2015

ANNUAL REPORT

@mail.ru group

Contents

Who we are

Mail.ru Group Limited (hereinafter "MGL") together with its subsidiaries (collectively –"we", "the Company" or "Mail.Ru Group") is a leading company in the Russian-speaking internet market. Our products reach approximately 94% of Russian internet users on a monthly basis[1] and we hold the lead in Russian desktop and mobile spaces[2]. In terms of number of users, Russia is the largest internet market in Europe[3]. While the Russian speaking market remains our major focus, we continue to seek opportunities to leverage our R&D and our technology across the widest possible user base. As such, we are launching products into the US, European and other markets.

In November 2010, Mail.ru Group Limited shares started trading, in the form of Global Depositary Receipts (GDRs), on the London Stock Exchange after being admitted to the Official List of the UK Listing Authority.

94% **of Russian internet users**

#1 **in Russian mobile space**

launching products into the US, European and other markets

Our products

In line with its 'communitainment' (communication plus entertainment) strategy, our Company operates an integrated communications and entertainment platform. We own Russia's leading email service and one of Russia's largest internet portals, Mail.Ru[4]; the two largest Russian language social networks, VKontakte (VK) and Odnoklassniki (OK)[5]; and Russia's largest online games business. Our Company also includes a leading OpenStreetMap-based offline mobile maps and navigation service MAPS.ME, two instant messaging (IM) services, Mail.Ru Agent and ICQ, which are popular in Russia and Commonwealth of Independent States (CIS), and other products.

Leveraging our user base

Our significant user base provides a strong foundation for the launch of new services. It also allows us to generate revenue from advertising both on desktop and mobile as well as a range of internet value-added services (IVAS). These include online games, virtual gifts, stickers and other features.

1 Source: comScore, MMX Multi-Platform, Russia, age 6+, December 2015
2 Source: TNS Russia
3 Source: comScore, Desktop, age 15+, Dec 2015
4 Source: TNS, all Russia, age 12-64, desktop, Dec 2015
5 Source: comScore, Desktop, age 15+, Dec 2015

Mail.Ru Group in brief

Mail.Ru Group offers a variety of online communication products and entertainment services.

Email, Portal & IM

The leading email service in Russia (Mail.Ru), popular email client app (myMail), IM service (ICQ) and media projects

Social networks

The two largest Russian language social networking services VKontakte (VK) and Odnoklassniki (OK)

Games

Russia's leading provider of MMO and mobile games with a portfolio of both internally-developed and licensed titles

Search, e-commerce & other

One of the most popular offline mobile maps services in the world (MAPS.ME) and the 3rd largest search engine in Russia

How we work

Our business model is based on three foundations: Products, Audience and People

Our Products

We operate a wide range of products including email, social networks, IM and online games

We are focusing on mobile products

We are launching new products leveraging our expertise and audience

Our Audience

We reach 94% of the Russian internet users and account for 33% of the total time they spend online[1]

We are leading in terms of mobile usage[2] and downloads[3] in Russia

We are focused on creating the best user experience

Our People

We hire and retain the best engineering talent

We support computer science education and various programming contests

We are well-known and highly regarded in our industry

Strategy

To remain the leading communications and entertainment platform in the Russian-speaking internet market while pursuing growth opportunities in international markets

Focus on Russian-speaking internet markets

Expand in international markets

Monetisation through various ad products and user payments

Operate effectively with high operating margin

1 Source: comScore, MMX Multi-Platform, Russia, age 6+, December 2015
2 Source: TNS Mobile, cities 700k+, age 12-64, Dec 2015
3 Source: App Annie Index, Top Apps, iOS and Google Play combined, Russia, Overall, Dec 2015

Our history

1998 Webmail service launched

Oct 2001 Mail.Ru portal launched

May 2003 Mail.Ru Agent launched

Mar 2006 Odnoklassniki (OK) social network launched

Sep 2006 MMO game, “Legend: Legacy of the Dragons” launched

Oct 2006 VKontakte (VK) social network launched

May 2007 My World social network launched

Jun 2007 Mail.Ru in-house search technology launched

May 2008 “Perfect World” online game launched under license

Oct 2009 “Allods Online” game launched

Jul 2010 Mail.Ru Group acquired IM service ICQ

Nov 2010 Mail.Ru Group completed an IPO

Apr 2011 Mail.Ru Group launched the All-Russian programming contest – Russian Code Cup

May 2011 Mail.Ru Group launched Target.Mail.Ru, a self-service advertising platform

Nov 2011 Mail.Ru Group set up Technopark in cooperation with Bauman Moscow State Technical University (MSTU)

Apr 2012 MMO shooter Warface launched

Jun 2013 Mobile game Jungle Heat launched

Jul 2013 Target.Mail.Ru launches mobile ad platform

Jul 2013 Launch of Mail.Ru for Business, a free email service

Aug 2013 Launch of cloud storage service Cloud.Mail.Ru

Aug 2013 Launch of non-profit platform
Dobro Mail.Ru for charity crowdfunding

Nov 2013 Launch of myMail, a free email client app

Jan 2014 Launch of mobile game Evolution: Battle for Utopia

Feb 2014 Launch of MMORPG ArcheAge

Nov 2014 Acquisition of offline mobile maps service MAPS.ME

2015 Key Highlights

January

ICQ for Windows updated with a new design and stickers support

Mail.Ru Agent for Android updated with completely new design and significantly improved performance, ability to make unlimited group-chats

Newsfeed section for promotion of communities is now available to all advertisers on VK

February

Launch of mobile advertising on VK

Mobile game Iron Desert gains 7.5mln downloads worldwide

Release of Legacy of Dominion, a major update of mobile game Evolution: Battle for Utopia

Two-factor authentication across most of Mail.Ru projects and mobile apps

March

MAPS.ME introduced updated maps with additional data on point of interest

ICQ for iOS updated with new UI of audio/video calls; ICQ for Android offers extended privacy features

Mail.Ru email app redesigned with Android Material Design

Launch of myTarget, an advertising platform that combines audience of all Company's properties

HTTPS access to all media projects by default

Detailed statistics on posts for group administrators on VK

April

Internally developed MMORPG Skyforge launched in Russia

myMail, Mail.Ru email, News.Mail.Ru and Horoscopes apps support Apple Watch

myTarget launches affiliate advertising network

Video service relaunch on VK, including video catalogue with recommendations and licensed content

May

New versions of myMail and Mail.Ru email apps: offline search and separate version for tablets on Android

Launch of closed beta test of MMO game Armored Warfare

VK starts vulnerability reward program on HackerOne platform

OK launches video streaming of all formats on all device

Mail.Ru Group acquires ICVA (data center for VK)

June

Cloud.Mail.Ru updated with video streaming of all formats on all devices

OK launches streaming of video channels in groups

Text search inside attachment content in Mail.Ru email service

July

VK holds VK CUP, a contest for young programmers, and VK FEST, a major two day offline event in Saint-Petersburg

Introduction of native advertising on VK newsfeed on desktop

Launch of Snapster: a new photo app by VK

International (North America and Europe) launch of internally developed MMORPG Skyforge

Launch of RB Videomatic, a technological programmatic video advertising platform

New video player with adaptive streaming and photo streams in OK apps for iOS and Android

New versions of myMail and Mail.Ru email apps with fast photo attaching on iOS

August

MAPS.ME launches walking routes

OK launches online TV

Secure email collection from and into Mail.Ru inbox via OAuth 2.0 protocol

ICQ redesigned with Android Material Design

September

MAPS.ME opened the source code of its applications

Worldwide launch of MMO game Armored Warfare

MAPS.ME updated iOS and Android apps with new map style

VK launched a new service Products (online stores in groups)

Mail.Ru Group launched Technotrack, a 2-year learning program focusing on mobile development, in collaboration with Moscow Institute of Physics and Technology

Native advertising in OK newsfeed on desktop and mobile web

myMail and Mail.Ru apps updated for iOS 9 with support of 3D touch, multitasking, search via Spotlight and universal links

Mail.Ru Group holds Russian Code Cup

ICQ adds privacy settings and updates design for iOS app

October

ICQ receives the Editors' Choice award in Google Play

VK launches messages in groups (communication tool for communities)

November

VK launched VK University with offline courses to learn programming languages

Mail.Ru Group launches myTracker, a free mobile analytics service

MAPS.ME and Technosphere Mail.Ru receive Runet 2015 Award

Mail.Ru Group holds 3rd Russian Developers Cup

myMail and Mail.Ru apps for iOS and Android updated with conversation threads

OK introduces autoplay for video in newsfeed and launches live streaming of online gaming

December

ICQ team is awarded with the Top Developer badge in Google Play

Worldwide launch of in-house mobile game Evolution: Heroes of Utopia (on iOS & Android)

myTarget launched hyper local geo ads

Mail.Ru Group holds fourth Russian AI Cup

myMail and Mail.Ru apps for iOS and Android updated with 'Mail to Self' share extension and 'do not disturb' option

OK listed among Best free apps in Google Play

MAPS.ME apps for iOS and Android updated with voice navigation, point-to-point navigation, 3D objects, night mode and emoji search

ICQ for iOS and Android updated with multiple performance and UI improvements of video calls

Cloud.Mail.Ru updated with fingerprint identification and support for Material Design

Mail.Ru email service launched Anonymizer, anonymous email address service, and Access Code app for Android

Financial highlights

+11%

2014 **32,708**
2015 **36,316**

Revenue, RUR mln

+8%

2014 **16,850**
2015 **18,123**

EBITDA, RUR mln

-14%

2014 **11,479**
2015 **9,915**

Net profit, RUR mln

+19%

2014 **12,257**
2015 **14,630**

Online advertising, RUR mln

+5%

2014 **11,870**
2015 **12,508**

Community IVAS , RUR mln

+6%

2014 **8,414**
2015 **8,945**

MMO revenue, RUR mln

Chairman's statement

2015 was another year of continued delivery for Mail.Ru Group both in terms of our user engagement and product offering. This is shown by our leading position in the Russian internet in terms of desktop[1] and mobile[2] active users, as well as the number of app downloads[3] on Android and iOS. Moreover, a number of our products were listed among the best apps of 2015 in App Store and Google Play.

Despite a turbulent macro-economic environment in our core markets we delivered strong financial results. We continued our expansion into international markets which has led to the start of good growth in our international revenues. We have also improved our advertising offering across all products, developing our advertising platform to deliver the best possible solutions to both users and advertisers. We have again retained tight control over our costs and hence, despite foreign exchange headwinds through 2015, were able to protect profitability. 2016 has had a solid start, and as such we look to the future with confidence in the continued growth of the underlying markets, in our product offering and in our talented employees.

82m
Internet users in Russia

94%
of them use our products

1/3
of total time online is spent on our products

Company highlights for 2015

Core market continues to grow

We have commented before that the ongoing growth in the Russian internet market continues to be a driver of our business. This was not different in 2015. We continue to see solid growth with even higher penetration rates. In 2011 Russia became the largest internet market in Europe and has expanded its leadership ever since. By the end of 2015 the number of internet users in the country had risen to 82mln with Mail.Ru Group interacting with 94% of these users[4]. While Russia is getting closer to other developed markets in terms of overall penetration, at 70%[5] there is still further room for growth. Additionally, there are also the opportunities presented by the wider Russian speaking community in the CIS where penetration rates remain lower.

2015 also saw the continued expansion of mobile usage. As we operate the two largest Russian language social networks, this trend results in more traction for our products. During H1 2015 we commented that the VK and OK mobile daily audience exceeded the respective desktop audience. This trend continued in H2 with ongoing strong growth in the mobile audience.

Product development and strategic focus

We remain focused on providing the widest offering with seamless cross-platform experience and interoperability. Mobile audience continues to grow, and we remain focused on not only allowing users to expand their use of the Mail.Ru products through different devices, but also to help widen the user experience as far as possible in order to increase the time spent online. Mobile and video remain key components of this. As both the time that users spend online and the number of devices that they access the network with grow, we remain convinced that our focus on communications and entertainment works. Much of the incremental time spent online by users, especially on mobile devices, is either in communication products and social platforms or in games. Both of these areas play to Mail.Ru's offerings and strengths.

During 2015 we continued to develop and improve our market-leading email service. On the mobile side, we focused on features for power users including conversation threads, advanced search, undo actions, fast photo attachments and Mail to Self share extension. We optimised our app to ensure support for iOS 9 and Android 6 features and launched separate apps for tablets and smartwatches. In addition, we developed several features aimed at facilitating work with attachments and content in our email and cloud services including ability to edit documents and images, search for text inside attachments and stream video across all devices.

Mail.Ru Group is the clear leader in the Russian internet in terms of desktop and mobile users, as well as the number of app downloads on Android and iOS

1 Source: comScore, desktop, Russia, age 6+
2 Source: TNS Mobile, age 12-64
3 Source: App Annie Index, Top Apps, iOS and Google Play combined, Russia, Overall
4 Source: comScore, MMX Multi-Platform, Russia, age 6+, December 2015
5 Source: GfK Omnibus, 2015, all Russia 16+

With respect to security, we supported secure email import via OAuth 2.0 protocol, introduced additional anti-virus checks when downloading attachments, PIN and Touch ID/Fingerprint authentication in mobile apps and launched Access Code, which is an Android app for generating a 2-step verification code. We also launched Anonymizer, a service for creating anonymous email addresses within a user's main email account.

myMail has seen significant traction and remains one of the most downloaded alternative email client on both iOS and Android globally. The US is the largest market followed by France, UK, Germany and Italy.

2015 saw the reinforcement of our games portfolio with the domestic and international releases of both Skyforge and Armored Warfare, as well as several mobile game launches

We operate the two leading Russian language social networks – VK and OK. 2015 represents the first full year of VK ownership. The integration process is now well advanced and will be largely completed in 2016. Engagement and audience continued to see good growth with MAU reaching nearly 90mln for the first time, and over 76% accessing via mobile devices (January 2016).

In 2015 we improved and updated VK mobile applications for iOS and Android with significantly increased performance and new features. Throughout the year, VK apps maintained their positions of most downloaded apps in Russia[1]. We launched the messaging service for communities and business and introduced expanded statistics for communities' administrators. In addition, we unveiled a new video catalogue and launched live broadcasting thus encouraging growth of the VK video service.

Furthermore, we launched VK Products, which is an online platform for selling goods, and promoted posts that enable cross-device newsfeed ads format.

In OK a lot of work has been done to further enhance and promote the video service. In particular, we launched video streaming and online TV channels and allowed bloggers to create video channels in groups. These developments boosted users' interest in video service and contributed to 30% year-on-year growth of video views. Currently OK is the second largest website in Russia in terms of total number of video views (comScore, January 2016).

