three classes of ordinary shares are as follows:

- Class A shares, par value €0.01 per share, entitled to one vote per share. The Class A shares share ratably with the Class B shares, on a pari passu basis, in any dividends or other distributions.

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13. SHARE CAPITAL (Continued)

- Class B shares, par value €0.10 per share, entitled to ten votes per share. Class B shares may only be transferred to qualified holders. In order to sell a Class B share, it must be converted into a Class A share.
- Class C shares, par value €0.09 per share, entitled to nine votes per share. The Class C shares are entitled to a fixed nominal amount in the event of a dividend or distribution limited to €0.01 per share in any one financial year if any such shares were to be outstanding on the record date for a dividend declaration. The Class C shares are used for technical purposes related to the conversion of Class B shares into Class A shares. During the periods between conversion and cancellation, all Class C shares are held by Yandex Conversion Foundation (Stichting Yandex Conversion). Yandex Conversion Foundation was incorporated under the laws of the Netherlands in October 2008 for the sole purpose of facilitating the conversion of Class B shares into Class A shares. Yandex Conversion Foundation is managed by a board of directors appointed by the Company.

On September 21, 2009, the Company issued a Priority Share to Sberbank. The holder of the Priority Share has the right to veto the accumulation of stakes in the Company in excess of 25% by a single entity, a group of related parties or parties acting in concert. The holder of the Priority Share does not have any rights to influence operating decisions of the Company nor is it entitled to a seat on the Company's Board. Transfer of the Priority Share requires the approval of the Board. The Priority Share has been purchased by Sberbank at its par value of €1 and is entitled to a normal pro rata dividend distribution.

The Company's articles of association authorize a special class of preference shares as a form of an anti-takeover defense. The Company's Board has the irrevocable authority for a period of five years to issue preference shares and grant rights to subscribe for preference shares up to the Company's authorized share capital from time to time. This authority may be renewed by a resolution of the general meeting of shareholders for a subsequent period of up to five years. The preference shares, if issued, would be entitled to receive preferential dividends at a rate of 12-month EURIBOR plus 200 basis points on the amount paid thereon, prior and in preference to distributions in respect of ordinary shares. No preference shares have been issued.

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13. SHARE CAPITAL (Continued)

The share capital as of each balance sheet date is as follows (EUR in millions):

	December 31, 2012			December 31, 2013		
	Shares	EUR	RUR	Shares	EUR	RUR
<i>Authorized:</i>	4,318,989,446			4,204,230,282		
Priority share	1			1		
Preference shares	2,000,000,001			2,000,000,001		
Class A ordinary shares	2,000,000,000			2,000,000,000		
Class B ordinary shares	159,494,722			102,115,140		
Class C ordinary shares	159,494,722			102,115,140		
<i>Issued and fully paid:</i>	355,732,713	€17.0	547	353,032,573	€11.9	335
Priority share	1	—	—	1	—	—
Preference shares	—	—	—	—	—	—
Class A ordinary shares	202,318,864	2.0	83	256,998,306	2.5	106
Class B ordinary shares	125,441,218	12.5	362	72,923,447	7.3	138
Class C ordinary shares	27,972,630	2.5	102	23,110,819	2.1	91

Treasury Class C shares are not disclosed as such due to the technical nature of this class of shares.

The Company repurchases its Class A shares from time to time in part to reduce the dilutive effects of its Share-Based Awards to employees and consultants of the Company.

In March 2013, the Company's Board of Directors authorized a program to repurchase up to 12,000,000 Class A shares from time to time in open market transactions. In December 2013, the Company's Board of Directors authorized an increase in the existing program by 3,000,000 shares. The amended repurchase program may be in effect through November 20, 2014.

For the year ended December 31, 2013, the Company repurchased 8,599,377 Class A shares at an average price of \$30.70 per share for a total amount of RUR 8,518 (\$260.3). Out of these shares 2,333,132 were used to satisfy the Company's obligations under Share-Based Awards. Treasury stock is accounted for under the cost method.

14. SHARE-BASED COMPENSATION

Employee Equity Incentive Plan

The Company has granted Share-Based Awards to employees and consultants of the Company pursuant to its Employee Share Option Plan (the "2001 Plan") and the Third Amended and Restated 2007 Equity Incentive Plan (the "2007 Plan").

