

# Mail.ru

## Facebook effect fading

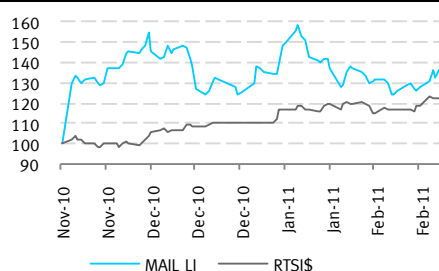
### INITIATION

### SELL

Target price, \$	31.5
Ticker	MAIL LI
Last price of common shares, \$	37.8
Number of common shares, m	210.3
Market cap 2011, \$m	7,943
Nett debt 2011, \$m	(87)
EV 2011, \$m	5,048
Free float	21%
52-week min, \$	27.7
52-week max, \$	44.0

Sources: Bloomberg, Otkritie Research

### Share price performance



Sources: Bloomberg

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Mail.ru made a successful public placement in November 2010, with shares gaining 36% since that time. The revaluation of its stake in Facebook (31% of Mail.ru's value) was the main reason for the stock's strength in our view. As we do not expect further capital to be raised by Facebook in 2011, attention will turn to Mail.ru's Russian business, which trades at a 50% premium to peers. We see revenue expectations too high as advertising budgets will shift to the internet much slower than the usage growth might suggest. The valuation looks reasonable only on 2013-14 multiples, thus we initiate with a SELL rating and a target price of \$31.5/share.

We see significant risks to the growth expectations of Mail.ru's Russian business. The primary reasons for our less-than-optimistic view are as follows:

**Internet penetration in Russia is close to the saturation point.** We expect only 5% CAGR for the internet audience, with the growth coming from a less attractive audience for advertisers.

**Advertising shifts online slower than internet usage growth.** This trend is not unique in Russia. For instance, in the US the money share of online media is half of the share of viewers.

**Mail.ru share in online advertising flat at best.** Mail.ru's monetization in display ads is already above average and its 30% share of the display ads is unlikely to increase. Top websites are likely to see above average growth rates, but here Mail.ru has strong competitors, such as Yandex, Facebook and VKontakte.

**The game business depends upon aging titles.** 67% of game revenues come from the top 3 games, which are close to the end of their 5-7 year life cycle.

**Valuation.** Adjusted for minority stakes, Mail.ru trades on a 2011 adj. P/E of 35x, or 50% above its peers. Our SOTP target price of \$31.5/share implies a 17% downside, and we have a SELL rating for the stock.

#### Catalysts.

–Yandex IPO in June, which should provide alternative exposure to the Russian internet sector

–Mail.ru's lockup period ends in May: rich valuations could lead to further share sales

### Key metrics

	12/10	12/11E	12/12E	12/13E
Revenues	324	439	537	633
EBITDA	117	203	265	328
EBIT	95	171	223	275
Net Income	77	151	204	261
Net Debt	(9)	(87)	(240)	(451)
EPS	0.36	0.72	0.97	1.24
CEPS	0.47	0.87	1.17	1.49
BVPS	6.73	7.36	8.21	9.28
DPS	1.23	1.51	1.62	1.86

Sources: Bloomberg, Otkritie Research

### Valuation

	12/10	12/11E	12/12E	12/13E
EV/Sales	13.8	11.5	9.2	7.5
EV/EBITDA	38.4	24.8	18.5	14.5
P/E	103.4	52.7	38.9	30.5
P/BV	5.6	5.1	4.6	4.1
EBITDA Margin	36.0%	46.4%	49.4%	51.8%
Net Margin	23.7%	34.3%	38.0%	41.2%
Revenue growth	61%	35%	22%	18%
EPS growth	28%	97%	35%	28%
Div Yield	3%	4%	4%	5%

Sources: Bloomberg, Otkritie Research

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## Investment case

Mail.ru group is a holding of various internet assets put together in 2009 to create Europe's largest internet company. The lion's share of Mail.ru's value is its stake in Facebook, which is worth 31% of the group's value. Together with other minority stakes, these represent 50% of the group value. The remaining consolidated business (50% of the value) consists of a web portal, MMO games and social networks.

**Fig. 1: Sum of the parts valuation for the Mail.ru Group, \$m**

	Ownership	Equity Value	% of total	% of cons.
Facebook	2.38%	1,818	31%	
Vkontakte	32.5%+7.5%	577	10%	
Groupon	5.13%	308	5%	
Other minority stakes (Qivi, Zynga, other)		260	4%	
Total minority stakes		2,963	50%	
Mail.ru (portal, email, MMO games)	100%	2,082	35%	69%
Odnoklassniki (social network)	100%	743	12%	25%
Headhunter.ru	91%	184	3%	6%
Total consolidated business		3,009	50%	100%
<b>Total Mail.ru group</b>		<b>5,972</b>		
Current market capitalization		7,943		
downside		-25%		

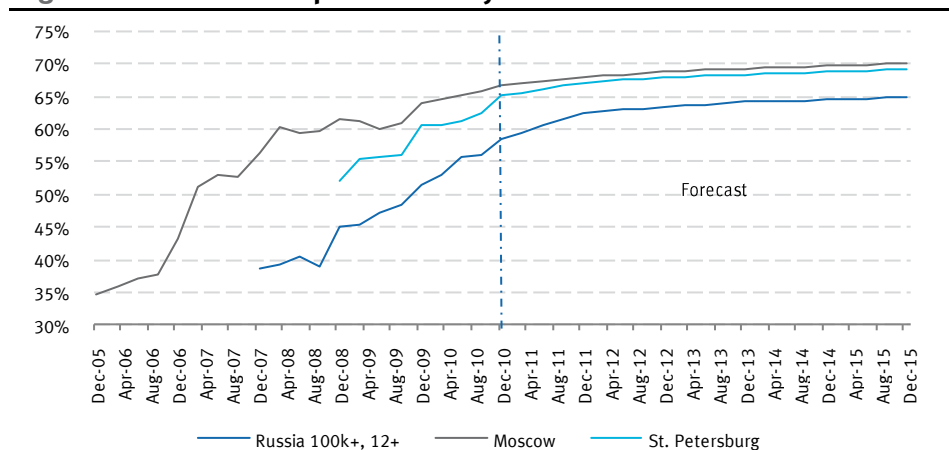
Source: Otkritie estimates

**Facebook was the single biggest price driver.** We estimate that its 2.38% stake in Facebook, which has doubled in value since the Mail.ru IPO in November, is now worth 31% of the group's value. Recent Facebook transactions at a valuation of \$65-70bn are very close to our fair value estimate of \$76.4bn for 100% of Facebook, hence further revaluations of Mail.ru's stake is less likely. For the Facebook valuation model, see page 26 of this report.

**Looking into Mail.ru's business in Russia, we see significantly lower growth than what is already built into the Mail.ru share price.** The main reasons for our less-than-optimistic view are as follows:

**Internet penetration in Russia is close to the saturation point.** Internet penetration in Moscow and St. Petersburg is no longer growing, while in Russia's regions the youth population segment that is the most relevant for social networks and games already has internet access. We expect internet penetration to increase, though by only 5% a year, via engaging the older population. This, however, could be less attractive for advertisers.

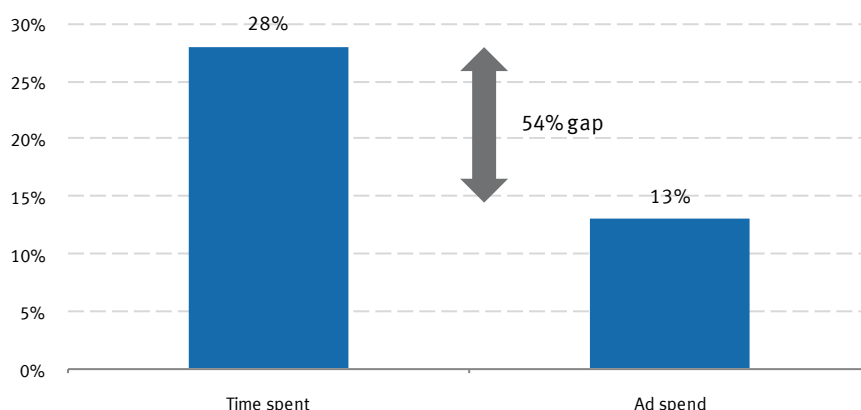
**Fig. 2: Russian internet penetration dynamics**



Source: TNS, Otkritie estimates

**Advertising shifts online, but slowly.** The inventories of Russian online companies are far from being sold out, since internet usage is rising faster than the corresponding budgets directed toward online advertising. This is not unique to Russia, as we see a similar picture in the US, where the money share of online media is only half of the viewership share. As such, the 40% in advertising revenue growth expected by Mail.ru could surprise on the downside. We see 25-30% CAGR over the next 5 years, implying a slower transition away from traditional media (such as TV and print).

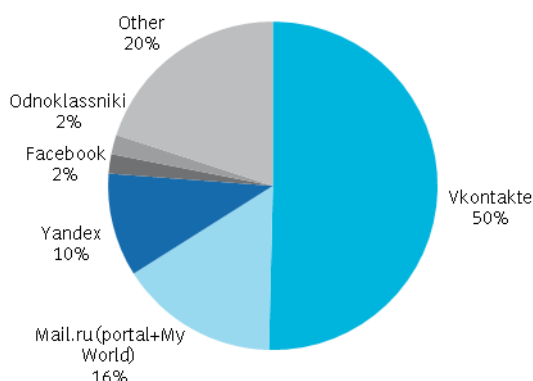
**Fig. 3: US viewership vs. ad revenues share for internet**



Source: North American Technographics, Yahoo

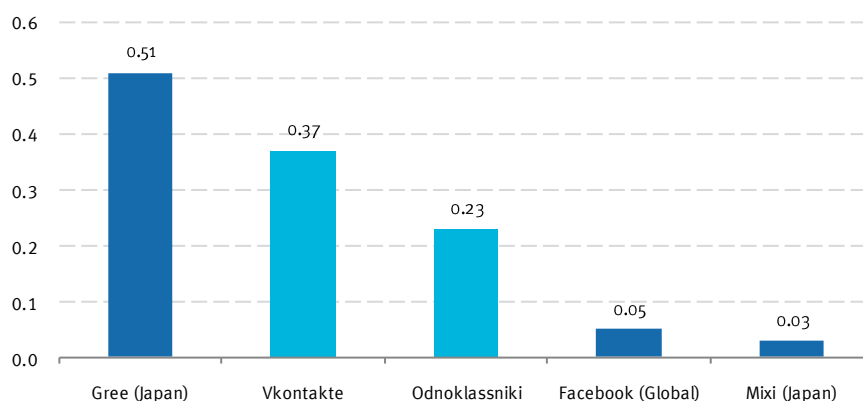
**Mail.ru's share in online advertising will be flat at best.** Mail.ru's monetization in display ads is already above average and its 30% share of the display ads is unlikely to increase. Based on daily page views by Russian visitors, we estimate the viewership share of Mail.ru at 16%. We see a substantial high risk that market share will go to Vkontakte (in which Mail.ru has a 32.5% stake) and to Yandex (likely to IPO in June-July 2011).

**Fig. 4: Daily page views by top Russian websites**



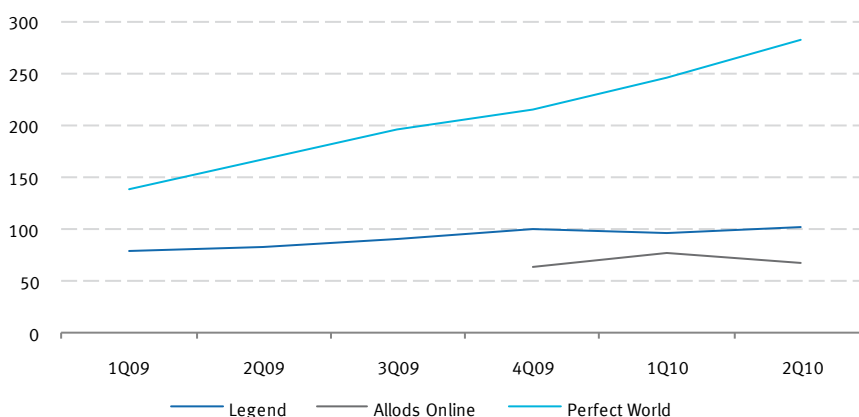
Source: TNS, Otkritie estimates

**Russian social networks' ARPU higher than Facebook.** Russians spend twice as much time on social networks as the global average, with its average revenue/user several times that of Facebook. This success is due to a relatively new segment of the market called IVAS (internet value added services), which only started in 2009. Given that this segment is very young globally, it is difficult to estimate its growth potential. We currently expect revenues in this segment to increase threefold within the next 5 years.

**Fig. 5: Community IVAS ARPU: Russia vs. the rest of the world**

Source: Perfect World, IDC 2010

**Online games business in need of new successful titles.** The top 3 games that generate 2/3 of Mail.ru's MMO game revenues are close to the end of their life cycle, and only successful replacements can guarantee that Mail.ru maintain its current market share among the growing gamers base in Russia. The result of increased investment into the localization of foreign games in 2011 will only yield results in 2012, which makes us cautious, hence we are forecasting no more than 17% CAGR in the MMO segment.

**Fig. 6: Dynamics of active users for top 3 games, m users**

Source: Company data, Otkritie estimates

**Mail.ru trades at a 50% premium to a comparable selection of companies.** We have divided Mail.ru's Russian business into 3 segments (social networks, MMO games, and its Web portal). For each business segment we found a fair P/E by looking at comparable peers in that segment. This grouping of companies trades at a weighted 2011 P/E of 23.8x, while Mail.ru (adjusted for minority investments) trades at 35x, which implies a 50% premium.

**Fig. 7: Fair P/E multiple for Mail.ru**

	Segment share of Mail.ru Russian business	Fair PE 2011 for the segment	Source of fair PE multiple
Social networks	31%	19.9	average of 3 Japanese Social Networks (Mixi, Dena, Gree)
MMO games	27%	11.7	average of 3 Chinese game developers (Perfect World, Changyou, Shanda)
Web portal, mail	42%	34.4	Tencent
Weighted average PE 2011		23.8	

Source: Google, Otkritie estimates

# Valuation

## Discounted cash flow valuation

In the DCF valuation we used 12% WACC, a 4% terminal growth rate, and a \$2.9bn value of associates. The fair equity value based on DCF is \$6.0bn, or \$28.4 per diluted number of shares. Our 12 month target price is \$31.5/share.

**Fig. 8: DCF calculation**

	2011E	2012E	2013E	2014E	2015E
EBIT	171	223	275	332	395
Tax on EBIT	-43	-56	-69	-83	-99
DDA	32	42	52	65	80
CAPEX	-44	-54	-63	-74	-8
Investment into WC	-15	-10	-10	-11	-13
FCF	102	146	185	229	277
Discount rate	1.00	0.89	0.80	0.71	0.64
DCF	102	130	148	163	176
WACC					12.0%
SUMM of FCF					719
Terminal growth					4%
Terminal value					2,203
Enterprise value					2,922
Adjustments, net cash (net debt)					87
Adjustments, associates					2,963
Adjustments, minorities					
Equity value					5,972
Current market capitalization					7,943
number of shares					210.3
Current market price					37.8
Equity value per share					28.4
12m TP					31.5
Upside (downside)					-17%

Source: Otkritie estimates

**Fig. 9: Number of shares calculation**

Class A	116,364,000
Common	80,239,341
Total number of shares	196,603,341
Option 1	6,423,842
Option 2	17,828,000
Option 3	4,282,561
Total number of options	28,534,403
% in the money	47.9%
Fully diluted number of shares	210,272,029

Source: Google, Otkritie estimates

## Peer comparison

**Mail.ru trades at a 50% premium to a comparable selection of companies.** We have divided Mail.ru's Russian business into 3 segments (social networks, MMO games, and a Web portal). For each business segment we found a fair P/E by looking at comparable peers in that segment. This grouping of companies trades at a weighted 2011 P/E of 23.8x, while Mail.ru (adjusted for minority investments) trades at 35x, which implies a 50% premium.

