



2014 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, 2014
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

267,970,405

Class B

62,051,348

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 prepared the financial statements included in this filing:

U.S. GAAP ☒

International Financial Reporting Standards ☐
as issued by the International Accounting
Standards Board

Other ☐

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 8,919,063 Class C shares issued and fully paid as of December 31, 2014. 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 (December 2014), Liveinternet.ru (March 2015), Public Opinion Foundation of Russia (FOM) (January 2015), ZenithOptimedia (March 2015), Genius (December 2014), TNS (December 2014), and the Russian Federal State Statistics Service (Rosstat) (January 2015). Our search market share in Turkey is based on comScore qSearch data (December 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 impact of macroeconomic and geopolitical developments in our markets;
- 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, 2012, 2013 and 2014 and the selected consolidated balance sheet data as of December 31, 2013 and 2014 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 2012 and consolidated statements of income data for the years ended December 31, 2010 and 2011 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, 2010 are derived from our unaudited consolidated balance sheet as re-presented 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 sheet as of December 31, 2010, we did not have it re-audited.

Ruble amounts have been translated into U.S. dollars at a rate of RUR 56.2584 to \$1.00, the official exchange rate quoted as of December 31, 2014 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 April 28, 2015, the exchange rate was RUR 51.4690 to \$1.00. See "Risk Factors—The depreciation of the Russian ruble has and may continue to 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,					
	2010	2011	2012	2013	2014	
	RUR	RUR	RUR	RUR	RUR	\$
(in millions, except share and per share data)						
Consolidated statements of income data:						
Revenues:	12,500	20,033	28,767	39,502	50,767	902.4
Operating costs and expenses:						
Cost of revenues(1) . . .	2,585	4,707	7,188	10,606	14,336	254.8
Product development(1) . . .	2,073	3,124	4,274	5,827	8,842	157.2
Sales, general and administrative(1)	1,838	3,294	4,900	6,537	7,782	138.3
Depreciation and amortization	1,181	1,874	2,951	3,695	4,484	79.7
Total operating costs and expenses	7,677	12,999	19,313	26,665	35,444	630.0
Income from operations . .	4,823	7,034	9,454	12,837	15,323	272.4
Interest income	156	222	1,002	1,717	856	15.2
Other income, net(2) . .	24	62	118	2,159	6,296	111.9
Net income before income taxes	5,003	7,318	10,574	16,713	22,475	399.5
Provision for income taxes	1,186	1,545	2,351	3,239	5,455	97.0
Net income	3,817	5,773	8,223	13,474	17,020	302.5
Net income per Class A and Class B share:						
Basic	12.56	18.30	25.21	41.25	53.30	0.95
Diluted	12.37	17.59	24.50	40.27	52.27	0.93
Weighted average number of Class A and Class B shares outstanding:						
Basic	303,817,388	315,541,639	326,210,948	326,657,778	319,336,782	319,336,782
Diluted	308,580,600	328,155,087	335,690,596	334,571,212	325,610,277	325,610,277

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

	2010	2011	2012	2013	2014	
	RUR	RUR	RUR	RUR	RUR	\$
Cost of revenues	16	26	33	61	101	1.8
Product development	87	153	221	435	780	13.9
Sales, general and administrative	57	150	122	258	329	5.8

- (2) A major component of other income, net 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 2014, other income includes RUR 6,518 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					
	2010	2011	2012	2013	2014	
	RUR	RUR	RUR	RUR	RUR	\$
	(in millions)					
Consolidated balance sheet data(1):						
Cash and cash equivalents	3,025	5,930	7,425	33,394	17,645	313.6
Term deposits (current and non-current)	3,289	7,133	14,959	15,180	31,526	560.4
Total assets	12,617	34,076	44,285	71,311	94,924	1,687.3
Total current liabilities	2,937	4,711	6,682	6,915	9,796	174.1
Total non-current liabilities(2)	65	412	556	17,799	29,392	522.5
Total shareholders' equity	9,615	28,953	37,047	46,597	55,736	990.7

- (1) Prior periods have been reclassified to reflect current period presentation. Balances related to assets held for sale (note 4 to our consolidated financial statements) 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 and December 31, 2014, 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 56.2584 to \$1.00, the official exchange rate quoted by the Central Bank of the Russian Federation as of December 31, 2014. On April 28, 2015, the exchange rate was RUR 51.4690 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>
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
2014	56.26	38.42	67.79	32.66
October 2014	43.39	40.77	43.39	39.38
November 2014	49.32	45.91	49.32	41.96
December 2014	56.26	55.54	67.79	49.32
January 2015	68.93	61.88	68.93	56.24
February 2015	61.27	64.68	69.66	60.71
March 2015	58.46	60.26	62.68	56.43

See “Risk Factors—The depreciation of the Russian ruble has and may continue to 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 the Russian Economy

Geopolitical and macroeconomic events have adversely affected and created uncertainty and instability in the Russian economy, which could harm our business, financial condition and results of operations.

In 2014 and early 2015, Russia has experienced an economic downturn that has been characterized by substantial depreciation of its currency, sharp fluctuations of interest rates, a forecasted decline in the gross domestic product in 2015, a steep decline in the value of shares traded on its stock exchanges, and a material increase in the inflation rate. The Russian economy is particularly sensitive to the price of oil, and recent substantial decreases in oil prices have adversely affected and may continue to adversely affect its economy. In addition, international sanctions have been imposed on identified parties and business sectors in Russia in connection with the geopolitical situation in Ukraine, as described below. See “—The current geopolitical conflict in Ukraine and related international economic sanctions may continue to adversely affect the Russian economy and the value of investments in Russia, and could harm our business, financial condition and results of operations.”

In 2014, the Russian ruble depreciated against the US dollar by 42%. During the period from January 1, 2015 to April 28, 2015, the value of the Russian ruble appreciated against the US dollar by approximately 9% to RUR 51.5 to \$1.00. See “—The depreciation of the Russian ruble has and may continue to materially adversely affect our business, financial condition and results of operations.”

On December 11, 2014, the Central Bank of Russia raised its key rate to 10.5%, followed by a further sharp increase on December 16, 2014 to 17%. The rate was reduced by 2 percentage points in February 2015, and a further 1 percentage point in March 2015, and remains at 14% as of April 28, 2015. Further volatility of interest rates may also adversely affect our ability to borrow funds if necessary or desirable.

On January 26, 2015, the global credit ratings agency Standard & Poor’s (S&P) downgraded Russia’s sovereign debt to “junk” status. S&P lowered its long- and short-term foreign currency sovereign credit ratings on the Russian Federation to non-investment grade BB+ from investment grade BBB-. On February 20, 2015, Moody’s Investor Service downgraded Russia’s government bond and local currency ratings one notch to Ba1, from Baa3, and retained a negative outlook. Fitch Ratings, the only remaining large credit rating agency to do so, still rates Russia in the investment grade category, albeit at the lowest possible level in this rating and with a negative outlook. The outlook for long-term ratings is considered negative. Further declines in the oil price or other deterioration of the geopolitical situation may lead to further depreciation of the ruble and may lead to the Russia’s sovereign credit rating being further downgraded by credit agencies.

The slowdown of the Russian economy in recent periods has adversely affected our results of operations. The medium-term outlook for the Russian economy is unsettled, and continued deterioration of the economic situation would likely further adversely affect the profitability of our business. As a result of the current economic instability and any further potential deterioration in the Russian economy, total advertising spending in Russia may decrease which, in turn, could materially adversely affect our operating results. See “—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.”

The current geopolitical conflict in Ukraine and related international economic sanctions may continue to adversely affect the Russian economy and the value of investments in Russia, and could harm our business, financial condition and results of operations.

Significant uncertainty exists surrounding the current geopolitical situation in Ukraine. The United States, the European Union and certain other countries have imposed economic sanctions on certain Russian government officials, private individuals and Russian companies, as well as “sectoral” sanctions affecting specified types of transactions with named participants in certain industries, including named Russian financial institutions, and sanctions that prohibit most commercial activities of U.S. and E.U. persons in Crimea and Sevastopol. There is significant uncertainty regarding the extent or timing of any potential further economic or trade 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 could negatively impact our revenue and profitability. Sanctions could also impede our ability to effectively manage our legal entities and operations in and 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, and several of our other subsidiaries are incorporated in other countries that have imposed economic sanctions. Although neither our parent company nor our operating subsidiaries are targets of sanctions, our business has been adversely affected by the impact of sanctions on the broader economy in Russia.

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.

The depreciation of the Russian ruble has and may continue to materially adversely affect our business, financial condition and results of operations.

The value of the Russian ruble has declined materially against the U.S. dollar in recent periods. The exchange rate quoted by the Central Bank of Russia as of December 31, 2014 was RUR 56.3 to \$1.00. During the period from January 1, 2015 to April 28, 2015, the value of the Russian ruble appreciated to RUR 51.5 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 for imported goods and therefore can be materially affected by changes in the value of the ruble. Moreover, the consideration we have paid in connection with a number of our acquisitions of other businesses to date has been, and future acquisition consideration may be, denominated and paid in U.S. dollars. If the Russian ruble were to experience a prolonged and significant decline in value 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.”

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 desktop and mobile internet search, and for text-based advertising, online advertising network, advertising intermediary services, distribution arrangements and other services. According to Liveinternet.ru Google's share of the Russian search market, based on search traffic generated, was 33.6% for March 2015 and 29.3% for the full year 2014, compared with our market share of 58.0% and 60.9%, respectively. 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.

With Android, its popular mobile platform, Google exerts 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. See also "—The competition to capture market share on mobile devices is intense and if we are not successful in offering, achieving substantial reach among users and monetizing search and other services on mobile devices, our business, financial condition and results of operations could be adversely affected." We expect that Google will continue to use its brand recognition and global financial and engineering resources to compete aggressively with us. In addition to Google, we also face competition, albeit less intense, from the Russian and international websites of Microsoft and Yahoo!.

On the domestic side, 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 8.6% and 7.3% in the full years 2013 and 2014 respectively. We also compete with Russian online advertising networks, such as Begun, which serve advertising to a number of popular Russian websites.

Although we have partnerships with a number of social networking sites, such as Facebook, Twitter, V Kontakte, 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 established companies and start-ups 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 greater financial 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.

The competition to capture market share on mobile devices is intense and if we are not successful in offering, achieving substantial reach among users and monetizing search and other services on mobile devices, our business, financial condition and results of operations could be adversely affected.

Users are increasingly accessing the internet through mobile and other devices rather than desktop and laptop personal computers, including through mobile phones, smartphones, and handheld computers such as netbooks and tablets, as well as through video game consoles, and television set-top devices. Such devices have different characteristics than desktop and laptop personal computers (including screen size, operating system, user interface and use patterns). Tailoring our products and services to such devices requires particular expertise and the expenditure of significant resources. The versions of our products and services developed for these devices, including the advertising solutions we offer, may be less attractive to users, advertisers, manufacturers or distributors of devices than those offered by our competitors or than our desktop offerings. The percentage of our total search traffic that was generated from mobile devices increased from approximately 16% in the fourth quarter of 2013 to approximately 24% in the fourth quarter of 2014, while the percentage of our total revenues generated from mobile devices increased from approximately 12% to approximately 18% between those periods.

Each manufacturer or distributor may establish unique technical standards for its devices, and as a result our products and services may not work or be viewable on these devices. Some manufacturers may also elect not to include our products on their devices, or may be prohibited from doing so pursuant to their agreements with other parties. In February 2015, we made a formal request to the Russian Federal Antimonopoly Service (“FAS”) to open an investigation into whether Google is using its dominant position to promote its search and other services bundled into a single package imposed for pre-installation by device manufacturers, as well as employing exclusive dealing and other restrictive practices to increase its search market share and ensure ubiquity of its other services on Android-operated devices. Our share of searches on the Android platform in Russia decreased from approximately 52% in the fourth quarter of 2013 to approximately 44% in the fourth quarter of 2014. The FAS has opened an investigation based on our request. There is no assurance as to the outcome of this investigation. Moreover, even if the outcome of this investigation is favorable, we may not succeed in maintaining or materially increasing our market share on mobile devices.

In addition, consumers are increasingly accessing content directly via “apps” tailored to particular mobile devices or in closed 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 challenges we may encounter in adapting our products and services and developing competitive new products and services. See also “—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.”

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.

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 98% 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 the Association of Russian Communication Agencies (AKAR). As a result of the current economic slowdown, the rate of growth in online advertising expenditures slowed materially in 2014, down from a growth rate of 27% from 2012 to 2013 to 18% from 2013 to 2014. In 2015, Zenith Optimedia forecasts online advertising expenditures to grow 5%. The table below provides annual online and total advertising expenditures in Russia from 2007 to 2014:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<u>(RUR in billion)</u>							
Online advertising expenditures .	12.7	17.6	19.1	26.7	41.8	56.3	71.7	84.6
Growth rate	105%	39%	9%	40%	57%	35%	27%	18%
Total advertising expenditures . .	235.5	295.8	215.0*	250.0*	263.4	297.8	327.8	340.1
Growth rate	28%	26%	(27)%	16%	5%	13%	10%	4%

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

Although forecasts for online advertising spending in Russia indicate sustained annual growth through 2017, we anticipate that the rate of such growth will decelerate. Any decreases or delays in online advertising spending due to economic conditions, or otherwise, would materially adversely impact our business, financial condition and results of operations. Additionally, recent decreases in international oil prices may continue to adversely affect the Russian economy. The current economic slowdown in Russia, and any further potential deterioration, may adversely affect total advertising spending in Russia, which, in turn, would materially adversely affect our operating results for 2015 and in the medium-term. See also “—Geopolitical and macroeconomic events have adversely affected and created uncertainty and instability in the Russian economy, which could harm 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 and device manufacturers for the distribution of our services and 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 Windows-based 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. See also “—The competition to capture market share on mobile devices is intense and if we are not successful in offering, achieving substantial reach among users and monetizing search and other services on mobile devices, our business, financial condition and results of operations could be adversely affected.”

Our largest distribution partners in 2014 were Opera, which offers mobile and desktop browsers, and Mozilla, which includes our search as the default in its Firefox browser. If we are unable to continue our arrangements with Opera or Mozilla, or enter into comparable arrangements with new distribution partners, particularly for the distribution of our search and other services on mobile devices, 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.

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 be unable to 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. This could adversely affect 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 and further benefit from that shift. However, we expect that our revenue growth rate will continue to decline over time as a result of a number of factors, including continuing macroeconomic challenges in Russia, 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:

- changes in the proportion of our advertising revenues that we derive from the Yandex ad network compared with our own websites. In periods in which our Yandex ad network revenues grow more rapidly than those from our own sites, 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. 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 and expand brand awareness in Turkey and other countries where we operate 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, 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 distribute our products or services 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;
- 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; and
- increased costs associated with the creation, support and maintenance of mobile products and services to maintain and expand our offering and competitive market position, which may not result in anticipated increases in revenues or market share.

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

As the Russian internet market matures, 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 the fall of 2010 to the fall of 2011, 12% from the fall of 2011 to the fall of 2012, 9% from the fall of 2012 to the fall of 2013, and 9% from the fall of 2013 to the fall of 2014, according to the Public Opinion Foundation of Russia, or FOM. As our core market matures, we will need to provide new services, further exploit new business models, such as e-commerce, or expand into new geographic markets in order to continue to grow our revenues at previously achieved levels. For example, we have recently launched our Yandex.Data Factory and Yandex.Taxi services to expand our revenue base. 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 23.7% of our text-based and display advertising revenues in 2014 and 20.8% in 2013. 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 important for the continued growth of our business. Our agreements with our network partners, other than our agreement to power paid search results on 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 numbers of users, 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, 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, especially in relation to mobile services, 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.

Our Yandex.Money business now operates through a joint venture with Sberbank. Although we have sought to implement appropriate controls and protections, as the minority partner in this legal entity 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 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 and throughout 2013. Our Yandex.Browser has been gaining market share and, in March 2015 had a 7.9% share of the desktop browser market in terms of visitors (unique cookies) and 12.9% of the mobile browser market in terms of traffic 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. In addition, in the current macroeconomic environment we have made reductions in our staff and may further reduce or limit the expansion of our staff, which would require us to manage our operational growth with fewer people. 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 continue to increase our investment in technology, infrastructure, facilities and other areas of operations, in particular product development, 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 our business matures, and we 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 group, 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 2014 derived only approximately 9% 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 December 2014, our share of the internet search market in Turkey was 4.2% according to comScore qSearch, and we have generated only nominal revenues there to date. 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 online services and content;
- adoption of new legislation and regulations, which may adversely impact our operations or may be applied in an unpredictable 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, economic 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.

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;
- geopolitical developments;
- fluctuations in the exchange rate between the Russian ruble and the U.S. dollar;
- 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 our 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.

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. Although the use of the internet as a marketing channel in Russia is maturing, the level of overall spending on advertising in Russia remains relatively low compared to that in other developed countries. Broadband penetration rates in Russia are also relatively low compared to those in some other developed countries. The internet competes with traditional advertising media, such as television, print, radio and outdoor advertising. Although advertisers have become more familiar with online advertising in 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, whether as a result of increasing governmental regulation of the internet, 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.

Index spammers could harm the integrity of our search results, which may adversely affect our business.

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.

Malicious applications that interfere with or exploit security flaws in our services could materially adversely affect our business, financial condition and results of operation.

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 other computer attack, which could result in a temporary closing of the Yandex sites 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 patents, trademarks, trade secrets and copyrights, as well as nondisclosure agreements, to protect our intellectual property rights. Our patent department is responsible for developing and implementing our group-wide patent protection strategy in selected jurisdictions, and to date we have filed more than 150 patent applications, 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 commercially 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.

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.

Applicable Russian and foreign laws and regulations govern the collection, use, sharing and security of data that we receive from our users and partners. Although we believe that we comply with all current requirements, these laws could in the future be interpreted and applied in a manner that is inconsistent with current practice. For instance, in May 2014 the Court of Justice of the European Union established that an operator of a search engine can be obligated to remove from the list of search results links to web-pages containing inaccurate or outdated information related to an individual. If personal data legislation is interpreted and applied in a manner not consistent with current practice, 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. Recently adopted amendments to the personal data law in Russia will require that companies store all personal data of Russian users only in databases located inside Russia, starting September 1, 2015. Although our principal data centers are currently located in Russia, this law could limit our flexibility in managing our operations globally.

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 widespread technologies that assist us in improving the user experience and personalization of our products and services and ultimately benefit both our users and advertisers through behavioral targeting, which makes our advertising more relevant. There is no

clarity as to whether our practices are compliant with the requirements of applicable data protection legislation in Russia and abroad, and such laws could 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 regulating the provision of such information. Any non-compliance with such requests may lead to liability and other adverse consequences.

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 provisions aimed at the liability of information intermediaries could be construed to establish liability for actions not previously actionable, such as linking to allegedly infringing materials. Also, in October 2014, new amendments to the Russian Civil Code came into effect introducing 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.

Additional recent legislation in Russia has introduced a system of information and website blocking measures both to prevent and stop copyright and related rights infringements (other than infringements of copyright in photographs) and to prevent dissemination of illegal information, such as child pornography, content encouraging suicides, drug use, information on minors hurt by illegal actions and extremist information. 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 access to the website. However, in some cases, such as dissemination of extremist information, access to such information can be blocked without notification or prior judicial scrutiny. The categories of illegal information to which access can be restricted may be interpreted broadly or be expanded. For example, in July 2014 Russian authorities

ordered that access to several websites be blocked on the basis of the violation of personal data regulations. The most recent amendment to this legislation, which comes into force on May 1, 2015, has introduced the possibility to require the permanent blocking of websites for violation of copyright and related rights. There is no clarity as to how this measure will be applied in practice. Based on these considerations and the uncertainties in the application of these laws, we may be subject to unpredictable blocking measures, injunctions or court decisions that may require us to block or remove content and may adversely affect our services and operations. In addition, to ensure compliance with such laws we may be required to commit greater resources, or to limit functionality of our services, which may adversely affect the appeal of our services to our customers.

In February 2014, new Turkish legislation expanded the liability of and requirements for internet service providers. In particular, the amended law increases the period of time for which internet service providers must retain traffic information, expands their obligation to respond to information requests from government officials and creates new grounds for taking down content and blocking of websites on the internet. Another law adopted in October 2014 introduced regulation of electronic commerce and impacts online sales, commercial messages and the protection of personal data. The Turkish Parliament, Constitutional Court and Supreme Court actively introduce, interpret and implement new rules to regulate the liability of, and may create new obligations for, internet service providers. Adoption of new rules, as well as interpretation and implementation of existing legislation regulating activities of internet service providers, may impact our operations in Turkey.

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. For example, we recently completed the first phase of construction of a data center in Finland. 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. 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 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 2012 and 2013 due to coding errors, which had less serious impacts on our search share. There were no significant downtime periods in 2014. 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.

From time to time we acquire other businesses, technologies and teams. For example, in 2013 we completed the acquisition of KinoPoisk LLC, a website dedicated to movies, television programs and celebrities. In 2014 we completed the acquisitions of KitLocate Ltd., a developer of an energy efficient geolocation technology for mobile devices, Auto.ru, a Russian online auto classifieds site, the ADFOX advertising technology platform, and several others. We continue to evaluate selected potential acquisitions and, from time to time, may engage in discussions regarding potential acquisitions. 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 by counterparties, and/or other causes.

The integration of new businesses present a number of challenges, 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 music, 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 third party measurements in those countries.

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.

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

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 geopolitical situation in 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. See also “Risks Related to the Russian Economy.”