On January 29, 2001, the Supervisory Board of Yandex Technologies Ltd. ("YTL"), the former parent of the Company, approved the 2001 Plan, which provided for the issuance of up to 36,909,292 options to employees of the Company to purchase ordinary shares in YTL. On February 7, 2007, the Company's Board adopted the 2007 Plan and subsequently amended it on October 11, 2007, October 14, 2008, November 10, 2011, and February 10, 2012. A share option issued under the 2007

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14. SHARE-BASED COMPENSATION (Continued)

Plan entitles the holder to purchase an ordinary share at a specified exercise price. SARs issued under the 2007 Plan entitle the holder to receive a number of Class A shares determined by reference to appreciation from and after the date of grant in the fair market value of a Class A share over the measurement price. RSUs awarded under the 2007 Plan entitle the holder to receive a fixed number of Class A shares at no cost upon the satisfaction of certain time-based vesting criteria. The holders of RSUs have no rights to dividends or dividends equivalent. The 2007 Plan provides for the issuance of Share-Based Awards to employees, officers, advisors and consultants of the Company and members of the Board of the Company to acquire or, in regard to SARs, to benefit from the appreciation of ordinary shares representing in the aggregate a maximum of 10% of the issued share capital of the Company. In connection with a capital restructuring, all outstanding share options granted to eligible employees under the 2001 Plan were cancelled and replaced with new grants of options under the 2007 Plan. The Company recorded no additional compensation cost as a result of this cancellation and replacement because the terms of the replacement awards are substantially the same.

Under the 2007 Plan, the award exercise or measurement price per share is set at the “fair market value” and denominated in U.S. dollars on the date the Share-Based Awards are granted by the Company’s Board. For purposes of the 2007 Plan, “fair market value” means (A) at any time when the Company’s shares are not publicly traded, the price per share most recently determined by the Board to be the fair market value; and (B) at any time when the shares are publicly traded, the closing price (as adjusted to account for the ratio of shares to depository shares, if necessary) on the date of such determination. Share-Based Awards granted under the 2007 Plan generally vest over a four-year period. Approximately 25% of the Share-Based Awards vest after one year, with the remaining Share-Based Awards vesting in equal amounts on the last day of each quarter over the following three years. If a grantee ceases to be an eligible participant within three months following the consummation of a change of control because of termination by the grantee for good reason or because of termination by the Company for any reason other than for cause, the Share-Based Award(s) held by such grantee shall become fully vested and immediately exercisable. The maximum term of a Share-Based Award granted under the 2007 Plan may not exceed ten years. The 2007 Plan expires at midnight on October 11, 2017. After its expiration, no further grants can be made under the 2007 Plan but the vesting and effectiveness of Share-Based Awards previously granted will remain unaffected.

In October 2012, the Company offered non-executive employees of the Company an opportunity to exchange their SARs and options for RSUs based on an exchange ratio of 2:1. The replacement RSUs have the same vesting schedule as the existing SARs or existing options. A total of 692,855 awards were exchanged in connection with this offer. The exchange was accounted for as a modification of the award in 2012 and this did not have a material impact on the financial results.

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14. SHARE-BASED COMPENSATION (Continued)

The Company estimates the fair value of share options and SARs using the BSM pricing model. The weighted average assumptions used in the BSM pricing model for grants made in the years ending December 31, 2011, 2012 and 2013 were as follows:

	2011	2012	2013
Dividend yield	—	—	—
Expected annual volatility	65%	54%	49%
Risk-free interest rate	1.60%	0.78%	1.77%
Expected life of the awards (years)	6.12 - 6.17	5.51 - 7.02	5.44 - 7.04
Weighted-average grant date fair value of awards (per share)	\$12.82	\$10.13	\$15.93

The Company used the following assumptions in the BSM pricing model when valuing its Share-Based Awards:

- *Expected forfeitures.* This assumption is estimated using historical trends of the number of awards forfeited prior to vesting and adjusted as appropriate for exceptional circumstances. Historically, as the Company typically only granted Share-Based Awards to senior employees who had been with the Company for at least one year, and the turnover rate for such employees was minimal, the Company estimated expected forfeitures to be insignificant. In 2012, as less senior employees began to be involved in the program, the Company calculated the forfeiture rate by reference to the historical employee turnover rate.
- *Expected volatility.* Because the Company's ordinary shares were not publicly traded prior to May 2011, expected volatility was previously estimated based on an analysis of the historical stock price volatility of comparable public companies for a preceding period equal to the expected term of the award grant being valued. For 2012 and 2013 grants, the Company used historical volatility of the Company's own shares.
- *Expected term.* The expected term of awards granted has been calculated following the "simplified" method, using half of the sum of the contractual and vesting terms, because the Company has no historical pattern of exercises sufficient to estimate the expected term on a more reliable basis.
- *Dividend yield.* This assumption is measured as the average annualized dividend estimated to be paid by the Company over the expected life of the award as a percentage of the share price at the grant date. The Company did not declare any dividends with respect to 2011, 2012 or 2013. Currently, the Company does not have any plans to pay dividends in the near term. When the Company declared dividends in 2010, it followed the practice of paying optionees bonuses calculated as an amount per vested option share equal to the amount of the dividend declared per share. Because optionees were generally compensated for dividends and the Company has no plans to pay cash dividends in the near term, it used an expected dividend yield of zero in its option pricing model for awards granted in the years ended December 31, 2011, 2012 and 2013.