**Fig. 10: Fair P/E multiple for Mail.ru**

	Segment share of Mail.ru Russian business	Fair P/E 2011 for the segment	Source of fair P/E multiple
Social networks	31%	19.9	average of 3 Japanese Social Networks (Mixi, Dena, Gree)
MMO games	27%	11.7	average of 3 Chinese game developers (Perfect World, Changyou, Shanda)
Web portal, mail	42%	34.4	Tencent
Weighted average P/E 2011		23.8	

Source: Google, Otkritie estimates

**Fig. 11: Mail.ru peers valuation multiples comparison**

	Description	Mcap (\$m)	P/E			EV/EBITDA			CAGR 2010E-2012E			
			PE10	PE11	PE12	2010E	2011E	2012E	Revenues	EBITDA	EPS	PEG
<b>Portals</b>			<b>24.8</b>	<b>19.9</b>	<b>16.6</b>	<b>15.9</b>	<b>12.4</b>	<b>10.4</b>	<b>17%</b>	<b>17%</b>	<b>19%</b>	<b>0.9</b>
AOL	US Portal	2,220	15.1	17.6	15.2	3.5	4.1	4.0	-3%	-7%	0%	-51.8
Interactive corp.	US portal	2,701	19.1	15.8	12.6	5.8	5.0	4.3	7%	16%	23%	0.7
Netease.com	China Portal	5,927	13.7	11.9	10.6	8.8	7.6	7.2	16%	11%	14%	0.9
Tencent	China portal	48,789	46.3	34.4	26.7	34.6	25.7	20.0	32%	31%	32%	1.1
Baidu	China portal	41,503	45.8	31.2	24.9	35.4	24.4	18.7	41%	37%	35%	0.9
Sohu	China portal	3,103	16.0	13.8	12.5	6.9	5.8	5.2	16%	15%	13%	1.1
Sina	China portal	5,066	37.9	28.9	24.7	29.5	23.0	20.0	24%	21%	24%	1.2
NHN corp	Korea portal	8,042	15.9	13.9	12.1	11.0	9.8	8.6	11%	13%	14%	1.0
Daum Communications corp	Korea portal	1,118	13.6	11.4	9.7	7.4	6.4	5.5	14%	16%	19%	0.6
<b>Social networks</b>			<b>26.2</b>	<b>19.9</b>	<b>17.0</b>	<b>11.7</b>	<b>9.0</b>	<b>7.8</b>	<b>24%</b>	<b>22%</b>	<b>24%</b>	<b>1.0</b>
Dena	Japan social network	5,798	15.4	13.3	12.8	7.8	7.2	7.3	13%	4%	10%	1.3
Mixi	Japan social network	767	36.9	29.2	24.5	13.1	10.6	8.7	15%	23%	23%	1.3
GREE	Japan social network	3,680	26.3	17.3	13.7	14.1	9.2	7.3	45%	39%	39%	0.4
<b>Search engines</b>			<b>28.3</b>	<b>16.9</b>	<b>12.6</b>	<b>15.9</b>	<b>9.4</b>	<b>7.3</b>	<b>24%</b>	<b>48%</b>	<b>50%</b>	<b>0.7</b>
Google	US Search engine	193,587	17.3	14.8	12.8	10.0	8.5	7.3	15%	17%	16%	0.9
Yahoo	US Search engine	21,082	20.8	17.1	14.7	10.7	9.6	8.9	5%	10%	19%	0.9
Blinkx	UK search engine	493	46.7	18.9	10.3	27.0	9.9	5.8	51%	116%	113%	0.2
<b>Game developers</b>			<b>13.8</b>	<b>11.7</b>	<b>10.6</b>	<b>5.2</b>	<b>4.6</b>	<b>4.3</b>	<b>16%</b>	<b>11%</b>	<b>15%</b>	<b>0.9</b>
Activision Blizzard	US game developer	12,946	15.0	12.9	12.1	6.1	5.5	5.5	8%	5%	11%	1.1
Perfect World	China game developer	1,034	7.5	6.5	5.4	4.6	3.8	3.1	20%	21%	18%	0.4
Shanda	China game developer	2,841	22.8	18.8	17.9	4.7	4.0	4.2	18%	5%	13%	1.5
Changyou.com	China game developer	1,965	9.7	8.5	7.2	5.6	4.9	4.4	17%	13%	16%	0.5
<b>E-commerce</b>			<b>51.9</b>	<b>33.4</b>	<b>24.4</b>	<b>33.9</b>	<b>22.6</b>	<b>17.0</b>	<b>25%</b>	<b>34%</b>	<b>38%</b>	<b>0.9</b>
Amazon	US e-commerce	76,418	40.7	30.3	22.3	22.4	17.1	12.7	25%	33%	35%	0.9
Ebay	US e-commerce	41,924	16.3	14.5	12.4	9.3	8.3	7.3	15%	13%	14%	1.0
Alibaba	China e-commerce	9,629	50.2	38.3	28.6	36.9	28.2	21.5	25%	31%	33%	1.2

Source: Bloomberg, Otkritie estimates

## Top down valuation of Russia's internet

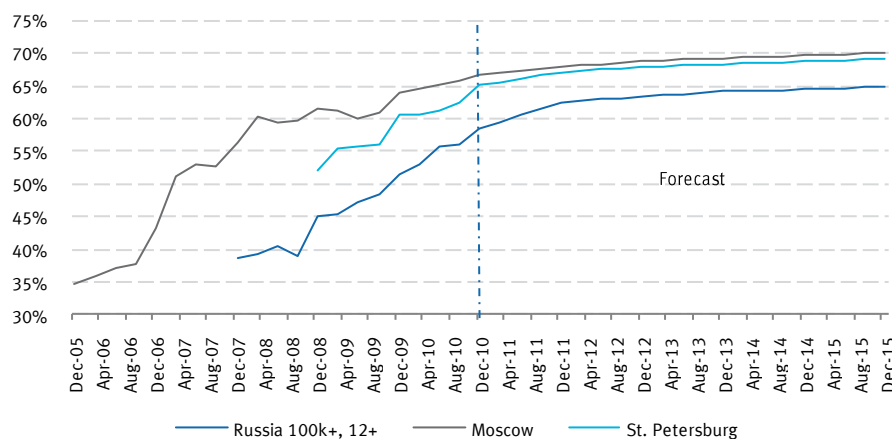
- The internet user base in Russia can grow at a maximum of 5% annually
- Overall time spent online is below the global average, but is rising
- Russians spend double the global average time on social networks
- Russian spending on online games and virtual items already high
- Russian internet companies should trade with a discount to Chinese internet companies

### Internet penetration close to the peak in Russia

**Moscow has reached 67% penetration.** The YoY growth of internet penetration in Moscow was just 4.6% YoY in December 2010, which in our view implies that the Moscow market is near its peak. Our viewpoint is supported by the fact that the internet is already available (technically and economically) to nearly all households in Moscow. Russia's capital has superb infrastructure, with internet availability for nearly all households through fixed-line broadband, or via numerous wireless carriers using WiMAX, CDMA and 3G (GSM). The monthly price for unlimited data traffic of up to 1Mbit/s speed is below \$10.

**Regions have about 15% more growth potential.** If the peak in Moscow is a 70% penetration rate, we estimate that other domestic regions will stop growing at about a 65% penetration level, which implies some 15-20% growth in users. Assuming the peak is reached over the next 2-3 years, the annual growth level driven by penetration would be no more than 5-7%. Infrastructure outside Moscow is less developed, with prices that are 2-3 times higher, on average. Having said that, all major telecom operators are investing heavily into new fiber-based network rollouts in Russian cities with populations above 100,000, with major investments targeted for 2011 and 2012. This will drive down broadband prices in the regions to Moscow levels and increase penetration.

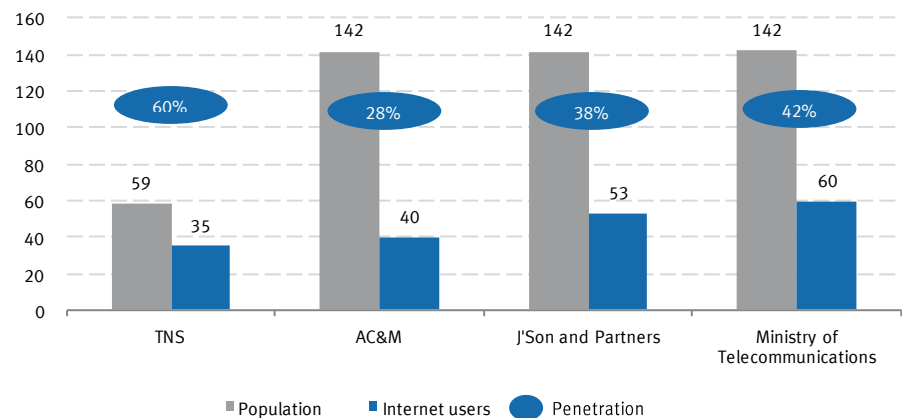
**Fig. 12: Russian internet penetration dynamics**



Source: TNS, Otkritie estimates

**Russia has 35-60m people online.** Statistics regarding online users differ by source. TNS surveys 10,000 people/month in cities with populations above 100,000, and based on these surveys the number of online users (at least 12 years old) in such cities is 35 million, which represents 60% of the target audience. While the survey sample is somewhat limited, we believe the data is very relevant because internet penetration in smaller towns is low and not improving, and thus less likely to be targeted by advertisers. Additional statistical data is provided by telecom operators. Based on the latest data, there are 14.1m fixed-line broadband lines installed in Russia, covering 38.2m people (assuming each line covers one household of 2.7 people). Moreover, we estimate 2m unique 3G mobile internet users, which brings the total number of users to approximately 40m.



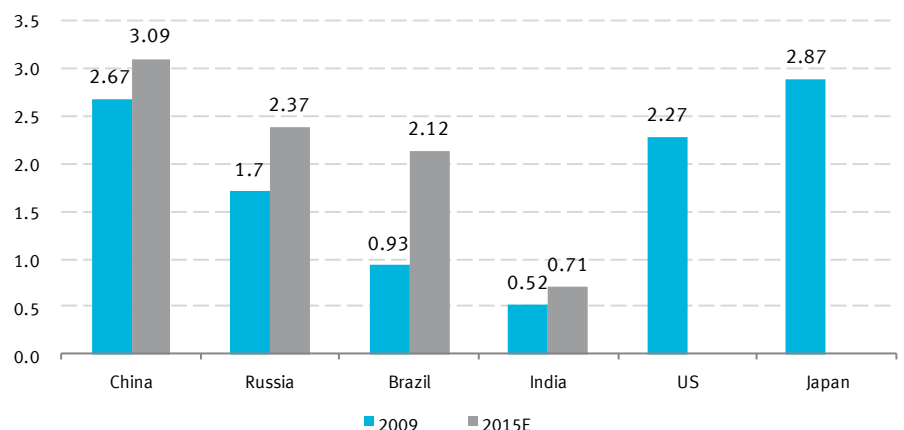
**Fig. 13: Sources for estimating the number of people online in Russia**

Source: TNS Global, AC&M, J'son and Partners, Ministry of telecommunication, Otkritie estimates

**Online users will grow only by 5% CAGR for the next 5 years.** We have divided the Russian population into two segments. The first segment is comprised of people living in cities of over 100,000 (about 60m of the country's population). Here we see potential of growth from 35m-40m online users over the next 5 years. The second segment is smaller cities and villages (about 80m of the country's population). We estimate there are 20m internet users there, and forecast that this figure will rise to 30m, with weak infrastructure and low income constituting limiting factors. All in all, we anticipate just a 30% increase in penetration over the next 5 years, which translates into 5% CAGR.

### Average time spent online has room to grow

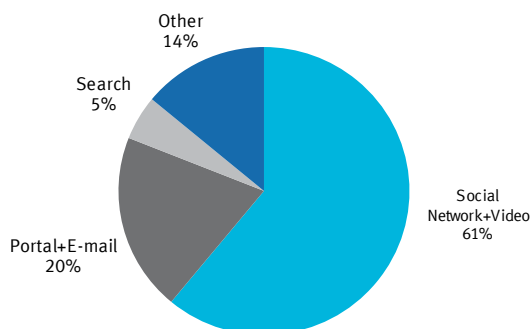
Based upon research from the Boston Consulting Group, the average time spent online in Russia is 1.7 hours/day. The corresponding figure for the US is 2.2 hours/day and 2.9 hours/day for Japan. While there is an upside in terms of the total time spent by Russians online, the time spent on social networks has less room for growth.

**Fig. 14: Hours/day spent online: Russia vs. other key countries**

Source: Boston Consulting Group, Otkritie estimates

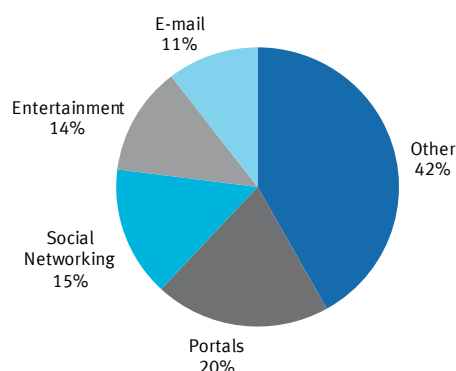
In contrast to usage patterns in the US, social networks dominate among the total time spent online in Russia. We do not expect Russian internet usage to converge with the US pattern, as Russia's internet is younger and thus reflects different user preferences. The key point worth here is that growth of social networks in Russia is not a convergence story. The situation in China is similar to Russia (see the BRIC section of this report for more on this issue, on page 32).

**Fig. 15: Portion of time spent for top content categories in Russia**



Source: comScore, Otkritie estimates

**Fig. 16: Portion of time spent for top content categories in US**



Source: comScore, Otkritie estimates

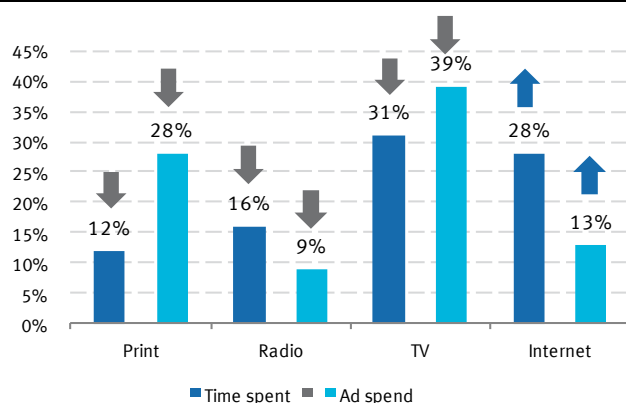
## How do Russian internet companies monetize

**Russian social networks lead in terms of per user monetization** due to a strong focus on social games and other virtual content. E-commerce already occupies a larger share in retail than in Western countries. However, Russian online advertising lags behind, though it is catching up. Internet value added services (IVAS) are a completely new market enjoying robust growth, but it is difficult to accurately assess how long it might last.

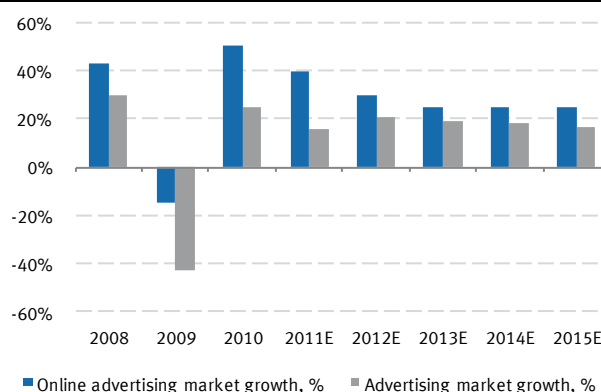
**Online advertising takes market share from traditional media, such as TV and print.** The more time people spend online the higher the value for advertisers. Moreover, more time online means that advertisers can better target their audience since more information becomes available per each user (which is not the case with TV). Buyers of TV advertising receive viewer information on gender and age group, which helps online advertisers know how to tailor their messages to likely viewer interests and taste (for example, by information from social network profiles). The reality however is that in Russia (as in the US) advertisers are still not used to dealing with the complex profiles of target audiences, hence they still relegate online advertising to a small portion of their ad budgets, which are viewed as merely complementary to primary advertising campaigns run on TV and in other traditional media.

**Online advertising currently represents 10% of the advertising market in Russia** and 15% in the US, but its share is constantly increasing. In the US there is a considerable disconnect between viewership and advertising revenues, which means that advertisers are still unready to make a massive shift of advertising budgets online, even if the viewers are already there. This is a clear warning sign for the Russian market as its internet usage approaches US levels. The US experience shows that a corresponding rise in advertising budgets does not necessarily follow.

Having said that, prices for TV ads are set to rise at least 18% annually for the next 5 years, providing solid ground for price hikes for online ads and motivation for advertisers to go online. We estimate the Russian online ad market will grow at 32% CAGR until 2015, with the online ad market achieving 17% of the total ad market by 2015.

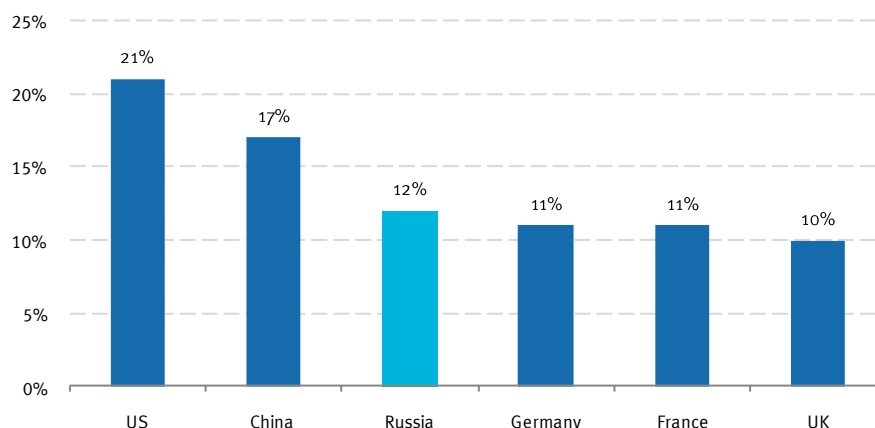
**Fig. 17: Viewership and ad market share in the US 2009, %**

Source: North American Technographics, Yahoo

**Fig. 18: Russian ad market vs. online ad market dynamics, %**

Source: AKAR, Otkritie estimates

**Online games.** This is a relatively new business that allows for a high degree of engagement. The recent switch into game models in which weaker players are able to pay with real money for in-game enhancements attracts a wider audience. Online games are very popular in Russia, though less than in China, but still above the global average. We estimate at least 10% of the people online are playing with ARPUs of \$10/month, which is comparable to a mobile phone ARPU above \$40.

**Fig. 19: Percentage of users playing online games, 2009**

Source: Today's Gamers, Perfect World, Otkritie estimates

**IVAS.** Internet value added services (IVAS) is a very young market that picked up sharply in 2009. It is mostly driven by social networks, where people pay money to improve their pages, give each other virtual gifts, and play community games with real money. In Odnoklassniki (the #2 social network in Russia) less than 10% of registered users purchase IVAS, on average. The ARPU for paying users is estimated at \$2.4/month, which translates into \$0.24 ARPU for all users. The portion of people purchasing IVAS is rising, and the ARPU is also growing, resulting in combined 26% YoY revenue increase of IVAS for Odnoklassniki.

### Should the market pay a premium for a Russian internet company vs. a Chinese or vs. companies from other BRIC countries?

When analyzing internet companies we generally look to the US for comparisons, but we also looked at other BRIC countries. The US companies are not the most appropriate units for comparison as the internet in the US has greater penetration, hence less room for growth. Moreover, good US companies can become successful global players, with potential impact on their market price and consequently the

multiples used for valuing such companies. Consequently, we looked at the Chinese, Indian and Brazilian internet worlds since these countries are large enough to incubate big internet companies that do not necessarily have to go global (we do not see Russian internet companies going global). As such we asked ourselves whether the market for Russian internet users is worth more than the market for Chinese internet users, and if so, by how much. We came to the following conclusions:

- **Chinese users already exhibit comprehensive online behavior**, with high levels of data-heavy services used (Games, Video, Music). Russians and Brazilians demonstrate behaviour oriented to common social networks, while Indian users mostly spend their time on news sites and e-mail.
- **Users in China have higher ARPUs than Russians and Brazilians**, though the disposable income of the average Chinese user is 4 times lower than users in Russia or Brazil, hence has growth potential.
- **Telecom infrastructure to develop in China**. While urban areas are already well-developed, telecom infrastructure in rural areas is not suitable for massive internet usage. We see great potential for new users to join life on the internet in China and India, while infrastructure in Russia is well-developed and the majority of users have available internet access.
- **Chinese users are the most valuable among the BRIC countries**. Given the above, we think that Chinese companies should trade at a premium to their BRIC counterparts.