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 6.6% in 2012, 6.5% in 2013 and 11.4% in 2014, and is forecast to be between 12% and 14% for 2015, 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:

- rapid or unexpected changes in the legislative framework;
- 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;
- 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. For example, recent legislative changes have addressed intellectual property regulations, including regulation of the use of intellectual property rights in the internet and regulation of patents. Further changes set out in First Part of Russian Civil Code containing general provisions on obligations and contracts are expected to come into effect in June 2015. 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. In 2014, the Higher *Arbitrazh* Court was disbanded and cases formerly within its jurisdiction were transferred to the Supreme Court of Russia, while the system of

lower *arbitrazh* courts remained unchanged. The Supreme Court of Russia, which through a separate division now handles 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 and a significant change in 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, have on occasion been subject to actions by public authorities that some have characterized as unpredictable or politically motivated” and “—Risks in other countries.”

The legal framework governing internet services and e-commerce in Russia and the other countries in which we operate is in the process of development, 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 acquisition of a “telematics” license by a company if it provides any telecommunications services for a fee. We generally do not charge for the online 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. Current law also permits electronic network publications (websites) to register on a voluntary basis as mass media under the procedures established by the law. 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 2014, a member of the Russian parliament submitted an official inquiry to the General Prosecutor's Office asking whether our Yandex.News service should be registered as mass media in accordance with Russian law. The General Prosecutor's Office responded that Yandex.News is not a mass media and is not required to be registered as such. 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. Moreover, amendments to the Mass Media Law adopted in October 2014 will limit non-Russian ownership and control, direct or indirect, of Russian mass media to no more than 20%, starting in 2016. Accordingly, if our core business were to be required to register as a mass media, it would have a material impact on the ownership structure of our business and could materially adversely affect the value of our Class A shares. See also "—If the Russian government were to impose limitations on foreign ownership of internet businesses in Russia, it could materially adversely affect our group and the value of our Class A shares."

- In 2014, the Russian government introduced legislation regulating popular bloggers. The legislation is drafted in general terms and can potentially apply to any owner of a website or webpage which contains publicly available information and is visited by more than 3,000 internet users daily, whether such site is owned and/or operated by an individual or a legal entity. Popular bloggers have to register with the Russian authorities and bear responsibilities in respect of the content available on their websites or webpages which are substantially similar to the obligations of mass media in Russia (including a requirement to ensure the accuracy of the information made available). Since the scope of this legislation is uncertain, it is unclear whether the new legislation applies to any of the companies of our group.
- Businesses that use certain encryption technologies in their products and services may be required to obtain a license from the Russian Federal Security Service. We use 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, or provide notifications, 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, or fail to comply with other applicable legal requirements, 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 processing of certain types of personal and other data, 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.

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.

Recently adopted amendments to the personal data law in Russia will require that companies store all personal data of Russian users only in databases located inside Russia, starting September 1, 2015. In accordance with the amended legislation, a data operator, when collecting personal data of Russian citizens including on the Internet, must ensure that the personal data is recorded, systemized, accumulated, stored, updated and gathered by using databases that are situated in Russia. Non-compliance with this requirement may lead to legal liability and potentially to restriction of the availability of the service in Russia. At the time of its adoption the new legislation was supposed to come into force on September 1, 2016, but recently the commencement date was moved to September 1, 2015. Since this legislation is drafted in very general terms, it is uncertain whether it applies to our operations or, if it does apply, to what extent. Compliance with the requirements provided in this legislation may be practically difficult, require significant efforts and resources, could lead to legal liability in other jurisdictions and limit functionality of our services. Compliance with the requirements contained in the new legislation may also limit our ability to compete with other companies located in other jurisdictions that do not require mandatory local storage of personal data relating to their users.

Due to the nature of services we offer and the fact that we have presence in a number of countries, we may also be subject to personal data laws of other jurisdictions, especially laws regulating to cross-border transfer of personal data, which may require significant compliance efforts and could result in liability for violations in other jurisdictions.

Further, 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.

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

In 2014, the Russian government adopted legislation to regulate the “organizers of information distribution”. The legislation is drafted in general terms and can potentially apply to any person developing software that may receive, transfer, deliver or process electronic messages of internet users. Organizers of information distribution must notify the relevant Russian authority about the commencement of their operations. Organizers of information distribution must also retain a broad range of data relating to and generated by the users (including the facts of receipt, transfer, delivery and processing of information as well as information about the users) for a period of six months and provide such data to security and investigation authorities at their request. If an organizer of information distribution fails to comply with the above requirements, the Russian authorities can prescribe the blocking of access to the services of such organizer of information distribution.

Although the scope of this legislation is uncertain, our main subsidiary operating in Russia has notified the relevant Russian authority that it acts as an organizer of information distribution with respect to some of the services it provides. Compliance with the legislative requirements may require significant expenditures by us such as expenditures on additional data centers, servers and other

infrastructure or software development. Data retention may also harm our reputation with users and make our services less competitive in comparison with the services provided by companies located in other jurisdictions that do not require the mandatory retention of data relating to their users. Failure to comply with the requirements of the new legislation may lead to our services being unavailable for our users in Russia.

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 to prohibit the advertising of medical services; these restrictions were loosened to some degree in June 2014. Further amendments to legislation regulating advertising may impact our ability to provide some of our services or limit the type of advertising we may offer. 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 one or more of our markets, and could impose limitations on our operational flexibility that may adversely affect our business, financial condition and results of operations.

Russian anti-monopoly legislation imposes restrictions on companies that occupy a dominant position in a given market. We believe that the authorities have not to date addressed internet advertising in Russia to any significant extent, although we are aware of public statements by government officials suggesting that the authorities may analyze the business of online social networking. In addition, in February 2015, we made a formal request to the Russian Federal Antimonopoly Service (FAS) to open an investigation into whether Google is using its dominant position to promote its search and other services bundled into a single package imposed for pre-installation by device manufacturers, as well as employing exclusive dealing and other restrictive practices to increase its search market share. Were the Russian authorities to investigate the broader internet or online advertising industries, as a result of the Android investigation or otherwise, it is possible that they may conclude that, given our market share, we hold a dominant position in one or more of the markets in which we operate. This 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 barriers to enter the market; 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, have on occasion been subject to actions by public authorities that some have characterized as unpredictable or politically motivated.

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, are entrusted with a high degree of discretion and have at times exercised their discretion in ways that may be perceived as selective or unpredictable, 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 2014 a high-ranking Russian official made public statements about Yandex that were perceived by some to be negative, following which the price of our Class A shares dropped significantly.

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 automatic 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. See also “—The legal framework governing internet services and e commerce in Russia and the other countries in which we operate is in the process of development, 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.”

The Russian parliament may adopt and government officials may apply unpredictable, 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. Businesses operating in Russia can also be significantly affected by the rapid and unpredictable adoption of legislation, which can restrict or prohibit business practices that were previously permitted. For example, in 2013 the stock prices of a Russian bank focused on distance banking services and a company offering instant payment services dropped sharply after the news about possible introduction of new laws that could impact their operations. Following the adoption in 2014 of amendments to the Russian Mass Media Law restricting foreign ownership and control of mass media, the stock price of a television broadcaster operating in Russia and listed on a foreign stock exchange dropped significantly.

If the Russian government were to impose limitations on foreign ownership of internet businesses in Russia, it could materially adversely affect our group and the value of our Class A shares.

In October 2014, an amendment to the Russian law “On Mass Media” was adopted that will reduce the permitted level of foreign ownership in companies that hold Russian mass media registrations. The law will come into force on January 1, 2016, by which time each Russian mass media entity must comply with the requirement that non-Russian entities and individuals in the aggregate shall beneficially own or control, directly or indirectly, no greater than 20% of the relevant mass media entity. Yandex's principal businesses in Russia are not currently required to register as mass media, and therefore this new law is not applicable to our business. Were a new law with a similar regulation to be adopted that imposed a limitation on foreign ownership of internet businesses such as ours, or were the mass media law to be amended to require that our businesses register as mass media or implement a separate registration for online services, this could require a significant change in our operating or ownership structure, which could materially adversely affect our operations and/or the value of our Class A shares.

Our Yandex.Traffic service is currently registered as an information agency. We are evaluating a restructuring of this part of our business to comply with the requirements of the mass media law, and do not expect that these requirements will adversely affect our core business.

Existing restrictions on foreign ownership 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 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 there have previously been draft amendments under consideration by the Russian State Duma, which, if adopted, would include certain internet companies that have large audiences within the scope of this law. Amendments effective as of December 2014 further extended the scope of the Strategic Companies Law to include transactions on stock markets and acquisitions of fixed assets of strategically important companies equaling or exceeding 25% of such entity’s book value as reported in its latest financial statements.

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 Anti-Monopoly 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 Anti-Monopoly 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 Anti-Monopoly 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, including jointly with other unrelated foreign investors controlled by a foreign state or international organization.

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, because 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 efforts 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. In addition, the United States and European Union have imposed “sectoral” and related sanctions on named Russian banks in connection with developments in Ukraine. See “—The current geopolitical conflict in Ukraine and related international economic sanctions may continue to adversely affect the Russian economy and the value of investments in Russia, and could harm our business, financial condition and results of operations.”

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 unpredictable 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 major legislative developments in the Russian tax regime, such as implementation of the new transfer pricing rules, which came into effect in 2012, anti-offshore and CFC rules, which came into effect in 2015, to a large extent resemble the OECD approach but may be implemented in a way which is not in line with international practice 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 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 sheet.

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, with a tax audits routinely undertaken at least every two years. The last tax audit of our principal Russian operating subsidiary covering 2010, 2011 and 2012 was completed in 2014, which means that activities prior to December 31, 2012 are effectively closed to a tax audit. However, a higher tax authority may conduct an audit for the financial year ending December 31, 2012.

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 2014, our principal Russian operating subsidiary distributed limited dividends to our parent company (Yandex N.V.) and applied withholding tax at a 5% rate in reliance on the provisions of the Netherlands-Russia tax treaty.

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%.

Moreover, one of the requirements for applying withholding tax at a rate of 5% of dividends under the Russian-Dutch Double Tax Treaty is that the income recipient should be the beneficial owner of the income. Effective from January 2015, the definition of “beneficial owner” of income for the purposes of application of double tax treaties was introduced into the Russian Tax Code. According to the introduced definition, a company is considered a beneficial owner of income if such person, by virtue of

direct and/or indirect participation in an entity, or control over an entity, or other circumstances, has the right to use and/or dispose of this income, or for the benefit of which another person is entitled to use the income received. In other words, this is a company that actually benefits from the income paid and determines its further economic destiny. In this case, all the functions carried out by such persons as well as the existing powers and the risks taken in respect of the income paid should be taken into consideration. A Russian entity is entitled to request a confirmation from a foreign entity that the latter has the beneficial right to receive the corresponding income. If beneficial ownership requirements are not met, application of the 5% withholding tax rate may be challenged by the tax authorities.

Russian tax rules 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 and beneficial ownership which were recently introduced, may change or interpretation may change, thus triggering changes in taxation of dividends from our Russian subsidiaries to our parent company in the future.

The recently adopted anti-offshore and controlled foreign corporation (CFC) rules that came into effect in 2015 are generally ambiguous and lacking sufficient interpretive guidance. Based on the current state of the law, we do not anticipate recognition of Russian tax residence as Yandex N.V. does not have any artificial and non-substantive structures without assets and qualified personnel, and is managed by a Board of Directors consisting principally of non-Russian residents. Also, based on the presently available interpretation, we believe that Yandex N.V. and our material subsidiaries should not be recognized as CFCs in 2015. However, there are risks that any these rules may be interpreted or applied in a manner that may have an adverse effect on our results of operations.

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 the Dutch parent company. Our current policy is to retain substantially all our earnings at the level of our principal subsidiary for investment in Russia.

We did not provide for dividend withholding taxes on the unremitted earnings of our non-Dutch subsidiaries in 2013 or earlier years because we considered them to be permanently reinvested outside of the Netherlands. In the first quarter of 2014, we began to accrue for a 5% dividend withholding tax on the portion of the current year profit of our principal Russian operating subsidiary that we considered not to be permanently reinvested in Russia. As of December 31, 2014, we had an accrual of RUR 460 million (\$8.2 million) for dividend withholding tax. 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, 2014, the cumulative amount of unremitted earnings in respect of which dividend withholding taxes have not been provided is RUR 44,787 million. The applicable withholding tax rate is 5% and the amount of the unrecognized deferred tax liability related to these unremitted earnings was RUR 2,239 million as of December 31, 2014. 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 for Russian tax purposes. 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 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 for personal and social taxes or VAT, and may not accept our deduction of these expenses, as the tax authorities claimed in our tax audit for the years 2010-2012. In 2014, we stopped our cooperation with aggregators but it is possible that the tax authorities may make claims for the prior open years 2013 and 2014.

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. In many respects, the risks inherent in conducting business in these countries are similar to those in Russia set out above.

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 Russia or developing markets or to high-growth technology companies generally 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.

Macroeconomic events in Russia in recent periods have adversely affected the value of traded securities of companies with significant operations in Russia, including our Class A shares. In addition, the market for technology and other growth companies has generally experienced severe price and volume fluctuations that have often been disproportionate to the operating performance of those companies. These broad macroeconomic, 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:

- macroeconomic and geopolitical developments;
- 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 15, 2015, our founders, directors and senior management (and their affiliates) together own 80.77% of our outstanding Class B shares and 1.29% of our outstanding Class A shares, representing in the aggregate 57.17% of the voting power of our outstanding shares. In particular, our founder, Mr. Volozh, directly or indirectly controls 56.62% of our outstanding Class B shares representing 39.81% 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.

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.

Because of the secondary listing of our Class A shares on the Moscow Stock Exchange, we are subject to additional disclosure and compliance requirements that may conflict with those imposed by the SEC and NASDAQ, and we may experience trade fluctuations based on arbitrage activities.

In June 2014, we established a secondary listing of our Class A shares on the Moscow Stock Exchange. Pursuant to that listing, we and our insiders must comply with certain disclosure and other obligations that may differ in timing and substance from those applicable to our NASDAQ listing. In addition, many of the obligations imposed by the Moscow Stock Exchange are formalistic in nature, and that exchange has limited experience in the application of its requirements to companies incorporated outside Russia. As a result, we may not be able to comply with all formal obligations in a manner that is consistent with the requirements or interpretations of that exchange.

In addition, this secondary listing may create opportunities for trading arbitrage, particularly in connection with currency fluctuations between the trading in U.S. dollars on NASDAQ and in rubles on the Moscow Stock Exchange, which could impact the trading price of our Class A shares.

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 2014 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 at Schiphol Boulevard 165, 1118 BG, Schiphol, the Netherlands (tel: +31-20-206-6970). The executive offices of our principal operating subsidiary are located at 16, Leo Tolstoy Street, Moscow 119021, Russian Federation (tel. +7-495-739-7000).

For a discussion of our principal acquisitions and disposals in 2014, see “Operating and Financial Review and Prospects—Recent Acquisitions—Recent Disposals.”

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 also serves Turkey, Ukraine, Belarus and Kazakhstan. We generated 60.9% of all search traffic in Russia in 2014 and 58.0% in March 2015, according to Liveinternet.ru., and in December 2014 our Yandex sites attracted 67.8 million unique visitors in Russia, and 13.3 million in Turkey, according to comScore MMX. In December 2014, Yandex websites attracted 9.8 million unique visitors in Ukraine and 2.5 million in Belarus, according to Gemius, and 2.2 million 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 apps and browser 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, Yandex.Maps and Yandex.Auto.

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 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 317,000 advertisers in the fourth quarter of 2014 and 558,000 in the full year 2014, compared with 277,000 in the fourth quarter of 2013 and 460,000 in the full year 2013.

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.Images 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,

LiveJournal and Odnoklassniki, as well as the full feed of all public posts on Twitter. In 2014, we announced our agreement with Facebook, which provides us 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.

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 range of possible meanings, based on query statistics. 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. We continuously strive to develop innovative new concepts for our search engine, in addition to existing programs and concepts, such as Dublin, Islands and Atom. Dublin offers users better personalized searches based on both their short-term and long-term interests. 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. Atom 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.

Mobile Search and Applications

We offer our search and many other services in mobile browser versions and apps designed for an optimal user experience on mobile devices. We support mobile phones, tablet devices, internet-connected TVs and navigation devices. Yandex is currently included as the default search engine on certain mobile handsets sold in Russia, and as one of the search options in the Safari browser on Apple devices running iOS7 and iOS8. Our services and applications are also distributed by a number of OEMs, retailers, browser makers, and telecom operators in Russia. We believe that these efforts are an important part of our overall marketing strategy and serve to increase our user base.

We offer a number of apps for mobile devices running iOS, Android and Windows Phone operating systems. The largest of them are Yandex.Browser and Yandex.Search, Yandex.Maps, Yandex.Navigator, Yandex.Metro, Kinopoisk, Yandex.Mail, Yandex.Store, Yandex.Transport, Yandex.Weather, Yandex.Market and Auto.ru. Other popular apps include Yandex.Disk, Yandex.Music, Yandex.Timetables, Yandex.Translate, Yandex.Taxi and Yandex.Kinoafisha. We are continuing to expand the scope of our mobile offering with respect to both apps and platforms and offer a number of popular apps, Yandex.Transport, Auto.ru and Yandex.Taxi being among our most rapidly growing apps in terms of number of monthly users in 2014.

Yandex.Transport. Our mobile application that provides public transport schedules, with real-time information and live arrival times. We launched it in 13 Russian cities in spring 2014, and added Moscow in early 2015. After the launch in Moscow, the number of monthly active users more than tripled, and Yandex.Transport entered the Top-20 list of the mobile apps we offer.

Auto.ru. We completed the acquisition of Auto.ru in late 2014 and have continued to improve its mobile presence and monetization, more than doubling mobile usage of this service. We re-launched mobile apps for iOS and Android in 2014.

Yandex.Taxi. Our online taxi service processed several million orders in 2014; approximately 90% of them were ordered through the mobile app.

The percentage of our total search traffic that was generated from mobile devices increased from approximately 16% in the further quarter of 2013 to approximately 24% in the fourth quarter of 2014, while the percentage of our total revenues generated from mobile devices increased from approximately 12% to approximately 18% between those periods.

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. 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. 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. We aggregate and present local, national and international news, currently from more than 6,600 news sources worldwide. The selection of news is fully automated and neutral from an editorial perspective.
- **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 the most popular movies, watch trailers, get movie news and personalized recommendations, as well as show times and tickets.
- **Yandex.Music** is our music streaming service, which is offered as both a web service and an app for all three major mobile platforms. It offers millions of tracks from both major global publishers and indie groups. In 2014 a new recommendation tool was implemented to help users navigate the vast number of songs and albums as well as to discover new music. The web version can be enjoyed for free, while the mobile app offers basic "radio" functionality free of charge and other functions, including music downloads, for a monthly fee after a trial period.
- **Yandex.Master.** A new service through which users can quickly and efficiently find local professionals to do work around their homes including cleaning, renovations, plumbing and other handiwork.
- **Auto.ru.** One of the most popular automobile-related websites in Russia, operating the largest and most detailed classifieds catalog for new and used cars in Russia.
- **Other Specialized Search.** We provide numerous other targeted and seasonal search services, including for images, video, music, television, weather, jobs, transportation, cars and real estate.

Personal Services

Yandex.Mail. Yandex.Mail provides users with fast and easy access to their email accounts, featuring a dynamic user interface and social authentication via their accounts on VKontakte, Odnoklassniki, Facebook, Google, Mail.ru or Twitter. A number of features are available to enhance users' experience, including threaded and unthreaded views; direct access to Yandex.Disk, Yandex.Money, and other Yandex' services; 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 both Latin and Cyrillic transliterations of names, and

aggregates all emails from the same sender regardless of the language used. Yandex.Mail also features an unsubscribe button allowing users to opt out from mailing lists in a single click.

Our Yandex.Mail app is available to Android and iPhone users. We introduced a new version of the Yandex.Mail app for Android in September 2014 and for iOS in April 2015. It allows users to work with multiple email accounts, filter and sort emails using Marker, our machine-learning technology that can recognize an email type, and compose emails offline, and offers a number of other features. Our mobile “push-email” technology allows for the instantaneous delivery of new emails to mobile inboxes. 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 are protected by our 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. Our spam filter also adaptively “learns” a user’s personal preferences so that it can effectively include or filter out emails based on their individual history. Our 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.

Yandex.Disk. Our Yandex.Disk service is a cloud-based storage service that allows users to upload, store, read 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. Yandex.Disk provides users with tools such as editing screenshots, adding filters to photos, listening to music files and watching videos via its platform. The Yandex.Disk mobile app is available for iOS, Android-based and Windows Phone smartphones. With the Yandex.Disk app, working with files and folders can also be managed offline. The app’s interface also allows users to post photos from social networks and store photo albums in Yandex.Disk. Yandex.Disk also serves as a basis for our Yandex.Pereezd (or Move) service which helps users transfer all their data when changing their mobile devices.

Maps and Location-based Services

Yandex.Maps. Our Yandex.Maps provide high-quality, detailed maps of more than 1,100 cities and towns in Russia and more than 240 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 location, find nearby businesses, monitor traffic conditions along particular routes and determine the best routes based on real-time traffic 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. Our 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 traffic congestion monitoring in key cities through Yandex.Traffic, the most popular service of its kind in Russia, featuring detailed maps supporting the route planning feature for the majority of large cities in the world on both desktop and mobile. We were the first service of this kind 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.

Yandex.Navigator. Yandex.Navigator is our free standalone mobile application providing turn by turn navigation and incorporating our real-time traffic information.

Yandex.Taxi. Yandex.Taxi is one of the most popular online taxi booking services in Moscow and is available in a number of other cities across Russia. Today the service works with over 100 Russian taxi companies. The number of orders from mobile devices is continuously growing and now represents more than 90% of all orders within the service.