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14. SHARE-BASED COMPENSATION (Continued)

- *Fair value of ordinary shares.* Prior to May 2011, the Company's ordinary shares were not publicly traded. Therefore, it estimated the fair value of its ordinary shares on the basis of valuations arrived at by employing the "income approach" and the "market approach" valuation methodologies. For periods after May 2011, the Company estimated the fair value of its ordinary shares using the closing price of its ordinary shares on the NASDAQ Global Select Market on the date of grant.
- *Risk-free interest rate.* Prior to May 2011, to estimate the risk-free rate, the Company used the implied yield currently available on Russian Eurobonds with a remaining term equal to the expected term of the Share-Based Award grant being valued. For periods after May 2011, the Company used the risk-free interest rates based on the US Treasury yield curve in effect at the grant date.

The following table summarizes awards activity for the Company under the 2007 Plan:

	Options		SARs		RSUs	
	Quantity	Weighted average exercise price per share	Quantity	Weighted average exercise price per share	Quantity	Weighted average exercise price per share
Outstanding as of						
January 1, 2013	10,133,771	\$ 4.42	901,265	\$20.21	1,871,703	—
Granted	28,000	27.74	805,000	33.29	1,311,780	—
Exercised	(4,019,986)	3.46	(87,963)	19.82	(182,147)	—
Forfeited	(115,143)	6.32	(5,388)	20.99	(104,103)	—
Cancelled	(7,250)	5.91	(250)	20.99	(131)	—
Outstanding as of						
December 31, 2013	6,019,392	\$ 5.13	1,612,664	\$26.75	2,897,102	—

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14. SHARE-BASED COMPENSATION (Continued)

The following table summarizes information about outstanding and exercisable awards under the 2007 Plan as of December 31, 2013:

Exercise Price (\$)	Type of award	Awards Outstanding			Awards Exercisable		
		Number outstanding	Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value	Number exercisable	Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
0.83	Option	455,000	1.50	\$ 19.3	455,000	1.50	\$ 19.3
2.16	Option	833,268	2.52	34.2	833,268	2.52	34.2
2.74	Option	705,300	3.39	28.5	705,300	3.39	28.5
3.40	Option	424,350	4.09	16.9	424,350	4.09	16.9
3.43	Option	254,595	5.38	10.1	254,595	5.38	10.1
3.51	Option	831,088	5.86	32.9	831,088	5.86	32.9
4.16	Option	826,344	6.43	32.2	626,094	6.42	24.4
8.77	Option	1,493,447	6.85	51.3	971,947	6.85	33.4
25.00	Option	168,000	7.40	3.1	105,000	7.40	1.9
27.74	Option	28,000	9.39	0.4	—	—	—
Total Options		6,019,392	5.02	228.9	5,206,642	4.73	201.6
16.95	SARs	9,375	7.97	0.2	4,688	7.97	0.1
19.00	SARs	317,750	8.57	7.7	50,875	8.57	1.2
20.99	SARs	85,540	7.92	1.9	38,395	7.92	0.9
21.05	SARs	375,000	8.88	8.3	75,000	8.88	1.6
23.19	SARs	20,000	8.18	0.4	8,750	8.18	0.2
23.29	SARs	50,000	8.88	1.0	—	—	—
32.85	SARs	620,000	9.57	6.4	—	—	—
38.99	SARs	135,000	9.88	0.5	—	—	—
Total SARs		1,612,665	9.10	26.4	177,708	8.52	4.0
—	RSU	2,897,103	9.01	125.0	426,841	8.50	18.4
		10,529,160	6.74	\$380.3	5,811,191	5.12	\$224.0

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14. SHARE-BASED COMPENSATION (Continued)

The following table summarizes information about non-vested share awards under the 2007 Plan:

	Options		SARs		RSUs	
	Quantity	Weighted Average Grant Date Fair Value	Quantity	Weighted Average Grant Date Fair Value	Quantity	Weighted Average Grant Date Fair Value
Non-vested as of January 1, 2013 . . .	2,338,561	\$ 4.37	873,449	\$10.43	1,788,352	\$19.23
Granted	28,000	13.46	805,000	16.01	1,311,780	31.91
Vested	(1,438,668)	3.86	(238,104)	10.50	(525,767)	19.21
Forfeited	(115,143)	3.84	(5,388)	12.45	(104,103)	21.81
Non-vested as of December 31, 2013	812,750	\$ 5.67	1,434,957	\$13.54	2,470,262	\$25.86

At December 31, 2013, there was RUR 2,382 (\$72.8) of unamortized share-based compensation expense related to unvested share options, RSUs and SARs which is expected to be recognized over a weighted average period of 3.04 years. The Company expects that all but an insignificant portion of options and SARs outstanding will vest and therefore has not applied a forfeiture rate in estimating the total awards expected to vest. The Company expects 2,115,036 out of 2,470,262 RSUs to vest after December 31, 2013. To the extent the actual forfeiture rate is different from the Company's estimate, share-based compensation related to these awards will be different from our expectations.

Ex-Plan Options

In January 2009, the Company hired certain former sales and product development employees of Mediaselling LLC ("Mediaselling"). The Company granted some of these former Mediaselling employees performance-based options to purchase an aggregate of 378,000 Class A shares.

The following table summarizes activity for these ex-plan options:

	Quantity	Weighted Average Exercise Price
Outstanding as of December 31, 2012	273,690	€0.01
Exercised	(251,590)	0.01
Cancelled	(2,800)	0.01
Outstanding as of December 31, 2013	19,300	€0.01

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14. SHARE-BASED COMPENSATION (Continued)

The following table summarizes information about non-vested ex-plan share options:

	<u>Quantity</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested as of December 31, 2012	152,600	\$3.42
Vested	<u>(152,600)</u>	3.42
Non-vested as of December 31, 2013	<u>—</u>	—

As of December 31, 2013, these ex-plan options have a remaining contractual life of 5.37 years; 19,300 outstanding ex-plan options have an intrinsic value of RUR 27 (\$0.8).

At December 31, 2013, there was no unamortized share-based compensation expense related to unvested ex-plan options.

Ex-plan RSUs

In November 2011, the Company acquired SPB Software Group (Note 4) and subsequently granted 25,000 RSUs to some of the former SPB Software employees. Although these RSUs were granted ex-plan, they have the same vesting provisions as Share-Based Awards granted under the 2007 Plan. As of December 31, 2013, these ex-plan RSUs had a remaining contractual life of 7.97 years; 20,125 of these RSUs had an intrinsic value of RUR 28 (\$0.9); 9,625 exercisable ex-plan RSUs had an intrinsic value of RUR 14 (\$0.4). These RSUs had a grant date fair value of \$0.01 per share, resulting in unamortized share-based compensation expense of RUR 6 (\$0.2) that is expected to be recognized over a period of 2.00 years.

Phantom Share Units

In May 2011, the Company granted ex-plan to all of its employees 77,230 phantom share units vesting in full in December 2011. The award was fully exercised and settled in cash in December 2011. The Company recognized share-based compensation expense of RUR 43, related to this grant.

Share-Based Compensation Expense

The Company recognized share-based compensation expense of RUR 329, RUR 376 and RUR 754 (\$23.1) for the years ended December 31, 2011, 2012 and 2013, respectively. The Company recognized RUR 27, RUR 4 and RUR 9 (\$0.3) in related tax benefits for the years ended December 31, 2011, 2012 and 2013, respectively.

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15. INFORMATION ABOUT REVENUES & GEOGRAPHIC AREAS

The Company's revenues consist of the following:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RUR	RUR	RUR	\$
Advertising revenue(1):				
Text-based advertising:				
Yandex websites	14,590	20,610	27,584	842.8
Yandex ad network websites	<u>2,922</u>	<u>4,898</u>	<u>7,885</u>	<u>240.9</u>
Total text-based advertising	17,512	25,508	35,469	1,083.7
Display advertising	<u>2,096</u>	<u>2,592</u>	<u>3,379</u>	<u>103.3</u>
Total advertising revenue	19,608	28,100	38,848	1,187.0
Online payment commissions	383	552	394	12.0
Other revenues	42	115	260	7.9
Total revenues	<u>20,033</u>	<u>28,767</u>	<u>39,502</u>	<u>1,206.9</u>

(1) The Company records revenue net of VAT, commissions and discounts. Because it is impractical to track commissions and discounts for text-based advertising revenues generated on Yandex websites and on those of the Yandex ad network members separately, the Company has allocated commissions and discounts between its Yandex websites and the Yandex ad network websites proportionately to their respective gross revenue contributions.