We significantly improved the messaging service in OK: created new stickers, added text search through messages and chats and introduced group chats on mobile web and apps. Finally, we introduced various tools to facilitate management and promotion of groups, updated game and gift sections and launched a P2P money transfer service which allows users to easily transfer money to their friends on the social network.

We released redesigned versions of ICQ for Android, iOS and PC that put more emphasis on two major features – video calls and live chats. Video calls were significantly improved in terms of both quality and connection speed, while newly introduced live chats brought in a new type of group interaction allowing users to connect with new people. In addition, we introduced audio messages with speech-to-text recognition in over 80 languages and cross-platform chat history synchronisation. The Android app was awarded the Editor's Choice and the team won the Top Developer badge in Google Play.

87m	**73m**	**64m** [2]
MAU in VK	**MAU in OK**	**MAU in email**

2015 saw the reinforcement of our MMO games portfolio with domestic and international releases of both Skyforge and Armored Warfare. Skyforge has had a solid start, and continues to see growth in both revenues and users. The initial feedback on Armored Warfare has been very encouraging in all territories with a domestic marketing campaign in late Q4 2015 and early Q1 2016 being very well received and allowing the game to reach more than 5mln registered users at the end of February 2016.

In addition, we launched three mobile games: Might & Glory, Evolution: Heroes of Utopia and Juggernaut Wars. The last two are based on IP of our previously successful games Evolution: Battle for Utopia (mobile) and Juggernaut (MMO) respectively.

Warface had another year of strong performance and retained its leading position in our games portfolio in terms of revenue. The game's update in October 2015, Cyber Horde, turned out to be one of the most successful in the game's history and led to 20% growth of peak concurrent users.

Our search service is the third largest in the Russian internet market: in December 2015 it processed 5.8% (LiveInternet) of all web search queries. Over the last year we introduced AJAX search, updated vertical search for apps and news, developed an in-house recommendation engine and released a new version of our browser Amigo 3.0 with redesigned user interface, customizable visual bookmarks and Mail.Ru email app.

We continued improving our offline map service MAPS.ME. First, we added supplementary information to points of interest on the map. Second, we updated the navigation service with walking routes, cross-country routes, voice instructions and point-to-point navigation. Third, we completely renewed the map style and introduced a 3D objects mode. Last, we supported OpenStreetMap and other open-source communities by making the source code of the app publicly accessible.

Solid 2015 financial performance

In FY 2015, the Company achieved Y-o-Y revenue growth of 11.0% to RUR 36,316 million with H2 2015 Y-o-Y revenue growth of 13.7% (all numbers ex HeadHunter). The macro and FX backdrop to 2015 clearly created more challenging trading conditions than in previous years. However we are pleased to have delivered solid progress in all areas. With good management of our cost base, and the start in growth of our international revenues, we have managed to offset most of the margin impact from the rouble devaluation. As such EBITDA (ex HeadHunter) grew 7.6% Y-o-Y to RUR 18,123 million with 49.9% EBITDA margins which were close to the levels seen in 2014.

1 Source: App Annie Index, Top Apps, iOS and Google Play combined, Russia, Overall

2 Company data, December 2015. Email figure includes monthly active users of both Mail.Ru email service and myMail apps

The VK team continued to execute well with FY revenue growth of 44.2% Y-o-Y and H2 revenue growth of 52.8% Y-o-Y. We continue to see a number of opportunities for VK and the focus in 2016 will continue to be on advertising and particularly in mobile and native advertising, where we have seen very strong growth over the last year. Additionally we will be launching new features and products through the year. As such we expect to see growth in 2016 continue at a strong pace.

FX exposure

Given the FX headwinds we faced in 2015 we were pleased with the 2015 margin performance. In H2 2015 we saw a further deterioration in the RUR and hence going into 2016 the average RUR FX rate looks likely to be lower than 2015.

We have previously commented that our main USD costs are Moscow office rent, hardware and some international salaries. Historically, the largest of these has been the office rent. In late Q4 we signed a new agreement on the Moscow office with the FX rate fixed for the period of the lease at a level similar to our previous agreement. This is in return for some upfront rent payments in Q4 2015 and Q1 2016. As a result of this agreement we do not expect to see any rises in rent as a percentage of revenues over the next few years. We continue to focus on cost management and better utilisation of hardware, and hence expect capex to remain broadly at around the same level, as a percentage of revenues, as we have had over the last few years.

Corporate and outlook

Disposal of HeadHunter, acquisition of ICVA and balance sheet

At the time of our IPO in 2010 we made it clear that we would dispose of what we considered non-core assets. The disposal of over $2bn in these assets and the return of around $1.7bn to shareholders is the result of this commitment. Aside from a 1.31% stake in Qiwi this process has been largely completed.

During 2015 we acquired 100% of ICVA, the datacenter hosting operation which had been supporting VK. The primary purpose of the acquisition of ICVA was to enhance our technological independence from third party hosting service providers and to integrate our data storage and transmission management.

Alongside the FY 2015 results we also announced the sale of the HeadHunter business to an investor consortium led by Elbrus capital for RUB 10bn. The cash will be paid in 2 tranches by the end of April 2016.

Our people and culture

It is worth re-iterating that our main asset is our people and the technology-driven culture which they create. This continues to remain one of the guiding principles for us and our future success is very dependent on our ability to attract, retain and motivate the best engineers.

...our main asset is our people and the technology-driven culture which they create.

In addition to our existing student development centers at Bauman Moscow State Technical University (Technopark) and Lomonosov Moscow State University (Technosphera), we launched our 3rd two-year program at Moscow Institute of Physics and Technology (Technotrack). Dozens of graduates of these three elite programs land their dream job inside Mail.Ru Group. In Saint-Petersburg we launched VK University, a school for young developers, where members of VK team teach students programming skills.

In 2015 the board and shareholders have approved, and the Company has distributed a part of the new long-term incentive plan based around restricted stock units ("RSU") equivalent to up to 5% of total shares outstanding. The new RSUs will be used to attract and retain staff between now and 2022. We are pleased that staff retention remains strong and that our technology based culture remains in place.

2016 outlook

While the continued difficult macro environment and FX headwinds present challenges we are pleased with the solid FY 2015 performance. We are encouraged by the growth in advertising, especially on myTarget, and continue to see a number of exciting opportunities. We have had a solid start to 2016 and based on current visibility and current market conditions, we expect ex HeadHunter like for like FY 2016 revenue growth to be between 8%-14%. While we will be undertaking further marketing campaigns through 2016, we continue to maintain effective cost management, and are pleased that we have offset the main FX exposure in our costs, as such we anticipate full year EBITDA margins at between 47-49%.

Thanks and Appreciation

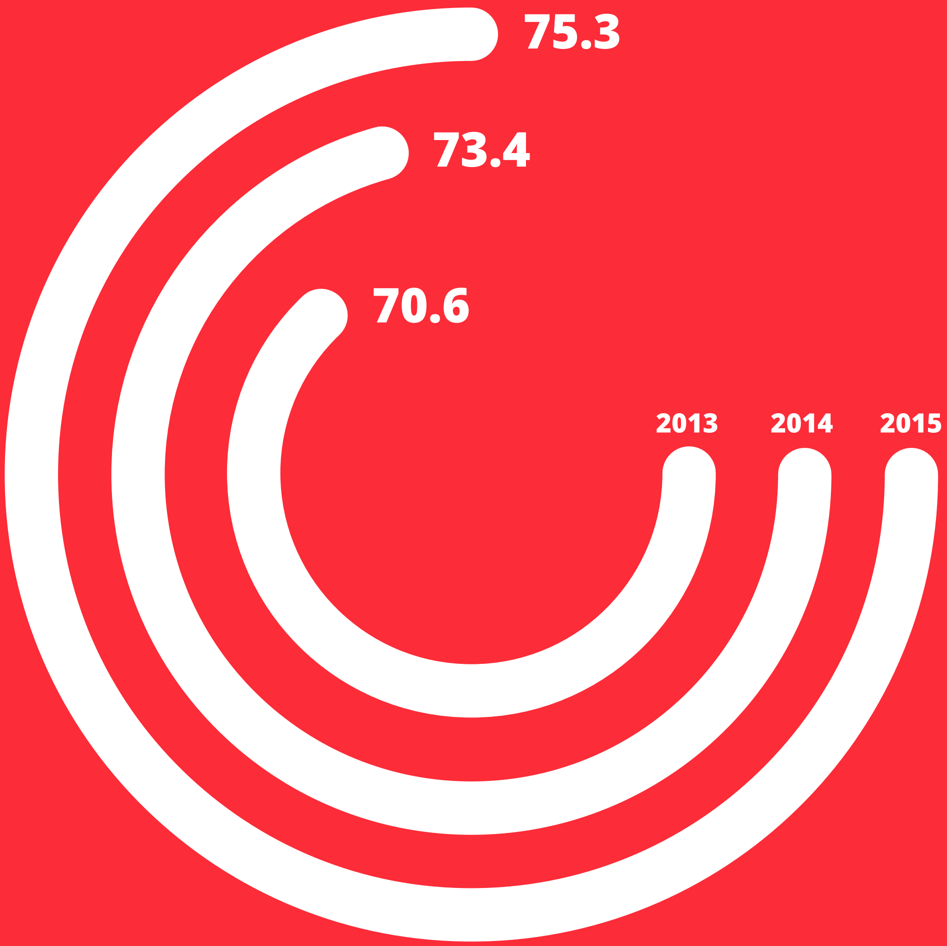
In finishing my statement I wish to thank a number of key groups. First off, our employees. Our ongoing success is down to the dedication, commitment and passion that they show every day. Indeed, with a challenging macro backdrop, such as we had in 2015, this is more true than ever. The fact that staff retention remains unchanged is testament to not only our culture but also to our people. The board is happy to extend our thanks to them and to recognize their contribution.

Secondly, on behalf of the board I want to thank our shareholders. They continue to believe in, encourage and support us. While the backdrop to 2016 is likely to be as challenging as it was in 2015 we continue to see many exciting opportunities in the business. As such our business remains strong and the future bright. We face it with excitement and confidence.

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

01

OPERATING REVIEW



MAIL.RU GROUP
MAU, MLN, COMSCORE,
RUSSIA, DESKTOP

Operating review

Our services attract millions of users each day. Whether they are using email, instant messaging (IM), our social networks or our games, we aim to increase time they spend on our sites and mobile applications by continuously offering new features and services.

Email, Portal & IM

Email

We provide the largest email service in the Russian-speaking internet and the sixth largest email service globally in terms of monthly active users (61.8 mln, comScore, worldwide, desktop, December 2015). Currently our email service delivers approximately 450 million messages a day and has a data storage capacity exceeding 27 petabytes.

In 2015, we developed several features aimed at facilitating work with attachments. First, we launched the ability to edit attached Word, Excel and PowerPoint files via Microsoft Office Online and images via Aviary technology (by Adobe) directly from the mailbox. Next, we enabled users to search for text inside attachments (documents, spreadsheets, presentations and pdf files). Lastly, we introduced the ability to preview attachments in email compose page – to easily verify before sending that the right file was attached.

We continued to improve security of our mailbox and develop the best solutions to protect our users. We introduced spoofed email warnings and additional anti-virus check when downloading attachments. In addition, we enhanced our two-factor authentication through a release of Access Code on Android, a mobile app that generates a 2-step verification code. Further, we launched support for OAuth 2.0 protocol, which enables the users to import correspondence from an email account to third-party email services and apps without divulging the account password. We use this secure solution for importing email both to and from Mail.Ru email service.

Alongside with security enforcement, we developed Anonymizer, a service for creating anonymous email addresses. It can be used for registration on untrusted websites or subscriptions to public mailing lists and blogs. All messages sent to the anonymous email address come to a specified folder in the main email account, however sender does not know the address of the main email account. User may delete anonymous email address and new messages will not come any more, but existing correspondence will be saved.

We also updated the interface of the web version to improve the user experience. We added a context menu in the message composing and viewing pages. To engage new users we added a tutorial below the message list. New pop-up windows for picking contacts and attachments from Cloud.Mail.Ru when composing new message were added. The promo ad feature on the Settings main page lets users get acquainted with the Mail.Ru email mobile app and its useful features.

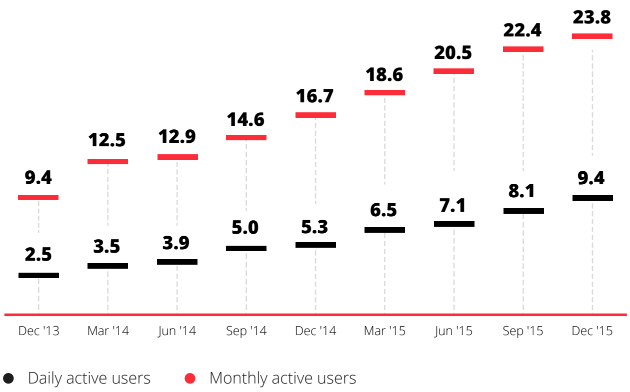
Mail.Ru is the leading email service in Russia and the sixth largest in the world

In addition, we succeeded in storage optimization and performance improvement. File compression and the elimination of duplicate attachments triggered a 30-40% decrease in storage size that made the use of servers more efficient. We updated password recovery which is now based on a set of signs/attributes when contacting user support service and requires user data validation.

We added multiple updates to the mobile web version: conversation threads, preservation of HTML formatting on message reply / forward, viewing attached photos by swipe, new interface themes and feedback surveys. Further, we enabled push notifications in Chrome mobile browser that allow users to receive alerts when the device's screen is locked or the app is not open. In addition, we continued to work on advertising and added native ads to the message list.

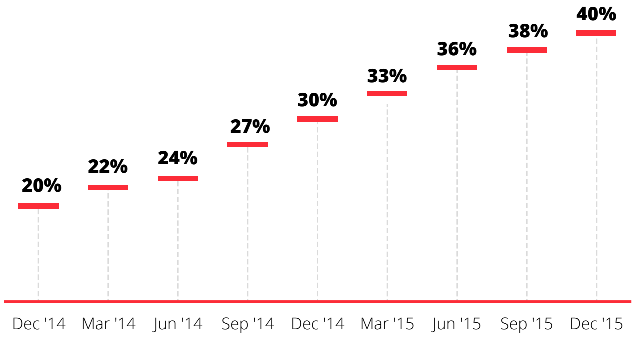
By the end of 2015 combined audience of Mail.Ru email applications reached 5.5mln daily active users and 13.5 monthly active users with majority of them using Android- and iOS-based devices. Total number of mobile daily active users, including applications and web, accounted for 42% of the email service daily audience.