Yandex.City. In 2014, we launched Yandex.City, an app, providing info on businesses and organizations in Russia. Yandex.City currently has one of the largest databases of user reviews of companies and organizations in Russia, provided by both partner companies and individual users. With its own fact-extraction technology, Yandex.City analyzes users' comments and adds the most valuable information on the service.

Yandex.Transport. In March 2014 we launched our Yandex.Transport mobile app providing users with real-time data on public transport in a number of Russian cities. With Yandex.Transport users can check when a bus, tram or trolleybus they are waiting for will arrive at their stop and where it is now. Early in 2015 Moscow was added to the list of supported cities.

Yandex.Browser

Our browser makes surfing the internet safe and convenient. It is based on the 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 we license, speeding up the download of pages even with slow connections. It also features Yandex's proprietary anti-virus protection as well as built-in Kaspersky Labs's secure system. Our browser also provides our proprietary translation capabilities. Yandex.Browser is also able to re-establish broken file loading, has an automatically compiled tableau menu, synchronization between desktop and mobile versions, and "quick call" capability, among other things. We also offer mobile versions of Yandex.Browser for iOS and Android smartphones and tablets.

In November 2014 we introduced a new, streamlined alpha version of our browser. It reflects the current trend in web user experience putting an emphasis on interaction and personalization. It is designed to respond to all the current needs of a web user, which are no longer limited to mere browsing, but now also include shopping, reading websites in a foreign language, and booking flights, trains, taxis, hotel rooms and restaurant tables.

Yandex.Browser also serves as an instant information source providing answers to some of the most popular queries. After typing a search in the browser's smartbox, the user can see a snippet about what they are searching for—a thing, a product, a person or an event—without having to look at the search results page.

The share of searches processed through Yandex.Browser in Russia reached 12.9% in March 2015, and our browser's share in terms of the number of visitors (cookies) on the Russian browser market was 7.9% in March, according to Liveinternet.ru.

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. We now offer some of the merchants participating in Yandex.Market an opportunity to sell goods and services using a 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 behavior, 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.

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, English and Turkish. Advertisers may also work with our sales staff to design and implement more specialized or sophisticated advertising campaigns. We also offer a 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 several general categories: top placement (appearing above the organic search results and featuring up to three paid links), southern block (appearing below the organic search results and featuring up to four paid links), or guaranteed placement and rotation (both appearing to the right of the organic search results, up to nine paid links in total). 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
- **Metrika.** Yandex.Metrika, the most popular web analytics system in Russia, 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. In 2014 we launched beta-testing of our new Metrika 2.0 which offers wide-ranging possibilities to analyze the data. This version offers more than 50 parameters that can be manipulated by users as they wish, allowing site owners to create custom reports with any sets of parameters in just a few clicks.
- **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.Music. 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.

Our Crypta technology, which is rooted in our proprietary machine learning mechanism MatrixNet, allows us to differentiate users according to their social-demographic characteristics and use this data to better target display advertising.

Through our Real Time Bidding platform, we offer 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.

We are constantly experimenting with new advertising offerings. In February 2014, we announced our advertising partnership for Real Time Bidding with DoubleClick Bid Manager, Google's demand-side platform, which will be connected to Yandex's Real Time Bidding system, while Yandex's demand-side platform, AWAPS, will be connected to Google's real time bidding marketplace, DoubleClick AdExchange. Integration of the platforms is underway.

In September 2014 we acquired the ADOX advertising technology platform, providing services for planning, managing and analyzing advertising campaigns on the internet, and allowing its clients to place banners, mobile ads, videos and other popular formats.

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 text-based and display 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. Our advertising algorithms use our proprietary MatrixNet technology, which optimizes CTR on our network through improved click prediction. In order to provide the best user experience, we allow our users 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 the 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 provides 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 e-Commerce Services

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 catalogues 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. Yandex.Market also operates a CPA model offering participants a single shopping basket for the service.

Launched in 2000, Yandex.Market is 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 70 million offerings in more than 160 product categories from over 16,000 participating retailers. The service also offers a cost per action (CPA) model and a unified basket for purchases on various partnering shops.

Yandex.Market, aims to accommodate the needs of international retailers wishing to sell their products to Russian customers by utilising all the benefits of a technologically advanced platform. Yandex.Market offers international web stores an opportunity to showcase their offers and to target those customers who look to buy products specifically outside of Russia. Product search on Yandex.Market is designed to deliver the most relevant results with the best combination of customer service criteria, including time of delivery or specific payment options, giving domestic retailers an edge over international companies who are often limited in their customer service opportunities in Russia. Any online store anywhere in the world can join Yandex.Market by providing customers with a landing page in Russian, an opportunity to have their purchase delivered to a Russian address, as well as an opportunity to pay for purchases in Russia via a bankcard or electronic money. Dozens of retailers, including China’s LightInTheBox and DHGate, Germany’s Kidsroom.de and Witt International, a US website RevolveClothing, and Italian Yoox, are already offering their products to Russian consumers via Yandex.Market, and we are developing new functionality that would facilitate increased access to international retailers.

In December 2014 Yandex acquired Sovetnik, a Russian start-up offering an e-commerce browser extension. It allows users to check prices for goods and products in any browser by suggesting price comparison for the same product in Yandex.Market.

We are currently developing an online tool to aggregate logistic operators, which will be responsible for offline work, such as assortment of goods, pick up of orders from e-shops and distribution among delivery services.

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 auto repair shops, as well as restaurants or bank branches. 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 services and tools designed for businesses, including:

- **Yandex Data Factory.** In December 2014, we launched Yandex Data Factory aimed at developing big data solutions for businesses and research institutions. Yandex's unique proprietary technologies applied in its own products are now available to help businesses turn large volumes of data they possess into business insights, thereby increasing sales, cutting costs, optimizing processes, preventing losses, forecasting demand, developing new or improving existing methods of audience targeting.
- **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.
- **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 business 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, we offer APIs of Yandex.Elements, Yandex.Direct and Yandex.Translate.
- **SpeechKit Cloud.** SpeechKit Cloud, our voice recognition software development kit, understands Russian and Turkish and is aimed at developers of both web services and mobile apps. It is used in hundreds of mobile apps and serves as a basis for our own Yandex.Diktovka (Dictation) mobile application, which is able to recognize users' speech, turn their words into a transcription and then voice them over, if needed.
- **Yandex.Money.** Yandex.Money, the secure online payment system, offers an easy way to pay for goods and services online. Launched in 2002, Yandex.Money currently has more than 20.0 million registered users and is used as a payment solution by more than 76,000 online stores. According to TNS, Yandex.Money is Russia's most well-known and widely used payment service: 87% of Russians are familiar with it, and 22% regularly use Yandex.Money to make payments. 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 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 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. The fact extraction feature is also a core component of our data provision used widely throughout our specialized search services.

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 ranking 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.

Our Real Time Bidding, or RTB technology, enables interaction between ad placement services with different interfaces, impression algorithms and placement conditions. It allows different services to take part in auctions together and ties the RTB system that organizes an auction together with websites selling ad impressions, as well as with ad placement systems, known as Demand Side Platforms or DSPs, which buy ad impressions for advertisers, while each DSP may have any number of advertisers placing ads through its service. During a short time period after a user opens a website participating in our RTB system, several actions take place almost simultaneously: the site informs the system that it is ready to display an ad, it transmits information about certain technical parameters (ad format, site address and so on) as well as the user's identification number to the RTB system, which transmits this information to auction participants. DSP systems analyze the attractiveness of the impression and submit their bids, based upon two factors: advertisers' demand (target audience, price ceiling, and so on), and information about the user whose ID number is shown. Once the bids have been placed, the RTB system selects the winner, who receives the right to display an ad. Several ad placement services take part in Yandex's auctions, including Yandex services—Yandex.Direct and AWAPS.

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 Moscow and other regions of Russia. We also rent space in co-location centers in Amsterdam, the Netherlands, and in Ashburn, Virginia. We have received permission to operate the first phase of our new data center in Finland, while other phases are currently under construction at that site. 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 sales offices in a number of cities in Russia and Ukraine, as well as Lucerne, Switzerland, and Newburyport, Massachusetts, the USA. 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 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 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 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, in Russia and the other CIS countries where we are present, as well as in 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 our brand awareness in Russia. We also organize and sponsor a wide range of informational seminars, including events for professionals, such as seminars on Yandex.Direct for advertisers and on API's 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 computer science, mathematics, and information search and retrieval in Russia. Our initiatives include the Yandex School of Data Analysis, which we founded in 2007 and from which we recruit developers.

In April 2014, we announced the opening of the Computer Science Faculty at the Higher School of Economics to educate students in two principal areas—applied mathematics and software engineering. The faculty offers bachelor's, master's and doctorate courses, and started courses in September 2014. We believe it is important to invest in talent as it is the main asset of any innovative company.

Our Tolstoy Summer Camp, launched in 2013, is aimed to support up-and-coming projects and original ideas in IT. It is a boot-camp for future ideas and projects. During the two months the program participants are able to benefit from experience and expertise of the Yandex specialists who work with participants as mentors, as well as from international guest lecturers in digital technology, mobile, marketing and communications.

Advertisers

We served ads for 317,000 advertisers in the fourth quarter of 2014 and for more than 558,000 in the full year 2014, compared with 277,000 in the fourth quarter of 2013 and more than 460,000 in the full year 2013. 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 1.5% of our total revenues in 2012, 2013 or 2014.

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, financial and administrative staff. We seek to create a dynamic, fulfilling work environment with the best features of a “start-up” atmosphere, encouraging equal participation, creativity, the exchange of ideas and teamwork.

Our total headcount increased from 3,761 at December 31, 2012, to 4,902 at December 31, 2013 and 5,616 at December 31, 2014. As of December 31, 2014, we had 3,329 employees in product development, 1,826 in sales, general and administration, and 461 in cost of sales.

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.

Our patent department is responsible for developing and implementing our group-wide IP protection strategy in selected jurisdictions. We have filed more than 150 patent applications to date, some of which have already resulted in issued patents. We also have 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. 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. We have entered into a partnership with Mail.ru pursuant to which Mail.ru uses the Yandex.Direct advertising system to power paid search results on its 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:

	2012	2013	2014	March 2015
Yandex	60.2%	61.8%	60.9%	58.0%
Google	26.2%	26.2%	29.3%	33.6%
Mail.ru	8.5%	8.6%	7.3%	6.4%

We also face competition from the Russian and international websites of Microsoft and Yahoo!, as well as other established companies and start-ups 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, and Mail.ru's V Kontakte, 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 from 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. In February 2015, we made a formal request to the Russian Federal Anti-Monopoly Service to open an investigation into whether Google is using its dominant position in mobile operating systems to promote its search and services through its requirement that device manufacturers bundle Google’s Android operating system with Google applications and services.

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

Our principal operating subsidiary currently leases a total of approximately 48,000 square meters in a single location in central Moscow that serves as our group’s headquarters. We or our operating subsidiaries also lease or own office space in a number of cities in Russia and Ukraine. We also lease offices in San Jose, California and Newburyport, Massachusetts; Istanbul, Turkey; Lucerne, Switzerland; Minsk, Belarus; Berlin, Germany; and Schiphol, The Netherlands. We operate data centers in Moscow and other regions of Russia. We also rent space in colocation centers in Amsterdam, the Netherlands, and in Ashburn, Virginia. We have received permission to operate the first phase of our new data center in Finland, while other phases are currently under construction at that site. 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.

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 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”). In early 2014, new regulations were also adopted to limit or in certain cases to prohibit the advertising of medical services; these restrictions were loosened to some degree in June 2014. Further amendments to legislation regulating advertising may impact our ability to provide some of our services or limit the type of advertising we may offer.

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 and certain other countries in which we operate. Before August 2013, there were certain judicial precedents outlining liability of hosting service providers and website owners in Russia. 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.

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, substantial ambiguity still remains particularly because these provisions contain no guidance as to what would constitute “necessary and sufficient measures” in this regard (for example, whether they 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.

Also, in October 2014, new amendments to the Russian Civil Code became effective that introduced strict liability for infringement of intellectual property rights if such infringement is committed in connection with business activities. It is unclear how these amendments will apply to online service providers.

Implementation of this legislation, as well as adoption of similar regulations may impose new requirements on us and our operations and lead to material legal liability, which can be difficult to foresee or limit. See “Risk Factors—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.”

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 the appropriate Russian governmental body, 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. See "Risk Factors—The legal framework governing internet services and e commerce in Russia and the other countries in which we operate is in the process of development, 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."

In 2014, the Russian government introduced legislation regulating popular bloggers. The legislation is drafted in general terms and can potentially apply to any owner of a website or webpage which contains publicly available information and is visited by more than 3,000 internet users daily, whether such site is owned and/or operated by an individual or a legal entity. Popular bloggers have to register with the Russian authorities and bear responsibilities in respect of the content available on their websites or webpages which are substantially similar to the obligations of mass media in Russia (including a requirement to ensure the accuracy of the information made available). Since the scope of this legislation is uncertain, it is unclear whether the new legislation applies to any of the companies of our group.

Moreover, amendments to the Mass Media Law adopted in October 2014 will limit non-Russian ownership and control, direct or indirect, of Russian mass media to no more than 20%, starting in 2016. Accordingly, if our core business were to be required to register as a mass media, it would have a material impact on the ownership structure of our business and could materially adversely affect the value of our Class A shares. See also "Risk Factors—If the Russian government were to impose limitations on foreign ownership of internet businesses in Russia, it could materially adversely affect our group and the value of our Class A shares."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 there have previously been draft amendments under consideration by the Russian State Duma, which, 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, including jointly with other unrelated foreign investors controlled by a foreign state or international organization. Amendments into the Strategic Companies Law effective as of December 2014 have, among other things, specifically stated that transactions on stock markets are subject to restrictions of the aforesaid law.

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.

Amendments effective as of December 2014 further expanded the scope of the Strategic Companies Law to apply to acquisition of fixed assets of strategically important company equal to or exceeding 25% of its book value as per the latest financial statements.

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 and although we believe that we comply with all current requirements, these laws could in the future be interpreted and applied in a manner that is inconsistent with current practice. For instance, in May 2014 the Court of Justice of the European Union established that an operator of a search engine can be obligated to remove from the list of search results links to web-pages containing inaccurate or outdated information related to an individual.

As another example, 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.

In 2014, the Russian government adopted legislation to regulate the "organizers of information distribution". Organizers of information distribution must retain a broad range of data relating to and generated by the users (including the facts of receipt, transfer, delivery and processing of information as well as information about the users) for a period of six months and provide such data to security and investigation authorities at their request. If an organizer of information distribution fails to comply with the above requirements, the Russian authorities can prescribe the blocking of access to the services of such organizer of information distribution.

Recently adopted amendments to the personal data law in Russia will also require that companies store all personal data of Russian users only in databases located inside Russia, starting September 1, 2015. Although our principal data centres are currently located in Russia, this law could limit our flexibility in managing our operations globally.

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 generally do not charge a fee for the online services we provide to our users 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.

The categories of illegal information to which access can be restricted may be interpreted broadly or be expanded. For example, in July 2014 Russian authorities ordered that access to several websites be blocked on the basis of the violation of personal data regulations. The most recent amendment to this legislation, which comes into force on May 1, 2015, has introduced the possibility to require the permanent blocking of websites for violation of copyright and related rights. There is no clarity as to how this measure will be applied in practice. Based on these considerations and the uncertainties in the 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. See “Risk Factors—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.”

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.

Our Class A ordinary shares are currently listed on the NASDAQ Global Select Market and in June 2014 were admitted to trading on Moscow Exchange, therefore we are now required to comply with specific Russian regulation concerning information disclosure, insider trading and certain other requirements as may be applied to foreign issuers 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. In addition, in February 2015, we made a formal request to the Russian Federal Antimonopoly Service (FAS) to open an investigation into whether Google is using its dominant position to promote its search and other services bundled into a single package imposed for pre-installation by device manufacturers, as well as employing exclusive dealing and other restrictive practices to increase its search market share.

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. See "Risk Factors—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."

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 and the leading search provider in Russia. 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.

Advertising revenues accounted for 97.7%, 98.3% and 98.8% of our total revenues in 2012, 2013 and 2014, 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 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. Our Yandex.Market service is priced on a CPC basis, like Yandex.Direct, and also offers cost-per-action, or CPA advertising, introduced in November 2013, which recognizes 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 460,000 advertisers in 2013 and more than 550,000 in 2014. 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 1.5% of our total revenues in 2012, 2013 or 2014. On a geographical basis, we generated more than 93% of our total revenues in each of 2012 and 2013, and more than 91% of our total revenues in 2014, 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, for which we began providing paid search in July 2013, is

subject to mutual, material early termination penalties under specified circumstances. In 2012, 2013, and 2014, none of our ad network partners accounted for more than 10% of our total revenues. In 2014, Mail.ru continued to be our most significant ad network partner.

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 absolute and relative level of 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;
- 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; and
- our ability to effectively monetize mobile search where the number of search queries is growing more quickly than desktop queries.

Segments

Prior to 2014, we operated as a single operating segment. During 2014, we revised our organizational structure, separating several focus areas into product lines and geographies. As a result, our Russian businesses are organized in five operating segments:

- Russian Search and Portal, which includes all services offered in Russia, Belarus and Kazakhstan, other than those described below;
- Russian E-commerce (including the Yandex.Market service);
- Media Services (including Yandex.Music, Kinopoisk.ru, Yandex.TV program and Yandex.Kinoafisha);
- Taxi (including the Yandex.Taxi service);
- Classified Aggregators (including Yandex.Auto, Auto.ru, Yandex.Realty and Yandex.Job).

Additionally, our international operations are organized in three operating segments:

- Turkish Search and Portal;
- Ukrainian Search and Portal; and
- Data Factory (including the Yandex.Data Factory service).

The Russian Search and Portal and Russian E-commerce segments represent our two reportable segments. The additional operating segments described above do not meet the quantitative thresholds for separate reporting and are included in the Other category. Please refer for additional information to note 15 to our audited consolidated financial statements included elsewhere in this Annual Report.

Key Trends Impacting Our Results of Operations

Our results of operations are currently being impacted by the current macroeconomic environment in Russia. This environment is negatively impacting our rate of revenue growth and our operating margins. The depreciation of the Russian ruble has increased our U.S. dollar-denominated expenses, including the rent on our Moscow headquarters and the acquisition of servers and networking equipment, and generally increased the rate of inflation in Russia. In addition to the impact caused by the current macroeconomic environment, the trends described below are key drivers of 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 17.4% in 2012 to 20.8% in 2013 and to 23.7% in 2014 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 remain stable in 2015. 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 only 22% of our total search queries and slightly more than 15% of text-based advertising revenues for the year ended December 31, 2014. 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 increased from RUR 3,984 million in 2012 to RUR 4,936 million in 2013, and then increased to RUR 9,679 million in 2014. We spent approximately 78% of our total capital expenditures in 2014 on servers and data center expansion to support growth in our current operations and potential international expansion. Our depreciation and amortization expense has been gradually declining as a percentage of revenues from 10.3% in 2012 to 9.4% in 2013 and to 8.8% in 2014. We currently expect our capital expenditures in 2015 to increase as a percentage of revenues in comparison to 2014 due to the acquisition of additional servers, primarily to increase the size of our search index with the goal of further enhancing the general quality of our search and growing our search share. As our capital expenditures are to a significant extent denominated in U.S. dollars and euro, the recent depreciation

of the Russian ruble will result in a material increase in capital expenditures and depreciation and amortization both as in absolute terms and as a percentage of revenues.

To support further brand enhancement and respond to competitive pressures, we spent larger amounts in 2013 and 2014 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 2013 and 2014 relates to our efforts to build our brand and expand market share in Turkey, as well as to promote our Yandex.Market and Yandex.Browser and to support our brand in Russia and the other markets in which we operate. 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. For example, in Turkey we 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 continue to incur costs to tailor our site to address the preferences and needs of users in Turkey and to acquire local content and services. 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 continue to 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 Rosstat, the consumer price index in Russia increased by 6.6%, 6.5% and 11.4% in 2012, 2013, and 2014, respectively. The annual rate of inflation increased in 2014 due to depreciation of the Russian ruble. We can provide no assurance that the annual rate of inflation will not appreciate further in 2015. Higher rates of inflation may accelerate increases in our operating expenses and capital expenditures 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

Seismotech

In July 2012, we completed the acquisition of a 25% ownership interest in Seismotech LLC, a Russian-based geophysical data processing company, for RUR 27 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 in full upon the closing of the deal, including \$3.0 million 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 cash consideration of up to \$10.2 million. The components of the consideration include \$4.0 million paid in full upon closing of the deal, \$3.9 million paid into an escrow account that will be released periodically during the four years following the completion date to the KitLocate founders subject to their continued employment with us, and \$2.3 million (RUR 84 million at the exchange rate as of the acquisition date) of earn-out payments to be paid on the achievement of certain distribution milestones.

Auto.ru

In August 2014, we completed the acquisition of Auto.ru group (“Auto.ru”), one of the leading online auto classifieds businesses in Russia, for cash consideration of \$178.4 million paid in full upon closing of the deal, including \$14.0 million paid into an escrow account. The amount in escrow will be paid to the sellers in two instalments, 50% on the date falling 18 months after the completion date and the remaining 50% on the date falling 43 months after the completion date, assuming no warranty claims.

ADFOX

In September 2014, we bought the assets and assumed the liabilities of ADFOX LLC (“ADFOX”) business, which, operates an advertising technology platform that provides services for planning, managing and analyzing advertising campaigns on the internet. We paid cash consideration of \$11.3, \$8.5 million (RUR 336 million at the exchange rate as of the acquisition date) of which was paid upon closing of the deal and \$2.8 million of which will be paid to the sellers in two tranches on the first and the second anniversary of the completion closing assuming no warranty claims.