*More details on internet comparisons among BRIC countries can be found on page 32 of this report.*

## Top down model of Russia's internet

We have created a top down model of Russia's internet, with estimates on the development of the internet user base and the monetization per user (ARPU). We have purposely omitted some parts of the internet model such as E-commerce, since these are less relevant to Mail.ru's business case, and would require an entirely separate report.

**Fig. 20: Top down model for Russia's internet**

	2009	2010	2011E	2012E	2013E	2014E	2015E	CAGR 09/15
Russian population, m	142	140	140	139	139	139	139	
Internet penetration in Russia	38%	39%	41%	43%	46%	48%	50%	
Online audience, m	50.0	55.3	57.9	60.6	63.4	66.4	69.7	5%
Online audience growth	76%	11%	5%	5%	5%	5%	5%	
Internet Advertising ARPU, \$/year	10.2	13.9	18.6	23.1	27.5	32.9	39.1	23%
MMO Games, \$/year	4.5	6.3	8.0	9.3	10.0	9.6	9.2	8%
Community IVAS, \$/year	2.1	5.4	6.9	8.3	9.6	10.8	12.1	17%
Other IVAS, \$/year	1.0	1.3	1.7	2.2	2.9	3.7	4.8	30%
Other, \$/year	2.0	2.6	3.4	4.4	5.7	7.4	9.7	30%
<b>Total internet ARPU</b>	<b>19.8</b>	<b>29.6</b>	<b>38.5</b>	<b>47.2</b>	<b>55.7</b>	<b>64.4</b>	<b>74.8</b>	<b>20%</b>
Russian internet revenues	989	1,634	2,229	2,860	3,533	4,279	5,220	26%
Mail.ru share	15.0%	18.8%	18.0%	17.1%	16.2%	15.6%	14.8%	

Source: Otkritie estimates

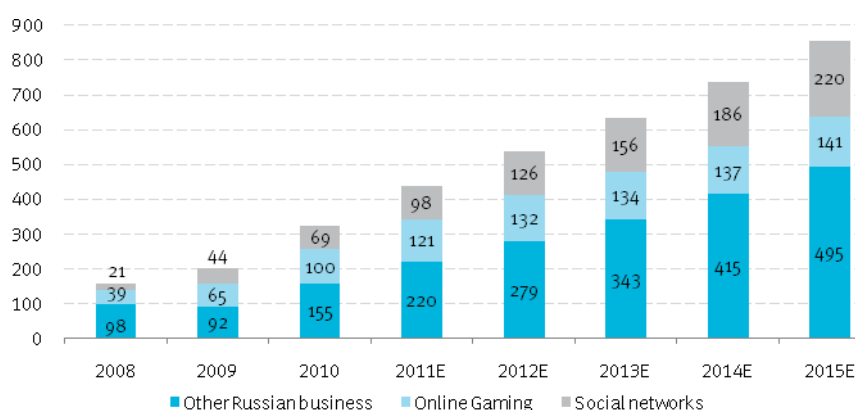
## Bottom up analysis of businesses that Mail.ru consolidates

In the bottom up valuation we have divided Mail.ru business into 3 segments:

- Social networks
- Online Gaming
- Other Russian business, including a portal, search, mail and jobs

In 2010, we estimate that Mail.ru revenues will be distributed among 3 business segments as follows:

**Fig. 21: Mail.ru's revenue distribution by business segment, \$m**



Source: TNS Global

### Social Networks (SN)

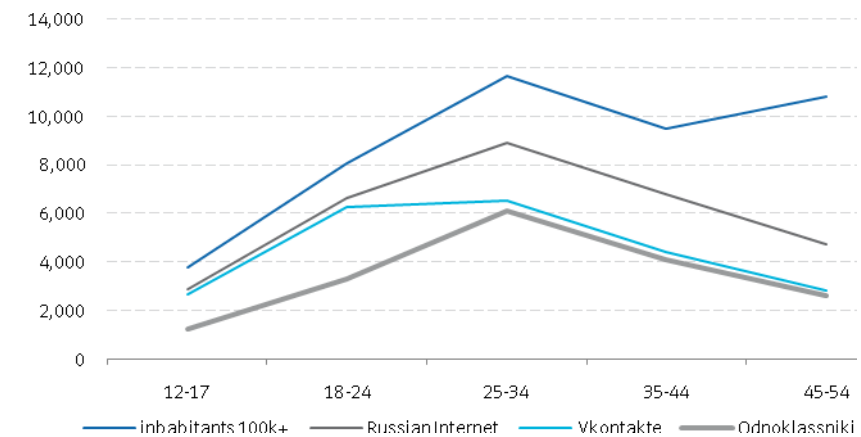
- Great business as users create content themselves, which drives usage
- SN already more popular in Russia than in the US, but a fragmented market
- Mail.ru controls the #2 and #3 social networks in Russia and has a blocking stake in #1
- Advertiser revenue growth is easily predictable, revenues from IVAS less so

Social networks are a great business because users generate the content themselves, which attracts more users and increases the average time spent in those networks. Time spent in social networks is then monetized through a) display advertising; b) social games; and c) other internet value added services (IVAS). Mail.Ru controls number the #2 SN, called Odnoklassniki, the #3 SN, called Moi Mir, and has a 32.5% stake and a 7.5% option in #1 SN, called VKontakte.

Below we analyze in more detail all 4 value drives, namely: user base growth, growth in average time spent online, display advertising growth, social games and other IVAS growth.

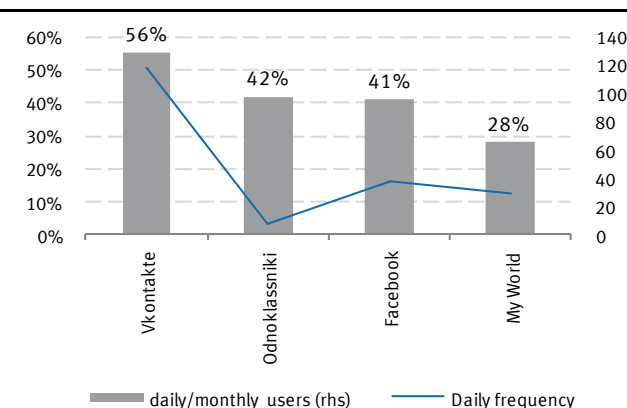
**Majority of social networks users are under 34.** Looking at the age distribution on Facebook in the UK, 68% of total users fall into the 13-34 age group. In countries like Poland and the Czech Republic, in which internet penetration is at a level that we believe Russia could reach in 2-3 years, the 13-34 age group comprises 85-89% of Facebook users.

**78.5% of the 12-34 age group in Russia already has access to the internet.** And out of these, 84% visit the VKontakte website at least once a month, while 50% visit it daily. Based upon these statistics, the upside for increased penetration in the 12-34 age group is quite limited in our view, thus value growth must come through increased monetization per user.

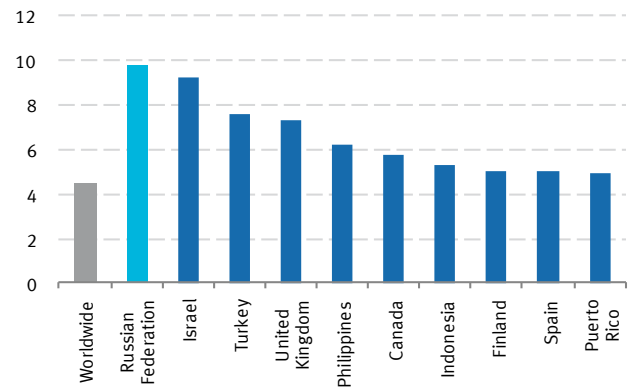
**Fig. 22: Demographic comparison for Russian internet and Vkontakte, '000 people**

Source: TNS Global

**Social networks are already extremely popular in Russia.** Measured by time spent online and by page views, users of Russian social network sites are already above global averages. The access to illegal content that is freely available in the Russian social networks is just part of the reason for this. Far more important is the higher degree of networking in Russian society that is needed for daily life.

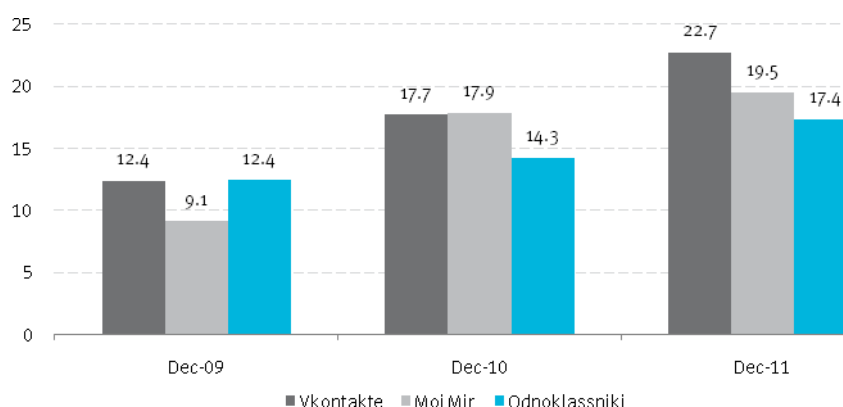
**Fig.23: Reach vs. frequency among social networks**

Source: TNS, ComScore, Otkritie estimates

**Fig. 24: Hours/month spent in social networks, (October 2010)**

Source: ComScore

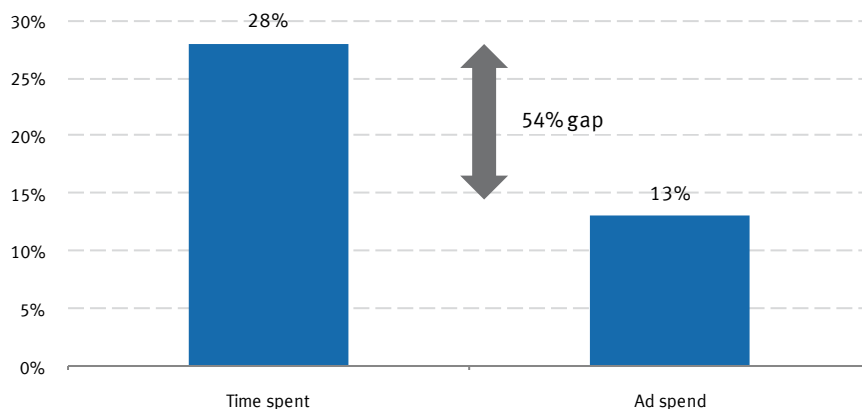
**Facebook will gain market share in Russia.** Facebook currently has a 6% share of Russian social networks, primarily attracting Russians who wish to be connected with their peers abroad. Because it has a better technical platform, we expect Facebook to gain market share in Russia. However, over the next 5 years we expect market growth to allow for double digit revenue growth for each of the top 3-4 social networks in Russia. *More details on Facebook, including valuations, can be found in the section of this report on minority investments, on page 26.*

**Fig. 25: Russian social network unique user dynamics, m users**

Source: TNS

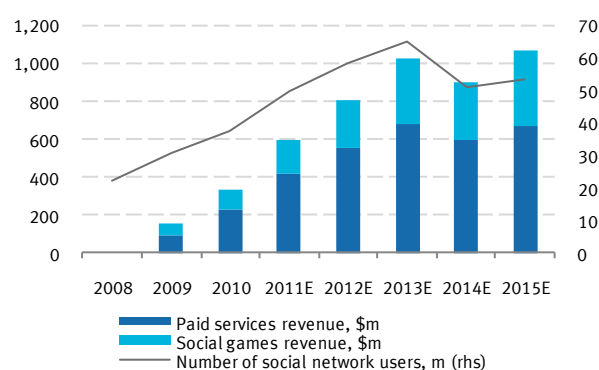
**Online advertising will grow at 32% CAGR for the next 5 years...** The figure of 32% growth is a fairly safe assumption, compared with TV ad market growth of 18% CAGR. The internet is clearly taking away its share of viewers from other media, mostly from print and TV. However, in order to challenge TV advertising's dominance, the amount of viewer time spent online would have to at least triple.

**..., but not more.** We do not expect growth to be much faster since the shift of advertisers towards new media is slower than the shift of actual consumers. For instance, in the US there is a significant disconnect between the share of viewers and the share of advertising money that is spent on the internet. In another words, in the US the internet already has a far larger share of viewers than it has a share of advertising revenues. Assuming that Russia follows this pattern, we will first see a pickup in internet usage, while advertisers rotate their budgets at a much slower pace.

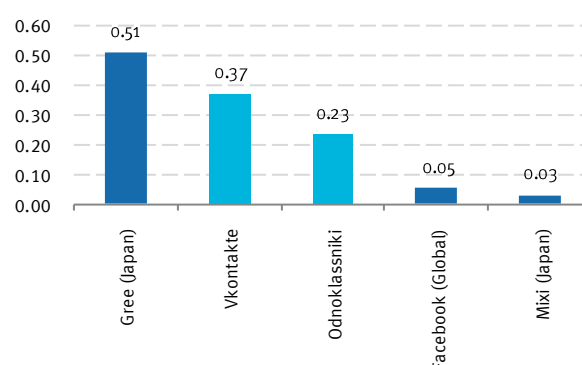
**Fig. 26: US viewership vs. ad revenues; internet and TV**

Source: North American Technographics, Yahoo

**The community value added services are bigger than online ads.** The success of social networks, especially in Russia, has been a function of the popularity of community games and virtual goods, called community IVAS. It is an absolutely new market, which saw a substantial pick-up starting in 2009. Russians are already among the global leaders in terms of average time spent on community IVAS, which we estimate reached \$0.75/month in 2H10. The dynamics of this new segment are strong, and we anticipate community IVAS ARPU to grow at 16% CAGR until 2015.

**Fig. 27: Community IVAS growth**

Source: Otkritie estimates

**Fig. 28: Community IVAS ARPU: Russia vs. the rest of the world, \$m**

Source: Perfect World, IDC 2010

Combining the penetration increase and average revenue per user increase in ads and IVAS, we estimate 30% CAGR top line growth for VKontakte, and 26% CAGR for Odnoklassniki until 2015. As the companies for the most part own the servers, we estimate that EBITDA margins will rise significantly, resulting in EBITDA growth for VKontakte 42% CAGR until 2015 and 32% CAGR for Odnoklassniki for the same period.

**Fig. 29: Revenue model for Odnoklassniki**

	2009	2010	2011E	2012E	2013E
Unique visitors, YE	14,267	17,358	19,961	21,957	23,055
Display ad ARPU	0.08	0.11	0.13	0.15	0.18
Context ad ARPU	0.01	0.01	0.01	0.02	0.02
Community IVAS ARPU	0.19	0.24	0.29	0.33	0.38
Total ARPU	0.28	0.36	0.44	0.50	0.58
Total revenues	44.3	68.9	97.7	126.2	155.8
Revenue growth	n.m.	56%	42%	29%	23%
EBITDA	24.8	38.1	55.7	77.6	100.7
EBITDA margin	56%	55%	57%	61%	65%

Source: TNS, company data, Otkritie estimates

## Online Gaming

- Expanding global market
- High penetration in Russia
- Aging games in Mail.ru's portfolio mean some risk in the next 2 years

Mail.ru Group generated 31% of its revenues from Massive Multiplayer Online (MMO) games in 2010. The company develops its own games and also buys licences of successful games from abroad. With few exceptions, most of the games are free to play, i.e. the players can download and play the games for free and are only charged for in-game enhancements. This business model leads to double or triple the number of active users compared to a subscription-based model, but only a fraction (10-25%) of the active players are willing to pay for in-game enhancements.

**The free-to-play MMO business model.** A typical free-to-play MMO game takes several years to develop, costing over \$10m, while a successful game's gross margin can reach 80% (based on Perfect World financials). Subtracting the R&D and marketing expenses, the operating margin of a good game is still above 50%. The life cycle of a game is estimated at 5-7 years, with the payback period can be 3-4 years if the game attracts 50,000 active players.

Most of the successful games are then licensed to game developers abroad. For instance, Mail.ru typically pays up to \$1m for a successful game from abroad



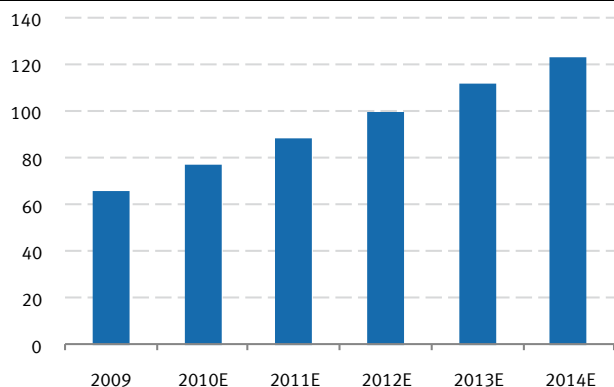
(China, Korea, Japan are the most common sources). In addition to the initial payment, 20-30% royalties are typically paid to the local developer, for which the Mail.ru receives technical support for the game. As such, a 50%+ EBITDA margin can also be achieved on licensed games. Russian localization takes 6-9 months and the payback period is estimated at 16-24 months.

**Russian and Chinese markets exceed the global average.** The global market for MMO games can be divided into subscription-based games (mostly played in the US and Western Europe) and free-to-play games (especially popular in emerging markets). The most successful subscription-based MMO game in history is *World of Warcraft*, which in 2008 (only 4 years after being launch) had 12m subscribers globally. At that time, the game represented 60% of the global subscriber base for MMO games.

The free-to-play games started in markets in which gamers could not afford monthly payments and now this model is more popular for both developers and players. There are examples of subscription play games switching into free-to-play mode, with revenue spikes of 2-3x.