Mail.Ru email, mobile users¹, mln



Source: Company data

Mail.Ru email, share of monthly active users accessing via mobile devices¹



Source: Company data

myMail and Mail.ru email apps

In 2015, we focused on features for power users. We introduced conversation threads that make viewing of large and complicated message chains more convenient. Messages can be grouped by thread and displayed in a more concise and structured way. We launched advanced search, which allows filtering search results by a range of criteria: message status (flagged/unread/with attachment), folder and time period. We also supported preservation of HTML format of the initial message when replying to a sender or forwarding to another person. In addition, on iOS we introduced the ability to undo move/delete/mark as spam actions with messages: the undo button appears at the bottom of the screen when an action is taken and allows the user to cancel it.

To simplify and speed up the sharing of content we introduced a new interface for fast photo attaching and Mail to Self share extension. The former feature allows iOS users to preview a carousel of recent photos upon tapping the attachment icon and avoid opening the phone gallery and choosing the photo album. Mail to Self lets the user, while surfing on the internet, choose a file, photo or link and send it to his / her email address by using standard share button instead of saving it and composing a message.

On security side, we introduced PIN and Touch ID authentication in iOS app together with PIN and Fingerprint authentication in Android app. The aforementioned security enforcements are designed to ensure the safety of users' mail through restricted access to their mailboxes.

Alongside product development and security enhancements, we continue to maintain our app up-to-date. We optimized the app to make it compatible with iOS 9 and Android 6 "Marshmallow" and to ensure support for new platforms' features. We developed a separate app for tablets as well as apps for Apple Watch and Android Wear that allow users to stay connected to their mailboxes from different devices. During the year, the app has been featured in Google Play and Apple App Store several times.

Instant messengers

In 2015, we released redesigned versions of ICQ for Android, iOS and PC. The new design allowed us to put even more emphasis on two features - video calls and live chats. We improved video calls significantly in terms of both quality and connection speed and implemented a fully adaptive interface that makes transition between screen modes seamless across all devices. The live chats feature introduced a new type of group interaction that allows users to connect with new people. Users can join live chats based on geographic location or shared interests, and even become admins and moderators. Live chats increased user engagement that resulted in higher retention rates among new users.

Additionally, we introduced fast voice messaging with speech-to-text recognition and were the first messaging app to do so. This unique feature has been well received by our users.

Our efforts have also been focused on making ICQ more secure. All files are now sent using the HTTPS protocol and users' privacy is enforced with PIN lock that can be used to prevent unauthorized launch of the app.

Using ICQ on multiple devices became easier after we had implemented cross-platform chat history synchronization – all of the users' conversation history is available on each of their devices.

ICQ for iOS became one of the first apps to support the 3D Touch technology and was awarded a global featuring in the App Store. The app for Android received Editor's choice award and the ICQ team was justly awarded with the Top Developer badge in Google Play.

Mail.Ru for Business

In 2015 we carried on the development and improvement of Mail.Ru for Business, our email solution targeted at small and medium enterprises. We introduced DNS hosting service and expanded the Migration service by enabling migration from MS Exchange servers. We built a new user-friendly interface to create accounts and created a 2-level administration – domain admin-

1 Mobile users include users who accessed the project solely via mobile applications or mobile versions of the website as well as users who accessed the project from both mobile and desktop devices

istrators (global level) and group administrators (local level). In addition, Mail.Ru for Business partnered with site builders and domain providers thus expanding our distribution channels.

By the end of 2015, Mail.Ru for Business was supporting 158 thousand separate domains.

Cloud.Mail.Ru

In March 2015, we introduced paid storage plans that expand storage space up to 4TB and increase the size limit of uploaded files to 32GB. Users can purchase additional storage on web as well as in mobile apps.

Over the year we extended cloud service's functionality to let users interact with content instead of simply storing it. We partnered with Microsoft and enabled online document editing via Microsoft Office Online as well as developed online image editing based on Aviary technology (by Adobe). We also supported video streaming of all popular formats from all devices (on desktop and mobile web, as well as on mobile apps).

Further, we updated desktop apps for Windows and Mac OS by adding several useful features including the ability to make screenshots. The screenshots can be edited, e.g. they can be cut or the important data can be highlighted, and saved directly to the cloud. Then the link to access the screenshot can be shared with other people.

On the mobile side, we developed a new Android interface and brought the app in line with Material Design standards as well as enabled support for Android 5 "Lollipop" and Android 6 "Marshmallow" features. With respect to iOS, we updated the app with the ability to save multiple photos and videos to device gallery, to share multiple files via other apps (e.g. email) and to select files stored in Cloud.Mail.Ru from other apps. We also implemented transition to iOS photo framework and enabled background upload. Further, we updated the app with support for iOS 9 features including App Thinning, search through Spotlight, Split View on iPad and Slide Over view. Ability to copy files and folders was supported by both iOS and Android apps.

Media projects

In 2015, we continued to hold leading positions among online media in Russia and reinforced our presence in the market.

In 2015, we updated the design of Lady.Mail.ru, Hi-Tech.Mail.Ru and Realty.Mail.Ru. We also launched the mobile web version of Realty.Mail.Ru and updated the mobile web versions of Afisha.Mail.Ru and Kids.Mail.Ru.

We launched a range of new service products: films recommendations on Afisha.Mail.Ru, consumer electronics catalogue on Hi-Tech.Mail.Ru, ability to make online appointments at hospitals through Health.Mail.Ru project and new-build housing section on Realty.Mail.Ru project.

In News.Mail.Ru and Horoscopes mobile apps we promptly introduced support for iOS 9 and Apple watchOS 2. During the year, these apps have been featured in Google Play and Apple App Store several times.

We added editorial metrics to marketing ones in order to follow reader's engagement (scroll rate, reading time, share ratio, etc.). We enriched content with embeds from social networks, Instagram, YouTube and new formats (cards, collections, timelines, etc.) as well as focused on cross-project integration (widgets with related services and content, expert quotes). We hosted online broadcasts of the leading international exhibitions, motor shows and IT presentations (Windows 10 Microsoft, Apple etc.)

Social Networks

We operate the two largest Russian language social networks – VKontakte (VK) and Odnoklassniki (OK). They enable users to find, connect and communicate with friends, families and colleagues. Our products include newsfeed, messaging services, status updates, photos, user-generated videos and other features. Users can play games together, send each other online gifts, recommend websites and keep track of events, such as birthdays. We frequently add new products and services to maintain and increase users' engagement.

VK

VK is the largest communication platform in Russia and CIS. In December 2015, it had 87 million monthly active users (Company data). An average Russian internet user spends 17% of its total online time on VK (TNS, October 2015).

We continue to develop the VK product to ensure the best user experience on the platform. During 2015, we focused on mobile, new features and services development.

We have significantly improved performance of VK apps for iOS and Android and updated them with new features. In H1 2015, the mobile audience of VK overtook the desktop.

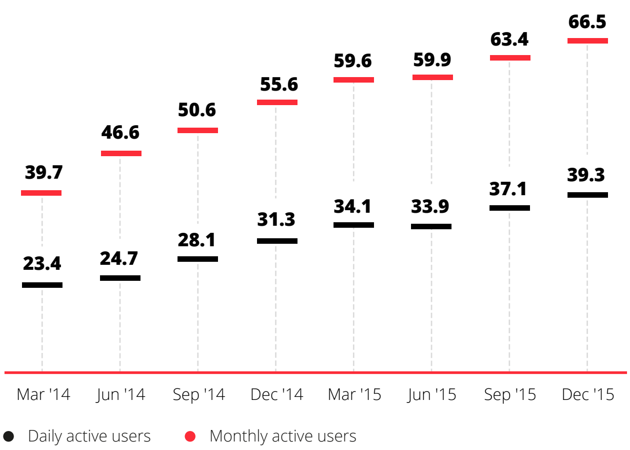
We continued improving our messaging service. We optimized attachments and introduced more convenient snippet previews. We also offered sticker store with new sets of stickers enabling users to easily express their emotions and feelings. These improvements contributed to a rise in the total number of messages delivered within the social network up to 5 billion messages per day (+68% vs 2014)[1] making VK the largest messaging platform in Russia.

With the relaunch of the video catalogue and cooperation with UGC content producers (video bloggers and communities), both usage and monetization of the video service continued to advance. User interface and player features were completely redesigned and the quality of video was improved. Additionally, VK launched live broadcasting that was warmly received by the market and was supported by many Russian and foreign celebrities.

We introduced new advanced statistics that provide content creators with detailed insight into users' reactions to their posts and

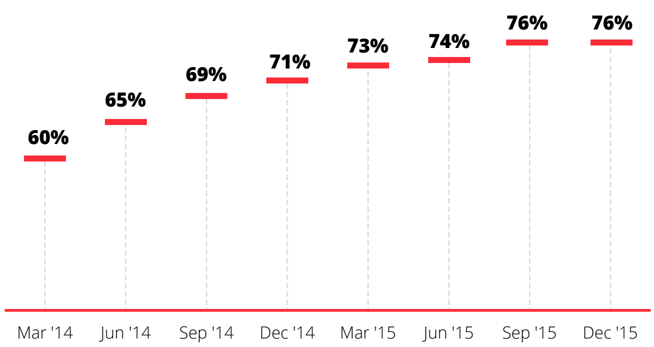
Two largest Russian language social networks, VK and OK

VK, mobile users, mln²



Source: Company data
Note: Data is only available since 2014

VK, share of monthly active users accessing via mobile devices²



Source: Company data
Note: Data is only available since 2014

1 Source: Company data

2 Mobile users include users who accessed the project solely via mobile applications or mobile versions of the website as well as users who accessed the project from both mobile and desktop devices

let them easily adjust and improve their content strategy on VK.

We also introduced several B2B tools: VK Products, messaging service for communities and businesses and cross-device native advertising in newsfeed (promoted posts).

VK Products is an online platform for selling goods. The service, which allows community administrator to open an online store in VK community in a few clicks, has been activated by hundreds of thousands of VK communities. Within the first few months of the launch, communities created more than 5 million product cards.

Messaging for communities and businesses enables companies/ media/special interest communities to establish communication channels with their customers or organize professional Help-desk/CRM system using third-party solutions based on the new message API. Now users send thousands of messages to organizations every hour.

We continued our expansion in Russia and CIS. Over 2015, VK managed to increase its audience in Kazakhstan from 4.7 million to over 6.5 million monthly active users (Company data) as well as to be tightly integrated with the local community, celebrities and events. In Ukraine VK increased its audiecne to 11.8 million people (Factum Group data). We also managed to attract new users outside CIS. For example, in Brazil VK audience exceeded 1 million registered users.

In summer 2015, we launched Snapster, a stand-alone experimental application for photo sharing. Recently, we've completely revised its concept towards group photo sharing and will now keep experimenting with the app.

VK was the first social network to organize its own offline event — VK Fest in St. Petersburg. The event hosted more than 50 popular Russian bands and was visited by more than 50,000 people from all over Russia. VK will continue to hold similar events in the future as part of the social network promotion.

VK continues winning the hearts of the developers community organizing a series of its own events including Hackathons, a platform aimed at developing 3rd party applications involving VK APIs, and VK Cups, a VK programming contest, as well as launching VK University, an educational program for young developers.

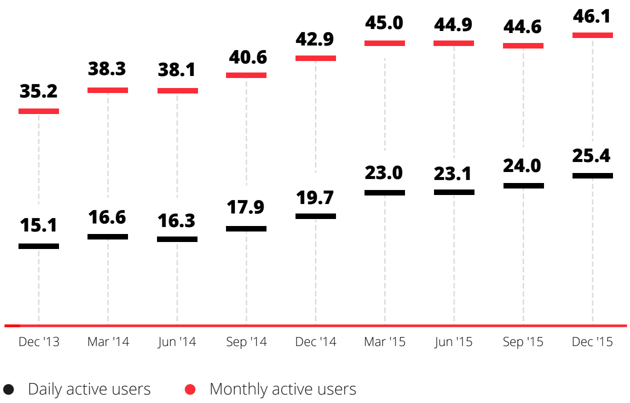
OK

OK is the second largest Russian language social network. In December 2015, it had 73 million monthly active users (Company data). OK is also one of the leading websites in Russia in terms of the average time spent per user (comScore, December 2015).

The number of mobile users of OK increased 30% year-on-year. OK mobile apps for Android and iOS were listed among the best apps of 2015 on Google Play and Apple App Store respectively. Both applications underwent serious updates: support for Android Material Design and Android 6 "Marshmallow" features, support for iOS 9 features, AJAX navigation, internal browser, new registration and help pages and optimized tablet layout.

Over the last year video has been one of the key drivers of OK user and traffic growth. The social network is currently the second largest website in Russia in terms of total number of video views (comScore, January 2016). In 2015 a lot of work has been done to

OK, mobile users, mln[1]



Source: Company data

further enhance and promote the video service on OK. Launch of live video streaming was one of the major developments in this area. Now, users can watch live streams on desktop and mobile devices over networks with a broad range of connection speeds (2G/3G/4G or fixed networks) due to adaptive DASH/HLS streaming technology. To provide interesting content for users, we launched online TV channels such as Lifenews, Russia 24, TV Rain, RBC, and others for all users. In addition, we enabled video bloggers to create video channels in groups and instantly notify subscribers about new videos uploaded to a channel to get more views. These new features and improvements boosted users' interest in the video service and contributed to 30% year-on-year growth of video views.

User feedback on the automatic video play in the newsfeed was very strong. By launching HTML-5 video player, we managed to attract new unique video viewers who were previously not able to watch video due to flash technology instability and lack of support for some platforms. The introduction of GIF was another major development in 2015. Based on photos subsystem, it allows users to view, upload and provide feedback on short soundless video-like clips.

After video, messaging is the second most popular service among OK users. We made messaging more convenient and fun: we created new stickers, added text search through messages and chats and introduced group chats on mobile web and apps.

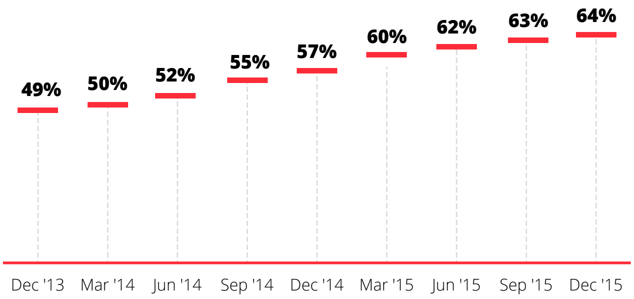
In 2015, OK experienced significant growth in the number of groups: media, brands and special interest communities. We created various tools to facilitate management and promotion of groups, such as completely new statistics section, new interface on all mobile platforms (including mobile web) and group's "karma".