Other

During the year ended December 31, 2014, we completed other acquisitions and purchases of intangible assets for total consideration of approximately RUR 347 million.

A further description of the acquisitions and their accounting implications can be found in note 4 of our audited consolidated financial statements included elsewhere in this Annual Report.

RosTaxi

In January 2015, we bought the assets and assumed the liabilities of the RosTaxi (“RosTaxi”) business, which operates a taxi fleet management application. We paid cash consideration of up to RUR 500 million, including a deferred payment of up to RUR 380 million, subject to successful technical integration and client base transition, and contingent payment for post acquisition services of the founders of up to RUR 500 million payable in our Class A ordinary shares on the third anniversary of the closing, depending on the number of qualifying taxi trips.

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 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 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 consolidated results of operations as a percentage of revenues for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
Revenues	100.0%	100.0%	100.0%
Operating costs and expenses:			
Cost of revenues	25.0	26.8	28.2
Product development	14.8	14.8	17.5
Sales, general and administrative	17.0	16.5	15.3
Depreciation and amortization	10.3	9.4	8.8
Total operating costs and expenses	67.1	67.5	69.8
Income from operations	32.9	32.5	30.2
Interest income	3.5	4.3	1.7
Other income, net	0.4	5.5	12.4
Net income before income taxes	36.8	42.3	44.3
Provision for income taxes	8.2	8.2	10.8
Net income	28.6%	34.1%	33.5%

Our consolidated operating margin has decreased each year under review from 32.9% in 2012 to 32.5% in 2013 and 30.2% in 2014. 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 and to increases in rent expenses attributable to additional office space we began leasing in Moscow in May 2014 and to the fact that rent for our Moscow headquarters is U.S. dollar-denominated.

The following table presents our historical results of operations by reportable segment for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
Revenues			
Russian Search and Portal	25,828	35,294	45,814
Russian E-commerce	2,081	2,907	3,130
Other	1,150	1,689	2,334
Eliminations	(292)	(388)	(511)
Total revenues	<u>28,767</u>	<u>39,502</u>	<u>50,767</u>
Operating costs and expenses			
Russian Search and Portal	17,250	22,943	29,420
Russian E-commerce	415	633	1,192
Other	1,564	2,723	4,133
Eliminations	(292)	(388)	(511)
Total operating costs and expenses	<u>18,937</u>	<u>25,911</u>	<u>34,234</u>
Adjusted operating income			
Russian Search and Portal	8,578	12,351	16,394
Russian E-commerce	1,666	2,274	1,938
Other	(414)	(1,034)	(1,799)
Eliminations	—	—	—
Total adjusted operating income	<u>9,830</u>	<u>13,591</u>	<u>16,533</u>

Eliminations represent the elimination of transaction results between the reporting units, primarily related to advertising. Operating costs and expenses of reporting units excludes share-based compensation expense.

Revenues

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

	Year ended December 31,					
	2012		2013		2014	
	RUR	% of Revenues	RUR	% of Revenues	RUR	% of Revenues
(in millions of RUR, except percentages)						
Advertising revenues(1):						
Text-based advertising:						
Yandex websites	20,610	71.6%	27,584	69.8%	35,228	69.4%
Yandex ad network websites	4,898	17.1	7,885	20.0	11,410	22.5
Total text-based advertising	25,508	88.7	35,469	89.8	46,638	91.9
Display advertising:						
Yandex websites	2,581	9.0	3,185	8.1	3,034	6.0
Yandex ad network websites	11	—	194	0.4	475	0.9
Total display advertising	2,592	9.0	3,379	8.5	3,509	6.9
Total advertising revenues	28,100	97.7	38,848	98.3	50,147	98.8
Online payment commissions(2)	552	1.9	394	1.0	—	—
Other revenues	115	0.4	260	0.7	620	1.2
Total revenues	28,767	100.0%	39,502	100.0%	50,767	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 11,299 million, or 29.1%, from 2013 to 2014 and by RUR 10,748 million, or 38.2%, from 2012 to 2013. 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. As a result of current macroeconomic environment in Russia, we currently expect the rate of advertising revenue growth in 2015, as compared to 2014, to decrease materially.

Paid clicks on our own websites together with those of our Yandex ad network partners increased 29% from 2013 to 2014 and 38% from 2012 to 2013. The average cost-per-click on our own websites together with those of our partners in the Yandex ad network increased 2% from 2013 to 2014 and 1% from 2012 to 2013, 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 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)
First Quarter 2014	49	(5)
Second Quarter 2014	36	2
Third Quarter 2014	19	8
Fourth Quarter 2014	18	3

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 12% from fall 2010 to fall 2014, reaching 72.3 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 12% from fall 2011 to fall 2012, 9% from fall 2012 to fall 2013, and 9% from fall 2013 to fall 2014, according to FOM.
- *Increased traffic and search market share; growth in mobile search queries.* Our share of the Russian internet search market increased from 60% in 2012 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. In 2014 our share decreased to 61%. For the first quarter of 2015, our share was 59%. Mobile search traffic as a percentage of our overall search traffic has been continually growing and in the full year 2014 comprised 22% of all search queries, compared with 14% in 2013, 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 56.3 billion in 2012, to RUR 71.7 billion in 2013 and to RUR 84.6 billion in 2014, 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 59% in 2014.

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 6.9% of total revenues in 2014, compared with 8.5% in 2013 and 9.0% in 2012. The decrease in 2014 is primarily due to the macroeconomic environment in Russia. We expect display advertising revenues to be impacted more significantly than text-based ad revenues by the current economic environment.

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 our Yandex.Taxi service.

Revenues by reportable segment. Our revenues attributable to Russian Search and Portal segment increased by RUR 10,520 million, or 29.8%, from 2013 to 2014 and by RUR 9,466 million, or 36.7%, from 2012 to 2013. The growth in this segment's revenues is in line with growth in our advertising revenues. Russian Search and Portal revenues accounted for approximately 90.2% of total revenues in 2014, compared with 89.3% in 2013 and 89.8% in 2012.

Our revenues attributable to Russian E-commerce segment increased by RUR 223 million, or 7.7%, from 2013 to 2014 and by RUR 826 million, or 39.7%, from 2012 to 2013. Russian E-commerce revenues accounted for approximately 6.2% of total revenues in 2014, compared with 7.4% in 2013 and 7.2% in 2012. The decrease of this segment's share in total revenues in 2014 is primarily due to impact of the macroeconomic environment in Russia following the significant depreciation of the Russian ruble and increasing competition in the industry.

Our revenues attributable to the other operating segments increased by RUR 645 million, or 38.2%, from 2013 to 2014 and by RUR 539 million, or 46.9%, from 2012 to 2013. These revenues accounted for approximately 4.6% of total revenues in 2014, compared with 4.3% in 2013 and 4.0% in 2012.

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 and as a percentage of revenues in the near term; 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 largest distribution partner since 2012, Opera, accounted in aggregate for 23.7% of our distribution costs in 2014, 28% in 2013 and 37% in 2012. The Opera agreement also provides for a 12-month “revenue tail” period should that agreement be terminated.

Cost of revenues also includes the expenses associated with the operation of our data centers, including related personnel costs, rent, utilities and 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:

	Year ended December 31,		
	2012	2013	2014
	(in millions of RUR, except percentages)		
Traffic acquisition costs:			
Traffic acquisition costs related to the Yandex ad network	3,128	5,377	7,520
Traffic acquisition costs related to distribution partners . .	1,652	2,473	3,556
Total traffic acquisition costs	4,780	7,850	11,076
<i>as a percentage of revenues</i>	<i>16.6%</i>	<i>19.9%</i>	<i>21.8%</i>
Other cost of revenues	2,408	2,756	3,260
<i>as a percentage of revenues</i>	<i>8.4%</i>	<i>7.0%</i>	<i>6.4%</i>
Total cost of revenues	7,188	10,606	14,336
<i>as a percentage of revenues</i>	<i>25.0%</i>	<i>26.8%</i>	<i>28.2%</i>

Cost of revenues increased by RUR 3,730 million, or 35.2%, from 2013 to 2014, primarily due to a RUR 3,226 million increase in traffic acquisition costs, and by RUR 3,418 million, or 47.6%, from 2012 to 2013, primarily due to an increase of RUR 3,070 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, both for our text-based and our display advertising, increased by RUR 2,143 million from 2013 to 2014 and by RUR 2,249 million from 2012 to 2013, 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 1,083 million from 2013 to 2014 and by RUR 821 million from 2012 to 2013 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 16.6% in 2012 to 19.9% in 2013 and 21.8% in 2014, 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 broadly flat, at 63% in 2014 compared with 66% in 2013 and 64% in 2012, 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 2012, 9% in 2013 and at 10% of text-based revenue in 2014.

Other cost of revenues decreased as a percentage of total revenues from 7.0% in 2013 to 6.4% in 2014, but increased by RUR 504 million in absolute terms mainly due to an increase of RUR 227 million in personnel costs, RUR 254 million in content acquisition and costs for outsourced services, RUR 119 million of rent and utilities costs related mainly to our Moscow premises and RUR 40 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 136 million starting from 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 380 as of December 31, 2012, including 67 employees of Yandex.Money, to 387 as of December 31, 2013 and to 461 as of December 31, 2014.

In 2013, other cost of revenues increased by RUR 348 million compared to 2012, primarily due to an increase of RUR 168 million in personnel costs, RUR 170 million in rent and utilities costs related mainly to our data centers, RUR 32 million in additional costs for outsourced services and RUR 28 million in additional share-based compensation expense, partly offset by RUR 50 million decrease in costs of sales related to Yandex.Money.

We anticipate that cost of revenues will continue to increase in absolute terms primarily as a result of increases in traffic acquisition, content and data center costs, but will remain flat as a percentage of revenues in the near term. The primary drivers of increases in our future traffic acquisition costs are the increase 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, partly offset by the change in the mix of Yandex ad network partners to partners with more favourable terms. 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, in less favorable revenue-sharing arrangements as result of increased competition for these arrangements with existing and potential new partners results.

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,		
	2012	2013	2014
	(in millions of RUR, except percentages)		
Product development expenses	4,274	5,827	8,842
as a percentage of revenues	14.9%	14.8%	17.5%

Product development expenses increased by RUR 3,015 million, or 51.7%, from 2013 to 2014 and by RUR 1,553 million, or 36.3%, from 2012 to 2013. These increases were primarily due to increases in personnel expenses, office rental costs for our Moscow headquarters, which are U.S. dollar denominated, and share-based compensation resulting from increases in headcount and salary over the periods. Development personnel headcount increased from 2,027 as of December 31, 2012, including 71 employees of Yandex.Money, to 2,924 as of December 31, 2013 and to 3,329 as of December 31, 2014. As a percentage of revenues, product development expenses increased from 2013 to 2014 reflecting more rapid growth in personnel costs. 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 compared with 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.

In light of the current macroeconomic environment, we anticipate that product development expenses will increase in absolute terms and as a percentage of revenues in 2015.

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>2012</u>	<u>2013</u>	<u>2014</u>
	<u>(in millions of RUR,</u>		
	<u>except percentages)</u>		
Sales, general and administrative expenses	4,900	6,537	7,782
as a percentage of revenues	17.0%	16.5%	15.3%

Sales, general and administrative expenses increased by RUR 1,245 million, or 19.0%, from 2013 to 2014 and by RUR 1,637 million, or 33.4%, from 2012 to 2013, but decreased as a percentage of revenues from 2013 to 2014. The increase in absolute terms was due to increases in personnel expenses of RUR 547 million in 2014 compared to 2013 and of RUR 210 million in 2013 compared to 2012. The increase in personnel expenses resulted from a rise in sales, general and administrative headcount from 1,354 as of December 31, 2012, including 137 employees of Yandex.Money, to 1,591 as of December 31, 2013 and to 1,826 as of December 31, 2014. In addition, increased headcount and depreciation of the Russian ruble resulted in corresponding increases in allocable office rent and utilities of RUR 340 million in 2014 compared to 2013 and of RUR 99 million in 2013 compared to 2012. The increase in headcount across all functional areas from 2014 to 2013 also resulted in increases in general and administrative expenses, including an increase of RUR 105 million in business travel expenses partially driven by the geographical expansion of our business, and RUR 53 million in recruiting and training expenses.

With respect to 2014 compared to 2013, additional factors contributing to the overall increase were an increase of RUR 71 million in share-based compensation expense, and an increase of RUR 132 million in bank commission expenses as we started to record commissions for online payments processing by Yandex.Money since July 2013. With respect to 2013 compared to 2012, an additional factor contributing to the overall increase was an increase of RUR 808 million in advertising and marketing expenses driven primarily by increased advertising and marketing expenses in Russia and in Turkey, RUR 143 million in legal, audit and consulting expenses, RUR 136 million in share-based compensation expense, RUR 122 million in business travel expenses, RUR 52 million in recruiting and training expenses and RUR 83 million in bank commission expenses related to Yandex.Money.

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 2014 compared to 2013 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 and as a percentage of revenues in 2015 as we continue to invest in 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:

	Year ended December 31,		
	2012	2013	2014
	(in millions of RUR, except percentages)		
Depreciation and amortization expense	2,951	3,695	4,484
as a percentage of revenues	10.3%	9.4%	8.8%

Depreciation and amortization expense increased by RUR 789 million, or 21.4%, from 2013 to 2014 and by RUR 744 million, or 25.2%, from 2012 to 2013. The increases in absolute terms for 2014 as compared to 2013 and for 2013 as compared to 2012 were primarily due to RUR 313 million and RUR 539 million increases, respectively, in depreciation expense related to server and network equipment and infrastructure systems, RUR 310 million and RUR 138 million increases, respectively, in amortization expense related to purchased technologies and licenses, and RUR 48 million and RUR 57 million increases, respectively, in depreciation expense related to office furniture and equipment. In 2014 compared to 2013, the increase in absolute terms was also attributable to a RUR 131 million increase in amortization expense related to intangible assets. The increases in depreciation and amortization expense for these categories was the result of capital expenditures in 2012, 2013 and 2014 and the acquisitions of new businesses, including SPB Software in November 2011, Kinopoisk in October 2013 and Auto.ru in August 2014.

We anticipate that depreciation and amortization expense will increase in absolute terms and as a percentage of revenues in the near term as we continue to invest in our technology infrastructure and in business acquisitions. The recent depreciation of the Russian ruble will also result in material increase in our capital expenditures and respective depreciation and amortization.

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:

	Year ended December 31,		
	2012	2013	2014
	(in millions of RUR, except percentages)		
Share-based compensation expense	376	754	1,210
Share-based compensation expense as a percentage of revenues . . .	1.3%	1.9%	2.4%

Share-based compensation expense increased by RUR 456 million, or 60.5%, from 2013 to 2014, because of new equity-based awards granted in 2013 and 2014 and material depreciation of the Russian ruble, as share-based compensation expense is denominated in U.S. dollars.

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.

We anticipate that share-based compensation expense will increase in absolute terms and as a percentage of revenues in near term because of new equity-based awards and recent depreciation of the Russian ruble.

Operating Costs and Expenses by reportable segments. Our operating costs and expenses attributable to the Russian Search and Portal segment increased by RUR 6,477 million, or 28.2%, from 2013 to 2014 and by RUR 5,693 million, or 33.0%, from 2012 to 2013. These increases were primarily due to increases in traffic acquisition costs, depreciation and amortization expense, and personnel expenses and allocable office rent and utilities resulting from increases in headcount and salary over the periods. With respect to 2013 compared to 2012, an additional factor contributing to the overall increase was an increase of RUR 486 million in advertising and marketing expenses.

Our operating costs and expenses attributable to the Russian E-commerce segment increased by RUR 559 million, or 88.3%, from 2013 to 2014 and by RUR 218 million, or 52.5%, from 2012 to 2013. These increases were primarily due to increases in personnel expenses and allocable office rent and utilities resulting from increases in headcount and salary over the periods as we continue to invest in the development of the service. With respect to 2014 compared to 2013, an additional factor contributing to the overall increase was an increase of RUR 209 million in advertising and marketing expenses.

Our operating costs and expenses attributable to the other operating segments increased by RUR 1,410 million, or 51.8%, from 2013 to 2014 and by RUR 1,159 million, or 74.1%, from 2012 to 2013. These increases were primarily due to increases in personnel expenses and allocable office rent and utilities resulting from increases in headcount and salary over the periods. With respect to 2013 compared to 2012, an additional factor contributing to the overall increase was an increase of RUR 306 million in advertising and marketing expenses.

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 notes 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 decreased from RUR 1,717 million in 2013 to RUR 856 million in 2014, as a result of recording interest expense of RUR 1,091 representing coupon and amortization of debt discount and issuance costs related to our convertible notes issued in December 2013.

Interest income, net increased from RUR 1,002 million in 2012 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 Income, Net

Our other income net 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, gain from repurchases of convertible notes and losses and impairment of investments in equity securities.

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

	Year ended December 31,		
	2012	2013	2014
	(in millions of RUR, except percentages)		
Foreign exchange (losses)/gains	(57)	139	6,553
Gain from sale of equity securities/subsidiaries	234	2,137	—
Gain from repurchases of convertible debt	—	—	548
Impairment of investments in equity securities	—	—	(700)
Other	(59)	(117)	(105)
Total other income, net	118	2,159	6,296
<i>Total other income, net, as a percentage of revenues</i>	<i>0.4%</i>	<i>5.5%</i>	<i>12.4%</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. In 2012 and 2013, we recorded in our primary Russian subsidiary as other income, net a RUR 57 million loss and a RUR 127 million gain in 2012 and 2013, respectively, arising from changes in the value of the U.S. dollar compared with the Russian ruble during the year. In 2014, because of the material depreciation of the ruble, we recorded foreign exchange gain of RUR 6,524 million. Although the U.S. dollar value of our U.S. dollar-denominated cash, cash equivalents and term deposits are not impacted by these currency fluctuations, they result 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. In 2014, we repurchased \$150 million in principal amount of our outstanding convertible notes for \$131.1 million resulting in a gain of RUR 548 million. Also in 2014, we recorded an impairment on our minority equity investment in Blekko Inc. of RUR 700 million.

Items recognised as "Other" in "Other income, net" includes 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,		
	2012	2013	2014
	(in millions of RUR, except percentages)		
Provision for income taxes	2,351	3,239	5,455
Effective tax rate	22.2%	19.4%	24.3%

Our provision for income taxes increased by RUR 2,216 million from 2013 to 2014 and by RUR 888 million from 2012 to 2013, primarily as a result of an increase in taxable income.

Our effective tax rate increased by 4.9 percentage points from 2013 to 2014. Our effective tax rate was higher in 2014 than in 2013 because in the first quarter of 2014 we began to accrue for a 5% dividend withholding tax on the portion of the current year profit of our principal Russian operating subsidiary that we considered not to be permanently reinvested in Russia. Adjusted for this tax, our effective tax rate for 2014 would have been 22.2%.

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%.

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, 2014. 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, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014
	(in millions of RUR)							
Consolidated statements of income data:								
Revenues	7,999	9,199	10,218	12,086	10,885	12,158	13,057	14,667
Operating costs and expenses:								
Cost of revenues(1)	1,976	2,158	2,931	3,541	3,332	3,427	3,570	4,007
Product development(1)	1,328	1,381	1,467	1,651	2,004	2,079	2,086	2,673
Sales, general and administrative(1)	1,363	1,530	1,661	1,983	1,762	1,907	1,810	2,303
Depreciation and amortization	879	912	914	990	1,069	1,114	1,095	1,206
Total operating costs and expenses	5,546	5,981	6,973	8,165	8,167	8,527	8,561	10,189
Income from operations	2,453	3,218	3,245	3,921	2,718	3,631	4,496	4,478
Interest income, net	368	452	483	414	172	203	224	257
Other (expense)/income, net	26	17	2,022	94	668	(617)	1,070	5,175
Income before income taxes	2,847	3,687	5,750	4,429	3,558	3,217	5,790	9,910
Provision for income taxes	601	772	783	1,083	878	821	1,418	2,338
Net income	2,246	2,915	4,967	3,346	2,680	2,396	4,372	7,572

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

	Quarter ended							
	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014
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)	24.7	23.5	28.7	29.3	30.6	28.2	27.3	27.3
Product development(1)	16.6	15.0	14.4	13.7	18.4	17.0	16.0	18.3
Sales, general and administrative(1)	17.0	16.6	16.3	16.4	16.2	15.7	13.9	15.7
Depreciation and amortization	11.0	9.9	8.9	8.2	9.8	9.2	8.4	8.2
Total operating costs and expenses	69.3	65.0	68.3	67.6	75.0	70.1	65.6	69.5
Income from operations	30.7	35.0	31.7	32.4	25.0	29.9	34.4	30.5
Interest income	4.6	4.9	4.8	3.4	1.6	1.7	1.7	1.8
Other (expense)/income, net	0.3	0.2	19.8	0.8	6.1	(5.1)	8.2	35.3
Income before income taxes	35.6	40.1	56.3	36.6	32.7	26.5	44.3	67.6
Provision for income taxes	7.5	8.4	7.7	8.9	8.1	6.8	10.8	16.0
Net income	28.1%	31.7%	48.6%	27.7%	24.6%	19.7%	33.5%	51.6%

(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, 2014, we had RUR 49,171 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 in Russia. Our U.S. dollar-denominated holdings as of December 31, 2014 accounted for approximately 54.7% of our cash, cash equivalents and term deposits.