Revenues by geography are based on the billing address of the advertiser. The following table sets forth revenues and long-lived assets other than financial instruments and deferred tax assets by geographic area:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RUR	RUR	RUR	\$
Revenues:				
Russia	19,352	27,300	36,814	1,124.8
Rest of the world	<u>681</u>	<u>1,467</u>	<u>2,688</u>	<u>82.1</u>
Total revenues	<u>20,033</u>	<u>28,767</u>	<u>39,502</u>	<u>1,206.9</u>
Long-lived assets, net:				
Russia	6,963	8,447	11,998	366.6
US	1,413	1,043	841	25.7
Rest of the world	<u>395</u>	<u>408</u>	<u>1,627</u>	<u>49.7</u>
Total long-lived assets, net	<u>8,771</u>	<u>9,898</u>	<u>14,466</u>	<u>442.0</u>

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16. RELATED-PARTY TRANSACTIONS

The Company has in place a registration rights agreement with its major shareholders that allows them to require the Company to register Class A shares held by them under the U.S. Securities Act of 1933, as amended (the "Securities Act"), under certain circumstances. In such circumstances, the Company is obliged to pay all expenses, other than underwriting commissions and discounts, relating to any such registration. Pursuant to this agreement, in March 2013, the Company was required to effect a registration and, in connection therewith, shareholders publicly offered an aggregate of 26,679,386 Class A shares, including 2,425,399 additional Class A shares sold pursuant to an over-allotment option granted to the underwriters at a price of \$22.75 per share. Yandex did not receive any proceeds from this offering. The expenses incurred by the Company related to this offering in the amount of RUR 28 (\$0.9) have been treated as related party transactions. The underwriters of the offering fully reimbursed the Company for these expenses.

Following the sale of the controlling interest and deconsolidation of Yandex.Money in July 2013 (Note 4), the Company retained a non-controlling interest and significant influence over Yandex.Money's business. The Company continues to use Yandex.Money for payment processing and to sublease to Yandex.Money part of its premises. The amount of revenues from subleasing and online payment commissions was RUR 34 (\$1.0) and RUR 56 (\$1.7), respectively, for the year ended December 31, 2013. As of December 31, 2013, the amount of receivables related to payment processing was RUR 6 (\$0.2). The Company believes that the terms of the agreements with Yandex.Money are comparable to the terms obtained in arm's-length transactions with unrelated similarly situated customers and suppliers of the Company.

17. SUBSEQUENT EVENTS

In January 2014, the Company issued and sold an additional \$90.0 in aggregate principal amount of 1.125% convertible senior notes due December 15, 2018 at par.

In February and March 2014, the Company granted RSUs to purchase an aggregate of up to 264,241 Class A shares to its employees, respectively, pursuant to the 2007 Plan.

On March 12, 2014, the Company completed the acquisition of a 100% ownership interest in KitLocate Ltd. ("KitLocate"), the developer of an energy-efficient geolocation technology for mobile devices, for a cash consideration of up to \$10.2 (RUR 370 at the exchange rate as of the acquisition date), including \$4.0 (RUR 146 at the exchange rate as of the acquisition date) paid in full upon closing of the deal, \$3.9 (RUR 142 at the exchange rate as of the acquisition date) paid to escrow account that will be gradually released during four years after the completion date to the KitLocate's founders subject to their continued employment, and \$2.3 (RUR 82 at the exchange rate as of the acquisition date) of earn-out payments on the achievement of certain distribution milestones. The acquisition will be accounted for as a business combination and, accordingly, the total purchase price will be allocated to the tangible and intangible assets acquired and the liabilities assumed based on their respective fair values as of the acquisition date. The Company is currently working on the preliminary purchase price allocation and expects it to be completed by the end of the quarter ending June 30, 2014.

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17. SUBSEQUENT EVENTS (Continued)

From January 1 through March 31, 2014, the Company repurchased 3,027,325 Class A shares at an average price of \$36.65 per share, for a total amount of \$110.9.

Subsequent to December 31, 2013, the Russian ruble has significantly depreciated against foreign currencies, including the U.S. dollar. The currency exchange rate as of December 31, 2013 was RUR 32.7292 to \$1.00 and, during the period from December 31, 2013 to March 31, 2014, the currency exchange rate of the Russian ruble declined to RUR 35.6871 to \$1.00. The lowest rate reached during this period was RUR 36.6505 to \$1.00 as of March 18, 2014.