IVAS account for a significant proportion of OK revenue. Therefore, we are continually enhancing our games, gifts and other paid services, fine-tuning promotion methods and improving payment mechanics and processing.

BUSINESS REVIEW

1 Mobile users include users who accessed the project solely via mobile applications or mobile versions of the website as well as users who accessed the project from both mobile and desktop devices

OK, share of monthly active users accessing via mobile devices[1]



Source: Company data

We updated the games showcase (new compact view, game genres on the main page, top games selections based on user age), presented new game sub-genres (such as Match 3 for Puzzle Games) and introduced a new API method that allows games to provide OK platform with useful in-game statistics. With respect to gifts service, we worked on enhancing it by adding new content and improving relevance. We transformed special gifts into cards and introduced gift cards. But most importantly we released new animated gift format which is becoming very popular among our users.

In addition, we switched the bank card processing to an in-house solution on both web and mobile platforms (thereby increasing conversion rates and decreasing processing fees) and updated design of transactions history page.

Furthermore, we launched a P2P money transfer service which allows users to easily transfer money to their friends on the social network. There is no need to know friend's card number to make a transfer as the money is sent to his OK account. The recipient can accept the transfer within 3 days and credit the money to the existing card or link a new one. We plan to continue developing this service and integrating it with our messaging service.

We also introduced new advertising products on the platform - we provided the ability to promote group posts and posts with video via myTarget.

1 Mobile users include users who accessed the project solely via mobile applications or mobile versions of the website as well as users who accessed the project from both mobile and desktop devices

Games

In 2015, our portfolio of online games received two highly anticipated MMO titles: Armored Warfare and Skyforge that together with our more mature games such as Warface, Perfect World, Archeage and Allods Online allowed us to retain a leading position in Russia & CIS as well as to expand our international audience.

In line with the global trend of leveraging popular IPs and franchises, our online games business develops its strategy to benefit from well-known internally developed titles and to roll out its titles internationally. We have in-house IPs that demonstrated solid performance in Russia: Allods Online, Juggernaut, Legend: World of Dragon and Evolution: Battle for Utopia ("Evolution"). Our current strategy in online games consists of development of internal IPs through making the titles available on several different platforms (cross-platform access) referencing initial IP name, its artworks and basic gameplay.

In response to global mobile audience growth, we are actively investing in further development and expansion of our mobile games portfolio to gain share of the world's mobile audience and to promote our IPs worldwide. We develop all our mobile games internally. In 2015, we added two more mobile games to our portfolio – Evolution: Heroes of Utopia ("Heroes of Utopia") and Might & Glory. At the beginning of 2016, we launched Juggernaut Wars – our new mobile game that is based on a successful web-browser fantasy game IP "Juggernaut". Moreover, we implemented the latest features of mobile platforms in our games. We introduced the iPhone 3D touch technology to our Jungle Heat title and launched Heroes of Utopia on Apple Watch platform in addition to initial release on Android and iOS.

In 2015, we started development of our own eSport platform to hold tournaments for Warface and Armored Warfare as well as for other titles with eSport game mechanics. We believe that eSport activities can give us a unique user acquisition channel and improve user retention and lifetime value.

The international launch of Skyforge and Armored Warfare triggered the development of portal (Games.Mail.Ru) and game downloader (GameCenter.Mail.Ru) technologies in similar services for international audience: Games.my.com and GameCenter.my.com respectively. By the end of 2015, GameCenter.my.com reached 340 thousand peak concurrent users and together with Russian game downloader GamesCenter.Mail.Ru comprised 2.3 million peak concurrent users.

MMO games

Our first person shooter Warface demonstrated strong performance in 2015 and keeps its leading position in our games portfolio in terms of revenue. Warface set another revenue record in December 2015, which indicates the game has not yet reached maturity. In Q4 2015, we launched a new game mode, Cyber Horde, which turned out to be one of the most successful updates for Warface leading to 20% growth of peak concurrent users.

In April, 2015 we launched Skyforge in Russia & CIS under Mail.Ru brand and in July 2015 in Europe & North America under My.com brand. Skyforge is a highly-stylized MMORPG featuring exciting dynamic combat inspired by console action games with one of the most attractive art, innovative character development and multi-class leveling systems where players can shift classes at any time. In Q4 2015, Skyforge released a commercial version that contained high-level content, various technical improvements and had a new tournament mode that brought eSport elements to the game and allowed to improve user retention. According to the above mentioned strategy, the Skyforge development team is now working on creation of console version of the title to strengthen our new internally developed IP.

Worldwide releases of Skyforge and Armored Warfare

In September 2015, we launched our most anticipated game Armored Warfare in Russia under Armored Warfare: Project Armata. Two weeks later in October 2015, we launched an Open Beta Test of Armored Warfare in Europe and North America. Key features of this free-to-play game include a huge variety of combat vehicles from the period of 1950s to nowadays, last generation graphics, destructible environments, PvP and PvE gameplay. The launch of Armored Warfare in Russia was supported by marketing campaigns through Mail.Ru portal resources along with TV & radio advertisements, billboards and transport branding, aggressive PR and creative advertising formats such as military vehicle lottery among Russian gamers. In Europe and North America marketing campaigns were focused on live streaming and YouTube top game channels video promotions. Along with technical improvements of the game, the development team focuses on further IP strengthening through development on other platforms to provide users with maximum convenience and variety in the gameplay. At the end of February 2016, Armored Warfare had more than 5mln registered users.

In December 2015 we decided to make a full impairment of World of Speed MMO game that had been developed by UK based developer Slightly Mad Studio until March 2015 and is being currently developed by internal development team. Our market researches and gameplay tests showed much less satisfaction with previously chosen key features of the game and we had to postpone the launch of the game till the second half of 2016.

Mobile games

In September 2015 we launched Might & Glory mobile game – an experiment of reskinning Jungle Heat to fantasy setting. Its development lasted over 4 months and costs were fully covered in the 2nd month of operating.

In December 2015 we launched a new mobile game - Heroes of Utopia which is a game in RPG-clicker genre based on the huge, detailed universe from our own mobile title Evolution: Battle for Utopia that was awarded Editor's choice and rated among year's best games by mobile app stores. The game has strong socializing system, a variety of heroes with extensive progression system, offline mode and light client. It is our first mobile game on Apple Watch. The first month revenues fully covered its development costs. The first mobile games we developed were monetized only through in-app purchases, however in Heroes of Utopia we used two ways of monetization: through in-app purchases and in-app advertising.

In February 2016 we launched Juggernaut Wars following the strategy of internal IP usage and further development. It is based on the well-known browser-based MMO Juggernaut and is a mixture of Action/RPG/MOBA genres. Variety of heroes, battlefields and combat modes together with high quality graphics, fascinating 3D-battles, clan wars and worldwide PvP 5x5 battles are among the key features of the game.

Armored Warfare

Armored Warfare is a MMO shooter game featuring combat vehicles from the 1950s through modern day and includes destructible environments as well as player vs. environment and player vs. player gameplay. The game is free-to-play with in-game purchases.

Skyforge

Skyforge is a highly-stylized MMORPG featuring exciting dynamic combat inspired by console action games with one of the most attractive art, innovative character development and multi-class leveling systems where players can shift classes at any time. The game is free-to-play with in-game purchases.

Juggernaut Wars
available on Android and iOS

Juggernaut Wars is a mixture of popular Action, RPG and MOBA genres based on Juggernaut IP with fascinating graphics, variety of heroes and battle arenas and highly customized heroes development system. The game is free-to-play with in-app purchases.

Evolution: Heroes of Utopia
available on Android, iOS and Apple Watch

Heroes of Utopia is a next generation clicker game based on Evolution IP. It is our first game on Apple Watch with deep socializing mechanics. The game is free-to-play with in-app purchases.

Might & Glory
available on Android and iOS

Might and Glory is a combat strategy game in a fantasy setting based on Jungle Heat gameplay. The game is free-to-play with in-app purchases.

Evolution: Battle for Utopia
available on Android and iOS

Evolution is a science fiction RPG that brings together high-end graphics, solo action combat, player vs player missions, engaging story and world-building. The game is free-to-play with in-app purchases.

Iron Desert
available on Android and iOS

Iron Desert is a tactical combat game with modern warfare, powerful artillery, your own military base and dynamic battles for resources. The game is free-to-play with in-app purchases.

Jungle Heat
available on Android, iOS and Facebook

Jungle Heat is a combat strategy game. Build and fortify your military base, hire and train your troops, battle with other players, destroy their bases and seize their resources. The game is free-to-play with in-app purchases.

BUSINESS REVIEW

Major online games launches in FY2015 - 1Q2016

Game	Ownership	Type	Launch date
Skyforge (Russia)	In-house	MMO (client-based)	Apr 2015
Skyforge (International)	In-house	MMO (client-based)	Jul 2015
Armored Warfare (Russia)	In-house	MMO (client-based)	Sep 2015
Armored Warfare (International)	In-house	MMO (client-based)	Oct 2015
Heroes of Utopia	In-house	Mobile	Dec 2015
Juggernaut Wars	In-house	Mobile	Feb 2016

Search, e-commerce & other

Search

Our search service, Go.Mail.Ru, is the third largest in the Russian internet market: in December 2015 it processed 5.8% (LiveInternet) of all web search queries. In addition to Russia our search has a large presence in other CIS countries. Search monetisation is provided by Yandex technology.

In 2015, we moved forward with relevance of search results as well as with web crawling speed and the quality of index's data. We introduced AJAX search that enabled us to make enrichment of organic search results with additional structured information more flexible and interactive. We completely reworked the apps vertical search and significantly updated the news vertical search. Furthermore, in 2015, we started to develop our recommendation system. We tested it on the Media projects of Mail.Ru and the results turned to be better than those of well-known third-party commercial solutions. In addition, we integrated our recommendation engine into our video search, main page of Go.Mail.Ru and Amigo browser on Android.

MAPS.ME

Throughout the year, we continuously improved on existing features and added dozens of new ones which had been requested over the years by our most loyal customers.

This series of significant improvements began in March when we added additional information to the point of interest (POI) pages in the app. After this feature was released, users were able to find contact details and opening hours of businesses directly from the POI page. This allows users get the most out of the places they view on our maps.

Huge efforts were made throughout the year to improve and polish up our navigation feature. In April, we added an option to create cross-country routes. This was a significant help for people using our app when traveling. Not long after that, we added another key feature to our navigation: walking routes, released in August. Since MAPS.ME takes into account country roads, steps, archways, bridges and tunnels, our suggested routes proved to be the shortest. And finally, in late autumn, we boosted the app with a voice service providing users with navigation instructions in 26 languages.

Significant changes were also made to the maps themselves. The first improvements appeared in autumn when we completely renewed the map style. The new style included new transportation icons for pedestrians and drivers and a new look for objects on the map. The less-is-more look made our maps much more user-friendly. At the beginning of 2016, we started displaying 3D objects on the map.

2015 was also a year of important strategic events. In October, we open-sourced the app allowing everyone to use our code for both personal and commercial purposes. In this way the team was able to show their support to all open-source communities and particularly to OpenStreetMap community.

E-commerce

We develop a number of online platforms for e-commerce and respective infrastructure. Revenues from these businesses are generated through a combination of online advertising and listing fees.

One of the most popular offline mobile maps services in the world (MAPS.ME) and the third largest search engine in Russia

We developed the credit card processing solution for digital goods with high approval rates, low transaction costs and strong antifraud protection. Card details are routed to the issuing bank – we have direct connection to leading banks that cover 72% of cards issued in Russia. The solution enables its users to benefit from one-click payments after a card is linked to the account. The payments are completed through a fully customized payment window and feature cascade billing based on increasing security. Our card processing solution supports recurring payments and instant payments as well as payments through social network authorization.

Other activities

IT Infrastructure

Our network infrastructure is designed to meet the requirements of our operations and to support the growth of our business. This infrastructure includes services supplied internally as well as by third parties.

We locate our computer servers and networking equipment in our own data centers as well as in rented ones. We also have a number of relationships with third-party IT providers, which provide us with a range of telecommunication services, including internet access and internet (traffic) transit.

In 2015, our peak network traffic increased to 3.35 terabits per second and the total amount of outgoing data reached 5,800 petabytes. In Moscow and St. Petersburg we have 63,000 servers with a total storage capacity of 173 petabytes located in ten data centers. It ensures load balancing and protection against the loss of data caused by network or power failures. In 2015, we continued to use two international data center facilities – in Amsterdam, the Netherlands, and San Jose, California, USA. They are aimed at serving our European and North American users and currently host about 1,100 of our servers.

In 2015, we finalised the integration of OK into the main network of Mail.Ru Group, thus achieving cost reductions. With respect to VK network, we introduced a set of measures enhancing its reliability and significantly increased the number of operators attached to the network. We also acquired ICVA data center that hosts a large part of VK infrastructure.

Our ability to provide products and services depends on the continuous operation of our network and IT infrastructure. It also relies on the provision of network facilities by third-party IT providers and on the performance and reliability of the internet, power and telecommunications infrastructure in Moscow, St. Petersburg and the rest of Russia.

We believe that our current access to network facilities and broadband capacity is sufficient to support our current operations and can meet the planned growth of our business for at least the next 12 months. Our network infrastructure is administered by a staff of full-time engineers. They handle the day-to-day system as well as hardware operations and maintenance.

We are continuously improving our automation, dispatch and monitoring systems in our data centers and other infrastructure divisions. We are committed to increasing the level of autonomy of the systems while reducing the human role in decision making.

We pay close attention to the confidentiality, integrity and availability of user data. Our Information Security department monitors the entire infrastructure and prevents, detects and responds to security threats.

To achieve the most efficient use of technical and material resources, our team of engineers monitors the changes in load profiles and optimizes the infrastructure while ensuring high level of availability of our products and services.

We place high priority on providing our users with consistently high-quality service and support through our technical support staff. It is their job to handle general product and service enquiries and technical support issues.

Employees

At the end of 2015, the Company had a total of 3,122 full-time employees (excluding HeadHunter). We also work with sub-contractors from time to time. We value our employees and believe that our culture encourages individuality, creativity and systematic approach to providing excellent service to our users.

A significant proportion of our employees possess a strong product and technical background, allowing them to contribute to our product development effort. These activities help the Company to develop new products and enhance existing ones. During 2015, our research and development activities have been primarily focused on communication products and online games.