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; we also received net proceeds of \$89.2 million related to the exercise of the underwriters' over-allotment option in January 2014. From time to time, we repurchase and retire outstanding notes. During 2014, we repurchased and retired an aggregate of \$150.0 million face amount of the outstanding notes for \$131.3 million. 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 19.44 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 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 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, 2014 was approximately RUR 53,980 million (\$959.5 million).

We are required to pay 5% withholding tax on all dividends paid from our Russian operating subsidiaries to our parent company. We did not provide for dividend withholding taxes on the unremitted earnings of our foreign subsidiaries in 2013 and earlier years because they were considered permanently reinvested outside of the Netherlands. Starting in 2014, we have begun to accrue for a 5% dividend withholding tax on the portion of the current year profit of our principal Russian operating subsidiary that is considered not to be permanently reinvested in Russia. As of December 31, 2014, the cumulative amount of unremitted earnings upon which dividend withholding taxes have not been provided is approximately RUR 44,787 million (\$796.1 million). We estimate that the amount of the unrecognized deferred tax liability related to these earnings is approximately RUR 2,239 million (\$39.48 million). 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, 2014, 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,		
	2012	2013	2014
	(in millions of RUR)		
Net cash provided by operating activities	11,529	14,705	15,546
Net cash used in investing activities	(10,190)	(710)	(28,589)
Net cash provided by/(used in) financing activities	361	11,461	(11,707)
Effect of exchange rate changes on cash	(205)	513	9,001

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, gain from repurchase of convertible notes and the effect of changes in working capital.

Cash provided by operating activities increased by RUR 841 million from 2013 to 2014. This increase was primarily due to an increase of RUR 3,546 million in net income, offset by a decrease of RUR 1,715 million in non-cash adjustments to net income and a decrease of RUR 990 million in cash provided by changes in working capital. The change in adjustments for non-cash items was primarily due to fluctuations in foreign exchange gains of RUR 6,414 million. Cash provided by working capital decreased between the periods primarily due to significant increases in prepaid expenses and other assets, principally arising from an increase in interest receivable accrued.

From 2012 to 2013, cash provided by operating activities increased by RUR 3,176 million. 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.

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 2014 increased by RUR 27,879 million compared to 2013 as a result of an increase of investments in term deposits (net of proceeds) of RUR 9,763 million, increases in capital expenditures of RUR 4,743 million and of investments in debt securities of RUR 2,546 million, offset by decreases in proceeds from maturities of debt securities of RUR 4,394 million, in proceeds from sale of non-marketable equity securities of RUR 1,903 million, in the amount of cash paid for the acquisition of new businesses of RUR 3,922 million, and cash placed in escrow of RUR 656 million related to contingent compensation payable to the sellers of Auto.ru and Kitlocate. Cash paid for acquisitions of businesses in 2014, net of cash acquired, primarily consists of cash paid for Auto.Ru in August 2014. Investments in debt securities consist of cash paid for Russian corporate bonds and Russian government bonds.

Cash used in investing activities in 2013 decreased by RUR 9,480 million compared to 2012 as a result of increases in RUR 3,448 million in proceeds from maturing debt securities and RUR 1,849 million in proceeds from the 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 KinoPoisk LLC.

Our total capital expenditures were RUR 9,679 million in 2014 and RUR 4,936 million in 2013. Our capital expenditures have historically consisted primarily of the purchase of servers and networking equipment. We also incurred significant capital expenditures in 2013 and 2014 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 2015 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 2014, cash outflow from financing activities was RUR 11,707 million, reflecting RUR 8,423 million used to fund our open market share repurchase program and RUR 6,414 million to repurchase our outstanding convertible notes, (partly offset by RUR 2,981 of proceeds from the additional issuance of our outstanding convertible notes in January 2014), RUR 42 million used for the payment of convertible debt issuance costs along with proceeds of RUR 191 million from share option exercises.

In 2013, financing activities provided RUR 11,461 million in cash, reflecting RUR 19,719 million 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 paid for convertible debt issuance costs.

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, 2014:

	Payments due by period				
	Total	Through 2015	2016 through 2017	2018 through 2019	Thereafter
Long-term principal debt obligations	30,380	—	—	30,380	—
Interest payments	1,368	342	684	342	—
Long-term operating lease obligations	25,353	4,056	7,860	8,344	5,093
Data centers related purchase obligations	2,405	2,357	48	—	—
Other purchase obligations	7,096	2,025	2,188	1,635	1,248
Payments related to business acquisitions	1,200	248	558	394	—
Total contractual obligations	67,802	9,028	11,338	41,095	6,341

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

and obligations related to repayment of our convertible notes due 2018. 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, 2014. 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, 2012, 2013 and 2014, 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,		
	2012	2013	2014
Expected life of the awards (years)	5.51 - 7.02	5.44 - 7.04	5.52 - 7.04
Expected annual volatility	54%	49%	38%
Risk-free interest rate	0.78%	1.77%	1.85%
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, for 2012 and 2013 grants we used historical volatility of our publicly reported share price, after December 2013 we use future volatility of our share prices implied by our convertible debt prices cross-checked with the historical volatility of our publicly reported share price.

We base the risk-free interest rate on the U.S. Treasury yield curve in effect at the grant date.

We did not declare any dividends with respect to 2012, 2013 or 2014 and do not have any plans to pay dividends in the near term. We therefore use an expected dividend yield of zero in our option pricing model for awards granted in the years ended December 31, 2012, 2013 and 2014.

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. We calculate 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.

Tax Provisions

Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. FASB authoritative guidance on accounting for uncertainty in income taxes 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, 2014, 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, or more frequently 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 reporting units 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. We determine whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with the authoritative guidance, and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. 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, 2014, we adopted the Financial Accounting Standards Board (“FASB”) 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 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, 2014, we adopted the FASB accounting standards update on parent’s accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The adoption of these amendments did not have a material impact on our consolidated balance sheet or results of operations.

Effective January 1, 2014, we adopted accounting standards updates 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.

Effective January 1, 2014, we adopted FASB accounting standards update on parent’s accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The adoption of these amendments did not have a material impact on our consolidated balance sheet or results of operations.

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 15,523 million and RUR 6,919 million as of December 31, 2014 and 2013, 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 2,226 million and RUR 972 million in 2014 and 2013, respectively.

Furthermore, the revenues 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, networking and engineering equipment imported by Russian suppliers, can also be materially affected by changes in the dollar-ruble and euro-ruble exchange rate. In the event of a material appreciation of the U.S. dollar against the ruble, such as that which occurred in 2014, the ruble equivalent of these U.S. dollar-denominated expenditures increase and negatively impact our net income and cash flows.

In 2011, we entered into two seven-year lease agreements for an aggregate of approximately 12,000 additional square meters of office space located in our headquarters complex in Moscow. In April 2014, we further extended the existing rent agreements to 2021. The lease of our Moscow headquarters entails outstanding commitments of approximately RUR 24,000 million as of December 31, 2014. 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, 2014, we would have recognized additional foreign exchange losses before tax of RUR 5 million in 2014. If the U.S. dollar had been stronger by 15% relative to the value of the Russian ruble as of December 31, 2014, we would have recognized additional foreign exchange gains before tax of RUR 6 million in 2014.

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 subsidiaries incorporated in other countries is the respective local currency. 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, 2012, 2013 and 2014 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. Total U.S. dollar denominated cash, cash equivalents and term deposits held in the Netherlands amounted to RUR 9,406 million and RUR 22,143 million as of December 31, 2014 and 2013, 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 1,926 million and RUR 1,153 million in 2014 and 2013, respectively.

Subsequent to December 31, 2014, the Russian ruble remained highly volatile against foreign currencies, including the U.S. dollar. The currency exchange rate as of December 31, 2014 was RUR 56.2584 to \$1.00 and, during the period from December 31, 2014 to April 28, 2015, the currency exchange rate of the Russian ruble appreciated to RUR 51.4690 to \$1.00. The lowest rate reached during this period was RUR 69.6640 to \$1.00 as of February 3, 2015. The highest rate reached during this period was RUR 49.6749 to \$1.00 as of April 17, 2015.

Interest Rate Risk

We had cash, cash equivalents and term deposits of RUR 49,171 million and held debt securities of RUR 3,124 million as of December 31, 2014. 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 in aggregate principal amount of 1.125% convertible senior notes due December 15, 2018. In January 2014, we issued and sold an additional \$90.0 million in aggregate principal amount of 1.125% convertible senior notes due December 15, 2018. During 2014, we repurchased and retired \$150 million in aggregate principal amount of the outstanding notes. 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 shares 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	88	2017	2000	Chairman and Non-Executive Director
Arkady Volozh	51	2017	2000	Executive Director and Chief Executive Officer
John Boynton	49	2015	2000	Non-Executive Director
Esther Dyson	63	2015	2006	Non-Executive Director
Elena Ivashentseva . . .	48	2017	2000	Non-Executive Director
Rogier Rijnja	52	2016	2013	Non-Executive Director
Charles Ryan	47	2016	2011	Non-Executive Director
Alexander Voloshin . .	58	2016	2010	Non-Executive Director
Herman Gref	51	2017	2014	Non-Executive Director
Alexander Shulgin . . .	37	N/A	2010	Chief Operating Officer
Gregory Abovsky	38	N/A	2014	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 previously sat 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, 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 delicio.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.

Herman Gref has been a non-executive director since May 2014. Mr. Gref has served since 2007 as the Chief Executive Officer and Chairman of the Executive Board of Sberbank of Russia, one of the largest commercial banks in Russia. From 2000 to 2007, Mr. Gref served as the Minister for Economic Development of the Russian Federation and has previously served in a number of government positions at the federal and regional levels in Russia. Mr. Gref holds a degree in law from Omsk State University, a Ph.D. in law from St Petersburg State University and a Ph.D. in economics. Mr. Gref holds a Citation and Certificate of Honor from the President of the Russian Federation, the Order for Distinguished Service of Grade IV and the Stolypin Medal.

Alexander Shulgin was appointed Chief Operating Officer in 2014. 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.

Gregory Abovsky was appointed Chief Financial Officer in 2014. Mr. Abovsky joined Yandex as Vice President of Investor Relations in January 2013, taking on the additional role of Vice President of Corporate Development in October 2013. Mr. Abovsky began his career in the investment banking division of Morgan Stanley, and has over 14 years of experience in a variety of finance and investment management roles in the media and technology sectors. Mr. Abovsky holds a B.A. in Business Economics and Russian Literature from Brown University and an M.B.A. with High Distinction from Harvard Business School.

Compensation and Share Ownership of Executive Officers and Directors.

The aggregate cash compensation paid or accrued in 2014 for members of our senior management (a total of 23 persons), as a group, was RUR 176 million (\$3.1 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 a new non-executive director an option to acquire 28,000 Class A shares at a price of \$27.74 per share. In May 2014, we granted a new non-executive director an option to acquire 28,000 Class A shares at a price \$33.09 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>	<u>2014</u>
Russia	3,062	3,415	4,312	5,020
Other	250	346	590	596
Total	3,312	3,761	4,902	5,616
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Product development	1,842	2,027	2,924	3,329
Sales, general and administration	1,145	1,354	1,591	1,826
Cost of sales	325	380	387	461
Total	3,312	3,761	4,902	5,616

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 Fourth 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 of options or measurement price of share appreciation rights awards is the closing price per Class A share on the NASDAQ Global Select Market on the grant date. Restricted share unit awards have no exercise or measurement price. 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 $\frac{1}{4}$ th 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.

Equity Award Exchange. In April 2015, we offered certain of our employees the opportunity to exchange outstanding share appreciation rights awards for new restricted share unit awards. As a result of recent economic and market conditions, the value of our Class A shares has fluctuated significantly in recent periods and we believed that restricted share unit awards would provide a better incentive for our employees in these conditions. Each eligible employee was therefore given the opportunity to exchange outstanding share appreciation rights awards for restricted share unit awards on a two-for-one basis (two share appreciation rights for one restricted share unit), subject to longer vesting and exercisability terms. In particular, such replacement awards will vest over a five-year period, compared with the four-year vesting term of the original share appreciation rights awards. A total of 14 employees, including our Chief Operating Officer and Chief Financial Officer, participated in the offer, exchanging a total of 1,663,750 share appreciation rights for a total of 831,875 restricted share units.

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, 2015. Percentage of beneficial ownership is based on 256,919,259 Class A shares and 60,860,605 Class B shares outstanding as of March 14, 2015. 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, 2015					
	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	56.62%	39.81%	10.84%
Alfred Fenaughty(2)	26,250	*	1,400,000	2.30%	1.62%	*
John Boynton(3)	724,850	*	0	—	*	*
Esther Dyson(4)	186,250	*	0	—	*	*
Elena Ivashentseva(5)	1,682,468	*	13,297,636	21.85%	15.56%	4.71%
Rogier Rijnja(6)	15,250	*	0	—	*	*
Charles Ryan(7)	456,142	*	0	—	*	*
Alexander Voloshin(8)	76,250	*	0	—	*	*
Herman Gref(9)	0	—	0	—	—	—
Alexander Shulgin(10)	142,000	*	0	—	*	*
Gregory Abovsky(11)	12,878	*	0	—	—	*
All current directors and senior management as a group (11 persons)(12)						
	3,322,338	1.29%	49,157,320	80.77%	57.18%	16.51%
Principal Shareholders:						
Baring Vostok Private Equity Funds(13)	1,596,765	*	13,297,636	21.85%	15.55%	4.69%
Capital Research Global Investors(14)	21,269,000	8.28%	0	—	2.46%	6.69%
Comgest Global Investors S.A.S(15)	12,585,487	4.90%	0	—	1.45%	3.96%
EuroPacific Growth Fund(16)	16,542,400	6.44%	0	—	1.91%	5.21%
Oppenheimer Funds, Inc.(17)	36,481,537	14.20%	0	—	4.21%	11.48%
Vladimir Ivanov	7,495,000	2.92%	5,318,884	8.74%	7.01%	4.03%
Total shares held by directors, management and 5% holders						
	99,292,527	38.65%	54,476,204	89.51%	74.41%	48.39%

* 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) Includes 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 26,250 Class A shares subject to an option that is currently exercisable. Excludes options to purchase 1,750 Class A shares that are not exercisable within 60 days after March 15, 2015.
- (3) Includes (a) 291,400 Class A shares held by trusts, the beneficiaries of which include Mr. Boynton or members of his family, (b) 325,000 Class A shares held by the John W. Boynton Trust of 2006, (c) 82,200 Class A shares held by The Diomedes Foundation, a charitable organization and (d) 26,250 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 1,750 Class A shares that are not exercisable within 60 days after March 15, 2015.
- (4) Includes 26,250 Class A shares subject to an option held by Ms. Dyson that is currently exercisable, and excludes options to purchase 1,750 Class A shares that are not exercisable within 60 days after March 15, 2015.
- (5) Includes shares held by BC&B Holdings B.V. (“BC&B”). Includes 26,250 Class A shares subject to an option held by BC&B that is currently exercisable, and excludes options to purchase 1,750 Class A shares that are not exercisable within 60 days after March 15, 2015. 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 13. Ms. Ivashentseva disclaims beneficial ownership of these shares except to the extent of her pecuniary interest therein. Also includes 85,703 Class A shares held by Caldwell Associated, a company controlled by Ms. Ivashentseva.
- (6) Includes 12,250 Class A shares subject to an option that is currently exercisable and 3,000 Class A shares held directly by Mr. Rijnja, and excludes options to purchase 15,750 Class A shares that are not exercisable within 60 days after March 15, 2015.
- (7) Includes 454,392 Class A shares held by trusts, the beneficiaries of which include Mr. Ryan or members of his family and by Mr. Ryan directly. Includes 26,250 Class A shares subject to an option that is currently exercisable, and excludes options to purchase 1,750 Class A shares that are not exercisable within 60 days after March 15, 2015.
- (8) Includes 26,250 Class A shares subject to an option held by Mr. Voloshin that is currently exercisable, and excludes options to purchase 1,750 Class A shares that are not exercisable within 60 days after March 15, 2015.
- (9) Excludes options to purchase 28,000 Class A shares held by Mr. Gref that are not exercisable within 60 days after March 15, 2015, and excludes our priority share, held by Sberbank.
- (10) Consists of 142,000 restricted share units held by Mr. Shulgin that are not exercisable within 60 days after March 15, 2015.
- (11) Consists of 12,878 restricted share units held by Mr. Abovsky that are not exercisable within 60 days after March 15, 2015

- (12) Includes options to purchase 200,150 shares that are exercisable within 60 days after March 15, 2015, and excludes restricted share units and options to purchase 181,128 shares that are not exercisable within 60 days after March 15, 2015.
- (13) Includes 13,297,636 Class B Shares. Includes 26,250 Class A shares that are subject to an option that is currently exercisable. Excludes options to purchase 1,750 Class A shares that are not exercisable within 60 days after March 15, 2015. BC&B Holdings B.V. (“BC&B”) is 100% owned by BC & B Coöperatief U.A., a cooperative association with exclusion of liability incorporated under the laws of the Netherlands (“BC&B Coop”). 52.35% of the share capital of BC&B Coop is held by Chouet Nominees Limited (“CHNL”), 23.89% of the share capital of BC&B Coop is held by Baring Vostok Nominees Limited (“BVNL”), 23.76% of the share capital of BC&B Coop is held by Dehus Dolmen Nominees Limited (“DDNL”). Through their ownership of BC&B Coop, therefore, CHNL has the right to control the voting and disposition of 1,003,017 Class A shares and 6,961,378 Class B shares held by BC&B; BVNL has the right to control the voting and disposition of 381,431 Class A shares and 3,176,497 Class B shares held by BC&B; and DDNL has the right to control the voting and disposition of 379,420 Class A Shares and 3,159,761 Class B shares held by BC&B.
- (14) The number of shares reported is based solely on the Schedule 13G filed by Capital Research Global Investors on February 9, 2015. Capital Research Global Investors is a division of Capital Research and Management Company (“CRMC”) and is deemed to be the beneficial owner of the shares as a result of CRMC acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.
- (15) The number of shares reported is based solely on the Schedule 13G filed by Comgest Global Investors S.A.S. on February 6, 2015.
- (16) The number of shares reported is based solely on the Schedule 13G filed by EuroPacific Growth Fund on February 9, 2015.
- (17) The number of shares reported is based solely on the Schedule 13G filed by Oppenheimer Funds, Inc. on February 10, 2015.

Holdings by U.S. Shareholders

As of March 14, 2015, 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 99% and 2% of our outstanding Class A and B shares by number, respectively, representing in the aggregate approximately 31% of our outstanding shares by voting power.

Related Party Transactions

Shareholders Agreement

Shareholders holding an aggregate of approximately 72 million Class A and Class B shares, representing approximately 66.97% 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 53 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 addresses 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 78 million (\$1.4 million) and RUR 125 million (\$2.2 million), respectively, for the year ended December 31, 2014. As of December 31, 2014, the amount of receivables related to payment processing was RUR 46 million (\$0.8 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 Select 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	\$	\$
2014	44.22	16.82
2013	43.15	20.07
2012	27.30	16.66
Quarterly Highs and Lows		
First Quarter 2015	18.42	14.12
Fourth Quarter 2014	28.62	16.82
Third Quarter 2014	35.01	27.80
Second Quarter 2014	35.64	24.00
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
Monthly Highs and Lows		
March 2015	16.02	14.12
February 2015	17.01	14.91
January 2015	18.42	14.89
December 2014	23.98	16.82
November 2014	27.81	24.92
October 2014	28.62	24.44

On March 31, 2015, the closing sale price per share on the NASDAQ Global Select Market was \$15.16.

In June 2014, our Class A ordinary shares were admitted to trading on Moscow Exchange (MOEX) and are currently listed in the Listing A Level 1, top quotation list on MOEX, under the symbol “YNDX”.

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

	<u>High</u> <u>RUR</u>	<u>Low</u> <u>RUR</u>
Quarterly Highs and Lows		
First Quarter 2015	1177	866
Fourth Quarter 2014	1283	991
Third Quarter 2014	1230	1031
Monthly Highs and Lows		
March 2015	1000	866
February 2015	1115	997
January 2015	1177	1075
December 2014	1283	991
November 2014	1239	1183
October 2014	1212	996

On March 31, 2015, the closing sale price per share on Moscow Exchange was RUR893.

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 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.

In 2014 and the first quarter of 2015, we repurchased an aggregate of \$177.8 million face amount of the convertible notes for an aggregate of \$154.0 million in the open market.

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.

Not applicable.

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, 2014. 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, 2014, 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, 2014. 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, 2014, 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, 2014 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, 2014 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 (the “Company”) as of December 31, 2014, 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, 2014, 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 of the Company as of and for the year ended December 31, 2014 of the Company and our report dated April 30, 2015 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 30, 2015

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>2013</u>	<u>2014</u>
	<u>(RUR in million)</u>	
Audit Fees(1)	27.1	25.8
Audit Related Fees(2)	7.8	15.6
Tax Fees(3)	0.9	1.4
All Other Fees	—	—
Total Fees	35.8	42.8

- (1) Audit fees for 2013 and 2014 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 2014.

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

Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid per Shares(2)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(3)
January 1 - 31, 2014	929,125	\$41.2001	929,125	5,397,194
February 1 - 28, 2014	800,000	\$38.1852	800,000	4,597,194
March 1 - 31, 2014	1,238,200	\$31.2890	1,238,200	3,358,994
April 1 - 30, 2014	1,804,577	\$27.2233	1,804,577	1,554,417
May 1 - 31, 2014	1,186,700	\$29.1775	1,186,700	367,717
June 1 - 30, 2014	367,717	\$33.2063	367,717	0
July 1 - 31, 2014	—	\$ —	—	3,000,000
August 1 - 31, 2014	2,000	\$28.4000	2,000	2,998,000
September 1 - 30, 2014	21,000	\$30.0142	21,000	2,977,000
October 1 - 31, 2014	616,355	\$25.3483	616,355	2,360,645
November 1 - 30, 2014	360,645	\$25.9596	360,645	2,000,000
December 1 - 31, 2014	—	\$ —	—	—
Total	7,326,125	\$31.2852	7,326,319	2,000,000

(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 program was completed in June 2014. On July 29, 2014, we announced an additional increase of the amended repurchase program for an additional 3 million shares.