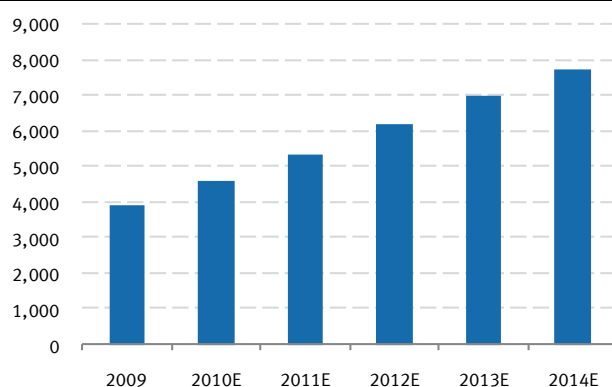
The US MMO market reached \$2bn in 2009, while in China the market was already at \$4bn (65m players). The Chinese market is expected to grow at 13% CAGR in terms of the number of players and at 15% CAGR in money terms.

**Fig. 30: Online game players in China, m**



Source: Perfect World, IDC 2010

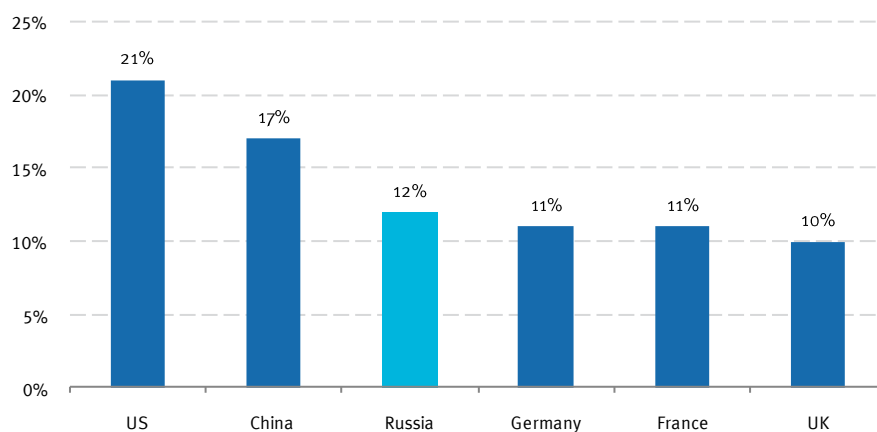
**Fig. 31: Online game revenues in China, \$m**



Source: Perfect World, IDC 2010

According to a survey conducted by today's gamers, in developed countries MMO games are played by 10-12% of the population above 8 years of age who have internet access. We estimate that there are as many as 5 million active MMO players in Russia, representing 10%-14% MMO penetration. In China, the penetration is even higher, with 65m players and 375m people online (hence a penetration rate above 17%).

**Fig. 32: Share of online users above 8 yrs old playing MMO games, 2009**



Source: Today's Gamers, Perfect World, Otkritie estimates

**Perfect World.** We consider the Chinese game developer Perfect World to be the closest peer to Mail.ru's MMO game division. Perfect World is a \$1bn company with more than a million active players in China, who play self-developed games. In addition, Perfect World generates 12% of its revenues from licensing its games abroad. A game with the same name as the company, *Perfect World*, is the #1 game in Mail.ru's portfolio. Revenues of the company Perfect World increased 10% in 9M10, reaching \$276m, with an EBITDA margin of 32%. The stock of China's Perfect World trades at 2x of 2011 sales and 5x on a 2011 EBITDA.

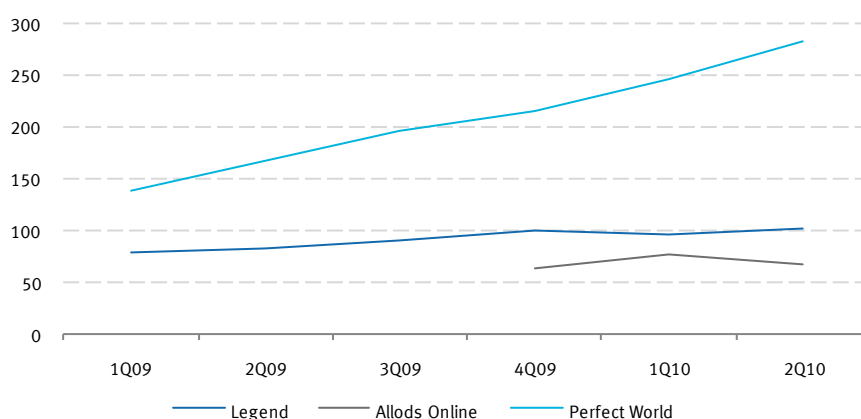
**Aging titles of Mail.ru.** The top 3 games of Mail.ru generate 2/3 of its total MMO revenues, representing 55% of the total active player base of Mail.ru. Two out of the top three games have been running for over 2 years, while Allods is a fairly new release (in 2009). Given that the typical lifetime of an MMO game is 5-7 years, the top 2 games will need to be replaced, which poses some risk to revenue estimates for 2011 and beyond.

**Fig. 33: Top 3 games: active players, paying players**

Name	type	ownership	Active users, '000 June 2010	Paying users, '000 June 2010
Legend	MMORPG	Mail.ru	102	20
Allods Online	MMORPG	Mail.ru	68	22
Perfect World	MMORPG	licensed	282	63

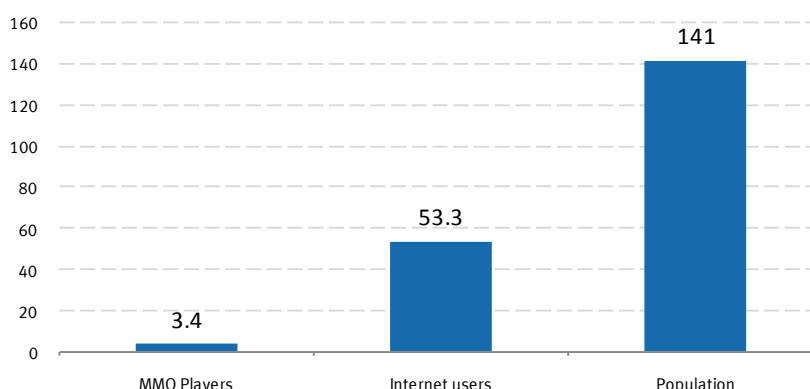
Source: Company data

**Fig. 34: Dynamics of active users for top 3 games, m users**



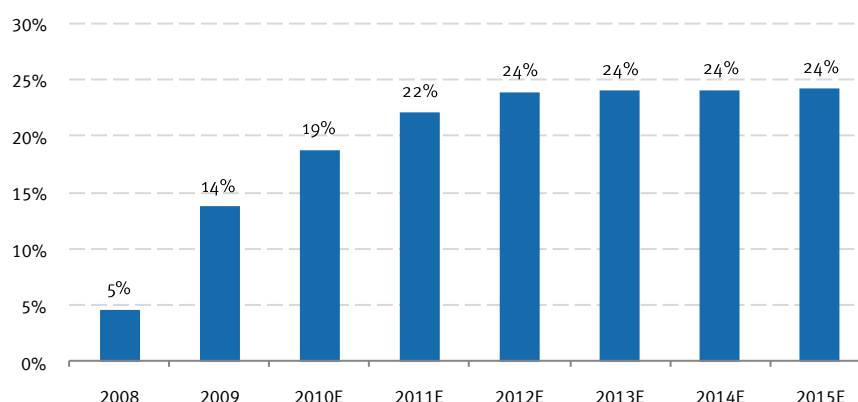
Source: Company data, Otkritie estimates

**High number of players in Russia.** Estimates of active players in Russia are in the range of 3-5m, which we consider a high number. Assuming that players of MMO games are in the very young demographic group (12-30 years old), this represents 20% of Russia's internet population and 10% of its overall population. Going forward, the player community will move into older demographics as the current players grow up. In our estimates we incorporated revenue growth coming from MMO games being available on new gadgets such as the Ipad and Iphone. All in all, we forecast that the player community will grow at 16% CAGR in Russia until 2015, and the market will grow at 6% CAGR in terms of \$.

**Fig. 35: MMO players vs. the internet users vs the population, m people**

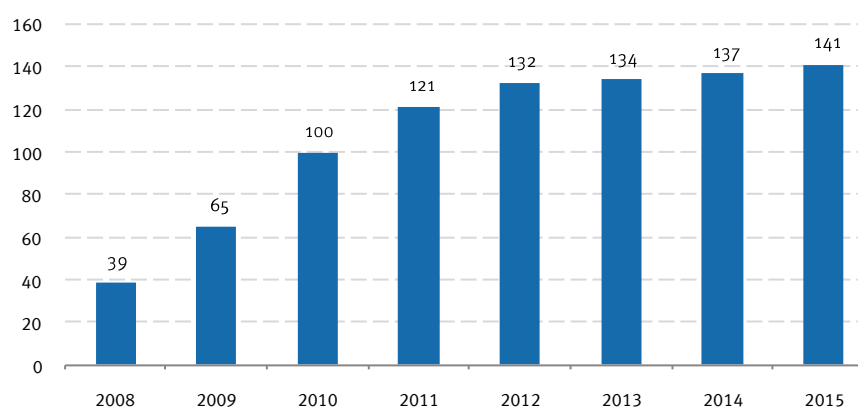
Source: Otkritie estimates

**Plenty of competition.** We estimate Mail.ru's market share in Russia at below 20%, with competition coming not only from locals but also from localized foreign titles. The main competitors are Innova (only localized, mainly Korean games, but strong player support), Nival, Rusabit, and Blizzard. We assumed in our model flat market share for Mail.ru in MMO games.

**Fig. 36: Market share of Mail.ru in MMO active players in Russia**

Source: Innova, Mail.ru, Otkritie estimates

We estimate that double digit revenue growth will continue until 2012, but starting in 2013 the growth will slow down to just single digits. The primary risk to our estimates is the launch of successful titles.

**Fig. 37: MMO revenues of Mail.ru, \$m**

Source: Company data, Otkritie estimates

## Mail.ru portal

- Portal drives the cross-usage of Mail.ru sites
- Display advertising – the main revenue source. Though the overall display advertising market is anticipated to grow at 28% CAGR in 2010-2015, Mail.ru is expected to lose market share.
- Mail.ru's portal includes more than 30 vertical sites. Yandex's portal consistently outpaces Mail.ru in terms of the number of active users and pages viewed.

**Portal is the aggregator of Mail.ru's business.** Launched in 2001, the portal generates revenues principally via online advertising.

**Mail.ru's portal is an entry point to a wider range of internet websites and services.** Via Mail.ru's portal, users can access Mail.ru's key products, including the *My World Mail Agent* instant messenger program. They can also check e-mails using the Mail.ru e-mail service, and visit various products described below. The Mail.ru portal also offers a range of search tools, and includes links to the full catalogue of online games offered by Astrum's online division.

**Mail.ru's portal generates revenue via display advertising.** Except for what was listed above, Mail.ru's portal provides links to a number of its own thematic vertical sites, which are specialized websites that focus on a key area of interest.

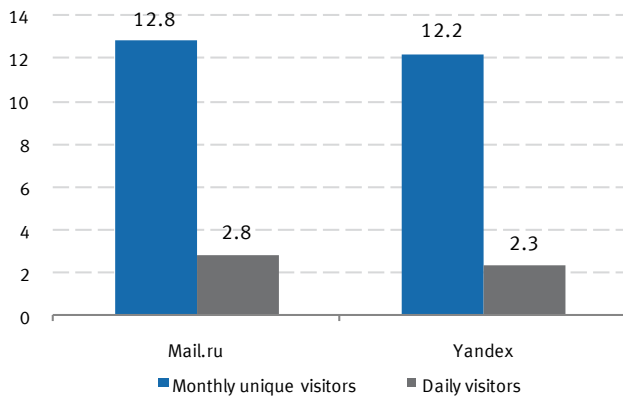
**The variety of vertical sites, as well as the quality of their content, are the key elements for a portal's success.** User base and user engagement are the main value drivers for sites. These factors depend heavily upon the comparative quality of the site. The table below summarizes key information concerning the vertical sites.

**Fig. 38: Mail.ru portal vertical sites , December 2010**

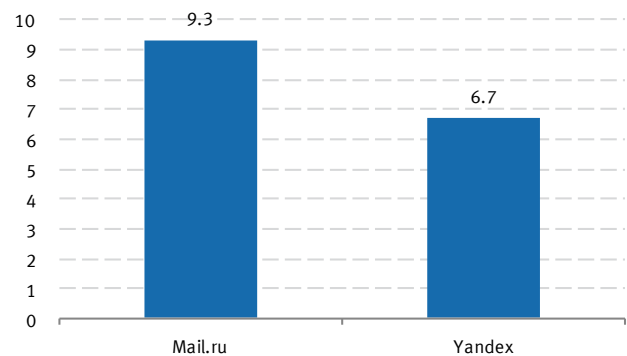
Site name	Content	Monthly unique visitors, m	Daily/monthly visitors	Daily frequency	Pages viewed per day, m
News	Online newsletter	12.81	22.0%	3.3	9.30
Otvety	Q&A	10.23	10.0%	4.8	4.91
Roliki	Video clips	8.05	7.7%	6.2	3.84
Afisha	TV-Guide	7.51	12.0%	4.0	3.60
Auto	Auto reviews	7.45	11.5%	3.9	3.34
Igry	Games	7.10	16.0%	5.1	5.79
Pogoda	Weather forecast	6.64	15.0%	2.2	2.19
Lady	Women's lifestyle	5.59	11.4%	5.3	3.37
Otkrytki	Post cards	5.23	7.5%	7.5	2.94
Deti	Children	4.94	8.6%	2.7	1.15
Blogi	Online blogs	4.93	8.0%	5.1	2.01
Hi-tech	Hi-tech reviews	4.25	7.3%	2.9	0.90
Travel	Travels	3.49	7.0%	2.9	0.71
Rabota	Jobs	3.42	6.0%	4.7	0.97
Tovary	Price comparison	3.26	5.4%	4.4	0.78
Love	Dating	3.23	20.0%	44.4	28.64
Files	File hosting	3.18	6.1%	2.5	0.49
Maps	Online maps	3.13	5.7%	1.4	0.25
Zdorovye	Health	2.66	6.0%	3.3	0.53
Nedvizhimost	Real estate	1.63	5.8%	2.4	0.23
Soft	Software	1.40	5.0%	1.8	0.13
Catalog	Yellow pages	1.14	5.5%	3.0	0.19

Source: Company data, TNS, Otkritie estimates

**Yandex's portal is the main competitor for the Mail.ru portal.** Most of Mail.ru's portal's sites have analogues on Yandex's portal. We've analyzed each vertical thematic site according to user base and user engagement, based on TNS Web Index December 2010 data. A summary of our analysis for news sites can be found below:

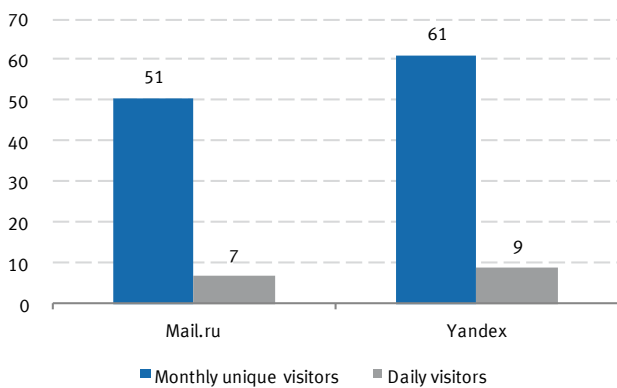
**Fig.39: News, average visitors (December 2010), m people**

Source: TNS, Otkritie estimates

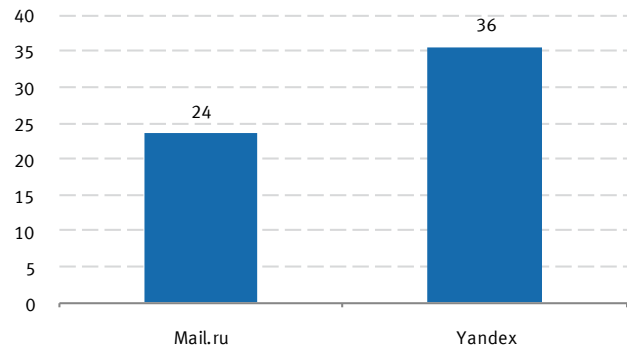
**Fig.40: News, total pages viewed per day (December 2010), m people**

Source: TNS, Otkritie estimates

**Yandex clearly beats Mail.ru in total for all categories where the companies share a presence.** Though Mail.ru leads in TV-guide, auto reviews, and postcards, Yandex garners the majority of users for weather forecasts, price comparisons, online maps and dictionaries.

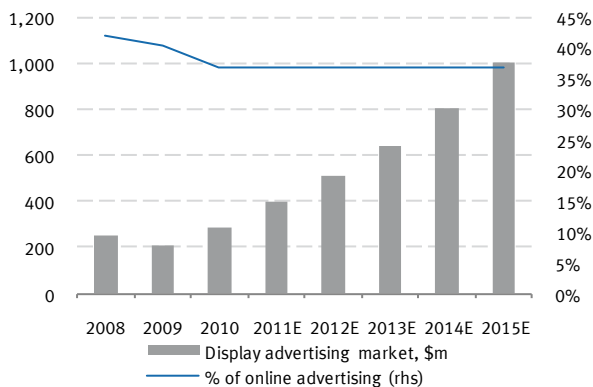
**Fig.41: Competing portal sites' average visitors (December 2010), m people**

Source: TNS, Otkritie estimates

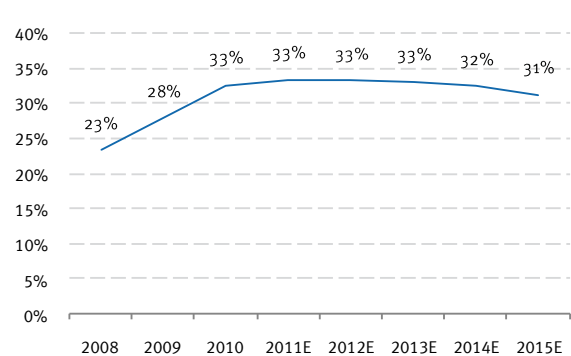
**Fig.42: Competing portal sites' pages viewed per day (December 2010), m people**

Source: TNS, Otkritie estimates

**Considering the factors above, we expect Mail.ru's share of display advertising to decline slightly,** while the overall display advertising market is forecast to grow at 29% CAGR.