In 2015, we continued to invest in attracting, retaining and developing our people. We have extended cooperation with LinkedIn and HireVue, global leaders in recruitment and video-interview services. Our e-learning platform and multi-tier training program are getting momentum primarily due to employee interest and employee generated content. Our annual IT contests, including those in coding (Russian Code Cup), artificial intelligence (Russian AI Cup) and product prototyping (Russian DevCup), have become prominent events in Russian-speaking internet community attracting growing range of participants: from students and novice programmers to leading experts in various information technology fields and partners. In addition to our existing student development centers at Bauman Moscow State Technical University (Technopark) and Lomonosov Moscow State University (Technosphera), we launched our 3rd two-year program at Moscow Institute of Physics and Technology (Technotrack). Dozens of graduates of these three elite programs land their dream jobs with various businesses of Mail.Ru Group. To attract talented young programmers for our VK team, we opened VK University that is aimed at teaching students the key programming skills and special programming technologies for mobile platforms.

In the middle of 2015 we also launched IT.Mail.Ru service uniting all company efforts focused on the professional development of developers. Over 90,000 registered users have access to our on-line classes, IT news, professional meet-ups, contests, testing, and other services.

Sales and marketing

We sell advertising inventory through a contract-based process managed by our own sales force as well as through self-service advertising platform.

Our sales force is focused on attracting and retaining advertisers and providing support to them on all stages of the ad campaign.

As self-service platforms developed in 2015 we closed all our regional offices except for Nizhniy Novgorod, where our moderators continue working, and now all our salespeople work from the Moscow HQ. We focus on attracting international clients and generating international revenue. We pay especially close attention to the Chinese market as we see great potential in it.

Our largest advertising clients are generally major FMCG companies, automotive manufacturers, mobile telecommunications operators, e-commerce businesses and mobile app developers.

Our self-service ad platform allows advertisers to launch and manage their advertising campaigns online. Ad price is determined programmatically through an auction process, which takes into account the bid on impression and estimated click-through rate. The higher the value of either metric, the more likely the given impression will be served.

In March 2015, we launched advertising platform myTarget. myTarget currently offers desktop and mobile advertising inventory on the largest Russian language social networks, as well as advertising inventory of third-party mobile apps and websites that joined myTarget ad network. Being the largest source of mobile traffic, myTarget enables advertisers to reach almost any mobile user of the Russian speaking internet. Among the key features of the platform are native newsfeed ads in social networks, more than 250 types of targeting, detailed statistics, technology that filters bots and click fraud, automated optimisation of ad campaigns and support for popular mobile analytics services.

Throughout last year, we continued to develop and improve myTarget – first, we went live with an English language interface and supported billing and auction in foreign currencies (USD and EUR). Second, myTarget introduced support for display ad formats such as 240x400 banners, HTML5 banners and promo posts. Third, we expanded significantly ad campaigns targeting options – we launched hyperlocal targeting, dynamic retargeting in all formats and diverse target customer segments based on big data.

Next, we allowed third-party developers to monetise their mobile apps and websites by joining myTarget affiliate program (ad network). The ad network offers main ad formats, including native advertising, and supports all major mobile platforms (Android, iOS, Windows Phone and mobile web). The ad network is rapidly developing and already consists of a few thousand apps. We strive to make myTarget the main entry point for international players willing to monetise their Russian audience.

At the end of the year, we have launched beta testing of a free analytics engine myTracker aimed at mobile apps developers. The users will benefit from detailed market segmentation as well as from more advanced metrics available through the platform.

Intellectual property

The Company relies on a combination of trademark, copyright and other IP-related laws and contractual restrictions to establish and protect its IP rights – including those related to its websites, software and online games. We have registered trademarks – or trademarks for which registration is pending – for all our principal brands. We also own a broad portfolio of registered domain names for our various websites.

Charity initiative

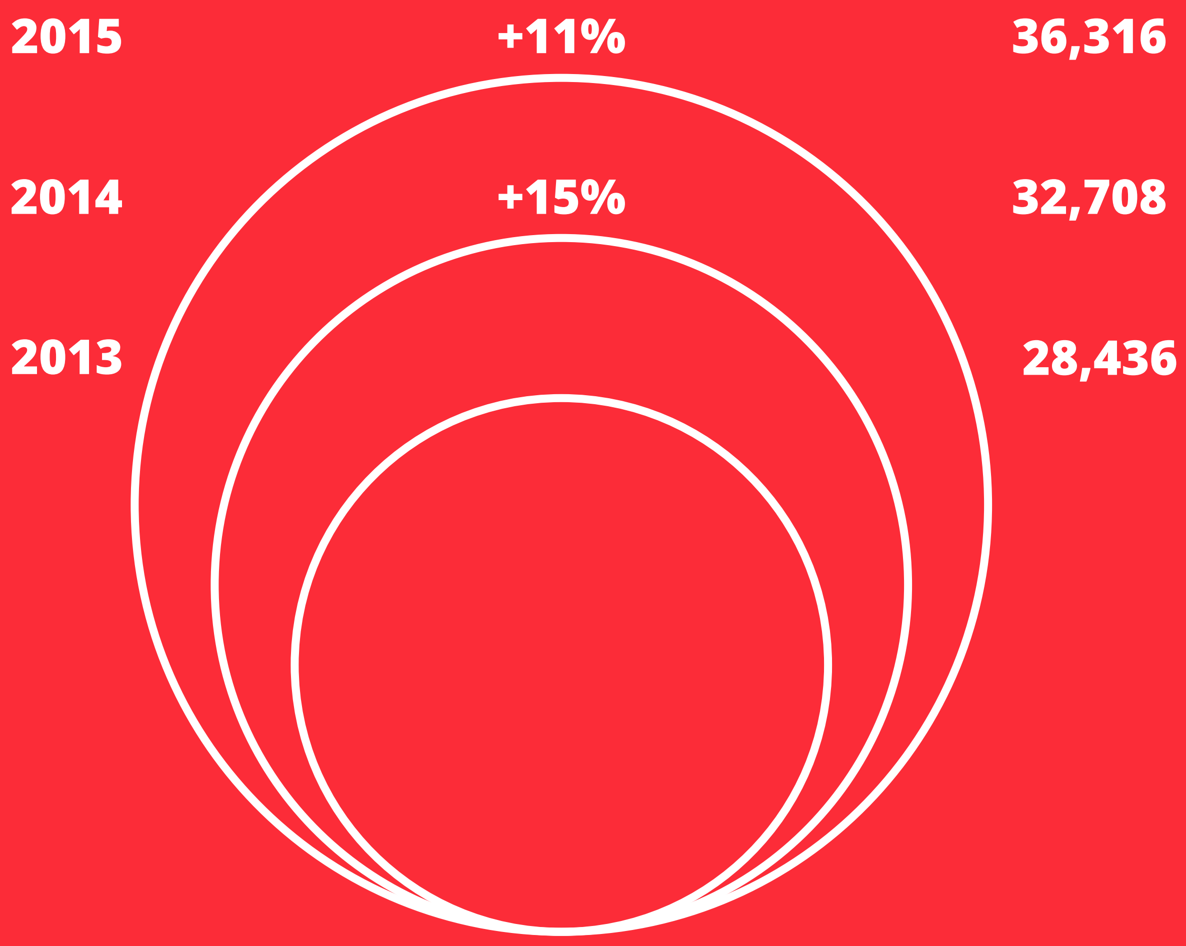
We have always been aware of our wider responsibilities and hence we remain very involved in charitable works. We believe that in the same way that technology has revolutionised the way people communicate it can also improve fundraising and charity.

Dobro Mail.Ru is a platform that helps people participate in charity projects accros Russia. For the first time virtually all charity initiatives are collected in one place. Currently Dobro connects more than 40 charity organizations conducting about 100 projects with thousands of donors and volunteers.

There are projects to help children, adults in difficult circumstances, elderly people. There are also projects dedicated to helping stray and abandoned animals or saving nature diversity. Anyone can join the foundations and provide material or actual help by making a donation or sending an application to join a volunteer project directly on the site.

Employees by function as at the end of 2015

02 FINANCIAL REVIEW



REVENUE & YOY GROWTH
RUR MLN

Financial review

This review reflects highlights of our financial performance for 2015. Full details can be found in the annual financial statements presented on pages 53 to 97 of this annual report.

Overview of consolidated results

Despite the continued challenging macroeconomic environment and foreign exchange headwinds throughout 2015, we have demonstrated solid progress in all key areas. Online advertising showed strong growth, driven by targeted advertising, especially mobile and VK. MMO games performed well, with a strong release schedule and continued focus on growing the user base. Community IVAS revenues were negatively affected by the FX volatility and increased mobile use, especially in H2 2015. However, effective cost management and the start in growth of international revenue have helped offset most of the negative margin impact from the rouble devaluation. We are continuing to focus on further growing our audience, improving our products and increasing user engagement.

Structure

In February 2016 we sold 100% of HeadHunter, and as a result, our segment reporting is now prepared on a pro forma ex-HeadHunter basis starting January 1, 2014 and includes the following reportable segments: Email, Portal and IM, (2) Social Networks (ex VK), (3) Online Games, (4) VK and (5) Search, E-Commerce and Other.

The Email, Portal and IM segment includes email, our instant messaging services and the Mail.Ru portal together with media projects; the Social Networks (ex VK) segment includes OK and My World social networks; the Online Games segment comprises our browser-based, client-based, mobile and social games. The VK segment includes the VK.com social network. The Search, E-Commerce and Other segment includes search services, e-commerce and certain other projects. The other projects are considered insignificant for the purposes of performance review and resource allocation. Please refer to "Operating segments performance – Basis of preparation" below for more details on operating segments presentation.

We also hold 1.31% in Qiwi PLC ("Qiwi") and a number of small venture capital investments in various internet companies in Russia, Ukraine and Israel.

Acquisitions and disposals

In May 2015, we acquired 100% in ICVA Ltd ("ICVA"), a company operating a data center, for a cash consideration of RUR 963 million (net of cash acquired). The primary purpose of the acquisition of ICVA was to enhance our technological independence from third party hosting service providers and to integrate data storage and transmission management. Prior to the acquisition, we had been receiving hosting services from ICVA based on market terms. See also Note 6.3 to our consolidated financial statements for further details.

Accounting impact of acquisitions and disposals, impairment of investments

The acquisitions and disposals of 2014 had a significant effect on our consolidated financial statements as summarised below:

	2015 RURm	2014 RURm
Net gain on disposal of shares in equity accounted associates and loss of significant influence	-	6,482
Net gain on acquisition of control over equity accounted associates	-	40,831

The gain on acquisition of control over equity accounted associates in 2014 resulted from the revaluation of the non-controlling equity investment in VK that we held prior to the acquisition of control. The gains on disposal of shares in equity accounted associates and loss of significant influence resulted from our disposal and subsequent loss of significant influence in Qiwi. In addition to the effects presented in the table above, there are several other effects on our 2014 and 2015 earnings resulting from acquisitions and disposals in prior periods. These effects make it difficult to evaluate trends in our underlying business, and accordingly, we evaluate and manage our business on the basis of management accounts that do not reflect certain adjustments required under IFRS. The management accounts data is discussed under "Operating segments performance" below (see also Note 5 to our consolidated financial statements for further details).

Goodwill

We account for business combinations by applying the acquisition method. As a result, we record goodwill as the fair value of the consideration transferred, including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. The significant goodwill recorded in connection with our acquisitions may lead to charges in future periods if the goodwill is impaired.

The total goodwill amounted to RUR 126,721 million as at December 31, 2015, and increased by RUR 341 million from

December 31, 2014 as a result of the ICVA acquisition.

The goodwill is allocated to groups of cash-generating units (CGUs) – "Email, Portal and IM", "Search", "Online Games", "Social Networks", "VK" and "E-Commerce and Other" – in accordance with the operating segment structure of our business and IFRS requirements. Please see Note 11 to our consolidated financial statements for further details.

Consolidated results of operations in accordance with IFRS

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

	2015 RURm	2014 RURm
Total revenue	**37,986**	**32,327**
Net loss on venture capital investments and associated derivative financial assets and liabilities	(387)	(5)
Total operating expenses (excluding depreciation, amortisation and impairment)	**(23,445)**	**(15,586)**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**14,154**	**16,736**
Profit before income tax expense	**4,723**	**64,716**
Income tax expense	(1,736)	(2,322)
Net profit	**2,987**	**62,394**
Attributable to:		
Equity holders of the parent	2,937	62,353
Non-controlling interest	50	41

Consolidated revenue

In 2015 our consolidated revenue increased by 17.5% to RUR 37,986 million (2014: RUR 32,327 million) due to a combination of organic growth and the effect of a full year of revenues from VK in 2015 compared to only three months in 2014, as we started consolidating VK from October 1, 2014. VK's revenue for January-September 2014 was RUR 2,987 million. Had VK been consolidated starting from January 1, 2014, the consolidated revenue would have grown 7.6% in 2015. The primary drivers of the organic revenue growth are described under "Operating segments performance" below.

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA decreased by 15.4% to RUR 14,154 million (2014: RUR 16,736 million) and EBITDA margin decreased to 37.3% in 2015 (2014: 51.8%) as a result of operating expenses (excluding depreciation, amortisation and impairment) growing at a faster pace than revenues.

Operating expenses grew by 50.4% to RUR 23,445 million, or 61.7% of revenue (2014: RUR 15,586 million, or 48.2% of revenue).

The growth in operating expenses was primarily driven by a RUR 3,106 million increase in share-based payment expense and the effect of the VK consolidation starting from Q4 2014, as well as organic growth.

In 2015, our Board of Directors approved a new long-term incentive plan around restricted stock units, and a total of 5,218,000 RSUs were granted in 2015 under the plan. Additionally, the expiration date of the existing unexercised share options for current employees was extended through the end of 2022 and was accounted for as a modification. As a result of the RSU grants and the options modification the Company recognised share-based payment expense in the amount of RUR 2,044 million and RUR 562 million respectively in 2015.

The consolidation of VK contributed RUR 2,836 million in operating expenses in 2015 (2014: RUR 762 million) and RUR 2,700 million in EBITDA (2014: RUR 583 million).

The key drivers and components of the organic growth in operating expenses are discussed in detail under "Operating segments performance" below.

Profit before income tax and net profit

Profit before income tax expense decreased to RUR 4,723 million (2014: RUR 64,716 million) primarily as a result of the one-time gains recognised in 2014 upon the acquisition of control in VK and the disposal of Qiwi (see above), as well as a decline in net foreign exchange gains, and the decrease in EBITDA as discussed above.

Net profit for the year decreased to RUR 2,987 million (2014: RUR 62,394 million) as a result of the decrease in profit before tax, offset by a 25.2% decrease in income tax expense.

The decrease in income tax expense is primarily due to the decrease in taxable profit before income tax, partially offset by deferred tax expense on unremitted earnings of subsidiaries in 2015 compared to a net reversal in 2014.

The change in income tax expense was not correlated with the decrease in profit before income tax also because most of M&A-related gains, as well as share-based payment transactions and our share in net profits of most associates, were not taxable or deductible for income tax purposes. The drivers of organic growth of profit before tax and income tax expense are further described in Section "Operating segments performance" below.