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.

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, 2013 and 2014, 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, 2014. 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, 2013 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, 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, 2014 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 30, 2015, 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 30, 2015

YANDEX N.V.
CONSOLIDATED BALANCE SHEETS

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

		As of December 31,		
	Notes	2013	2014	2014
		RUR	RUR	\$
ASSETS				
Current assets:				
Cash and cash equivalents	5	33,394	17,645	313.6
Marketable securities	5	87	—	—
Term deposits		—	5,863	104.2
Investments in debt securities	5	—	3,124	55.5
Accounts receivable, net	5	2,785	3,703	65.8
Prepaid expenses		689	1,556	27.8
Deferred tax assets	10	596	180	3.2
Other current assets	5	1,332	3,736	66.4
Total current assets		38,883	35,807	636.5
Property and equipment, net	8	9,729	17,107	304.1
Intangible assets, net	9	664	2,425	43.1
Goodwill	9	2,915	8,920	158.6
Long-term prepaid expenses		1,042	1,590	28.1
Restricted cash	5	104	932	16.6
Term deposits, non-current		15,180	25,663	456.2
Investments in non-marketable equity securities	5	1,250	871	15.5
Deferred tax assets, non-current	10	3	4	0.1
Other non-current assets	5	1,541	1,605	28.5
TOTAL ASSETS		71,311	94,924	1,687.3
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	5	3,710	5,053	89.8
Taxes payable		1,688	2,930	52.1
Deferred revenue		1,501	1,808	32.1
Deferred tax liabilities	10	16	5	0.1
Total current liabilities		6,915	9,796	174.1
Convertible debt	11	16,429	26,325	467.9
Deferred tax liabilities, non-current	10	1,245	1,587	28.2
Other accrued liabilities		125	1,480	26.4
Total liabilities		24,714	39,188	696.6
Commitments and contingencies	12			
Shareholders' equity:				
Priority share: €1 par value; 1 share authorized, issued and outstanding	13	—	—	—
Preference shares: €0.01 par value; 2,000,000,001 and 1,000,000,001, 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 1,000,000,000, Class B: 102,115,140 and 71,870,411, and Class C: 102,115,140 and 71,870,411); shares issued (Class A: 256,998,306 and 267,970,405, Class B: 72,923,447 and 62,051,348, and Class C: 23,110,819 and 8,919,063, respectively); shares outstanding (Class A: 250,732,061 and 255,592,322, Class B: 72,923,447 and 62,051,348, and Class C: nil)	13	242	182	3.2
Treasury shares at cost (Class A: 6,266,245 and 12,378,083)	13	(6,886)	(14,179)	(252.0)
Additional paid-in capital		15,701	16,192	287.8
Accumulated other comprehensive income	2, 5	2,042	1,023	18.2
Retained earnings		35,498	52,518	933.5
Total shareholders' equity		46,597	55,736	990.7
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		71,311	94,924	1,687.3

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,			
		2012	2013	2014	2014
		RUR	RUR	RUR	\$
Revenues	15	28,767	39,502	50,767	902.4
Operating costs and expenses:					
Cost of revenues(1)		7,188	10,606	14,336	254.8
Product development(1)		4,274	5,827	8,842	157.2
Sales, general and administrative(1) . . .		4,900	6,537	7,782	138.3
Depreciation and amortization		2,951	3,695	4,484	79.7
Total operating costs and expenses . .		19,313	26,665	35,444	630.0
Income from operations		9,454	12,837	15,323	272.4
Interest income, net		1,002	1,717	856	15.2
Other income, net		118	2,159	6,296	111.9
Net income before income taxes		10,574	16,713	22,475	399.5
Provision for income taxes	10	2,351	3,239	5,455	97.0
Net income		8,223	13,474	17,020	302.5
Net income per Class A and Class B share:					
Basic	3	25.21	41.25	53.30	0.95
Diluted	3	24.50	40.27	52.27	0.93
Weighted average number of Class A and Class B shares outstanding					
Basic	3	326,210,948	326,657,778	319,336,782	319,336,782
Diluted	3	335,690,596	334,571,212	325,610,277	325,610,277

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

Cost of revenues	33	61	101	1.8
Product development	221	435	780	13.9
Sales, general and administrative	122	258	329	5.8

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,			
		2012	2013	2014	2014
		RUR	RUR	RUR	\$
Net income		8,223	13,474	17,020	302.5
Foreign currency translation adjustment:					
Foreign currency gains / (losses), net of tax, nil		(867)	1,027	(1,019)	(18.1)
Reclassification translation adjustment, net of tax, nil	5	—	54	—	—
Foreign currency translation adjustment, net of tax, nil		(867)	1,081	(1,019)	(18.1)
Total other comprehensive income / (loss)		(867)	1,081	(1,019)	(18.1)
Comprehensive income		<u>7,356</u>	<u>14,555</u>	<u>16,001</u>	<u>284.4</u>

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,			
		2012	2013	2014	2014
		RUR	RUR	RUR	\$
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		8,223	13,474	17,020	302.5
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization of property and equipment		2,812	3,584	4,242	75.4
Amortization of acquisition-related intangible assets		139	111	242	4.3
Amortization of debt discount and issuance costs		—	24	811	14.4
Share-based compensation expense		376	754	1,210	21.5
Deferred income taxes		72	(197)	115	2.0
Foreign exchange (gains) / losses		57	(139)	(6,553)	(116.5)
Gain from sale of equity securities/subsidiaries		(234)	(2,137)	—	—
Impairment of investment in equity securities		—	—	700	12.4
Gain from repurchases of convertible debt		—	—	(548)	(9.7)
Other		51	(28)	38	0.7
Changes in operating assets and liabilities excluding the effect of acquisitions:					
Accounts receivable, net		(526)	(966)	(714)	(12.7)
Prepaid expenses and other assets		(923)	(1,301)	(3,069)	(54.6)
Accounts payable and accrued liabilities		1,277	1,195	1,817	32.4
Deferred revenue		195	401	235	4.2
Assets held for sale		(411)	(156)	—	—
Liabilities related to assets held for sale		421	86	—	—
Net cash provided by operating activities		11,529	14,705	15,546	276.3
CASH FLOWS USED IN INVESTING ACTIVITIES:					
Purchase of property and equipment		(3,984)	(4,936)	(9,679)	(172.0)
Proceeds from sale of property and equipment		—	—	132	2.3
Acquisitions of businesses, net of cash acquired	4	—	(2,438)	(6,360)	(113.0)
Investments in non-marketable equity securities	4	(47)	(14)	(45)	(0.8)
Proceeds from sale of equity securities	4	174	2,023	120	2.1
Investments in debt securities		—	—	(2,546)	(45.3)
Proceeds from maturity of debt securities		1,521	4,969	575	10.2
Investments in term deposits		(16,585)	(11,450)	(17,157)	(304.9)
Maturities of term deposits		8,512	11,290	7,234	128.6
Loans granted		—	(279)	(207)	(3.7)
Escrow cash deposit	4	219	125	(656)	(11.7)
Net cash used in investing activities		(10,190)	(710)	(28,589)	(508.2)
CASH FLOWS PROVIDED BY/(USED IN) FINANCING ACTIVITIES:					
Proceeds from exercise of share options		361	439	191	3.3
Proceeds from issuance of convertible debt	11	—	19,719	2,981	53.0
Repurchases of convertible debt	11	—	—	(6,414)	(114.0)
Payment of debt issuance costs	11	—	(179)	(42)	(0.7)
Repurchases of ordinary shares		—	(8,518)	(8,423)	(149.7)
Net cash provided by/(used in) financing activities		361	11,461	(11,707)	(208.1)
Effect of exchange rate changes on cash and cash equivalents		(205)	513	9,001	160.0
Net change in cash and cash equivalents		1,495	25,969	(15,749)	(280.0)
Cash and cash equivalents at beginning of period		5,930	7,425	33,394	593.6
Cash and cash equivalents at end of period		7,425	33,394	17,645	313.6
Supplemental disclosure of cash flow information:					
Cash paid for income taxes		1,991	2,944	4,544	80.8
Cash paid for acquisitions	4	—	2,481	6,567	116.7
Interest paid		—	—	307	5.5
Non-cash investing activities:					
Change in accounts payable for property and equipment		16	193	643	11.4
Non-cash consideration from sale of equity securities	4	144	—	—	—
Non-cash consideration for purchase of equity securities	4	—	112	—	—

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 01, 2012	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
Share-based compensation expense . .	—	—	—	—	—	1,210	—	—	1,210
Exercise of share options (Note 14) . .	—	—	1,434,480	1	—	188	—	—	189
Class B shares conversion	—	—	—	(61)	—	61	—	—	—
Repurchases of shares (Note 13) . . .	—	—	(7,446,319)	—	(8,436)	—	—	—	(8,436)
Reissue of shares for options exercised	—	—	—	—	1,143	(1,143)	—	—	—
Issuance of convertible debt	—	—	—	—	—	442	—	—	442
Repurchase of convertible debt	—	—	—	—	—	(312)	—	—	(312)
Windfall tax benefit	—	—	—	—	—	45	—	—	45
Foreign currency translation adjustment	—	—	—	—	—	—	(1,019)	—	(1,019)
Net income	—	—	—	—	—	—	—	17,020	17,020
Balance as of December 31, 2014 . . .	1	—	317,643,670	182	(14,179)	16,192	1,023	52,518	55,736
Balance as of December 31, 2014, \$. .	—	—	—	3.2	(252.0)	287.8	18.2	933.5	990.7

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, 2012, 2013 AND 2014
(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.

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.

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

YANDEX N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(in millions of Russian rubles and U.S. dollars, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Convenience Translation

Translations of amounts from RUR into U.S. dollars for the convenience of the reader have been made at the exchange rate of RUR 56.2584 to \$1.00, the prevailing exchange rate as of December 31, 2014. No representation is made that the RUR amounts could have been, or could be, converted into U.S. dollars at such rate.

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 to major 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 2012, 2013, and 2014.

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, debt securities 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.

YANDEX N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(in millions of Russian rubles and U.S. dollars, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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").

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 2,631, RUR 3,171 and RUR 3,594 (\$63.9) in 2012, 2013 and 2014, 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.

YANDEX N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(in millions of Russian rubles and U.S. dollars, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2012, 2013 and 2014, promotional and advertising expenses totaled approximately RUR 900, RUR 1,708 and RUR 1,741 (\$30.9), 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 regressive rate (from 30% to 10% in 2012, 2013 and 2014) 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

YANDEX N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(in millions of Russian rubles and U.S. dollars, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

YANDEX N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(in millions of Russian rubles and U.S. dollars, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2012, 2013 and 2014 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 2,042 as of December 31, 2013 and RUR 1,023 (\$18.2) as of December 31, 2014 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, short-term deposits, restricted cash, 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. 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

YANDEX N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(in millions of Russian rubles and U.S. dollars, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to other income, net and a new cost basis in the investment is established.

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.

YANDEX N.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(in millions of Russian rubles and U.S. dollars, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Depreciation and amortization is computed under the straight-line method using estimated useful lives as follows:

	<u>Estimated useful lives</u>
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 1.0 to 15.0 years, with a weighted-average life of 7.7 years:

	<u>Estimated useful lives</u>
Content and software	1.0 - 10.0 years
Customer relationships	1.1 - 15.0 years
Patents and licenses	3.4 - 7.1 years
Non-compete agreements	3.0 - 4.0 years
Trade names and domain names	7.0 - 10.0 years
Workforce	4.0 years

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 did not recognize any impairment loss in respect of goodwill for the years ended December 31, 2012, 2013 and 2014 respectively.

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, 2014, the Company adopted the Financial Accounting Standards Board ("FASB") 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 adoption of this update did not have a significant impact on the Company's consolidated financial position, results of operations, cash flows or disclosures.

Effective January 1, 2014, the Company adopted FASB accounting standards update on parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The adoption of these amendments did not have a material impact on the Company's consolidated balance sheet or results of operations.

Effect of Recently Issued Accounting Pronouncements

In April 2014, the FASB issued an accounting standards update on reporting discontinued operations and disclosures of disposals of components of an entity that changes the criteria for determining which disposals can be presented as discontinued operations and modified related disclosure requirements. Under the new guidance, a discontinued operation is defined as: (i) a disposal of a component or group of components that is disposed of or is classified as held for sale that

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

represents a strategic shift that has or will have a major effect on an entity's operations and financial results or (ii) an acquired business or nonprofit activity that is classified as held for sale on the date of acquisition. The standard states that a strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment, or (iv) other major parts of an entity. The guidance is effective prospectively for reporting periods beginning on or after December 15, 2014 and interim periods within that year. The Company does not expect the adoption of this update to have a material effect on its financial statements.

In May 2014, the FASB issued an accounting standards update on revenue from contracts with customers that will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new guidance (i) removes inconsistencies, and weaknesses in revenue requirements, (ii) provides a more robust framework for addressing revenue issues, (iii) improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, (iv) provides more useful information to users of financial statements through improved disclosure requirements, and (v) simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for annual reporting periods beginning after December 15, 2016 including interim periods within that reporting period. The Company has not yet selected a transition method and is currently evaluating the impact of adopting this new accounting standard on its financial statements and related disclosures.

In June 2014, the FASB issued an accounting standards update on accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period that applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. That is the case when an employee is eligible to retire or otherwise terminate employment before the end of the period in which a performance target could be achieved and still be eligible to vest in the award if and when the performance target is achieved. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period to be treated as a performance condition. A reporting entity should apply existing guidance as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The adoption of this guidance is effective for reporting periods beginning on or after December 15, 2015. The Company does not expect the adoption of this update to have a material effect on its financial statements.

In August 2014, the FASB issued an accounting standards update on disclosure of uncertainties about an entity's ability to continue as a going concern that requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term “substantial doubt”, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of the consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The adoption of this guidance is effective for the reporting periods ending after December 15, 2016. The Company does not expect the adoption of this update to have a material effect on its financial statements.

In January 2015, the FASB issued an accounting standards update on extraordinary and unusual items that eliminates from US GAAP the concept of extraordinary items. The adoption of this guidance is effective for reporting periods beginning on or after December 15, 2015. The Company does not expect the adoption of this update to have a material effect on its financial statements.

In February 2015, the FASB issued an accounting standards update which significantly changes the consolidation analysis for variable interest entities required under US GAAP. The adoption of this guidance is effective for reporting periods beginning on or after December 15, 2015. The Company does not expect the adoption of this update to have a material effect on its financial statements.

In April 2015, the FASB issued an accounting standards update which changes the presentation of issuance costs to a direct deduction from the related debt liability rather than an asset. The adoption of this guidance is effective for reporting periods beginning on or after December 15, 2015 with early adoption permitted. The Company is currently evaluating the impact of adopting this new accounting standard on its financial statements and related disclosures.

3. NET INCOME PER SHARE

Basic net income per Class A and Class B ordinary share for the years ended December 31, 2012, 2013 and 2014 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 anti-dilutive for the years ended December 31, 2012, 2013 and 2014, was 1,139,956, 1,346,000 and 1,558,500, 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

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3. NET INCOME PER SHARE (Continued)

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 years ended December 31, 2013 and December 31, 2014.

The components of basic and diluted net income per share were as follows:

	Year ended December 31,							
	2012		2013		2014			
	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	4,564	3,659	9,674	3,800	13,300	236.4	3,720	66.1
Reallocation of net income as a result of conversion of Class B to Class A shares	3,659	—	3,800	—	3,720	66.1	—	—
Reallocation of net income to Class B shares	—	22	—	37	—	—	32	0.6
Net income, allocated for diluted	8,223	3,681	13,474	3,837	17,020	302.5	3,752	66.7
Weighted average ordinary shares outstanding—basic	181,039,148	145,171,800	234,522,372	92,135,406	249,543,232	249,543,232	69,793,550	69,793,550
Dilutive effect of:								
Conversion of Class B to Class A shares	145,171,800	—	92,135,406	—	69,793,550	69,793,550	—	—
Ordinary Share-Based Awards	9,479,648	5,129,207	7,913,434	3,138,966	6,273,495	6,273,495	1,988,808	1,988,808
Weighted average ordinary shares outstanding—diluted	<u>335,690,596</u>	<u>150,301,007</u>	<u>334,571,212</u>	<u>95,274,372</u>	<u>325,610,277</u>	<u>325,610,277</u>	<u>71,782,358</u>	<u>71,782,358</u>
Net income per share attributable to ordinary shareholders:								
Basic	<u>25.21</u>	<u>25.21</u>	<u>41.25</u>	<u>41.25</u>	<u>53.30</u>	<u>0.95</u>	<u>53.30</u>	<u>0.95</u>
Diluted	<u>24.50</u>	<u>24.50</u>	<u>40.27</u>	<u>40.27</u>	<u>52.27</u>	<u>0.93</u>	<u>52.27</u>	<u>0.93</u>

4. BUSINESS COMBINATIONS AND INVESTMENT TRANSACTIONS

Acquisitions in 2014

Kitlocate

In March 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 371 at the exchange rate as of the acquisition date), including \$4.0 (RUR 145 at the exchange rate as of the acquisition date) paid in full upon closing of the deal, \$2.3 (RUR 84 at the exchange rate as of the acquisition date) of earn-out payments

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4. BUSINESS COMBINATIONS AND INVESTMENT TRANSACTIONS (Continued)

on the achievement of certain distribution milestones, and \$3.9 (RUR 142 at the exchange rate as of the acquisition date) paid to an escrow account that will be gradually released during a period of four years after the completion date to the KitLocate's founders subject to their continued employment. The Company has not recorded the contingent payments related to the continued employment as purchase price consideration but instead records them as compensation expense on a straight-line basis as the former KitLocate's shareholders completed their requisite service periods.

Set out below is the condensed balance sheet of KitLocate as of March 12, 2014, reflecting an allocation of the purchase price to net assets acquired:

	<u>March 12, 2014</u>
	<u>RUR</u>
ASSETS:	
Cash and cash equivalents	4
Current assets	1
Intangible assets	59
Goodwill	158
Total assets	<u>222</u>
LIABILITIES:	
Current liabilities	4
Deferred tax liabilities	15
Net assets	203
Total purchase consideration	<u>203</u>

The RUR 158 (\$2.8) assigned to goodwill is attributable to the Russian Search and Portal reportable segment and primarily arises due to an assembled workforce that does not qualify for separate recognition and specific synergies that result from the distribution capabilities of the Company. Of the RUR 59 (\$1.0) assigned to intangible assets, RUR 30 (\$0.5) relates to pending patents, RUR 20 (\$0.4) relates to software and RUR 9 (\$0.1) to non-compete agreements.

The results of operations of KitLocate 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, 2013 and 2014. Accordingly, no pro forma financial information is presented. The results of operations of KitLocate did not have a material impact on the Company's results of operations for the year December 31, 2014.

Auto.ru

In August 2014, the Company completed the acquisition of a 100% ownership interest in Auto.ru Group ("Auto.ru"), one of the leading online auto classifieds businesses in Russia, for cash consideration of \$178.4 (RUR 6,428 at the exchange rate as of the acquisition date) paid in full upon closing of the deal, including \$14.0 (RUR 504 at the exchange rate as of the acquisition date) paid into an escrow account. The amount in escrow will be paid to the sellers in two instalments with respect to

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4. BUSINESS COMBINATIONS AND INVESTMENT TRANSACTIONS (Continued)

50% of the escrow amount on the date falling 18 months after the completion date and with respect to the remaining 50% on the date falling 43 months after the completion date, assuming no warranty claims.

Set out below is the condensed balance sheet of Auto.ru as of August 19, 2014, reflecting a preliminary allocation of the purchase price to net assets acquired:

	<u>August 19, 2014</u>
	<u>RUR</u>
ASSETS:	
Cash and cash equivalents	204
Current assets	36
Property and equipment	16
Intangible assets	1,400
Goodwill	5,168
Total assets	<u>6,824</u>
LIABILITIES:	
Current liabilities	28
Non-current liabilities	80
Deferred tax liabilities	288
Net assets	<u>6,428</u>
Total purchase consideration	<u>6,428</u>

The completion of the purchase price allocation is subject to completion of the intangible assets valuation. The RUR 5,168 (\$91.9) assigned to goodwill is attributable to the Other reportable segment and primarily arises due to an assembled workforce that does not qualify for separate recognition and specific synergies that result from convergence with other vertical aggregators developed by the Company and the Company's distribution capabilities. Of the RUR 1,400 (\$24.9) assigned to intangible assets, approximately RUR 926 (\$16.5) relates to trade names that will be amortized over a period of 10.0 years. The remaining RUR 474 (\$8.4) assigned to intangible assets represents customer relationships RUR 302 (\$5.4), website and applications RUR 138 (\$2.4), and portal content RUR 34 (\$0.6).

The results of operations of Auto.ru 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, 2013 and 2014. Accordingly, no pro forma financial information is presented. The results of operations of Auto.ru did not have a material impact on the Company's results of operations for the year December 31, 2014.