**Fig.43: Display advertising market**

Source: Otkritie estimates

**Fig.44: Mail.ru's portion of the display advertising market, %**

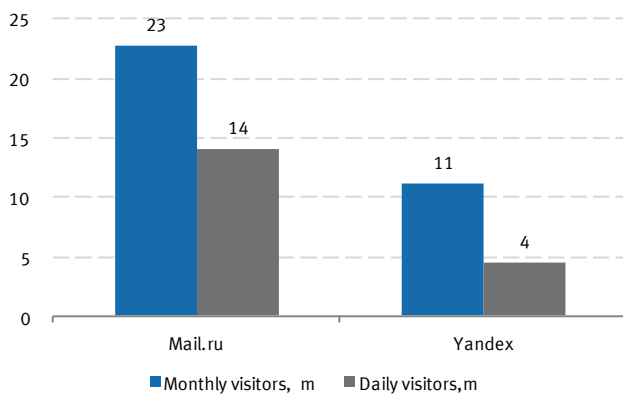
Source: Company data, Otkritie estimates

## E-mail and Search

- Mail.ru's e-mail service is the most popular on the Russian market, while Mail.ru's search engine is the 3<sup>rd</sup> popular search engine in Russia.
- Context advertising – its main revenue source. Though the overall display advertising market is expected to grow at 28% CAGR in 2010-2015, Mail.ru is expected to lose market share.

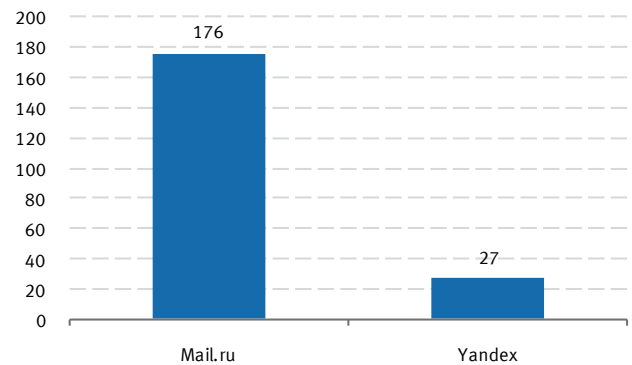
**Mail.ru dominates the Russian e-mail market** with 23m unique users every month, which is more than 43% of Russia's monthly internet audience. Its closest competitor, Yandex mail, is only half as popular. Moreover, Mail.ru e-mail users are more active, each visiting on average 15.8 pages on its website daily, which is 2.5x more than Yandex mail users.

**Fig.45: E-mail average visitors (December 2010), m people**



Source: TNS, Otkritie estimates

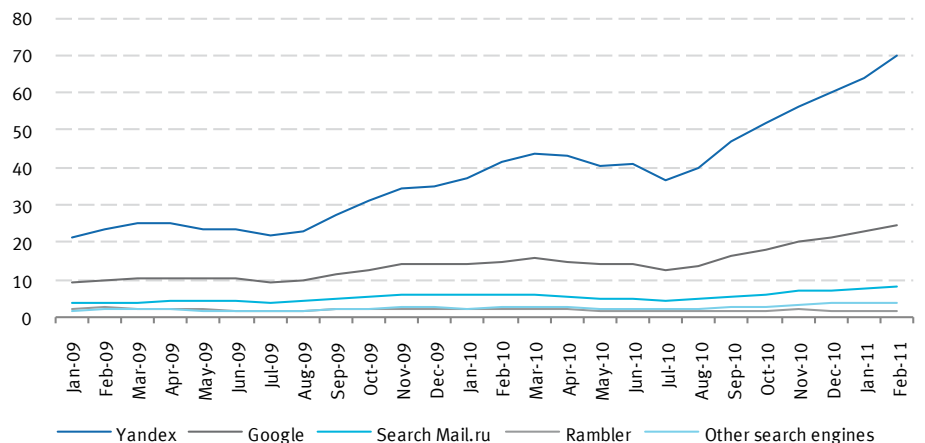
**Fig.46: E-mail total pages viewed per day (December 2010), m people**



Source: TNS, Otkritie estimates

**Mail.ru has the 3rd most popular search engine on the domestic market.** Mail.ru provides internet search services that help users find webpages, photos, videos, products and services, using Russian language search terms. Mail.ru's search engine has an average of 2.0 million daily unique users in Russia, 11.9 million monthly unique users in Russia, and 292 million monthly page views from users in Russia (TNS December 2010 data). According to data from liveinternet.ru, the search services of Mail.ru had a 7.3% share of Russia's total search market in February 2011.

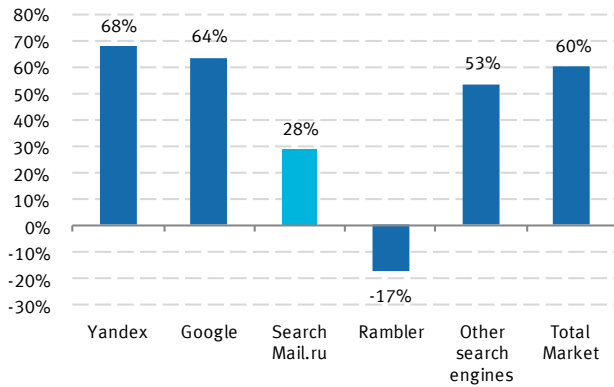
**Fig. 47: : Portion of Russia's search market by redirects from search sites (February 2011), m redirects**



Source: Liveinternet, Otkritie estimates

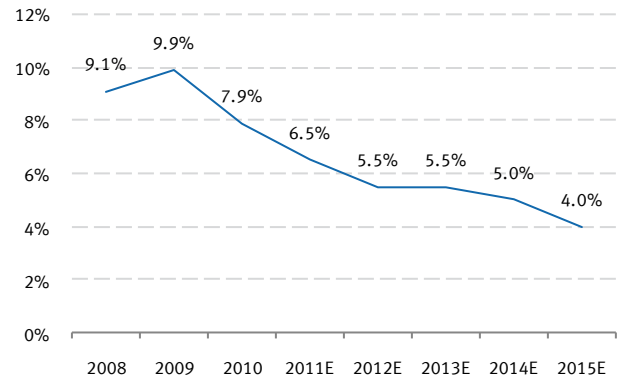
**Mail.ru is losing market share in the search segment** because it is growing at a slower pace than the overall market. Likewise, it is underperforming its major competitors (such as Yandex and Google) in terms of growth dynamics. Since the beginning of 2010, Mail.ru's market share has slipped from 9.8% to 7.3%, while Yandex saw an increase in its market share from 61.9% to 64.9% YoY.

**Fig.48: 2010 YoY growth in search usage , %**



Source: Liveinternet, Otkritie estimates

**Fig.49: Mail.ru's search market volume share, %**



Source: TNS, Otkritie estimates

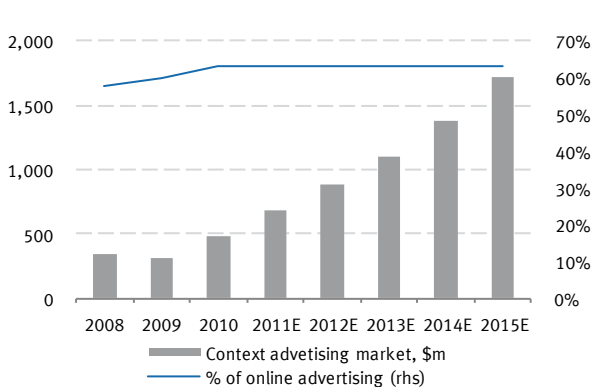
We expect Mail.ru's market share to drop to 4% by the end of 2015. Mail.ru uses its own internally developed search engine technology, which was introduced at the beginning of 2010 in order to replace its use of Yandex's search engine.

**Mail.ru's search and e-mail services generate revenue through context advertising** made through Google's AdWords technology, which displays relevant ads using an auction-based program from Google in which advertisers bid to have their sponsored advertisements appear when specified search queries are entered. When a customer clicks on a sponsored advertisement, Google receives a fee from the advertiser, and shares a portion of that revenue with Mail.ru.

**Valuation drivers.** As e-mail and search websites derive revenue primarily from context advertising, there are 2 main drivers of its valuation:

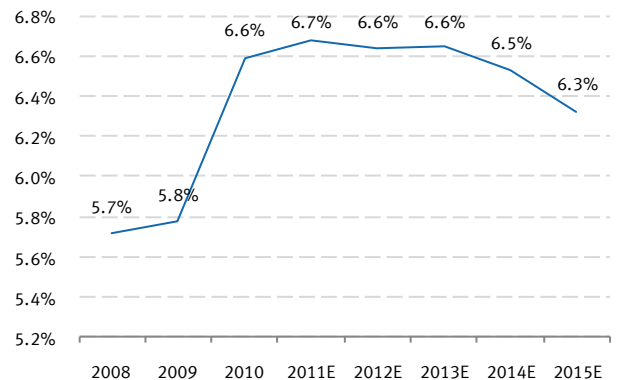
- **Context advertising market growth.** We expect context advertising to grow at 29% CAGR, representing a stable 63% of total online advertising in Russia.
- **Mail.ru's share of the context advertising market.** Its share of this market is driven by user engagement in search and e-mail, along with the monetization of this engagement. While we anticipate that its user engagement will decline, Mail.ru is expected to boost monetization in 2010 and 2011, which will stabilize its market share until 2013.

**Fig.50: Context advertising market**



Source: Otkritie estimates

**Fig.51: Mail.ru's share of the context advertising market, %**



Source: Company data, Otkritie estimates

## Messengers (Agent and ICQ)

- Agent and ICQ are popular messengers in Russia. Agent is growing its user base, while that of ICQ is stable.
- Messengers are primarily used to promote online games and portal sites and do not generate substantial revenue streams.
- ICQ was bought in 2010 from AOL for \$187.5m.

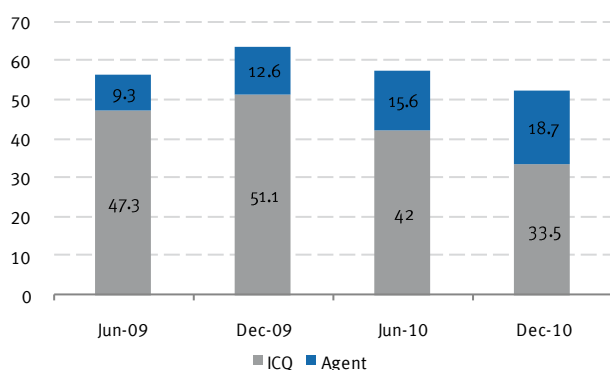
**Agent and ICQ are popular messengers in Russia.** The communication features of these networks provide a platform for integration with social networking sites, with features such as user profiles, status updates, chat rooms, blogs, interest groups, integrated status updates, and news feeds, as well as cross-selling opportunities for products with monetization potential, particularly online games.

**Messengers are used primarily to promote Mail.ru's online games and portal sites.** Based on the number of monthly unique users in Russia, Agent is the country's largest IM network. It was developed internally and launched in 2003. Agent is integrated with Mail.ru's portal and the *My World* social networking site. Although Agent generates some revenues from SMS and VoIP arrangements, it is primarily used as a means to direct traffic to other Mail.ru sites (hence to increase user engagement on those sites).

ICQ was acquired from AOL in July 2010 for \$187.5 million. Founded in 1996, it is the leading provider of IM services in Russia, Germany, Israel, Slovakia, and the Czech Republic. ICQ generates revenues primarily from search engine providers that share a portion of the context advertising revenues generated on search queries submitted using the ICQ toolbar and web browsers whose search engine and home page preferences are selected upon ICQ installation. ICQ also generates a portion of its revenues from display advertising, while part of ICQ's IM revenues are generated by SMS service providers that share part of the revenue generated by SMS traffic originating from the ICQ IM network.

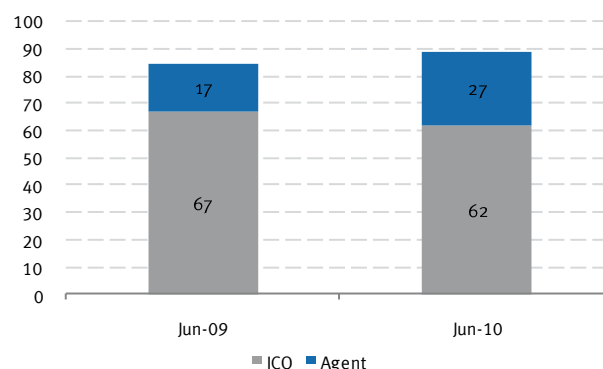
Agent is a growing messenger, while ICQ's popularity is declining. ICQ users are twice as active as Agent users (measured by daily messages sent per user), though that gap halved over the past year. We think it is necessary to look at these messengers together, since Mail.ru plans to combine both messengers into one platform. The following charts summarize key usage statistics for the services of Agent and ICQ.

**Fig.52: Monthly reach, m users**



Source: Company data

**Fig.53: Daily messages sent per user, m**



Source: Company data, Otkritie estimates

We consider all the revenue generated by ICQ and Agent as part of Mail.ru's portal and search revenues.



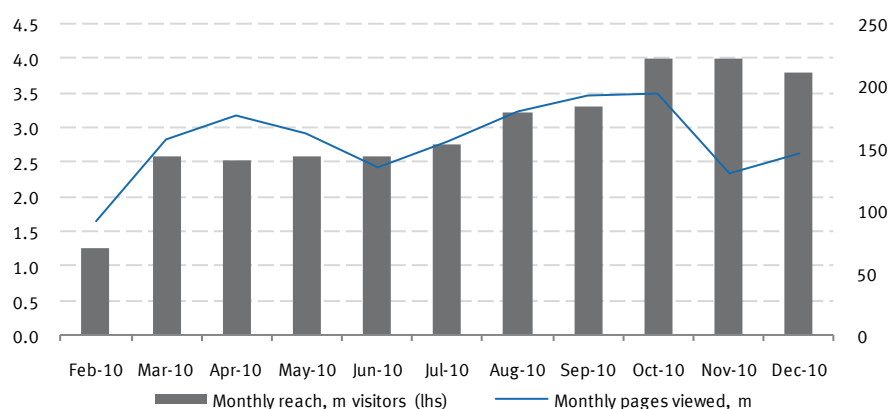
## Jobs

- While Headhunter is the most popular job site in Russia, it represents only a minor portion of Mail.ru's business.
- We expect Headhunter revenues to grow at 19% CAGR in 2010-2015.

**Jobs segment is a minor portion of Mail.ru's business.** The jobs segment is represented by the Headhunter website (HH.ru). This segment generated revenues of \$16.7m in 2009 and \$28.7 in 2010, mainly through subscriptions to its job listings.

**The recruiting business is cyclical and depends on overall labor market sentiment.** 2010 was a very successful year for recruitment, with the usage statistics for headhunter reflecting a 200% increase in its monthly user base and a 60% rise in the total number of pages viewed on the site.

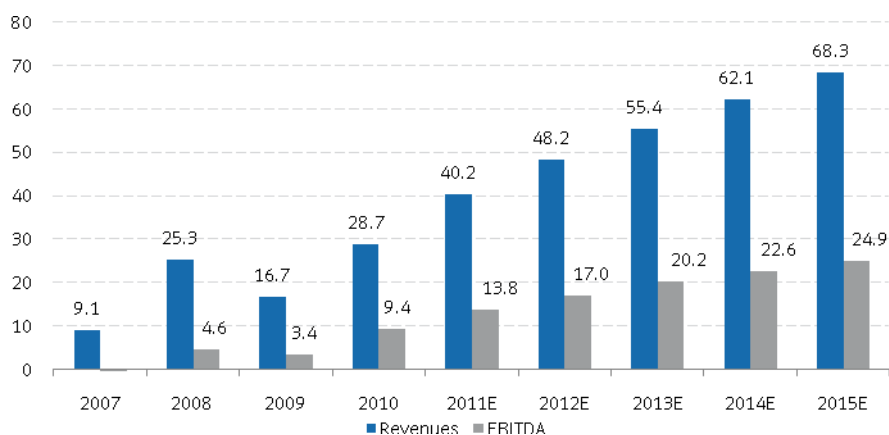
**Fig. 54: Headhunter usage statistics, 2010**



Source: TNS, Otkritie estimates

**Headhunter revenues reached \$29m in 2010**, and we forecast growth at 19% CAGR thereafter. We attribute most of the revenue growth to 9% CAGR of internet penetration in Russia, on the back of the overall growth in the country's GDP. Operating costs are forecast to grow at 10% CAGR, reflecting the overall inflation in the cost of operations and wages of data centers.

**Fig. 55: Headhunter financial projections, \$m**



Source: Company data Otkritie estimates

## Valuation of minority investments

We estimate that 50% of the Mail.ru Group's value comes from its minority stakes in various companies, with the single largest value coming from Facebook. The market value of these stakes has increased 135% over the past 4-6 months, serving as a strong driver of Mail.ru's share price.

**Fig. 56: Mail.ru minority Investments**

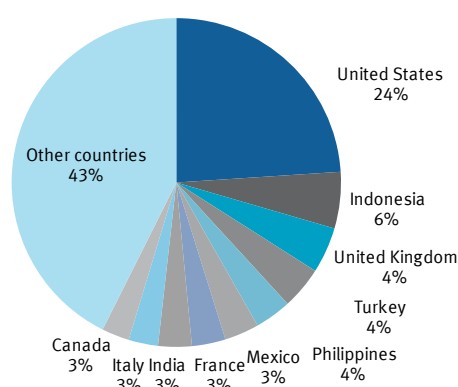
	Mail.ru current stake, %	100% Stake Latest valuation, \$m	Mail.ru current stake value, \$m	100% Stake value in 2015, \$m	Mail.ru stake value in 2015, \$m
Facebook	2.38%	76,400	1,818	134,700	3,206
V Kontakte	32.5%	1,723	560	3,023	982
V Kontakte option	7.5%		17		30
Qiwi	21.35%	644	137	1,130	241
Groupon	5.13%	6,000	308	10,000	513
Zynga	1.47%	7,000	103	7,500	110
Other venture investments			20		34
Total			2,963		5,117

Source: Otkritie estimates

### Facebook

Facebook is the world's largest social network, with more than 620m users in 214 countries. Its most recent transactions value the company at \$50bn, while we estimate its fair value at \$76.4bn.