Operating segments performance

Basis of preparation

In reviewing our operational performance and allocating resources, our Chief Operating Decision Maker (CODM) reviews selected items of each segment's income statement, assuming 100% ownership in all of our key operating subsidiaries, based on management reporting.

Management reporting is different from IFRS, because it does not include certain IFRS adjustments that are not analysed by the CODM in assessing the core operating performance of the business.

Such adjustments affect such major areas as revenue recognition, deferred tax on unremitted earnings of subsidiaries, share-based payment transactions, disposal of and impairment of investments, business combinations, fair value adjustments, amortisation and impairment thereof, net foreign exchange gains and losses, share in financial results of associates, as well as irregular non-recurring items that occur from time to time and are evaluated for adjustment as and when they occur. The tax effect of these adjustments is also excluded from management reporting. See Note 5 to our consolidated financial statements for more information.

The financial information of the key subsidiaries acquired during the reporting period or after the reporting period but prior to the date hereof is included in the segment disclosure starting from the later of:

- the beginning of the earliest comparative period included in the financial statements; and
- the date we acquired our first interest in the respective key subsidiary.

The financial information of subsidiaries disposed of prior to the date hereof is excluded from the segment presentation starting from the beginning of the earliest period presented.

Accordingly, the financial information of VK is consolidated and the results of HeadHunter are de-consolidated in segment reporting on a pro forma basis starting from January 1, 2014.

We identify our operating segments based on the types of products and services we offer. We have identified the following reportable segments on this basis:

- Email, Portal and IM;
- VK (Vkontakte);
- Social Networks (ex VK);
- Online Games; and
- Search, E-Commerce and Other Services

The Email, Portal and IM segment includes email, instant messaging and portal (main page and media projects). It earns almost all revenues from display and context advertising.

The VK segment includes the Company's social network Vkontakte and earns revenues from (i) commission from application developers based on the respective applications' revenue, (ii) user payments for virtual gifts and stickers, and (iii) online advertising, including display and context advertising.

The Social Networks (ex VK) segment includes our two other social networks (OK and My World) and earns revenues from (i) user payments for virtual gifts, (ii) revenue sharing with application developers, and (iii) online advertising, including display and context advertising.

The Online Games segment includes online gaming services, including MMO, social and mobile games. It earns almost all revenues from (i) sale of virtual in-game items to users and (ii) royalties for games licensed to third-party online game operators.

The Search, E-Commerce and Other Services segment primarily consists of search engine services earning almost all revenues from context advertising, e-commerce services and related online advertising. This segment also includes a variety of other services, which are considered insignificant by the CODM for the purposes of performance review and resource allocation.

We measure the performance of our operating segments through a measure of earnings before interest, tax, depreciation and amortisation (EBITDA). Segment EBITDA is calculated as the respective segment's revenue less operating expenses (excluding depreciation, amortisation and impairment of intangible assets), including our corporate expenses allocated to the respective segment. EBITDA is not a measure of financial performance under IFRS. The calculation of EBITDA by us may be different from the calculations of similarly labeled measures used by other companies and it should therefore not be used to compare one company against another or as a substitute for analysis of our operating results as reported under IFRS.

EBITDA is not a direct measure of our liquidity, nor is it an alternative to cash flows from operating activities as a measure of liquidity, and it needs to be considered in the context of our financial commitments. EBITDA may not be indicative of our historical operating results, nor is it meant to be predictive of our potential future results. We believe that EBITDA provides useful information to the users of the consolidated financial statements because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditure, acquisitions and other investments and our ability to incur and service debt.

Principal revenue drivers

Organic growth in our revenue, including online advertising and IVAS, is primarily driven by the audience of our properties. Advertising revenues also depend on the pricing of our advertisements and availability and sell-through rates of our advertising inventory, while IVAS revenue is also driven by paying user engagement and average revenue per paying user ("ARPPU").

Seasonality

The majority of our revenues are affected by seasonality and as a result, revenues and operating profits are generally higher in the second half of the year than in the first six months:

- Advertising revenues are generally higher in the second half of each year due the fact that significant amounts of advertising budgets are typically spent in the last quarters of the year.
- MMO games revenues are generally higher during the second half of the year due to the end of the vacation period because users tend to play our MMO games more when not on vacation.
- Community IVAS revenues are generally higher ahead of, during and immediately after holiday and festivity periods.

Analysis of 2015 results compared with 2014

The discussion that follows is based on the analysis of segment and supporting management financial information. As discussed under "Basis of Preparation" above, this information differs in certain significant respects from information presented in accordance with IFRS.

Group aggregate segment financial information*

	2015 RURm	% of revenue	2014 RURm	% of revenue	% YoY
Group aggregate segment revenue [(1)]					
Online advertising	14,630	40.3%	12,257	37.5%	19.4%
MMO games	8,945	24.6%	8,414	25.7%	6.3%
Community IVAS	12,508	34.4%	11,870	36.3%	5.4%
Other revenue**	233	0.6%	167	0.5%	39.5%
Total Group aggregate segment revenue	**36,316**	**100.0%**	**32,708**	**100.0%**	**11.0%**
Group aggregate operating expenses					
Personnel expenses	6,798	18.7%	5,652	17.3%	20.3%
Office rent and maintenance	1,909	5.3%	1,556	4.8%	22.7%
Agent/partner fees	4,804	13.2%	4,416	13.5%	8.8%
Marketing expenses	1,055	2.9%	980	3.0%	7.7%
Server hosting expenses	2,129	5.9%	2,047	6.3%	4.0%
Professional services	397	1.1%	308	0.9%	28.9%
Other operating (income)/expenses, excluding depreciation, amortisation and impairment	1,101	3.0%	897	2.7%	22.7%
Total Group aggregate operating expenses	**18,193**	**50.1%**	**15,858**	**48.5%**	**14.7%**
Group aggregate segment EBITDA [(2)]	**18,123**	**49.9%**	**16,850**	**51.5%**	**7.6%**
Depreciation, amortisation and impairment*** [(3)]	3,715	10.2%	2,107	6.4%	76.3%
Other non-operating income (expense), net ****	-1,740	-4.8%	-185	-0.6%	840.5%
Profit before tax [(4)]	**12,668**	**34.9%**	**14,558**	**44.5%**	**-13.0%**
Income tax expense [(5)]	2,753	7.6%	3,079	9.4%	-10.6%
Group aggregate net profit [(6)]	**9,915**	**27.3%**	**11,479**	**35.1%**	**-13.6%**

*The numbers in this table and further in the document may not exactly foot or cross-foot due to rounding.

**Including Other IVAS revenues.

*** Including impairment of intangible assets of RUR 0 and 1,397 million in 2014 and 2015 respectively.

**** Including interest expenses of RUR 767 and 2,326 million in 2014 and 2015 respectively.

1 Group aggregate segment revenue is calculated by aggregating the segment revenue of our operating segments and eliminating intra-segment and inter-segment revenues. This measure differs in significant respects from IFRS consolidated net revenue.

2 Group aggregate segment EBITDA is calculated by subtracting Group aggregate segment operating expenses from Group aggregate segment revenue. Group aggregate segment operating expenses are calculated by aggregating the segment operating expenses (excluding the depreciation, amortisation and impairment) of our operating segments including allocated Group corporate expenses, and eliminating intra-segment and inter-segment expenses.

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

4 Profit before tax is calculated by deducting from Group aggregate segment EBITDA Group aggregate depreciation, amortisation and impairment and adding/deducting Group aggregate other non-operating incomes/expenses primarily consisting of interest income on cash deposits, interest expenses, dividends from financial and available-for-sale investments and other non-operating items.

5 Group aggregate income tax expense is calculated by aggregating the income tax expense of the subsidiaries consolidated as of the date hereof. Group aggregate income tax expense is different from income tax as would be recorded under IFRS, as (i) it excludes deferred tax on unremitted earnings of our subsidiaries and (ii) it is adjusted for the tax effect of differences in profit before tax between Group aggregate segment financial information and IFRS.

6 Group aggregate net profit is the (i) Group aggregate segment EBITDA; less (ii) Group aggregate depreciation, amortisation and impairment expense; less (iii) Group aggregate other non-operating expense; plus (iv) Group aggregate other non-operating income; less (v) Group aggregate income tax expense. Group aggregate segment net profit differs in significant respects from IFRS consolidated net profit.

Operating segments performance – 2015

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	Search, E-commerce and other	Elimina-tions	Group
Revenue							
External revenue	4,544	14,085	9,061	6,214	2,412	-	36,316
Intersegment revenue	4	16	-	18	346	(384)	-
Total revenue	**4,548**	**14,101**	**9,061**	**6,232**	**2,758**	**(384)**	**36,316**
Total operating expenses	2,805	3,863	6,615	3,157	2,137	(384)	18,193
EBITDA	**1,743**	**10,238**	**2,446**	**3,075**	**621**	**-**	**18,123**
Net profit							**9 915**

Operating segments performance – 2014

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	Search, E-commerce and other	Elimina-tions	Group
Revenue							
External revenue	4,569	12,639	8,609	4,320	2,571	-	32,708
Intersegment revenue	3	31	-	1	328	(363)	-
Total revenue	**4,572**	**12,670**	**8,609**	**4,321**	**2,899**	**(363)**	**32,708**
Total operating expenses	2,322	3,453	5,895	2,633	1,918	(363)	15,858
EBITDA	**2,250**	**9,217**	**2,714**	**1,688**	**981**	**-**	**16,850**
Net profit							**11,479**

Online advertising

Online advertising includes two major kinds of advertising technology: Display and Context. Display advertising revenue is generated from promo posts in social networks, video, banner and similar advertisements on our properties. Advertisements are sold either on the time that they last, or on the number of ad views. Our standard rates depend on a number of factors, including the property on which the advertisement appears, amount and the length of the contract, the season, and the advertisement's format, size and position.

Context advertising revenue is earned with our proprietary myTarget technology, as well as through partnerships with third parties.

myTarget (formerly known as Target@Mail.Ru), our proprietary self-service context advertising technology, sells the advertisements through an online auction. We generate revenue when users click on advertisements and are directed to advertisers' websites or mobile applications. From 2013, the myTarget mobile advertising platform launched on OK and My World properties and from 2015 on VK. Consistent with our focus on the product, we have also been increasing myTarget's advertising inventory throughout 2015.

We also generate context advertising revenues through our search service. When a user carries out a search on our search page, results – together with advertisement links – are displayed based on certain parameters, including relevance to the topic. Starting from 2013 we have been using third parties monetisation for our search results.

Additionally, we sell text links to third-party advertising networks which are displayed based on certain parameters. When users click on advertisements they are directed to the advertisers' websites; we receive a portion of the subsequent fee earned by the third party.

We generated revenue of RUR 14,630 million from online advertising in 2015 (2014: RUR 12,257 million). Our advertising revenue grew 19.4%, ahead of the Russian online advertising market, mainly driven by myTarget advertising revenue, particularly on mobile.

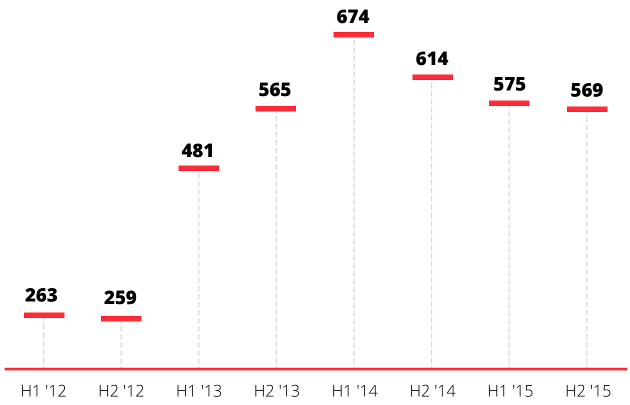
IVAS

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

MMO games

About a quarter of our revenue is generated by MMO games, including client, browser and mobile titles. Players have the opportunity to buy in-game enhancements for these free-to-play games; revenue is recognised net of any commissions of SMS operators, but gross of other revenue collection costs, including commissions paid to mobile app stores. In 2015, we generated revenues from MMO games of RUR 8,945 million (2014: RUR 8,414 million). The 6.3% increase in MMO revenues is primarily due to the launch of new games Armored Warfare and Skyforge, partially offset by declining revenue from several older titles as they reached the maturity stage of their lifecycle. In 2015 the average number of monthly MMO paying users decreased as a result of the maturing older games, while the new titles only went into full worldwide release in H2 2015. Additionally, in our new

MMO games, thousands of average monthly paying users



Source: Company data

Note: The numbers combine paying users of individual MMO games and may include overlap

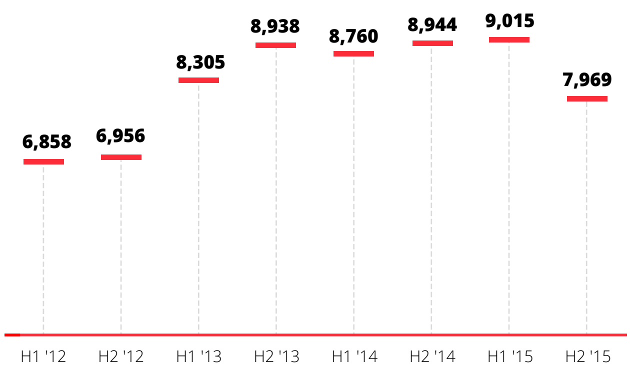
games, and particularly in Armored Warfare, our primary focus has been on building the user base rather than monetisation. MMO paying users data is presented in the chart above.

Community IVAS

Community IVAS revenue is driven by payments for features and virtual items sold primarily on our social networks. Such features and items include virtual gifts, stickers, revenue sharing with developers through our Application Programming Interface ("API"), revenue from our own social games and revenue from dating services. A significant portion of these payments are paid for via SMS, and revenue is recognised net of commission paid to SMS operators.

Aggregate segment Community IVAS revenue increased by 5.4% to reach RUR 12,508 million (2014: RUR 11,870 million) and was negatively affected by continuing FX volatility and

Community IVAS, thousands of average monthly paying users



Source: Company data

Note: The numbers combine paying users of VK, OK, My World, Love.Mail.Ru and our own social games on third-party networks and may include overlap

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increased mobile use. The growth was achieved primarily through increased ARPPU compared to 2014, while paying users were broadly flat.

Community IVAS monthly average paying users data is presented in the chart above.

Costs and margins

Our principal cost items include personnel expenses, office rent and maintenance expenses, agent/partner fees, marketing expenses, server hosting expenses, professional services and other operating expenses, excluding depreciation, amortisation and impairment.