ADFOX

In September 2014, the Company completed the acquisition of assets and assumption of liabilities constituting a business of ADFOX LLC ("ADFOX"), operating an advertising technology platform that

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4. BUSINESS COMBINATIONS AND INVESTMENT TRANSACTIONS (Continued)

provides services for planning, managing and analysing advertising campaigns on the internet, for cash consideration of \$11.3 (RUR 446 at the exchange rate as of the acquisition date), \$8.5 (RUR 336 at the exchange rate as of the acquisition date) of which were paid upon closing of the deal. The amount of \$2.8 (RUR 110 at the exchange rate as of the acquisition date) will be paid to the sellers in two tranches on the first and the second anniversary of the completion closing assuming no warranty claims. The acquisition is accounted for as a business combination.

Set out below is the condensed balance sheet of ADFOX as of September 30, 2014, reflecting an allocation of the purchase price to net assets acquired:

	<u>September 30, 2014</u>
	<u>RUR</u>
ASSETS:	
Property and equipment	2
Intangible assets	74
Deferred tax assets	74
Goodwill	296
Total assets	<u>446</u>
Net assets	<u>446</u>
Total purchase consideration	<u>446</u>

The RUR 296 (\$5.3) assigned to goodwill is attributable to the Russian Search and Portal reportable segment and primarily arises due to an assembled workforce that does not qualify for separate recognition and specific synergies that result from the application of the acquired technologies in the Company's business. Of the RUR 74 (\$1.3) assigned to intangible assets, RUR 59 (\$1.0) relates to software and website and RUR 15 (\$0.3) relates to trade names.

The results of operations of ADFOX 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, 2013 and 2014. Accordingly, no pro forma financial information is presented. The results of operations of ADFOX did not have a material impact on the Company's results of operations for the years ended December 31, 2013 and December 31, 2014.

Other

During the year ended December 31, 2014, the Company completed other acquisitions and purchases of intangible assets for total consideration of approximately RUR 347 (\$6.2). In aggregate, RUR 215 (\$3.8) was attributed to intangible assets, RUR 106 (\$1.9) was attributed to goodwill, and RUR 26 (\$0.5) was attributed to deferred tax assets. Goodwill is attributable to the Russian E-commerce reportable segment.

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4. BUSINESS COMBINATIONS AND INVESTMENT TRANSACTIONS (Continued)

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.

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:

	<u>October 14, 2013</u>
	<u>RUR</u>
ASSETS:	
Cash and cash equivalents	39
Current assets	59
Property and equipment	3
Intangible assets	440
Goodwill	2,140
Non-current assets	1
Total assets	<u>2,682</u>
LIABILITIES:	
Current liabilities	20
Deferred tax liabilities	85
Net assets	<u>2,577</u>
Total purchase consideration	<u>2,577</u>

The RUR 2,140 assigned to goodwill is attributable to the Other reportable segment and 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 assigned to intangible assets, approximately RUR 224 relates to trade names and approximately RUR 135 relates to portal content that will be amortized over a period of 10.0 years. The remaining RUR 81 assigned to intangible assets represents website and applications (RUR 63), non-compete agreements (RUR 14) and customer relationships (RUR 4).

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 years ended December 31, 2013 and December 31, 2014.

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4. BUSINESS COMBINATIONS AND INVESTMENT TRANSACTIONS (Continued)

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 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 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.

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4. BUSINESS COMBINATIONS AND INVESTMENT TRANSACTIONS (Continued)

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.

5. CONSOLIDATED FINANCIAL STATEMENTS DETAILS

Cash and Cash Equivalents, Restricted Cash

Cash and cash equivalents as of December 31, 2013 and 2014 consisted of the following:

	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Cash	2,293	3,617	64.2
Cash equivalents:			
Bank deposits	16,730	9,775	173.8
Investments in money market funds	14,371	4,253	75.6
Total cash and cash equivalents	<u>33,394</u>	<u>17,645</u>	<u>313.6</u>

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). Non-current restricted cash as of December 31, 2014 consisted of the cash reserved in a special escrow account before lapse of the claim period for warranties received in relation to the acquisitions of Auto.ru (Note 4) in the amount of RUR 788 (\$14.0) and Kitlocate (Note 4) in the amount of RUR 119 (\$ 2.1) and other restricted cash of RUR 25 (\$0.5).

Accounts Receivable, Net

Accounts receivable as of December 31, 2013 and 2014 consisted of the following:

	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Trade receivables	2,858	3,835	68.1
Allowance for doubtful accounts	(73)	(132)	(2.3)
Total accounts receivable, net	<u>2,785</u>	<u>3,703</u>	<u>65.8</u>

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5. CONSOLIDATED FINANCIAL STATEMENTS DETAILS (Continued)

Movements in the allowance for doubtful accounts are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Balance at the beginning of the period	89	75	73	1.3
Charges to expenses	17	21	75	1.3
Utilization	<u>(31)</u>	<u>(23)</u>	<u>(16)</u>	<u>(0.3)</u>
Balance at the end of the period	<u>75</u>	<u>73</u>	<u>132</u>	<u>2.3</u>

Other Current Assets

Other current assets as of December 31, 2013 and 2014 consisted of the following:

	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Interest receivable	423	1,811	32.2
VAT reclaimable	704	866	15.4
Restricted cash	—	565	10.0
Loans to employees	—	205	3.6
Other	<u>205</u>	<u>289</u>	<u>5.2</u>
Total other current assets	<u>1,332</u>	<u>3,736</u>	<u>66.4</u>

Restricted cash as of December 31, 2014 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 and Kitlocate Ltd. to be released to the founders in 2015 in the amount of RUR 169 (\$3.0) and RUR 92 (\$1.6), respectively (Note 4) and other cash restricted on guarantee and pledge accounts for RUR 304 (\$5.4).

Other Non-current Assets

Other non-current assets as of December 31, 2013 and 2014 consisted of the following:

	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Interest receivable	728	332	5.9
Loans to employees	447	563	10.0
Loans granted	246	430	7.6
VAT reclaimable	116	278	4.9
Other receivables	<u>4</u>	<u>2</u>	<u>0.1</u>
Total other non-current assets	<u>1,541</u>	<u>1,605</u>	<u>28.5</u>

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5. CONSOLIDATED FINANCIAL STATEMENTS DETAILS (Continued)

Investments in Debt Securities

Investments in debt securities as of December 31, 2013 and 2014 consisted of the following:

	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Russian government bonds	—	567	10.1
Russian corporate bonds	—	2,557	45.4
Total investments in debt securities	<u>—</u>	<u>3,124</u>	<u>55.5</u>

Investments in Equity Securities

Investments in non-marketable equity securities as of December 31, 2013 and 2014 consisted of the following:

	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Yandex.Money (Note 4)	583	631	11.2
Seismotech LLC (Note 4)	36	36	0.6
Blekko Inc	605	—	—
Other	26	204	3.7
Total investments in non-marketable equity securities	<u>1,250</u>	<u>871</u>	<u>15.5</u>

The Company exercises significant influence over Seismotech and Yandex.Money with 25% ownership interest in each of these entities 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 loss of RUR 6 and income of RUR 48 (\$0.8) for the years ended December 31, 2013 and 2014, respectively, within the other income, net line on the consolidated statements of income.

The Company does not exercise significant influence over Blekko and accordingly accounts for this investment under the cost method. In the year ended December 31, 2014, the Company identified certain adverse external and internal events indicating that the decline in fair value of its investment in Blekko Inc. is now other-than-temporary and recorded an impairment charge of RUR 700 (\$12.4) within the other income, net line on the consolidated statements of income.

Marketable securities of RUR 87 as of December 31, 2013 were comprised of shares of Facebook received in connection with the sale of Face.com (Note 4). The securities were sold during 2014, and as such a balance of nil is recorded as of December 31, 2014.

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5. CONSOLIDATED FINANCIAL STATEMENTS DETAILS (Continued)

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of December 31, 2013 and 2014 comprise the following:

	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Trade accounts payable and accrued liabilities	3,298	4,449	79.1
Salary and other compensation expenses payable/accrued to employees	412	604	10.7
Total accounts payable and accrued liabilities	<u>3,710</u>	<u>5,053</u>	<u>89.8</u>

Reclassifications Out of Accumulated Other Comprehensive Income

Reclassifications of losses out of accumulated other comprehensive income for the years ended December 31, 2012, 2013 and 2014 were as follows:

	<u>Location</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	
		<u>RUR</u>	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Foreign Currency Translation Adjustments, net of tax of nil	Other income, net	—	54	—	—

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.

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6. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The fair value of derivative instruments as of December 31, 2013 and 2014 is as follows:

Balance Sheet Location		2013	2014	2014
		RUR	RUR	\$
Derivative assets:				
Equity purchase contracts	Investments in non-marketable equity securities	<u>22</u>	<u>8</u>	<u>0.1</u>
Total derivative assets		<u>22</u>	<u>8</u>	<u>0.1</u>
Derivative liabilities:				
Foreign exchange contracts	Other accrued liabilities	<u>9</u>	<u>37</u>	<u>0.7</u>
Total derivative liabilities		<u>9</u>	<u>37</u>	<u>0.7</u>

The effect of derivative instruments not designated as hedging instruments on income for the years ended December 31, 2012, 2013 and 2014 amounted to a loss of RUR 18, a gain of RUR 27 and a loss of RUR 7 (\$0.1), 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 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).

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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	Level 2	Level 3	Total
	RUR	RUR	RUR	RUR
Assets				
Cash equivalents:				
Bank deposits(1)	—	16,730	—	16,730
Investments in money market funds	14,371	—	—	14,371
Term deposits, non-current	—	15,298	—	15,298
Marketable securities, current(2)	87	—	—	87
Restricted cash	104	—	—	104
Loans to employees	—	447	—	447
Loans granted	—	278	—	278
Derivative contracts (Notes 4, 6)(2)	—	—	22	22
	<u>14,562</u>	<u>32,753</u>	<u>22</u>	<u>47,337</u>
Liabilities				
Convertible debt	—	21,647	—	21,647
Derivative contracts(2)	—	9	—	9
	<u>—</u>	<u>21,656</u>	<u>—</u>	<u>21,656</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.

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7. FAIR VALUE MEASUREMENTS (Continued)

The fair value of financial assets and liabilities as of December 31, 2014 consisted of the following:

	Fair value measurement using				
	Level 1	Level 2	Level 3	Total	Total
	RUR	RUR	RUR	RUR	\$
Assets					
Cash equivalents:					
Bank deposits(1)	—	9,775	—	9,775	173.8
Investments in money market funds . . .	4,253	—	—	4,253	75.6
Term deposits, current	—	5,863	—	5,863	104.2
Term deposits, non-current	—	24,775	—	24,775	440.4
Restricted cash	1,497	—	—	1,497	26.6
Investments in debt securities	—	3,089	—	3,089	54.9
Loans to employees	—	768	—	768	13.6
Loans granted	—	522	—	522	9.2
Derivative contracts (Notes 4, 6)(2)	—	—	8	8	0.1
	<u>5,750</u>	<u>44,792</u>	<u>8</u>	<u>50,550</u>	<u>898.4</u>
Liabilities					
Convertible debt	—	25,294	—	25,294	449.6
Contingent consideration(2)	—	—	85	85	1.5
Derivative contracts(2)	—	37	—	37	0.7
	<u>—</u>	<u>25,331</u>	<u>85</u>	<u>25,416</u>	<u>451.8</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, 2012, 2013 and 2014.

The total gains attributable to bank deposits and investments in money market funds amounted to RUR 910, RUR 1,651 and RUR 1,840 (\$32.7) in 2012, 2013 and 2014, 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, 2012, 2013 and 2014. The Company measures at fair value nonfinancial assets and liabilities recognized as a result of business combinations.

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7. FAIR VALUE MEASUREMENTS (Continued)

The Company measures the fair value of investments in debt instruments carried at amortized cost, non-current term deposits and convertible debt for disclosure purposes. The carrying amounts and fair values of debt securities and convertible debt as of December 31, 2013 and 2014 were as follows:

	2013		2014			
	Carrying amount	Fair value	Carrying amount		Fair value	
	RUR	RUR	RUR	\$	RUR	\$
Investments in debt securities	—	—	3,124	55.5	3,089	54.9
Term deposits, non-current	15,180	15,298	25,663	456.2	24,775	440.4
Convertible debt . . .	(16,429)	(21,647)	(26,325)	(467.9)	(25,294)	(449.6)
Total	(1,249)	(6,349)	2,462	43.8	2,570	45.7

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, 2013 and 2014 consisted of the following:

	2013	2014	2014
	RUR	RUR	\$
Servers and network equipment	9,739	14,530	258.3
Infrastructure systems	3,409	4,449	79.1
Land and buildings	1,172	3,735	66.4
Office furniture and equipment	1,002	1,323	23.5
Leasehold improvements	611	686	12.2
Other equipment	64	66	1.2
Assets not yet in use	1,599	2,032	36.1
Purchased technologies and licenses	2,466	3,968	70.5
Total	20,062	30,789	547.3
Less: accumulated depreciation and amortization	(10,333)	(13,682)	(243.2)
Total property and equipment, net	9,729	17,107	304.1

Assets not yet in use primarily represent computer equipment, infrastructure systems and other assets under installation, including related prepayments, and comprise the cost of the assets and other

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8. PROPERTY AND EQUIPMENT, NET (Continued)

direct costs applicable to purchase and installation. Leasehold improvements in the amount of RUR 13 and RUR 46 (\$0.8) are included in assets not yet in use as of December 31, 2013 and 2014, respectively.

Depreciation expenses related to property and equipment, except for purchased technologies and licenses, for the years ended December 31, 2012, 2013 and 2014 amounted to RUR 2,498, RUR 3,132 and RUR 3,480 (\$61.9), respectively. Amortization expenses related to purchased technologies and licenses for the years ended December 31, 2012, 2013 and 2014 amounted to RUR 314, RUR 452 and RUR 762 (\$13.5), respectively.

The accumulated amortization of purchased technologies and licenses included in property and equipment was RUR 904 and RUR 1,608 (\$28.6) as of December 31, 2013 and 2014, respectively. Estimated amortization expense over the next five years for purchased technologies and licenses included in property and equipment, net as of December 31, 2014 are as follows:

	<u>RUR</u>	<u>\$</u>
For the year ending December 31, 2015	849	15.1
For the year ending December 31, 2016	703	12.5
For the year ending December 31, 2017	424	7.5
For the year ending December 31, 2018	234	4.2
For the year ending December 31, 2019	149	2.6
Thereafter	<u>1</u>	<u>—</u>
Total	<u>2,360</u>	<u>41.9</u>

9. GOODWILL AND INTANGIBLE ASSETS, NET

In 2014, the Company completed several business combination transactions, including Kitlocate, Auto.ru and ADFOX (Note 4), accounted for under the acquisition method and resulted in the recognition of RUR 5,728 (\$101.8) of acquired goodwill. The Company has also revised its goodwill allocation following the change in operating and reportable segments (Note 15) and restated the prior year disclosure to conform with current year presentation. As a consequence of the change in segments and reporting units, goodwill has been reallocated between reporting units using the relative fair value allocation approach. Reporting units for the Russian Search and Portal and Russian E-commerce segments have been determined to be the same level as their respective segments due to the absence of regular reporting at any lower level within these segments. Goodwill allocated to the Media Services operating segment (included in Other) has further been allocated to the reporting unit Cinema and TV

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9. GOODWILL AND INTANGIBLE ASSETS, NET (Continued)

and goodwill allocated to the Classified Aggregators operating segment (included in Other) to the reporting unit Auto. The changes in the carrying amount of goodwill are as follows:

	Russian Search and Portal RUR	Russian E-commerce RUR	Other RUR	Total RUR	Total \$
Balance as of January 1, 2013	750	—	—	750	
Goodwill acquired	—	—	2,140	2,140	
Goodwill disposed	—	—	—	—	
Foreign currency translation adjustment	25	—	—	25	
Balance as of December 31, 2013	775	—	2,140	2,915	51.8
Goodwill acquired	454	106	5,168	5,728	101.8
Goodwill disposed	(75)	—	—	(75)	(1.3)
Foreign currency translation adjustment	352	—	—	352	6.3
Balance as of December 31, 2014	1,506	106	7,308	8,920	158.6

The Company has not recorded any impairment on goodwill to date.

Intangible assets, net of amortization, as of December 31, 2013 and 2014 consisted of the following intangible assets primarily acquired as part of business combinations:

	2013			2014			
	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	489	(173)	316	965	(385)	580	10.3
Patents and licenses	167	(106)	61	269	(147)	122	2.2
Customer relationships	71	(18)	53	417	(45)	372	6.6
Contracts with suppliers	23	(22)	1	—	—	—	—
Non-compete agreements	14	(1)	13	26	(8)	18	0.3
Trade names and domain names	224	(4)	220	1,181	(66)	1,115	19.8
Workforce	—	—	—	232	(14)	218	3.9
Total intangible assets	988	(324)	664	3,090	(665)	2,425	43.1

Amortization expenses of intangible assets for the years ended December 31, 2012, 2013 and 2014 were RUR 139, RUR 111 and RUR 242 (\$4.3), respectively.

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9. GOODWILL AND INTANGIBLE ASSETS, NET (Continued)

Estimated amortization expense over the next five years for intangible assets included in the accompanying consolidated balance sheet as of December 31, 2014 are as follows:

	<u>RUR</u>	<u>\$</u>
For the year ending December 31, 2015	427	7.6
For the year ending December 31, 2016	408	7.3
For the year ending December 31, 2017	340	6.0
For the year ending December 31, 2018	304	5.4
For the year ending December 31, 2019	222	3.9
Thereafter	<u>724</u>	<u>12.9</u>
Total	<u>2,425</u>	<u>43.1</u>

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 2012, 2013 and 2014. Yandex N.V. is incorporated in the Netherlands, and its taxable profits were subject to income tax at the rate of 25% in 2012, 2013 and 2014.

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.

Provision for income taxes for the years ended December 31, 2012, 2013 and 2014 consisted of the following:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Current provision for income tax—Russia	(2,281)	(3,325)	(5,045)	(89.7)
Current provision for income tax—other	2	(111)	(295)	(5.2)
Deferred income tax (expense)/ benefit—Russia . . .	(58)	175	(256)	(4.6)
Deferred income tax (expense)/ benefit—other . . .	<u>(14)</u>	<u>22</u>	<u>141</u>	<u>2.5</u>
Total provision for income taxes	<u>(2,351)</u>	<u>(3,239)</u>	<u>(5,455)</u>	<u>(97.0)</u>

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10. INCOME TAX (Continued)

The components of net income before income taxes for the years ended December 31, 2012, 2013 and 2014 are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Net income before income taxes—Russia	11,350	15,716	23,393	415.8
Net income before income taxes—other	(776)	997	(918)	(16.3)
Total net income before income taxes	<u>10,574</u>	<u>16,713</u>	<u>22,475</u>	<u>399.5</u>

A 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, 2012, 2013 and 2014:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Expected provision at Russian statutory income tax rate of 20%	2,115	3,343	4,495	79.9
Effect of:				
Tax on dividends	13	14	466	8.3
Non-deductible share-based compensation	75	146	229	4.1
Other expenses not deductible for tax purposes	183	83	97	1.7
Difference in foreign tax rates	(39)	(68)	(160)	(2.8)
Participation exemption on sale of equity investments	—	(393)	—	—
Other	4	(33)	78	1.4
Change in valuation allowance	—	147	250	4.4
Provision for income taxes	<u>2,351</u>	<u>3,239</u>	<u>5,455</u>	<u>97.0</u>

Movements in the valuation allowance are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Balance at the beginning of the period	—	—	(147)	(2.6)
Charges to expenses	—	(147)	(250)	(4.4)
Foreign currency translation adjustment	—	—	(17)	(0.4)
Balance at the end of the period	<u>—</u>	<u>(147)</u>	<u>(414)</u>	<u>(7.4)</u>

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10. INCOME TAX (Continued)

As of December 31, 2013 and 2014, the Company included accruals for unrecognized income tax benefits, including interest and penalties, totaling RUR 10 and RUR 62 (\$1.1), respectively, as a component of other accrued liabilities, non-current and RUR 15 and RUR 69 (\$1.2), respectively, as a component of accounts payable and accrued liabilities. RUR 97 (\$1.7) of unrecognized income tax benefits, if recognized, would affect the effective tax rate. The interest and penalties recorded as part of the provision for income tax in 2012, 2013 and 2014 resulted in benefit of RUR 13, RUR 1 and expense of RUR 30 (\$0.5), respectively. 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 86 (\$1.5) 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, 2014.

A reconciliation of the total amounts of unrecognized income tax benefits is as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
Balance at the beginning of the period	97	25	25	0.4
Increases/(decreases) related to prior years tax positions . .	(72)	(3)	69	1.3
Increases related to current year tax positions	2	2	2	—
Settlements	—	—	—	—
Foreign currency translation adjustment	(2)	1	1	—
Balance at the end of the period	<u>25</u>	<u>25</u>	<u>97</u>	<u>1.7</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, 2013 and 2014:

	<u>2013</u>	<u>2014</u>	<u>2014</u>
	RUR	RUR	\$
Assets/(liabilities) arising from tax effect of:			
Deferred tax asset			
Accrued expenses	387	585	10.4
Net operating loss carryforward	324	457	8.1
Other	40	48	0.9
Valuation allowance	(147)	(414)	(7.4)
Total deferred tax asset	604	676	12.0
Deferred tax liability			
Convertible debt discount	(802)	(1,023)	(18.2)
Property and equipment	(268)	(36)	(0.6)
Intangible assets	(155)	(490)	(8.7)
Unremitted earnings	—	(475)	(8.4)
Other	(41)	(60)	(1.1)
Total deferred tax liability	(1,266)	(2,084)	(37.0)
Net deferred tax asset/(liability)	(662)	(1,408)	(25.0)
Net deferred tax assets, current	596	180	3.2
Net deferred tax assets, non-current	3	4	0.1
Net deferred tax liabilities, current	(16)	(5)	(0.1)
Net deferred tax liabilities, non-current	(1,245)	(1,587)	(28.2)

As of December 31, 2014, Yandex N.V. had net operating loss carryforwards (“NOLs”) for Dutch income tax purposes of RUR 953 (\$16.9). These NOLs expire in 2020-2023 tax years. As of December 31, 2014, a benefit of RUR 109 (\$1.9) related to the Dutch NOLs described above and RUR 150 (\$2.7) related to other tax effects would be recorded by the Company in additional paid-in capital if and when realized.