**Fig. 57: Facebook registered user base by country, February 2011**



Source: Social bakers

During Mail.ru's IPO, Facebook was valued at \$24bn (based on a June 2010 transaction in which a 0.5% stake was sold to Elevation Partners). In November 2010, Accel sold a 1.47% stake in Facebook for a total cash consideration of \$516m, driving up the total Facebook market cap to \$35bn. In January 2011, Facebook raised approximately \$1.5bn on a valuation of \$50bn.

**We value Facebook at \$76.4bn.** In our model, we value Facebook at \$76.4bn for a 100% stake, or 53% above the \$50bn valuation implied by its latest transaction. We forecast that Facebook's revenues will reach \$16.8bn in 2015. We also assign a fair EV/sales multiple for 2015 of 8x, slightly above where Google currently trades (Google trades at a 2011 EV/sales of 7.5x). As such, the enterprise value of Facebook in 2015 is estimated at \$134.7bn, then discounted using a 12% discount rate, which yields a figure of \$76.4bn as of YE11.

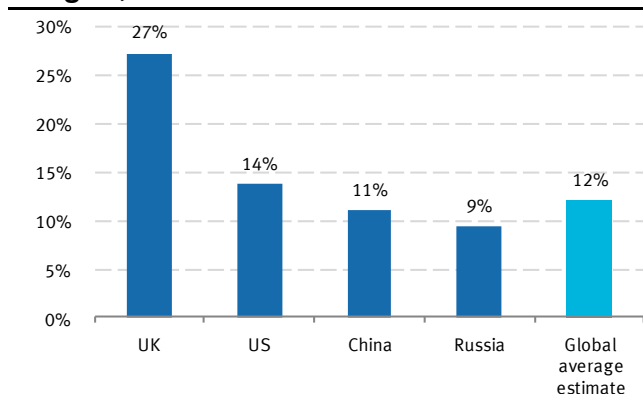
**Fig.58: Facebook valuation model**

	2009	2010	2011	2012	2013	2014	2015
World GDP, \$bn	58,068	60,797	63,533	66,329	68,982	71,051	72,472
World GDP growth, %		5%	5%	4%	4%	3%	2%
Global ad budget % of GDP	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Online add budget at % of total ad budget	12%	13%	13%	14%	15%	15%	16%
Online add budget, \$bn	41.81	45.96	50.43	55.28	60.37	65.29	69.93
Facebook audience, m people	500	622	746	858	987	1,086	1,194
Internet users in the World, m people	1,800	1,970	2,146	2,327	2,512	2,699	2,887
Facebook share, \$bn	28%	32%	35%	37%	39%	40%	41%
Facebook share of online ads	1.4%	2.7%	4.5%	6.5%	10.0%	15.0%	20.0%
Facebook ad revenue	0.6	1.2	2.3	3.6	6.0	9.8	14.0
Facebook IVAS revenues	0.1	0.4	0.6	0.9	1.4	2.0	2.9
IVAS ARPU, \$/year	0.2	0.6	0.8	1.1	1.4	1.8	2.4
Facebook revenues, \$bn	0.7	1.6	2.9	4.5	7.4	11.8	16.8
revenue growth		134%	76%	56%	64%	59%	43%
2015 EV/sales multiple	8						
2015 Facebook EV, \$bn	134.7						
discount factor	0.57						
2011 EV, \$bn	76.4						

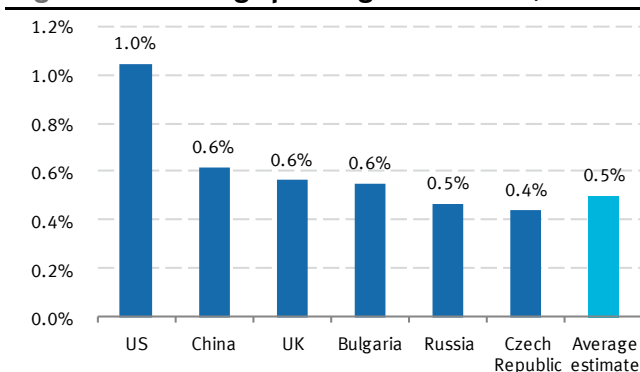
Source: Otkritie estimates

The rationale behind our key assumptions is explained below:

**Global advertising and online advertising.** We estimate that the average global share of advertising in world GDP will stay flat at 0.6%. The online advertising share of total ad budgets will rise from its current 12% to 16% by 2015, as the internet occupies a greater portion of people's free time.

**Fig.59: Portion of online advertising in total ad budgets, 2009**

Source: Zenith Optimedia, eMarketer, Otkritie estimates

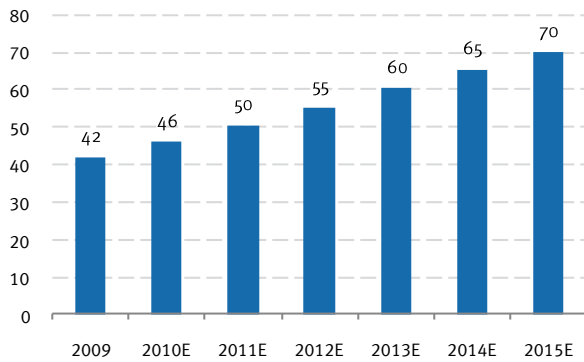
**Fig.60: Advertising spending as % of GDP, 2009**

Source: WARC, UN, Zenith Optimedia, eMarketer, Otkritie estimates

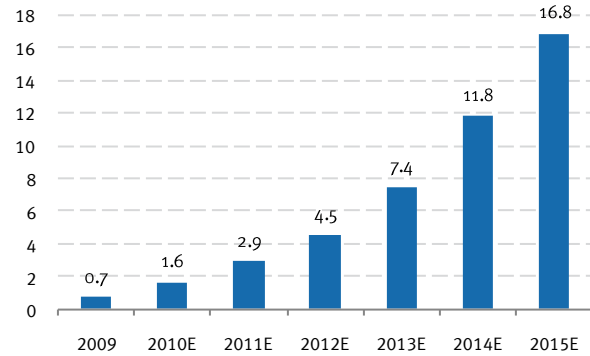
**Facebook's audience will increase faster than the global online audience.** At the end of 2010, Facebook's registered user base reached 32% of the total number of people online. We estimate that its share will increase to 41% by 2015, with the growth dynamics of Facebook outpacing the growth dynamics of the overall global online user base.

**Massive increase in monetization.** We estimate that Facebook captured just 2.7% of ad budgets in 2010. We expect vast improvement in the company's ad monetization, with its share increasing to 20% in 2015. This is a huge challenge, and Facebook has thus far opted not to overstretch in terms of monetization. However, the potential is there, and markets are ready to price it in. On our estimates, the ad ARPU per Facebook user could reach \$1/month.

**IVAS growth.** Our IVAS ARPU estimate for 2015 is \$2.4. As a benchmark, we used the Russian social network Odnoklassniki, which currently generates \$3/year on community IVAS.

**Fig.61: Global online advertising spending, \$bn**

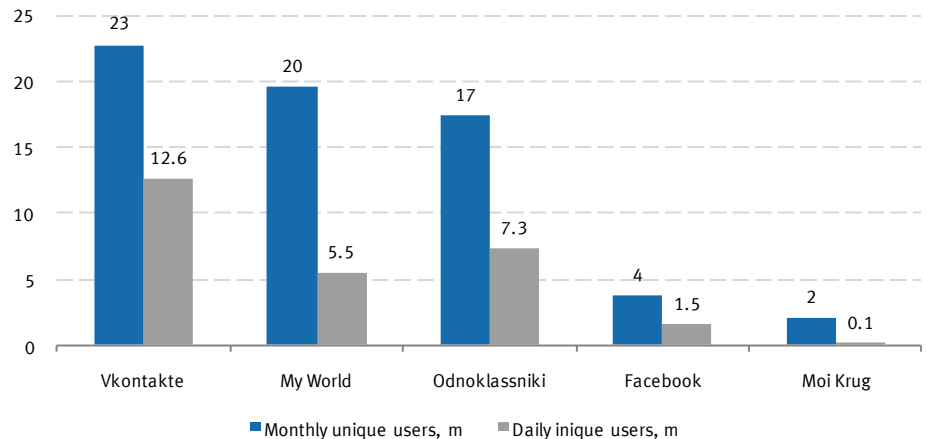
Source: WARC, UN, Zenith Optimedia, eMarketer, Otkritie estimates

**Fig.62: Facebook revenue, \$m**

Source: WSJ, Otkritie estimates

## Vkontakte

Based upon monthly and daily unique visitor figures, Vkontakte (VK) is currently Russia's leading online social networking site.

**Fig. 63: Leading Russian social networks, in terms of monthly audience (December 2010), m**

Source: TNS, Social bakers, Otkritie estimates

**The major difference between VK and other social networks is that VK offers a wider range of opportunities for sharing music and video content.** Although a big advantage for users, this has led to a series of lawsuits over content rights, which management and lawyers have tackled in the past. VK generates its revenue from 4 principal sources: display advertising, contextual advertising, user payments for enhanced features, and revenue sharing with third-party developers that offer their games and other applications using VK's open application programming interface (API). VK generated net profit of \$12.6m in 2009, and \$18.5m in 2010.

Shortly before its IPO, Mail.ru entered into an agreement to acquire 7.5% of VK shares from existing shareholders for \$112.5m. It also entered into an option agreement to acquire a further 7.5% of VK at any time during the year after the IPO for the same cash consideration. Based upon the terms of this deal, VK's valuation is approximately \$1.5bn.

**Valuation.** We value VKontakte at \$1.72bn, which puts Mail.ru's 32.5% stake in the company at \$560m.

**Fig.64: VKontakte P&L model , \$m**

\$m	2009	2010E	2011E	2012E	2013E	2014E	2015E
Revenues	48.4	90.1	136.2	185.3	236.4	283.3	331.7
Revenue growth	530%	86%	51%	36%	28%	20%	17%
Total operating expenses	30.0	55.9	74.9	92.6	106.4	121.8	136.0
EBITDA	18.4	34.2	61.3	92.6	130.0	161.5	195.7
EBITDA margin	38%	38%	45%	50%	55%	57%	59%
D&A	3.1	8.6	12.9	17.6	22.5	26.9	31.5
PBT	15.3	25.7	48.3	75.0	107.5	134.5	164.2
tax		7.2	12.9	19.5	27.3	33.9	41.1
tax rate		21%	21%	21%	21%	21%	21%
Net Profit	12.2	18.5	35.5	55.6	80.2	100.6	123.1
Unique visitors,YE	17,705	22,746	26,157	29,296	32,226	34,804	36,544
Unique visitors,av	43%	28%	15%	12%	10%	8%	5%
ARPU	15,047	20,225	24,452	27,727	30,761	33,515	35,674
ARPU increase	0.27	0.37	0.46	0.56	0.64	0.70	0.77

Source: Otkritie estimates

**Fig. 65: VKontakte valuation, \$m**

Target P/E in 2015	14.0
VKontakte equity value, \$m	1,723
Value of Mail stake (32.5%)	560
Value of 7.5% stake, \$m	129.2
Value per 2010 visitor, \$	76
Facebook value per 2010 visitor, \$	123
VK discount to FB	-38%

Source: Otkritie estimates

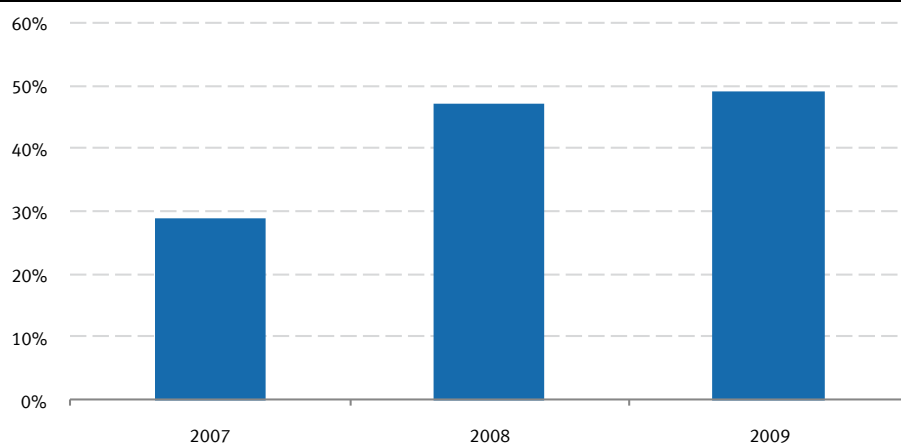
## QIWI

**QIWI is the largest consumer payment processor in Russia**, providing payment processing services at over 180,000 PoS payment terminals.

It is a payment processing company that provides software, marketing support, and processing services for PoS payment terminals, that is marketed principally under the QIWI brand. PoS payment terminals allow consumers to purchase mobile phone credits, pay utility bills, pay for IVAS, buy airline or train tickets, and pay for other products and services by depositing cash via conveniently located self-service payment terminals or cashier locations. In addition to paying bills and making other purchases directly from payment terminals, QIWI offers an online wallet service that allows users to load cash onto their online wallet using a payment terminal, credit card or other payment method, and then to use the online wallet to pay for services online. Many of the users utilize this payment method when making payments for the IVAS offered on Mail.ru's internet sites. QIWI generated a net profit of \$14.9m in 2009, and \$20.4m in 1H10.

In July 2007, Mail.ru Group exchanged a 72% share in its E-port payment service system for a 25.09% stake in QIWI, valued at \$51.6m (i.e., \$205m QIWI market cap).

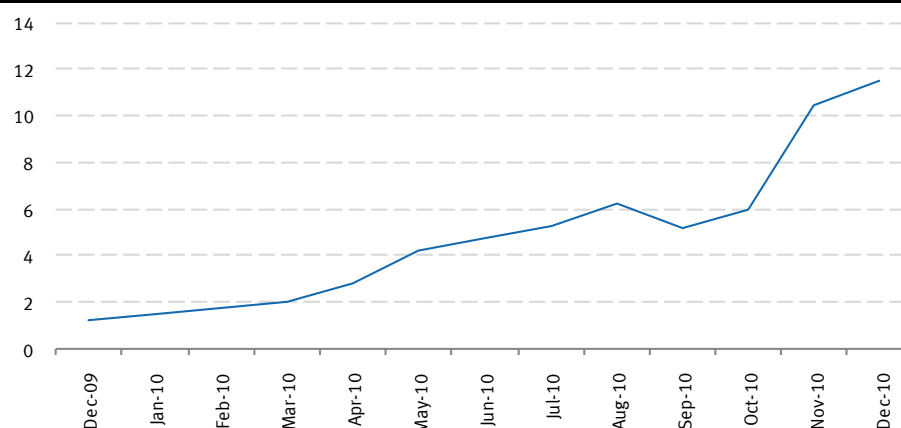
**Valuation.** On 19 January 2011, Mail.ru sold 3.74% in QIWI for a cash consideration of approximately \$24m, implying a 2010 EV/EBITDA of 14x. According to the terms of that deal, the implied valuation for the remaining 21.4% stake is \$137m, or 2.3% of Mail.ru's market capitalization.

**Fig. 66: Qiwi share in payment systems market, %**

Source: Expert, NAUET, Company data

## Groupon

**Groupon is a group purchasing site** that offers its users collective bargains in each of the cities it serves. It negotiates significant group purchasing discounts with local merchants in those cities.

**Fig. 67: Groupon US monthly unique visitors, m**

Source: ComScore

Users pay for deals using the Groupon website, which charges the relevant business a percentage of the payments collected. Groupon also generates advertising revenue from its website. According information published by Groupon in August 2010, it offers deals to more than 13 million subscribers across 29 countries, including Russia, where it recently acquired control of the Russian group purchasing site Darberry (recently rebranded under the Groupon brand).

In February 2011, Groupon signed an agreement with Odnoklassniki on adding the Groupon application to Odnoklassniki's interface, which could further support the expanding Groupon base in Russia. In 2010, Groupon sold more than 790,000 coupons and has approximately 2m users in Russia.

In April 2010, it attracted \$135m in financing from DST and Battery Ventures, which valued the company at \$1.363bn.

In November 2010, Google made an offer to Groupon shareholders valuing the company at \$6bn. The owners of Groupon rejected this offer and sold 20% of its shares to institutional investors (including DST) for \$950m, thereby valuing the company at \$4.75bn.

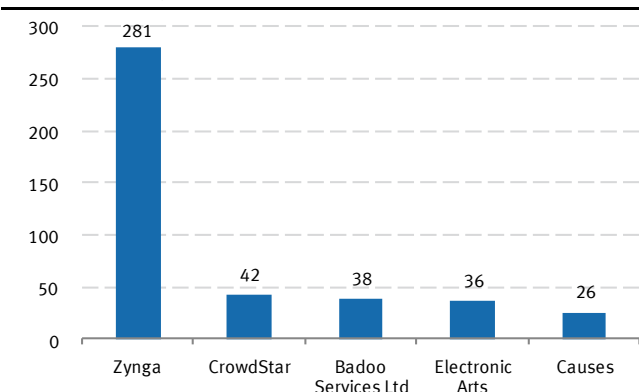
In January 2011, Groupon management announced plans to IPO Groupon by the end of 2011, estimating the company's market capitalization at \$15bn.

**Valuation.** We have employed Google's valuation, which implies a 2011 EV/Sales multiple of 6.5x, based on SharesPost's estimation of Groupon's 2011 revenues (~\$920m) and a 2012 EV/Sales multiple of 5x. Mail.ru owns a 5.13% stake in Groupon, which has an implied value of \$308m.

## Zynga

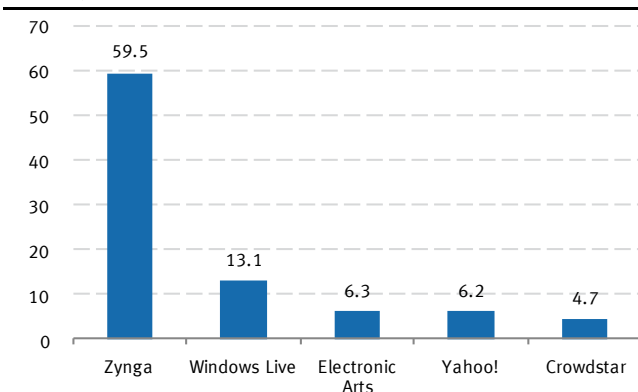
**Zynga designs browser-based online social games** that it offers to users on its own webpage or via applications on other websites, especially social networks. Zynga's online games portfolio includes such popular games as Cityville, Farmville, Frontierville, Texas Hold'em Poker, Mafia Wars, Cafe World and Treasure Isle. As of December 2010, Zynga games were played at least once a month by 48% of global Facebook users and at least once a day by 10% of Facebook users.