Personnel expenses increased by 20.3% to RUR 6,798 million (2014: RUR 5,652 million), mainly driven by an unfavourable FX effect on personnel expenses in our offices outside of Russia and the direct personnel costs related to the development of Skyforge and Armored Warfare that were capitalised as part of the respective intangible assets prior to the commercial launch of those games and expensed thereafter. Excluding the above effects, personnel expenses increased broadly in line with revenues, mainly due to growth in average salaries.

While most of our office rent and maintenance expenses are denominated in USD, those expenses increased by only 22.7% to RUR 1,909 million (2014: RUR 1,556 million), as we managed to fix the RUR/USD rate on our Moscow office contract at a level significantly below the actual exchange rate.

Agent/partner fees increased by 8.8% to RUR 4,804 million (2014: RUR 4,416 million). The increase in agent/partner fees was primarily driven by growth in advertising commissions paid to group administrators in VK and outsourced MMO games development and support services, partially offset by decrease in revenue collection costs.

Advertising commissions represent arrangements where we share revenue from promotional posts on groups' pages in VK with the respective groups' administrators. The increase in commission is mainly due to the significant growth in related revenue in 2015.

Games development and support outsourcing represents the use of resources and expertise from external studios for support and further development of certain games after commercial launch. Outsourced development services are generally capitalised as part of the respective intangible assets prior to the games' commercial launch and expensed thereafter. The increase in those expenses was primarily due to the launch of Skyforge and Armored Warfare in 2015.

Revenue collection costs represent fees to payment systems for processing payments for our IVASs. These costs also include the share of our mobile products' revenue that we pay to mobile app stores (mainly Google Play and Apple's App Store). The decrease in revenue collection costs was mainly due to decreased revenue from our mobile games, as some older titles matured while new mobile games were only released late in 2015.

Marketing expenses grew 7.7% to RUR 1,055 million (2014: RUR 980 million), mostly due to continued focus on the world-wide promotion of our key mobile products.

Server hosting expenses increased by only 4.0% to RUR 2,129 million (2014: RUR 2,047 million), which is significantly lower than total revenue growth, mainly as a result of synergies realised in VK and the acquisition of ICVA.

Professional fees increased by 28.9% to RUR 397 million (2014: RUR 308 million). The increase was mainly driven by increased consulting support related to the structuring and supporting of our international operations.

Other operating expenses, excluding depreciation, amortisation and impairment, increased by 22.7% to RUR 1,101 million (2014: RUR 897 million), primarily as a result of increased non-recoverable VAT expense.

Our aggregate segment EBITDA margin slightly decreased to 49.9% (2014: 51.5%) primarily as a result of increased personnel expenses, office rent and maintenance, professional fees and other operating expenses, partially offset by operating leverage derived from agent/partner fees, marketing expenses and server hosting expenses.

Depreciation, amortisation and impairment, other non-operating income, income tax and net income

Depreciation, amortisation and impairment increased by 76.3% to RUR 3,715 million (2014: RUR 2,107 million), primarily as a result of World of Speed impairment recongnised in 2015 in the amount RUR 1,338 million (see also Note 7 to our consolidated financial statements).

Other non-operating expenses amounted to RUR 1,740 million (2014: RUR 185 million), with the increase primarily driven by interest expense in the amount of RUR 2,326 million (2014: RUR 767 million) related to the debt we partially funded the VK acquisition with.

Income tax expense decreased by 10.6% to RUR 2,753 million (2014: RUR 3,079 million) primarily driven by a decrease in profit before income tax by 13.0% to RUR 12,668 million (2014: RUR 14,558 million).

Group aggregate net profit decreased by 13.6% to RUR 9,915 million (2014: RUR 11,479 million) driven by the decrease in profit before tax and partially offset by the decrease in income tax expense.

Reconciliation to IFRS

	2015 RURm	2014 RURm
Group aggregate segment revenue, as presented to the CODM	**36,316**	**32,708**
Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:		
Effect of difference in dates of acquisition and loss of control in subsidiaries	3,025	137
Difference in timing of revenue recognition	(1,515)	(735)
Barter revenue	77	49
Dividend revenue from venture capital investments	83	168
Consolidated revenue under IFRS	**37,986**	**32,327**

	2015 RURm	2014 RURm
Group aggregate segment EBITDA, as presented to the CODM	**18,123**	**16,850**
Adjustments to reconcile EBITDA as presented to the CODM to consolidated profit before income tax expense under IFRS:	-	-
Effect of difference in dates of acquisition and of control in subsidiaries	1,446	432
Difference in timing of revenue recognition	(1,515)	(735)
Net loss on venture capital investments	(387)	(5)
Share-based payment transactions	(2,989)	117
Dividend revenue from venture capital investments	83	168
Non-recurring VAT charge	(250)	-
Expenses related to business combination and other	(357)	(91)
EBITDA	**14,154**	**16,736**
Depreciation and amortisation	(7,165)	(3,856)
Impairment of intangible assets	(1,397)	(408)
Share of profit of equity accounted associates	-	220
Finance income	613	408
Finance expenses	(2,326)	(767)
Other non-operating (expense) / income	(11)	9
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of subsidiaries and other agreements	23	400
Net gain on disposal of shares in equity accounted associates and loss of significant influence	-	6,482
Net gain on acquisition of control over equity accounted associates	-	40,831
Net foreign exchange gains	832	4,661
Consolidated profit before income tax expense under IFRS	**4,723**	**64,716**

	2015 RURm	2014 RURm
Group aggregate segment net profit, as presented to the CODM	**9,915**	**11,479**
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:	-	-
Share-based payment transactions	(2,989)	117
Difference in timing of revenue recognition	(1,515)	(735)
Effect of difference in dates of acquisition and loss of control in subsidiaries	1,166	694
Amortisation of fair value adjustments to intangible assets and impairment thereof	(4,804)	(2,707)
Net (loss) / gain on financial instruments at fair value through profit or loss	(365)	395
Net gain on disposal of shares in equity accounted associates and loss of significant influence	-	6,482
Net gain on acquisition of control over equity accounted associates	-	40,831
Net foreign exchange gains	832	4,661
Share in financial results of equity accounted associates	-	220
Non-recurring VAT charge	(250)	-
Expenses related to business combination and other	(341)	(90)
Tax effect of the adjustments and tax on unremitted earnings	1,338	1,047
Consolidated net profit under IFRS	**2,987**	**62,394**

Analysis of H2 2015 aggregate segment results in comparison with H2 2014

	H1 2014	H2 2014	H1 2015	H2 2015	H2 YoY,%
Group aggregate segment revenue					
Online advertising	5,723	6,534	6,297	8,333	27.5%
MMO games	4,074	4,340	4,131	4,814	10.9%
Community IVAS	5,734	6,136	6,366	6,142	0.1%
Other revenue[1]	86	81	88	145	78.8%
Total Group aggregate segment revenue	**15,617**	**17,091**	**16,881**	**19,435**	**13.7%**
Group aggregate segment EBITDA	**8,014**	**8,836**	**8,422**	**9,701**	**9.8%**
Segment EBITDA margin	51.3%	51.7%	49.9%	49.9%	
Group aggregate net profit	**5,777**	**5,702**	**5,035**	**4,880**	**-14.4%**

1 Other revenue includes Other IVAS

BUSINESS REVIEW

Most of the revenue growth in H2 2015 was concentrated in online advertising (27.5% vs H2 2014) and MMO games (10.9% vs H2 2014). The growth in online advertising was primarily driven by myTarget, particularly on mobile. The growth in MMO games was primarily due to launch of Armored Warfare and Skyforge.

Aggregate segment EBITDA increased by 9.8% in H2 2015 vs H2 2014 due to growth in revenues partially offset by an increase in operating expenses (particularly Personnel and Office rent and maintenance) as a percentage of revenue. The growth in Personnel expenses was primarily due to the foreign exchange effect on personnel expenses in offices outside of Russia and direct personnel costs related to the development of Skyforge and Armored Warfare being expensed in H2 2015 and capitalised in H2 2014. Office rent and maintenance was negatively affected by the rouble devaluation, but the effect was mitigated by contract RUR/USD rate on our Moscow office being fixed significantly below the actual exchange rate. As a result, EBITDA margin decreased to 49.8% in H2 2015 vs 51.6% in H2 2014.

Aggregate net profit decreased by 14.4% to RUR 4,880 million (H2 2014: RUR 5,702 million) primarily as a consequence of World of Speed impairment recognised in H2 and growth in interest expense, partially offset by the growth in EBITDA and a reduction in income tax expense broadly in line with the decrease in profit before income tax.

Financial position

Liquidity and capital resources

Throughout the year our financial position improved significantly: net debt[1] decreased from RUR 16,987 million as at December 31, 2014 to RUR 6,514 million at the end of 2015. Excluding HeadHunter, our net debt position was RUR 6,888 million at the end of 2015.

We have historically principally relied on our own cash flow as a source of financing our operations and capital expenditures. Consolidated operations have been cash flow positive since 2009. In 2015, net cash provided by operating activities before interest and income tax increased by 9.0% to RUR 19,512 million (2014: RUR 17,905 million), largely in line with the EBITDA growth excluding share-based payment expense and deferred revenue from sale of virtual in-game items, which represent the most significant non-cash IFRS adjustments to EBITDA.

The ratio of net cash provided by operating activities to consolidated revenues decreased slightly to 36.7% in 2015 (2014: 39.2%), mainly as a result of a full year of interest expense on the loan we partially financed the VK acquisition with, compared to only three months of interest expense in 2014.

Our capital expenditures are predominantly denominated in USD. Accordingly, the continued RUR devaluation in 2015 had a significant negative effect on our capital expenditures. However, we were able to partially offset this effect by continued focus on cost control and better utilisation of our hardware. Capital expenditure to acquire property and equipment and intangible assets increased by 0.8% to RUR 2,671 million driven by a 40.9% increase in fixed asset expenditure, mostly consisting of investment in servers and infrastructure of our social networks. The growth in fixed asset expenditures was partially offset by a 22.6% decline in intangible asset related expenditures, as the development costs related Skyforge and Armored Warfare were only capitalised for a portion of 2015 prior to the commercial launch of the respective titles, compared to a full year of capitalised development costs in 2014.

Net cash used in investing activities in 2015 also included a net RUR 963 million paid for ICVA (2014: net RUR 67,015 million for VK).

Issue of equity, GDR buying programmes and new RSU plan

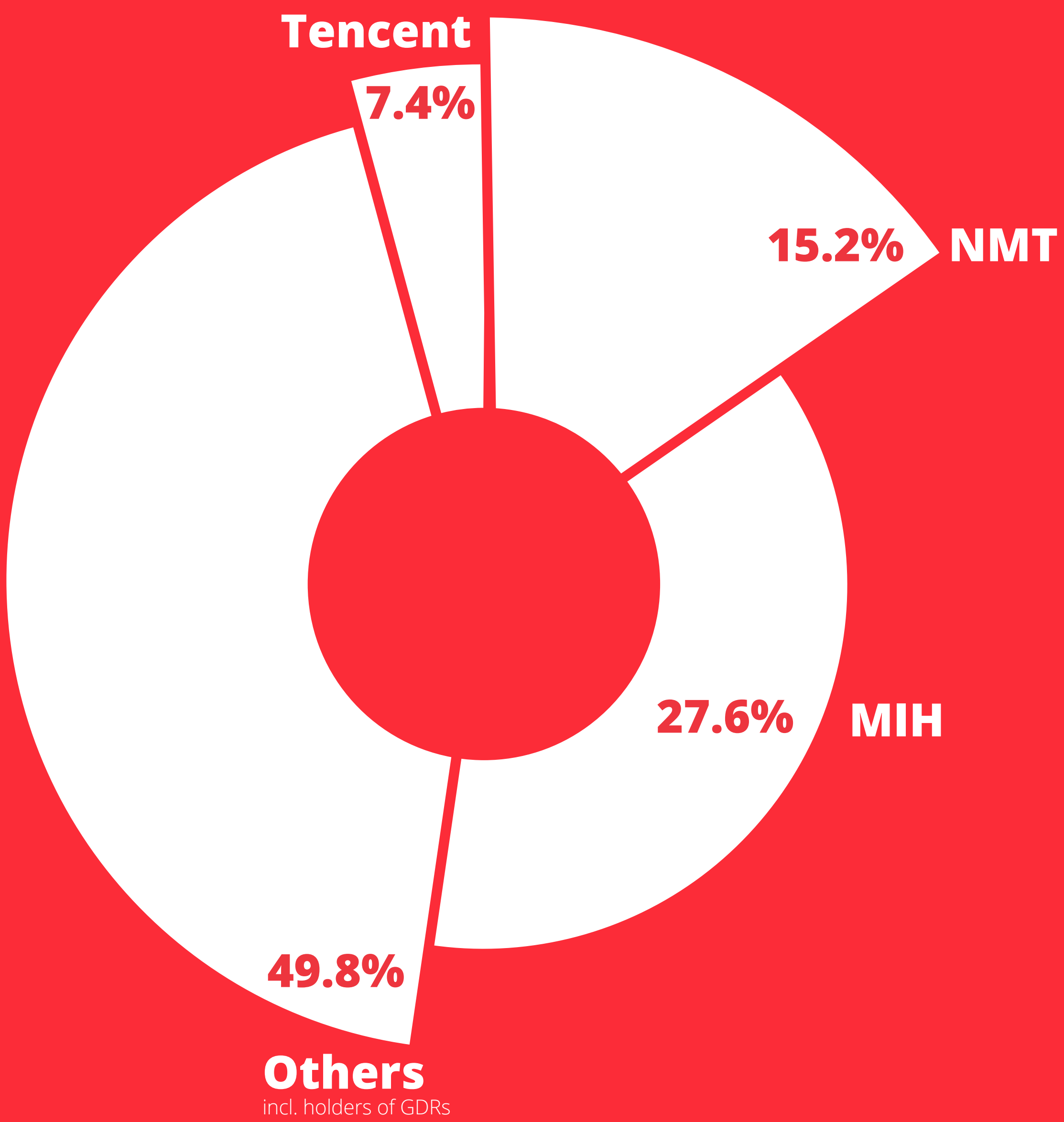
The majority of our acquisitions have, in the past, been financed through the issue of equity. MGL did not issue any equity in 2015 or 2014. However, in 2014 we received a RUR 22,037 million bank loan (net of a loan origination fee of 189 million) to finance the acquisition of VK.

In 2014 we acquired a total of 1,012,885 GDRs on the market for an aggregate consideration of RUR 1,337 million under the GDR buying programme approved in 2013. In 2015 the Board of Directors approved a new long-term equity compensation plan (the "2015 RSU plan") based around restricted stock units equivalent to up to 5% of total shares outstanding. Pursuant to the 2015 RSU plan, in June 2015 MGL issued 10,997,971 shares that were transferred to be held as treasury shares.