The Company did not provide for dividend withholding taxes on the unremitted earnings of its foreign subsidiaries in 2013 and earlier years because they were considered permanently reinvested outside of the Netherlands. Starting in 2014, the Company began to accrue for a 5% dividend withholding tax on the portion of the current year profit of the Company’s principal Russian operating subsidiary that is considered not to be permanently reinvested in Russia. As of December 31, 2014, the cumulative amount of unremitted earnings upon which dividend withholding taxes have not been provided is approximately RUR 44,787 (\$796.1). The Company estimates that the amount of the unrecognized deferred tax liability related to these earnings is approximately RUR 2,239 (\$39.8).

The tax years 2013 - 2014 remain open for examination by the Russian tax authorities with respect to the Company’s principal Russian operating subsidiary, Yandex LLC. The tax years 2008 - 2014 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 at par. The Company also granted to the initial purchasers a right to purchase up to an additional \$90.0 (RUR 2,981 at the exchange rate as of sale date) in aggregate principal amount of notes solely to cover over-allotments. 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 (together, the “Notes”) at par. 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; 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, 2014, 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 (including over-allotments) were approximately RUR 22,479 (\$683.1 at the exchange rates as of sale date). Debt issuance costs were approximately RUR 228 (\$4.1), of which RUR 38 (\$0.7) was allocated to additional paid-in capital and RUR 190 (\$3.4) was allocated to deferred issuance costs and will be amortized as interest expense over the term of the Notes. As of December 31, 2013 and 2014, unamortized deferred issuance cost was RUR 166 and RUR 202 (\$3.6).

The Company separately accounts for the liability and equity components of the Notes. The carrying value of the liability component of RUR 18,972 (\$576.7 at the exchange rates as of sale date) was initially 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 3,728 (\$113.3 at the exchange rates as of sale date) 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.

During 2014, the Company repurchased and retired \$150.0 in aggregate principal amount of the outstanding Notes for a cash consideration of RUR 6,414 (\$114.0) and recorded a gain of RUR 548

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11. CONVERTIBLE DEBT (Continued)

(\$9.7) on the extinguishment of the debt within the other income, net line on the consolidated statements of income.

The carrying value of the Notes as of December 31, 2013 and 2014 consisted of the following:

	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
1.125% Convertible Senior Notes due December 2018	19,638	30,380	540.0
Unamortized debt discount	(3,209)	(4,055)	(72.1)
Total convertible debt	<u>16,429</u>	<u>26,325</u>	<u>467.9</u>

The remaining unamortized debt discount of RUR 4,055 (\$72.1) as of December 31, 2014 will be amortized over the remaining life of the Notes, which is approximately 4.0 years.

The Company recognized RUR 25 and RUR 1,091 (\$19.4) as interest expenses related to the contractual interest coupon, amortization of the debt discount and issuance expenses for the years ended December 31, 2013 and 2014, respectively. The effective interest rate on the liability component for the period was 5.1%.

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 April 2014, the Company further extended its headquarters complex signing a seven-year lease agreement for additional office space and extending the existing rent agreements to 2021.

As of December 31, 2014, 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 headquarters lease</u>	<u>Other leases</u>	<u>Total</u>	<u>Total</u>
	<u>RUR</u>	<u>RUR</u>	<u>RUR</u>	<u>\$</u>
2015	3,466	590	4,056	72.2
2016	3,557	383	3,940	70.0
2017	3,681	239	3,920	69.7
2018	3,973	134	4,107	73.0
2019 and thereafter	9,323	7	9,330	165.8
Total	<u>24,000</u>	<u>1,353</u>	<u>25,353</u>	<u>450.7</u>

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12. COMMITMENTS AND CONTINGENCIES (Continued)

For the purposes of the disclosure above, the Company assumed no changes in the rented space or rental price specified in existing rental agreements as of the reporting date.

For the years ended December 31, 2012, 2013 and 2014, rent expenses under operating leases totaled approximately RUR 1,656, RUR 1,790 and RUR 2,674 (\$47.5), respectively.

Additionally, the Company has entered into purchase commitments for other goods and services and acquisition of businesses, which total RUR 4,630 (\$82.3) in 2015, RUR 1,969 (\$35.0) in 2016, RUR 825 (\$14.7) in 2017, RUR 1,281 (\$22.8) in 2018, RUR 748 (\$13.3) in 2019 and RUR 1,248 (\$22.2) 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 97 (\$1.7) 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 16 (\$0.3) and interest of RUR 18 (\$0.3). As of December 31, 2014, except for the income tax contingencies described above, the Company accrued RUR 185 (\$3.3) for contingencies related to non-income taxes. Additionally, the Company has identified possible contingencies related to non-income taxes, which are not accrued. Such possible non-income tax contingencies could materialize and require the Company to pay additional amounts of tax. As of December 31, 2014, the Company estimates such contingencies related to non-income taxes to be up to approximately RUR 78 (\$1.4).

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.

Additionally, significant uncertainty exists around the current geopolitical situation in Ukraine. The United States, the European Union and other countries have imposed economic sanctions on certain Russian government officials, other individuals and certain Russian companies in connection with

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12. COMMITMENTS AND CONTINGENCIES (Continued)

recent developments in Ukraine and Crimea. Neither the Company, nor any of its Russian subsidiaries or other operations or assets, are a target of current sanctions. However, there is significant uncertainty regarding the extent or timing of any potential further economic or trade sanctions, or the ultimate outcome of the Ukrainian crisis.

In 2014 and early 2015, Russia has experienced significant economic instability, characterized by substantial depreciation of its currency, sharp fluctuations of interest rates, a forecasted decline in gross domestic product in 2015 and a steep decline in the value of shares traded on its stock exchanges. Any continuing economic and political instability, potentially including continued or additional international economic sanctions, could have negative impact on advertising spending in future periods. 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.
- 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.

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13. SHARE CAPITAL (Continued)

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.

The share capital as of each balance sheet date is as follows (EUR in millions):

	December 31, 2013			December 31, 2014		
	Shares	EUR	RUR	Shares	EUR	RUR
<i>Authorized:</i>	4,204,230,282			2,143,740,824		
Priority share	1			1		
Preference shares	2,000,000,001			1,000,000,001		
Class A ordinary shares	2,000,000,000			1,000,000,000		
Class B ordinary shares	102,115,140			71,870,411		
Class C ordinary shares	102,115,140			71,870,411		
<i>Issued and fully paid:</i>	353,032,573	€11.9	335	338,940,817	€9.7	230
Priority share	1	—	—	1	—	—
Preference shares	—	—	—	—	—	—
Class A ordinary shares	256,998,306	2.5	106	267,970,405	2.7	112
Class B ordinary shares	72,923,447	7.3	138	62,051,348	6.2	71
Class C ordinary shares	23,110,819	2.1	91	8,919,063	0.8	47

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 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. In July 2014, the Company's Board of Directors authorized a further repurchase of up to 3,000,000 shares in effect through December 31, 2015.

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. Out of these shares 2,333,132 were used to satisfy the Company's obligations under Share-Based Awards. For the year ended December 31, 2014, the Company repurchased 7,446,319 Class A shares at an average price of \$31.49 per share for a total amount of RUR 8,423 (\$149.7). Out of these shares 1,334,481 were used to satisfy the Company's obligations under Share-Based Awards. Treasury stock is accounted for under the cost method.

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14. SHARE-BASED COMPENSATION

Employee Equity Incentive Plan

The Company has granted Share-Based Awards to employees of the Company pursuant to its Employee Share Option Plan (the “2001 Plan”) and the Forth 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, February 10, 2012, and July 24, 2013. A share option issued under the 2007 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, (i) in the case of RSUs, the closing price per Class A Share (as adjusted to account for the ratio of shares to depositary shares, if necessary) on the date of such determination; and (ii) in the case of Options and Share Appreciation Rights, the average closing price per Class A Share (as adjusted to account for the ratio of Class A Shares to such depositary shares, if necessary) on the 20 trading days immediately following the date of 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

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14. SHARE-BASED COMPENSATION (Continued)

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.

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, 2012, 2013 and 2014 were as follows:

	2012	2013	2014
Dividend yield	—	—	—
Expected annual volatility	54%	49%	38%
Risk-free interest rate	0.78%	1.77%	1.85%
Expected life of the awards (years)	5.51 - 7.02	5.44 - 7.04	5.52 - 7.04
Weighted-average grant date fair value of awards (per share)	\$10.13	\$15.93	\$10.74

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.* For 2012 and 2013 grants, the Company used historical volatility of the Company's own shares. For 2014 grants, the Company used future volatility of the Company's shares implied by the Company's convertible debt prices (Note 11) and cross-checked with the historical volatility of the 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 2012, 2013 or 2014. Currently, the Company does not have any plans to pay dividends in the near term. Because

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14. SHARE-BASED COMPENSATION (Continued)

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, 2012, 2013 and 2014.

- *Fair value of ordinary shares.* 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.* 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, 2014	<u>6,019,392</u>	<u>\$ 5.13</u>	<u>1,612,664</u>	<u>\$26.75</u>	<u>2,897,102</u>	—
Granted	28,000	33.09	880,000	29.44	1,458,628	—
Exercised	(1,067,332)	4.52	(39,100)	20.96	(333,959)	—
Forfeited	(11,316)	5.30	(21,850)	31.85	(115,534)	—
Cancelled	—	—	—	—	(168)	—
Outstanding as of						
December 31, 2014	<u>4,968,744</u>	<u>\$ 5.41</u>	<u>2,431,714</u>	<u>\$27.77</u>	<u>3,906,069</u>	—

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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, 2014:

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	0.50	\$ 7.8	455,000	0.50	\$ 7.8
2.16	Option	568,768	1.56	9.0	568,768	1.56	9.0
2.74	Option	501,300	2.37	7.6	501,300	2.37	7.6
3.40	Option	404,350	3.09	5.9	404,350	3.09	5.9
3.43	Option	212,820	4.41	3.1	212,820	4.41	3.1
3.51	Option	723,313	4.86	10.5	723,313	4.86	10.5
4.16	Option	674,858	5.42	9.3	671,733	5.42	9.3
8.77	Option	1,204,335	5.85	11.0	1,179,335	5.85	10.8
25.00	Option	168,000	6.40	—	147,000	6.40	—
27.74	Option	28,000	8.39	—	7,000	8.39	—
33.09	Option	28,000	9.40	—	—	—	—
Total Options		4,968,744	4.08	64.2	4,870,619	4.01	64.0
16.95	SARs	9,374	6.97	—	7,031	6.97	—
18.44	SARs	—	—	—	—	—	—
19.00	SARs	302,500	7.57	—	118,125	7.57	—
20.99	SARs	78,590	6.92	—	55,379	6.92	—
21.05	SARs	368,750	7.88	—	168,750	7.88	—
23.19	SARs	20,000	7.18	—	13,750	7.18	—
23.21	SARs	150,000	9.88	—	—	—	—
23.29	SARs	37,500	7.88	—	9,375	7.88	—
29.94	SARs	550,000	9.55	—	—	—	—
30.08	SARs	—	—	—	—	—	—
32.85	SARs	600,000	8.57	—	187,500	8.57	—
33.09	SARs	180,000	9.40	—	—	—	—
38.99	SARs	135,000	8.88	—	35,938	8.88	—
Total SARs		2,431,714	8.64	—	595,848	7.98	—
—	RSU	3,906,069	8.60	70.2	949,311	7.85	17.0
		11,306,527	6.62	\$134.4	6,415,778	4.95	\$81.0

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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, 2014 . . .	812,750	\$ 5.67	1,434,957	\$13.54	2,470,262	\$25.86
Granted	28,000	13.21	880,000	10.66	1,458,628	29.39
Vested	(731,310)	5.24	(457,240)	13.36	(856,597)	25.19
Forfeited	(11,316)	3.24	(21,850)	15.62	(115,534)	26.69
Non-vested as of December 31, 2014 .	98,124	\$11.31	1,835,867	\$12.18	2,956,759	\$27.77

At December 31, 2014, there was RUR 4,658 (\$82.8) 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 2.73 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 2,484,844 out of 2,956,758 RSUs to vest after December 31, 2014. 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, 2013	19,300	€0.01
Exercised	(15,600)	0.01
Cancelled	—	—
Outstanding as of December 31, 2014	3,700	€0.01

There were no unvested ex-plan shares options as of December 31, 2013 and December 31, 2014.

As of December 31, 2014, these ex-plan options have a remaining contractual life of 4.37 years; 3,700 outstanding ex-plan options have an intrinsic value of RUR 4 (\$0.1).

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14. SHARE-BASED COMPENSATION (Continued)

At December 31, 2014, 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 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, 2014, these ex-plan RSUs had a remaining contractual life of 6.97 years; 18,282 of these RSUs had an intrinsic value of RUR 18 (\$0.3); 13,032 exercisable ex-plan RSUs had an intrinsic value of RUR 13 (\$0.2). These RSUs had a grant date fair value of \$0.01 per share, resulting in unamortized share-based compensation expense of RUR 5 (\$0.1) that is expected to be recognized over a 1.00 year period.

Share-Based Compensation Expense

The Company recognized share-based compensation expense of RUR 376, RUR 754 and RUR 1,210 (\$21.5) for the years ended December 31, 2012, 2013 and 2014, respectively. The Company recognized RUR 4, RUR 9 and RUR 20 (\$0.4) in related tax benefits for the years ended December 31, 2012, 2013 and 2014, respectively.

15. INFORMATION ABOUT SEGMENTS, REVENUES & GEOGRAPHIC AREAS

Prior to 2014, the Company operated as a single operating segment. The Company's chief operating decision maker ("CODM") reviewed financial information on a consolidated basis for purposes of allocating resources and assessing financial performance. The Company's CODM is the management committee consisting of a group of top managers made up of its CEO and a group of his direct reports. During 2014, the Company revised its organizational structure separating several focus areas in product lines and geographies. As a result, financial information that the Company's CODM regularly reviews for purposes of allocating resources and assessing performance changed. Therefore, beginning 2014, the Company started to report its financial performance based on the following reportable segments: Russian Search and Portal, Russian E-commerce. The results of the Company's remaining operating segments, including its Turkish and Ukrainian operations, Media Services, Taxi, Classified Aggregators and Data Factory, that do not meet the quantitative thresholds for disclosure, are included in Other category. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Prior periods were restated to conform with the current year presentation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014

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

15. INFORMATION ABOUT SEGMENTS, REVENUES & GEOGRAPHIC AREAS (Continued)

The measures of the segment's profits and losses that are used by CODM to assess segment performance and decide how to allocate resources are presented below. Each segment's assets and capital expenditures are not reviewed by the CODM.

	2012 RUR	2013 RUR	2014 RUR	2014 \$
Russian Search and Portal:				
Revenues from external customers	25,536	34,906	45,303	805.3
Intersegment revenues	292	388	511	9.1
Depreciation and amortization	(2,669)	(3,279)	(3,808)	(67.7)
Adjusted operating income	8,579	12,351	16,394	291.4
Russian E-commerce:				
Revenues from external customers	2,081	2,907	3,130	55.6
Intersegment revenues	—	—	—	—
Depreciation and amortization	(33)	(38)	(38)	(0.7)
Adjusted operating income	1,665	2,274	1,938	34.5
Other:				
Revenues from external customers	1,150	1,689	2,334	41.5
Intersegment revenues	—	—	—	—
Depreciation and amortization	(249)	(378)	(638)	(11.3)
Adjusted operating income	(414)	(1,034)	(1,799)	(32.0)
Eliminations:				
Revenues from external customers	—	—	—	—
Intersegment revenues	(292)	(388)	(511)	(9.1)
Depreciation and amortization	—	—	—	—
Adjusted operating income	—	—	—	—
Total:				
Revenues from external customers	28,767	39,502	50,767	902.4
Intersegment revenues	—	—	—	—
Depreciation and amortization	(2,951)	(3,695)	(4,484)	(79.7)
Adjusted operating income	9,830	13,591	16,533	293.9

The reconciliation between adjusted operating income and net income is as follows:

	2012 RUR	2013 RUR	2014 RUR	2014 \$
Adjusted operating income	9,830	13,591	16,533	293.9
Less share-based compensation expense	(376)	(754)	(1,210)	(21.5)
Add interest income, net	1,002	1,717	856	15.2
Add other income, net	118	2,159	6,296	111.9
Less provision for income taxes	(2,351)	(3,239)	(5,455)	(97.0)
Net income	8,223	13,474	17,020	302.5

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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15. INFORMATION ABOUT SEGMENTS, REVENUES & GEOGRAPHIC AREAS (Continued)

The Company's revenues consist of the following:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>
	RUR	RUR	RUR	\$
Advertising revenue(1):				
Text-based advertising:				
Yandex websites	20,610	27,584	35,228	626.2
Yandex ad network websites	4,898	7,885	11,410	202.8
Total text-based advertising	25,508	35,469	46,638	829.0
Display advertising	2,592	3,379	3,509	62.4
Total advertising revenue	28,100	38,848	50,147	891.4
Online payment commissions	552	394	—	—
Other revenues	115	260	620	11.0
Total revenues	<u>28,767</u>	<u>39,502</u>	<u>50,767</u>	<u>902.4</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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>
	RUR	RUR	RUR	\$
Revenues:				
Russia	27,300	36,814	46,242	822.0
Rest of the world	1,467	2,688	4,525	80.4
Total revenues	<u>28,767</u>	<u>39,502</u>	<u>50,767</u>	<u>902.4</u>
Long-lived assets, net:				
Russia	8,447	11,998	21,115	375.3
Finland	—	638	6,481	115.2
US	1,043	841	1,002	17.9
Rest of the world	408	989	1,723	30.6
Total long-lived assets, net	<u>9,898</u>	<u>14,466</u>	<u>30,321</u>	<u>539.0</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
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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 were treated as related party transactions for the year ended December 31, 2013. 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 was RUR 34 and RUR 78 (\$1.4) for the years ended December 31, 2013 and 2014, respectively. The amount of fees for online payment commissions was RUR 56 and RUR 125 (\$2.2) for the years ended December 31, 2013 and 2014, respectively. As of December 31, 2013 and 2014, the amount of receivables related to payment processing was RUR 6 and RUR 46 (\$0.8), respectively. 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 2015, the Company completed the acquisition of assets and assumption of liabilities constituting the business of RosTaxi (“RosTaxi”), operator of a taxi fleet management application, for a cash consideration of up to RUR 500 (\$8.9), including a deferred payment of up to RUR 380 (\$6.8), subject to successful technical integration and client base transition, and a contingent consideration of up to RUR 500 (\$8.9) payable in the Company’s ordinary shares depending on the number of qualifying taxi trips on the third anniversary of the closing. The acquisition was accounted for as a business combination. The preliminary allocation of purchase price to assets acquired is as follows. RUR 114 (\$2.0) was attributed to intangible assets, RUR 224 (\$4.0) was attributed to goodwill, and RUR 77 (\$1.4) was attributed to deferred tax assets. Goodwill is attributable to the Other reportable segment. The Company has not recorded the contingent consideration of up to RUR 500 (\$8.9) related to the number of qualifying taxi trips as purchase price consideration but instead records them as compensation expense on a straight-line basis as the sellers complete their requisite service periods. The results of operations of RosTaxi 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, 2013 and 2014.

In February 2015, the Company granted RSUs to purchase an aggregate of up to 347,816 Class A shares to its employees, respectively, pursuant to the 2007 Plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
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17. SUBSEQUENT EVENTS (Continued)

In April 2015, the Company offered employees of the Company an opportunity to exchange up to 1,663,750 of their SARs for RSUs based on an exchange ratio of 2:1. The vesting of replacement RSUs will be extended by 12 months beyond the original vesting schedule of the exchanged SARs. In addition, no exercise of the replacement RSUs will be permitted until April 10, 2016. The exchange was completed with all 1,663,750 SARs being exchanged.

In March and April 2015, the Company repurchased and retired an additional \$30.1 in aggregate principal amount of its outstanding Notes.

Subsequent to December 31, 2014, the Russian ruble remained highly volatile against foreign currencies, including the U.S. dollar. The currency exchange rate as of December 31, 2014 was RUR 56.2584 to \$1.00 and, during the period from December 31, 2014 to April 28, 2015, the currency exchange rate of the Russian ruble appreciated to RUR 51.4690 to \$1.00. The lowest rate reached during this period was RUR 69.6640 to \$1.00 as of February 3, 2015. The highest rate reached during this period was RUR 49.6749 to \$1.00 as of April 17, 2015.

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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 21, 2014
4.1	Indenture dated as of December 17, 2013 between the Company, and The Bank of New York Mellon, as trustee (incorporated by reference to our 2013 Annual Report on Form 20-F (file no. 001-35173) filed with the Securities and Exchange Commission on April 4, 2014).
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)
7.3	Sale and Purchase Agreement relating to the sale and purchase of the entire share capital of Immerberez AG, dated 11 June 2014 (incorporated by reference to Exhibit 99.2 to our form 6-K filed with the Securities and Exchange Commission on June 16, 2014)
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, 2013 and 2014, (ii) Consolidated Statements of Income for the Years Ended December 31, 2012, 2013 and 2014, (iii) Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2013 and 2014, (iv) Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2013 and 2014, (v) Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2012, 2013 and 2014, 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 30, 2015