**Fig.68: Facebook games developers by monthly active users, December 2010**



Source: appdata.com

**Fig.69: Facebook games developers by daily active users, December 2010**



Source: appdata.com

**Zynga's games are offered primarily under a free-to-play model** in which users can play the game for free, but can purchase in-game items that enhance the game experience.

Mail.ru acquired 1.61% (subsequently diluted to 1.47%) of Zynga in a series of transactions for \$47.7m, which puts Zynga's market cap at about \$2.962bn.

In April 2010, there was speculation that Zynga would obtain an additional \$150m in financing from Softbank Capital, via the sale of management shares plus an additional share issuance. Based on an issue price of \$12.87/share and 320m of shares outstanding, this yields a market cap of \$4.1bn.

In July 2010, speculation about a secret \$100-\$200m financing deal from Google appeared. As the rumours were unconfirmed, no market cap estimation was given.

Zynga has not disclosed its financials, but according to Techcrunch its revenue was around \$270m in 2009 and \$700-\$900m in 2010, potentially rising to \$1bn in 2011.

**Valuation.** We estimate Zynga to have a market cap of \$4.1bn based on its latest known public transaction, hence the 1.47% stake in Zynga owned by Mail.ru is valued at \$61.5m.

## Other venture investments

**Mail.ru also holds stakes in a number of small privately-held Russian and Ukrainian internet-related companies.** These investments were made prior to 2008 as part of a strategy of acquiring minority investments in a broad range of companies in targeted segments of Russia's internet. We value the portfolio at \$19.6m, using an average \$15 value per active user multiplied by the latest daily user statistics of each website. A summary of these investments is found in the table below.

**Fig.70: Mail.ru's venture investments**

Company	Website	Mail.ru stake, %	Daily active users, '000	Description	Value per daily user, \$	Company value, \$m	Mail.ru stake value, \$m
B2B	b2b-center.ru	15%	4.9	Business to business online trade system	15	0.1	0.0
Diary.ru	diary.ru	50%	218.6	Blog service	15	3.3	1.6
Finance.ua	finance.ua	25%	37.17	Ukrainian business portal	15	0.6	0.1
Free-lance	free-lance.ru	38%	176.1	Free-lance job search portal	15	2.6	1.0
Habrahabr	habrahabr.ru	44%	581.5	Collective blogs	15	8.7	3.8
Interrest	adriver.ru soloway.ru	20%	133.5	Display advertising technology solutions	15	2.0	0.4
LiveInternet	li.ru	30%	1449	Blog service with online statistics	15	21.7	6.5
Meta	meta.ua	26%	91.7	Ukrainian portal	15	1.4	0.4
Nadavi	nadavi.com.ua	25%	0.01	Price comparison website	15	0.0	0.0
Nezabarom	nezabarom.ua	25%	0.01	Ukrainian travel portal	15	0.0	0.0
Nigma	nigma.ru	32%	75.3	Niche search engine	15	1.1	0.4
Nival Networks	zzima.com	13%	54.5	Online games operator and developer	15	0.8	0.1
Sape	sape.ru	27%	628.7	Links exchange	15	9.4	2.5
Subscribe	subscribe.ru	40%	239.7	Email marketing service	15	3.6	1.4
Ucoz	ucoz.com	30%	279.4	Website creation tools and hosting	15	4.2	1.3
<b>Total</b>						<b>59.6</b>	<b>19.6</b>

Source: Company data, Otkritie estimates

## Internet in BRIC

### Summary

In order to accurately value the internet user, we need to ascertain the difference between users in BRIC countries and compare that to users in developed markets. Understanding the current online behavior of users helps us recognize and predict what to expect in terms of consumer patterns in the future.

**Chinese users are the most valuable among the BRIC countries.** Chinese users already demonstrate comprehensive online behavior with high levels of data-heavy services used (Games, Video, Music). Russians and Brazilians spend most of their time in social networks, playing casual games and socializing with friends, while typical Indian users spend the bulk of their time on news sites and e-mail.

**Low internet penetration.** BRIC countries are generally characterized by relatively low levels of internet penetration, with double digit growth rates. We expect the growth in these countries to slacken in upcoming years.

**Telecom infrastructure in BRIC countries still under development.** While urban areas are already well-developed, telecom infrastructure in rural areas is not suitable for massive internet usage.

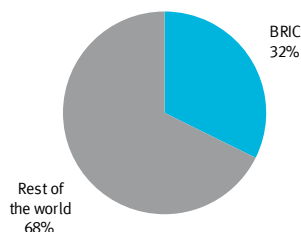
**Broadband internet access price is high in less developed areas.** For this reason, people in Russia's regions mostly use dial-up and mobile internet. Users in poor areas of China, Brazil, and India, utilize collective access to the internet, via LAN-houses or internet cafes.

**BRIC networkers are young,** ready to spend online, and highly receptive to online new services, which are quickly becoming mainstream activities.

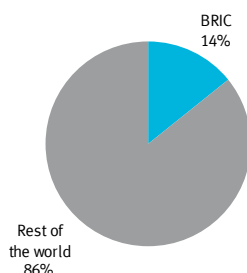
### BRIC internet markets; general statistics

The rising influence of BRIC countries is reflected in the rising digital services consumption found in these countries. At present, BRIC countries have approximately 600m internet users, which comprises about a third of total number of global internet users.

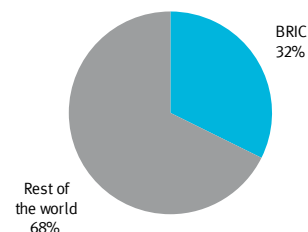


**Fig. 71: BRIC population share 2009**

Source: Internet World stats

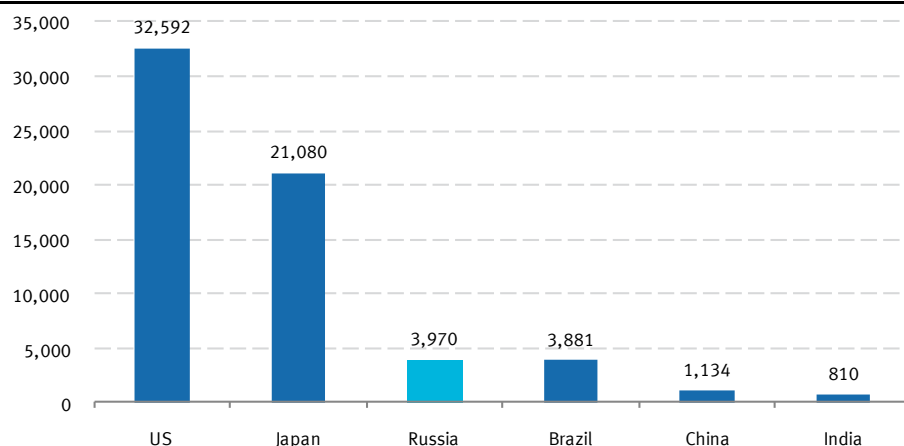
**Fig. 72: BRIC GDP share, 2009**

Source: Boston Consulting group, Otkritie estimates

**Fig. 73: BRIC internet users share 2009**

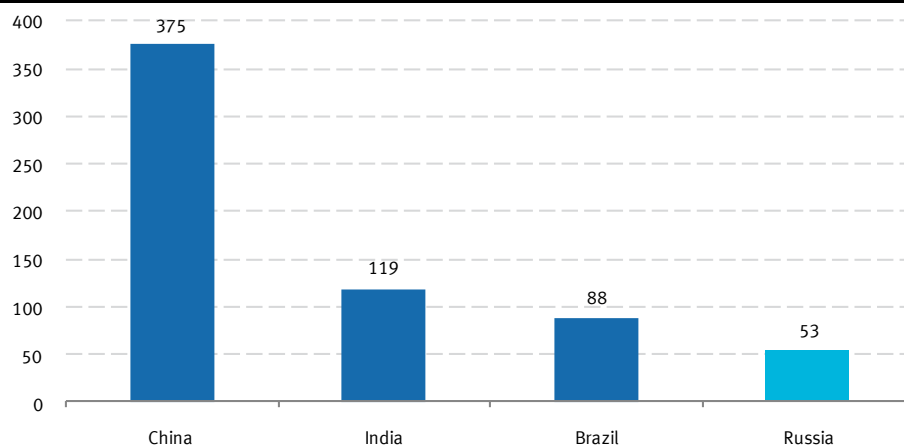
Source: Boston Consulting group, Otkritie estimates

The BRIC markets could be a source of vast digital services growth, as consumers there are already accustomed to digital services and are willing to pay for them. As disposable income rises in the BRIC countries, consumers will try new digital services and products.

**Fig. 74: Disposable income per capita 2009, \$**

Source: Boston Consulting Group

China currently leads the BRIC countries in terms of internet users, with a number that surpasses the combined amount of the other 3 BRIC states combined. Russia has the smallest market, with only 53m users. That said, in terms of the penetration rates China lags far behind Brazil and Russia.

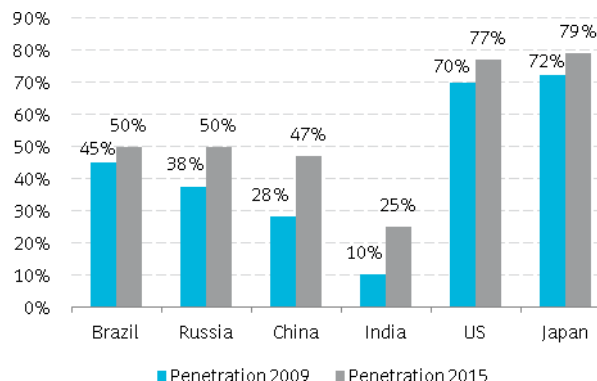
**Fig. 75: BRIC internet users in 2009, m**

Source: Euromonitor international, I'Son &amp; partners, Boston Consulting Group

Since internet penetration ratios for the BRIC countries remain low, they could be a source of vast digital services growth. We think most of the growth in large Russian

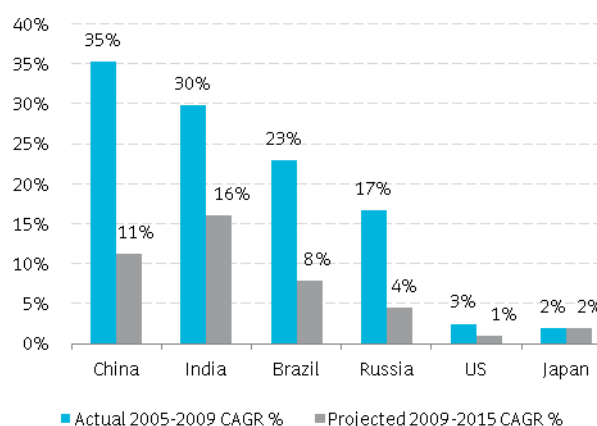
cities has already taken place, due to high availability and accessibility of all internet means. We anticipate that the current 20% penetration rate in Russian cities of over 100,000 inhabitants will rise only to 30%, which means an additional 8m users. China and India will experience higher double digit growth rates, with limitations mainly related to the development of 3G in rural areas.

**Fig.76: Internet penetration , %**



Source: Euromonitor International, J'Son & Partners, BCG, Otkritie estimates

**Fig.77: Internet penetration growth, %**



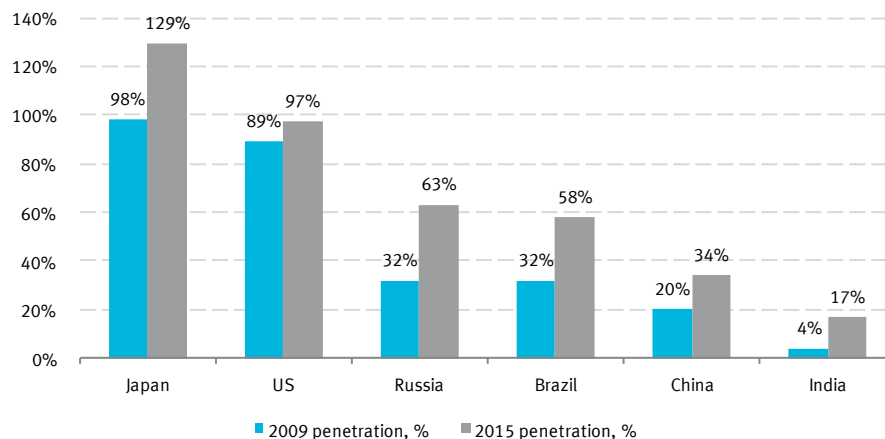
Source: Euromonitor International, J'Son & Partners, BCG, Otkritie estimates

**BRIC and developed countries diverge in terms of the age of users.** BRIC countries share a basic common feature: the typical internet user in BRIC countries is much younger than peers in developed countries (60% of BRIC internet users are below 35). These users are already willing to pay for digital services, so as their income grows new opportunities for digital companies to monetize their services and products will arise.

**The affordability and availability** of fixed-line broadband, mobile broadband, and phone connections are the key differentiating factors that determine the internet usage patterns of BRIC users. In developed countries, users mainly go online via their PCs. By contrast, many BRIC digital consumers explore the internet via mobile phones. Mobile internet is currently available only in limited, mainly urban, parts of the BRIC world, suggesting promising opportunities for internet companies on these markets.

**Personal computer usage.** Unlike in developed markets, personal computers are not widespread in the BRIC countries, due to low income levels and the lack of infrastructure. The increasing PC penetration could serve as a trigger for internet penetration in the BRIC countries.

**Fig. 78: PC penetration in 2009, by % of population**



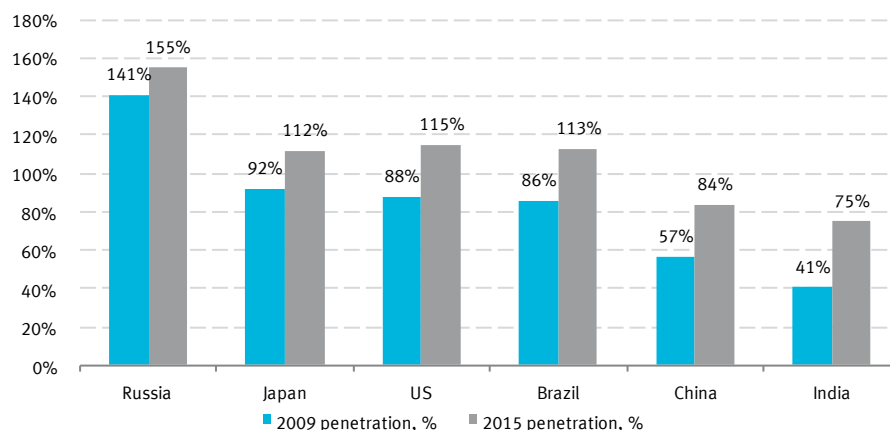
Source: Boston Consulting Group

**Mobile device usage.** As mobile devices evolve, the attractiveness of mobile internet rises. In Brazil and India, where broadband access costs are high and its

availability is limited, some users skip the stage of PC ownership and start exploring the internet directly from mobile devices. Mobile-handset affordability in India arises thanks to the existence of local brands, along with cheap handsets made available by global players. Given their already high penetration levels, mobile phones could be the groundbreaking tool for wider popularization of digital services and the internet.

**Russia leads the BRIC countries in terms of SIM card penetration**, followed by Brazil. Mobile phone penetration in these countries is at the level of developed countries like the US and Japan (or even higher), owing to the common practice of having more than one SIM-card.

**Fig. 79: SIM cards penetration in 2009, % of population**



Source: Boston Consulting Group

## Internet access cost and availability

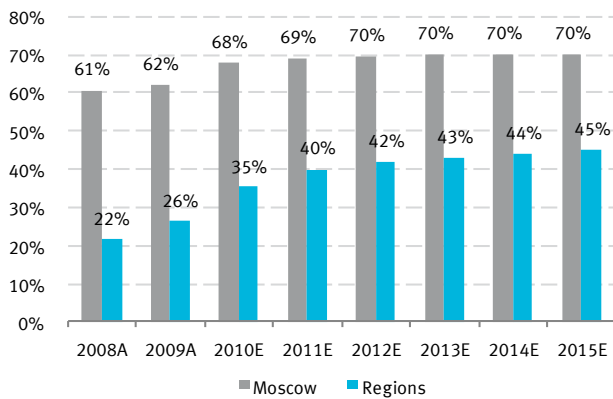
Internet access costs differ across the BRIC countries. Each BRIC country has its own peculiar way to access the internet, depending on availability and the cost of internet access.

**Fig. 80: Prevailing means of internet access in BRIC countries, 2009**

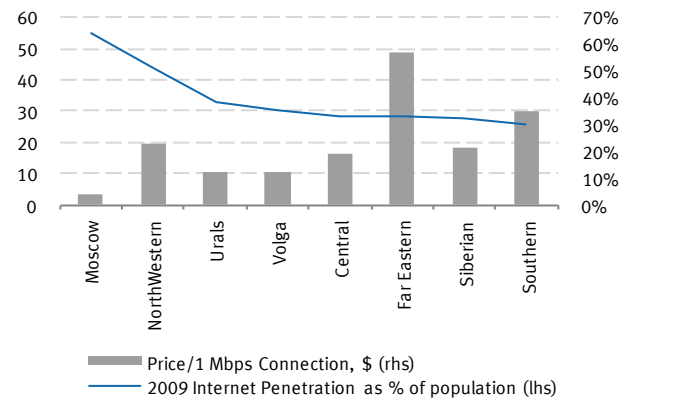
	Brazil	Russia	India	China
Fixed-line Broadband		X		X
Dial-UP	X	X	X	
Mobile broadband			X	
Internet cafe	X		X	X

Source: Boston Consulting Group, Otkritie estimates

**Russia.** The broadband connection price varies within the Russian Federation, rising in tandem with the distance from Moscow. The Moscow region has the lowest connection prices. Given the region's high disposable income level and wide broadband availability, it has a higher penetration rate than other regions of Russia.

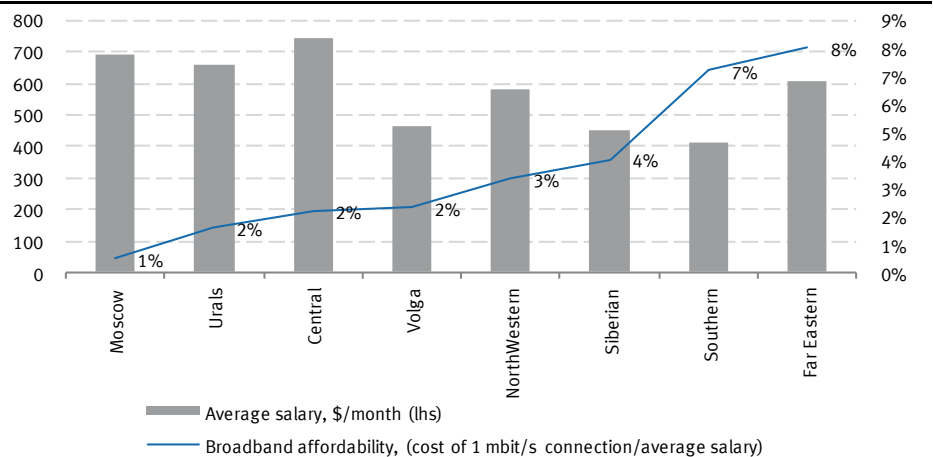
**Fig. 81: Russian fixed broadband internet access penetration, %**

Source: J'son &amp; Partners, Otkritie estimates

**Fig. 82: Russian regional internet penetration and average connection prices**

Source: GroupM, Otkritie estimates

In relative terms, the same broadband connection in the country's Far East is 8x less affordable for the average citizen than in Moscow. It is therefore not surprising that there are vast differences in internet behavior across the country. We expect broadband penetration in the regions to grow at the moderate pace of 5% CAGR to 2015.

**Fig. 83: Broadband affordability by Russian regions**

Source: Rosstat, GroupM, Otkritie estimates

**Brazil.** The broadband costs in Brazil are high, limiting the number of PC internet users. 3G is affordable but not widespread in the country, which limits the number of mobile internet users. Internet cafes are very popular in poor areas of Brazil, where the broadband connection and PCs are less affordable and usually represent a LAN house with internet access.

**China.** Broadband in China is cheaper than dial-up and is now available for 90% of the Chinese population. The major limiting factors for internet penetration are now the absence of a developed 3G mobile network and PC affordability. Internet cafes are popular only in China's rural areas, with more than 50% of rural internet users going online there. The difference in data capacity of 2G and 3G translates manifests itself in mobile behavioral differences between the country's urban and rural populations: while the rural population is already using SMS, social networks, online games and basic e-commerce, urban users tend to be constantly online using the internet to meet a wider range of needs. Although mobile-internet usage remains underdeveloped in China, the main growth of internet penetration could be achieved through increasing PC penetration, which is now below 20%.

**India.** Voice calls are currently very cheap (\$0.006/minute) in India. There is an extensive 3G network built up, which along with the inflow of cheap smart-phones from China, drives both mobile penetration and value added services (VAS).

## Internet Activity

The means of internet usage, the cost of internet connections, internet availability and cultural specifics, combine to determine user internet behavior.

**China** is a fairly developed market, with consumers demonstrating comprehensive and highly content-based behavior. They use internet connections for entertainment and for communication with each other. Chinese generally prefer instant messaging over e-mail: 87% of internet users use it for instant messages and 53% for e-mail. Chinese internet users are the most active in terms of online music, gaming, and news reading. As in the other BRIC countries, availability is the key driver of online usage.

**Russia and Brazil** exhibit similar activity patterns, with Brazilian users paying more attention to social networks. Search engines and e-mail are still the most popular activities in both Russia and Brazil. Russian users are also interested in weather sites (included in other categories).

**India** is quite different from the other BRIC countries. The most popular activities among Indian users are job hunting, e-mail, sports sites, dating, and e-greetings (included in other categories).

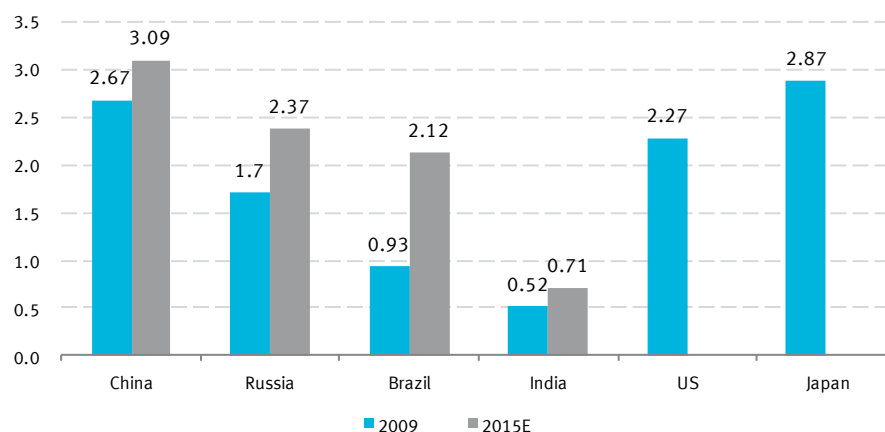
**Fig.84: Predominant internet activities in 2009 by country, based on % of users engaged in each activity**

	Brazil	Russia	India	China	US	Japan
Instant messaging				X		
Music				X		
News				X	X	X
Video				X	X	
Search engines	X	X			X	X
Games				X		
E-mail	X	X	X		X	X
Blogs						
Social networks	X					
E-commerce					X	X
Banking					X	
Forums						
Job hunting			X			
Other		X	X			

Source: Boston Consulting Group, Otkritie estimates

**Chinese users spend the same amount of time on the internet as American and Japanese users.** Russian internet users are second among the BRIC countries, with Brazil and India lagging far behind.

**Fig. 85: Total hours spent online per person per day**



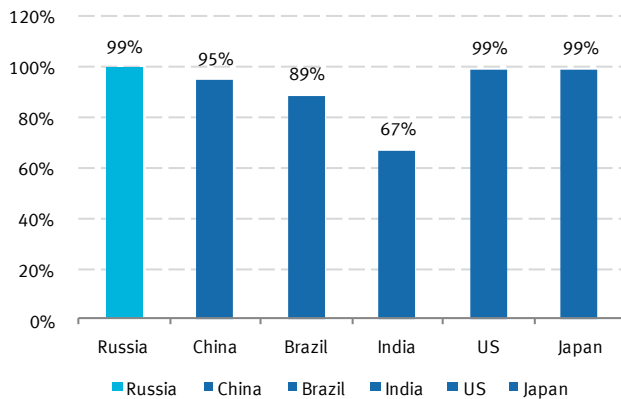
Source: Internet World stats, BCG, Otkritie estimates

**The BRIC populations are well-educated,** with literacy levels close to those of developed countries. Only India has a literacy level below 70%, but even its rate is

not so far from the global average of 74%. Relevant data shows that literacy is not a limiting factor for internet penetration and usage. Consumers in BRIC countries can use the Internet, and are able to adapt to new services and sites without difficulty.

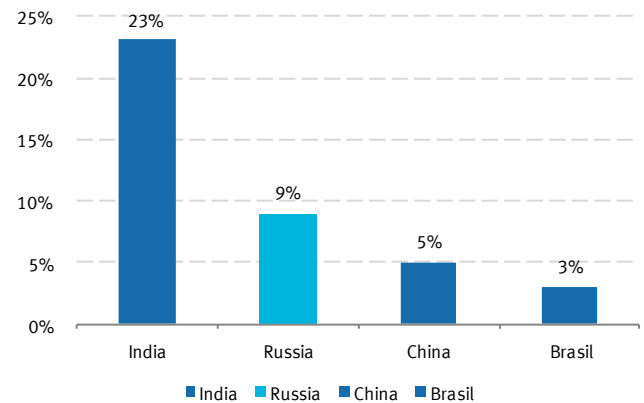
**Only a fraction of the BRIC populations speak English**, which leads to greater popularity of web services in local languages. This helps explain why Russian users stick to Russian language search engines (Yandex, Google, Mail.ru) and domestic social networks (Vkontakte, Odnoklassniki). In India, the country with the highest number of English speakers, three quarters of the top internet sites are international. Localization of international websites in BRIC states could be one of the major drivers for users to expand internet usage.

**Fig.86: Literacy levels, %**



Source: CIA, Otkritie estimates

**Fig.87: Percentage of population speaking English, %**



Source: National statistic bureaus

# Revenue forecasts for Mail.ru Group

**Fig. 88: Revenue forecast for Mail.ru segment (unconsolidated)**

	2009	2010	2011E	2012E	2013E
Display advertising	44.5	70.8	102	131	165
Context advertising	16	30.0	42	55	69
MMO Games	64.9	100	121	132	134
Community IVAS	7.1	19.8	30	39	49
Other IVAS	5.8	4.6	6	6	7
Other revenues		1.45			
<b>Total revenues, Mail.ru</b>	<b>138.3</b>	<b>226.3</b>	<b>301.4</b>	<b>364.1</b>	<b>423.2</b>
<i>growth</i>	<i>24.0%</i>	<i>63.6%</i>	<i>33.2%</i>	<i>20.8%</i>	<i>16.2%</i>

Source: Otkritie estimates

**Fig. 89: Revenue forecast for Odnoklassniki segment**

	2009	2010	2011E	2012E	2013E
Display ads	13	21.3	30.16	38.96	48.11
Context ads	1.6	2.0	2.95	3.81	4.71
Community IVAS	29.7	45.6	64.57	83.41	103.00
<b>Total revenues OK</b>	<b>44.3</b>	<b>68.9</b>	<b>97.7</b>	<b>126.2</b>	<b>155.8</b>
<i>growth</i>	<i>111%</i>	<i>56%</i>	<i>42%</i>	<i>29%</i>	<i>23%</i>

Source: Otkritie estimates

**Fig. 90: Consolidated revenue forecast for Mail.ru Group**

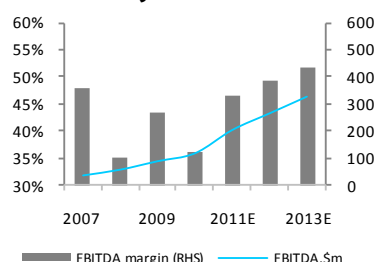
	2009	2010	2011	2012	2013
Display advertising	58	92	132	170	213
Context advertising	18	32	45	59	73
MMO Games	65	100	121	132	134
Community IVAS	37	65	95	123	152
Online recruiting	17	29	40	48	55
Other revenues	5.8	6.14	5	5	5
<b>Pro forma revenues</b>	<b>200.9</b>	<b>324</b>	<b>439</b>	<b>537</b>	<b>633</b>
<i>pro forma revenue growth</i>	<i>27%</i>	<i>61%</i>	<i>35%</i>	<i>22%</i>	<i>18%</i>

Source: Otkritie estimates

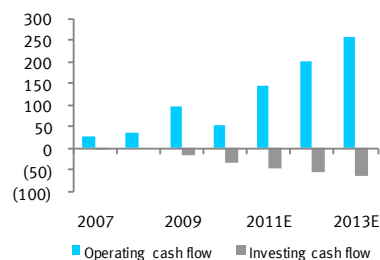
## APPENDIX: Financial forecasts

\$m, unless otherwise stated

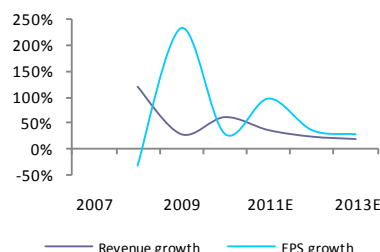
### Profitability



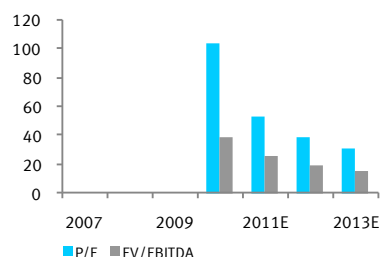
### Cash flows, \$m



### Momentum



### Valuation



	2008	2009	2010	2011E	2012E	2013E
<b>Income Statement</b>						
Revenues	158	201	324	439	537	633
Depreciation	6	30	22	32	42	52
<b>EBITDA</b>	<b>56</b>	<b>87</b>	<b>117</b>	<b>203</b>	<b>265</b>	<b>328</b>
Operating profit (EBIT)	49	57	95	171	223	275
Net Interest expense	0	2	1	7	15	25
Non-op. expenses	17	(18)	(10)	(23)	(34)	(47)
Pretax Profit	33	77	106	201	272	347
Taxes	15	17	30	50	68	87
Minority interest	-	-	-	-	-	-
<b>Net Profit</b>	<b>18</b>	<b>60</b>	<b>77</b>	<b>151</b>	<b>204</b>	<b>261</b>
<b>Cash Flow Statement</b>						
Net Change in work. cap.	(3)	26	(33)	(15)	(10)	(10)
Provisions and write-offs	-	-	-	-	-	-
Other	(17)	18	10	23	34	47
<b>Operating cashflow</b>	<b>38</b>	<b>97</b>	<b>55</b>	<b>145</b>	<b>202</b>	<b>256</b>
Capex	0	(17)	(34)	(44)	(54)	(63)
Disposals (Acquisitions)	0	0	0	0	0	0
<b>Investing cashflow</b>	<b>0</b>	<b>(17)</b>	<b>(34)</b>	<b>(44)</b>	<b>(54)</b>	<b>(63)</b>
Equity	-	-	-	-	-	-
Debt	-	-	-	-	-	-
<b>Financing cashflow</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Change in Cash</b>	<b>38</b>	<b>80</b>	<b>21</b>	<b>101</b>	<b>148</b>	<b>193</b>
<b>Balance sheet</b>						
Cash & equivalents	133	149	180	304	486	726
Current Assets	155	184	237	381	581	837
PP&E	-	-	-	-	-	-
Goodwill and other	-	-	-	-	-	-
<b>Total Assets</b>	<b>991</b>	<b>1,685</b>	<b>1,750</b>	<b>1,906</b>	<b>2,118</b>	<b>2,385</b>
Current Liabilities	-	-	-	-	-	-
S-T Debt	0	0	0	0	0	0
L-T Debt	27	155	155	155	155	155
Other L-T Liabilities	-	-	-	-	-	-
<b>Shareholders Funds</b>	<b>863</b>	<b>1,346</b>	<b>1,415</b>	<b>1,549</b>	<b>1,727</b>	<b>1,953</b>
<b>Total Liabilities &amp; Equity</b>	<b>991</b>	<b>1,685</b>	<b>1,750</b>	<b>1,906</b>	<b>2,118</b>	<b>2,385</b>
<b>Net Debt</b>	<b>(57)</b>	<b>(50)</b>	<b>(9)</b>	<b>(87)</b>	<b>(240)</b>	<b>(451)</b>
<b>Margins and profitability</b>						
<i>EBIT Margin</i>	<i>31.3%</i>	<i>28.4%</i>	<i>29.3%</i>	<i>39.1%</i>	<i>41.6%</i>	<i>43.5%</i>
<i>EBITDA Margin</i>	<i>35.2%</i>	<i>43.3%</i>	<i>36.0%</i>	<i>46.4%</i>	<i>49.4%</i>	<i>51.8%</i>
<i>Net Margin</i>	<i>11.4%</i>	<i>29.7%</i>	<i>23.7%</i>	<i>34.3%</i>	<i>38.0%</i>	<i>41.2%</i>
<i>ROE</i>	<i>2.1%</i>	<i>4.4%</i>	<i>5.4%</i>	<i>9.7%</i>	<i>11.8%</i>	<i>13.3%</i>
<i>ROA</i>	<i>1.8%</i>	<i>3.6%</i>	<i>4.4%</i>	<i>8.3%</i>	<i>10.3%</i>	<i>12.0%</i>
<i>ROIC</i>	-	-	-	-	-	-
<b>Momentum</b>						
<i>Revenue growth</i>	<i>122%</i>	<i>27%</i>	<i>61%</i>	<i>35%</i>	<i>22%</i>	<i>18%</i>
<i>EBITDA growth</i>	<i>64%</i>	<i>56%</i>	<i>34%</i>	<i>75%</i>	<i>30%</i>	<i>23%</i>
<i>EPS growth</i>	<i>-33%</i>	<i>232%</i>	<i>28%</i>	<i>97%</i>	<i>35%</i>	<i>28%</i>
<b>Liquidity and solvency</b>						
Cash Ratio	-	-	-	-	-	-
Current Ratio	-	-	-	-	-	-
Interest Coverage	nm	38.1	86.2	25.8	15.1	10.8
Debt/Equity	0.0	0.1	0.1	0.1	0.1	0.1
Debt/Total assets	0.0	0.1	0.1	0.1	0.1	0.1
Net debt / EBITDA	(1.0)	(0.6)	(0.1)	(0.4)	(0.9)	(1.4)
<b>Valuation</b>						
P/E	-	-	103.4	52.7	38.9	30.5
P/CE	-	-	80.6	43.5	32.3	25.4
P/BV	-	-	5.6	5.1	4.6	4.1
EV/Sales	-	-	13.8	11.5	9.2	7.5
EV/EBITDA	-	-	38.4	24.8	18.5	14.5
Dividend yield, (ords)	-	-	3.3%	4.0%	4.3%	4.9%
Dividend yield, (prefs)	-	-	-	-	-	-
<b>Per Share Data</b>						
EPS - stock 1	0.09	0.28	0.36	0.72	0.97	1.24
DPS, ords	3.42	2.60	1.23	1.51	1.62	1.86
DPS, prefs	-	-	-	-	-	-
BVPS - stock 1	4.10	6.40	6.73	7.36	8.21	9.28

Source: Company data, Otkritie estimates

### Company description

Mail.Ru is one of the leaders on Russian internet. It owns several social networks, webmail, search, portal and also develops and localizes online games. The group also owns minority stakes in foreign internet companies such as Facebook, Groupon, Zynga, etc.



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**Analysts' criteria of stock  
investment rating valuation**

<b>BUY</b>	Expected absolute return to 12-month target price exceeds 20%
<b>HOLD</b>	Expected absolute return to 12-month target price remains within the range of -20% and +20%
<b>SELL</b>	Expected absolute return to 12-month target price exceeds -20%

«\$» denotes US dollar

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