1 Excluding interest payable of RUR 147 million as of December 31, 2014 and RUR 101 million as of December 31, 2015

03

MANAGEMENT



SHAREHOLDERS' ECONOMIC INTEREST

Management

Board of Directors

Dmitry Grishin, age 37
Co-Founder, Chief Executive Officer (Russia) and Chairman of the Board

Dmitry Grishin co-founded Mail.Ru Group in 2005. He was appointed Chief Executive Officer (Russia) in November 2010 and Chairman of the Board in March 2012. Dmitry joined Mail.Ru in 2000 and was promoted to Technical Director in 2001. From 2003 to 2010, he led the business as CEO. Dmitry graduated from the Faculty of Robotics and Complex Automation at Moscow State Technical University and in 2012 founded Grishin Robotics, a global investment company that is dedicated to supporting personal robotics around the world.

Boris Dobrodeev, age 32
Director, Director for Strategy and Development at Mail.Ru Group, CEO of VKontakte

Boris Dobrodeev took the position of Mail.Ru Group's Director for Strategy and Development in November 2014, while retaining his position as the CEO of VKontakte. In 2013 Boris was appointed Deputy CEO of VKontakte, stepping up to CEO in September 2014. Boris graduated from Moscow State University, Russia, in 2007, with a degree in History, and holds the Master in International Business Degree obtained from Moscow State University Business School in 2009. Boris worked as Analyst in Metalloinvest from 2006 to 2009, and occupied the position of a Business Development Director at an online video company Zoomby.ru in 2009-2011. From 2011 to 2012 Boris worked as an Investment Analyst in DST Advisors and from 2012 to 2014 as the Head of the Internet Asset Management Department at USM Advisors.

Matthew Hammond, age 41
Managing Director, Chief Financial Officer

Matthew Hammond was appointed to the Board in May 2010 and became Managing Director in April 2011. In June 2013 Matthew also became Chief Financial Officer. Matthew graduated from Bristol University, UK, in 1996, with a degree in Economics and History. From 1997 to 2008, he was a technology analyst at Credit Suisse and was ranked number 1 in the Extell and Institutional Investor Survey eight times. Between 2008-2010 Matthew was Group Strategist at Metalloinvest Holdings dealing with non core investments. Matthew is a non-executive director of Strike Resources and Puricore.

Vladimir Streshinsky, age 46
Director

Vladimir Streshinsky was appointed to the Board in August 2008. He presently holds the positions as follows: Director of USM Holdings Limited, General Director of USM Advisors LLC, CEO and Director of Garsdale Services Investment Limited, Chairman of the Board of Directors of LLC Management Company Metalloinvest, Member of the Boards of Directors of OJSC MegaFon, UTH Russia Limited, JSC "Kommersant". He graduated with honors in applied mathematics from Moscow Physics and Technology Institute in 1992.

Vasily Brovko, age 29
Director

Vasily Brovko was appointed to the Board in March 2014. Vasily graduated from the Faculty of Psychology at Lomonosov Moscow State University with a degree in Public Relations in Politics. He is a founder of the center for strategic communication Apostol which is engaged in production of TV content, integrated communications (PR, social media, analytics) and software development. Since 2013 Vasily has been Head of PR department of "Russian Technologies" State Corporation.

Charles St. Leger Searle, age 52
Director

Charles Searle is currently Chief Executive Officer of Naspers Internet Listed Assets. He serves on the boards of a number of companies associated with the Naspers Group, including Tencent Holdings Ltd. Prior to joining the Naspers Group, he held positions at Cable & Wireless plc and at Deloitte & Touche in London and Sydney. Mr. Searle is a graduate of the University of Cape Town and a member of the Institute of Chartered Accountants in Australia. Mr. Searle has more than 20 years of international experience in the telecommunications and internet industries.

Vasileios Sgourdos, age 46
Director

Vasileios Sgourdos was appointed to the Board in October 2010. A chartered accountant, he became Group Chief Financial Officer for MIH which owns South African listed Naspers' Internet and Pay TV businesses in January 2009. On April 1, 2014 he was appointed as Naspers' Group Chief Financial Officer. He was formerly director of Abril SA, Latin America's leading magazine publisher and serves on the Board of a number of other companies in the Naspers Group. From 2007 he was General Manager for Business Development Pay Television and from 1997 to 2007, was CFO at Thai listed pay TV operator UBC. He graduated with a Bachelor of Commerce degree from the University of Witwatersrand, South Africa, and is an Honours Bachelor in Accounting Science from the University of South Africa. He is a registered member of the South African Institute of Chartered Accountants.

Mark Remon Sorour, age 54
Director

Mark Sorour was appointed to the Board in August 2010. A chartered accountant, he joined the Naspers Group in 1994 and has been Chief Investment Officer since 2002 and currently serves on the Naspers Board. This role gives Mark worldwide responsibility for the Naspers Group's M&A, corporate finance and capital-market fundraising activities. Mark's 18 years' experience in internet, technology and pay TV businesses includes business development and dealmaking in Africa, the Middle East, Thailand, India, China, Europe, the USA, Latin America and South-East Asia.

Jan Buné, age 63
Independent Director

Jan Buné was appointed as Independent Director to the Board in October 2013. He has extensive experience in public accounting and business advisory in the technology, media & telecommunications sector as well as the financial services sector. Until May 2013 he was a senior Audit Partner at Deloitte Netherlands. He currently serves as Commissioner at the Dutch Media Regulatory Authority. Furthermore he is a member of the Supervisory Board of Citco Bank Netherlands and Burgland Real Estate Group. On an ad hoc basis he acts as an Arbitrator or Civil Court Expert Witness in financial disputes. He is also a member of the Supervisory Board of Artis, the Royal Amsterdam Zoo.

Sang Hun Kim, age 52
Independent Director

Sang Hun Kim was appointed to the Board in February 2011. He has been Chief Executive Officer of South Korea's NAVER Corp since April 2009 and was previously its Executive Vice President of Business Management. Sang Hun graduated in law from Seoul National University before going on to earn a Master's degree in law from Harvard Law School. He has served as a judge at the Seoul Central Court.

Senior management

Dmitry Grishin, age 37
Co-Founder, Chief Executive Officer (Russia) and Chairman of the Board

Dmitry Grishin co-founded Mail.Ru Group in 2005. He was appointed Chief Executive Officer (Russia) in November 2010 and Chairman of the Board in March 2012. Dmitry joined Mail.Ru in 2000 and was promoted to Technical Director in 2001. From 2003 to 2010, he led the business as CEO. Dmitry graduated from the Faculty of Robotics and Complex Automation at Moscow State Technical University and in 2012 founded Grishin Robotics, a global investment company that is dedicated to supporting personal robotics around the world.

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Vladimir Nikolsky, age 43
Chief Operating Officer (Russia)

Vladimir Nikolsky joined Mail.Ru Group as Vice President of Online Games business in 2009 and became Chief Operating Officer (Russia) in 2013. He was previously CEO of online game holding Astrum Online Entertainment (from 2007 to 2009) which subsequently became a part of Mail.Ru Group, and co-founder and CEO of online game company IT Territory (from 2004 to 2007). Vladimir graduated from Ivanovo State Power Engineering University.

Dmitry Sergeev, age 40
Deputy Chief Executive Officer (Russia)

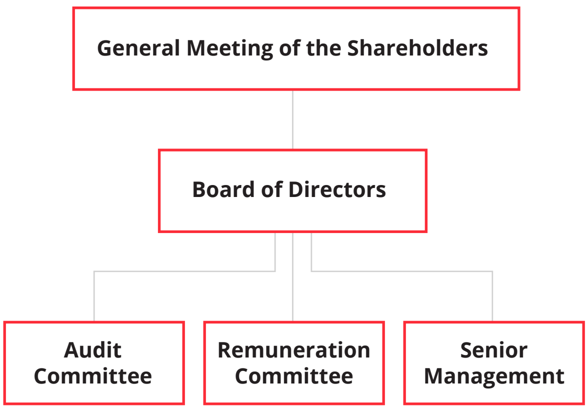
Dmitry Sergeev joined Mail.Ru Group in September 2014 when the Company fully consolidated VK and was appointed Deputy Chief Executive Officer (Russia) in October 2014. In VK Dmitry has been Chief Operating Officer since January 2014. Dmitry graduated from the Moscow State Institute of International Relations in 1998, with a degree in International Law. He worked at several investment companies, then at Alfa-Bank. From 2002 he was COO of Regional Media Group working on the consolidation of certain Russian media assets (TV, radio). From 2005 to 2006 Dmitry was a corporate development director at TV-3 television channel. In 2007 he was appointed COO of Media One Group, in 2009-2010 and 2011 he held positions of COO and CEO of UTH Holding respectively (its main assets are U Channel, Disney Channel and cable channel «MUZ-TV»). From 2012 to 2013 Dmitry was the president of Kommersant Publishing House.

Corporate governance

Mail.Ru Group Limited is incorporated in the British Virgin Islands with a principal office in Limassol, the Republic of Cyprus.

Governance structure

In accordance with the Memorandum and Articles of Association of MGL and applicable BVI law, our ultimate decision-making body is the shareholders' meeting. This is followed by the Board of Directors; they are responsible for the general management of the Company including coordinating strategy and general supervision. We also have an Audit Committee and a Remuneration Committee. Senior managers are involved in the day-to-day running of the Company.



Share capital structure

Authorised and issued share capital of MGL as of the date hereof:

Class of share	Authorised shares	Issued shares
Class A (US$0.000005 par value each)	10,000,000,000	11,500,100
Ordinary (US$0.000005 par value each)	10,000,000,000	208,582,082

Both classes of shares are in registered form. In respect of Ordinary Shares, Global Depositary Receipts ("GDRs") (which represent interests in such Ordinary Shares) have been issued by Citibank NA and are traded on the London Stock Exchange.

As of the date hereof, there are the following types of options over MGL's shares:

- options for 6,423,842 Ordinary Shares granted to the Mail.Ru Employee Benefit Trust on 11 November 2010 with the initial exercise price of US$27.70, which was then reduced by US$3.80 on 17 August 2012 and further reduced by US$4.30 on 20 March 2013 (due to dividend payments) resulting in the current exercise price of US$19.60. As of the date hereof, 3,097,452 of these options remain allocated, 3,057,327 of which are vested. Except for the options allocated for the benefit of the Directors, the options generally have a 4-year vesting schedule. Options allocated for the benefit of the Directors have a 2-year vesting schedule and are fully vested. Out of 6,423,842 options, 3,261,933 options were exercised; and
- options for 4,282,561 Ordinary Shares granted to the Mail.Ru Employee Benefit Trust on 22 December 2011 with the initial exercise price of US$25.60, which was then reduced by US$3.80 on 17 August 2012 and further reduced by US$4.30 on 20 March 2013 (due to dividend payments) resulting in the current exercise price of US$17.50. As of the date hereof, 2,571,500 of these options remain allocated, 2,499,875 of which are vested. The options generally have a 4-year vesting schedule. Out of 4,282,561 options, 955,625 options were exercised.

In March, 2015 the Shareholders of MGL approved the issue of up to 10,977,971 Ordinary Shares, all of which have been issued to Mail.ru Employee Benefit Trust to establish an incentive plan for employees, directors, officers and consultants of the Company, to be known as the 2015 Restricted Stock Unit Plan. As of the date hereof, 4,915,175 RSUs are allocated, 1,001,675 of which are vested. 302,825 RSUs were exercised. The RSUs have a 4-year vesting schedule.

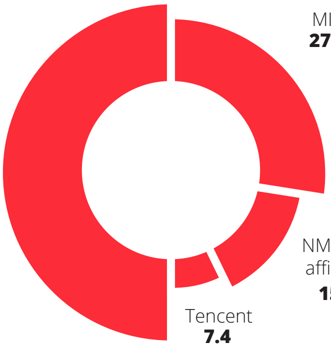
During the 2015 financial year, MGL itself did not acquire any of its own shares.

Annual General Meeting ("AGM") of shareholders

The shareholders' meeting is MGL's supreme governing body. AGMs are convened by the Board of Directors or by the written request of shareholders who hold, in aggregate, 30% or more of the outstanding votes in MGL.

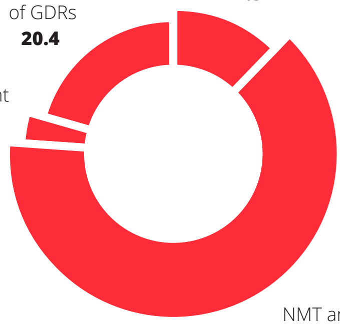
The share capital of MGL is divided into two classes of shares: Class A Shares and Ordinary Shares. Class A Shares each carry 25

Shareholders' economic interest, %



* incl. 1.84% economic interest held by Dmitry Grishin

Shareholders' voting interest, %



as of the date hereof

votes at shareholders' meetings while Ordinary Shares carry one vote per share.

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

i. no later than a week before the meeting;

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

Transfer and conversion of shares

Ordinary Shares are freely transferable. Class A shares are freely transferable save that a transfer of Class A Shares that would result in the proposed acquirer (other than a person who was already a member on 27 August 2010) and persons acting in concert with the acquirer holding 75% or more of the voting rights of MGL are subject to meeting mandatory offer requirements set out in the Articles.

At the request of any member holding any Class A shares, Class A shares, which are the subject of the request, are automatically converted into Ordinary shares. This is on the basis that each Class A Share automatically converts into one Ordinary Share and ranks pari passu in all respects with the existing Ordinary Shares in issue.

Voting rights

- Each Class A Share has the right to 25 votes at a meeting of the shareholders of MGL or on any resolution of the shareholders of MGL
- Each Ordinary Share has the right to 1 vote at a meeting of the shareholders of MGL or on any resolution of the shareholders of MGL

Board of Directors

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

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

The Elected Directors are appointed by a vote of the members, with each proposed candidate being put to the members for a vote, with voting on each candidate being treated as a separate vote and with each member being entitled to vote on each proposed candidate (to the effect that the eight candidates who attract the highest number of votes shall be elected as the eight Elected Directors) for a period from the date of their appointment until the second AGM after that date. On expiry of their term, Elected Directors must resign, but are eligible for re-election.

Any shareholder, or group of shareholders, who hold, in aggregate, not less than 5% of (a) the total number of votes attached to the issued shares; or (b) the total number of the issued shares, are entitled to nominate candidates for election by the shareholders as Elected Directors to the Board of Directors. Such nomination must be made not less than 21 days before any AGM at which any Elected Director is due to resign.

The two Independent Directors are nominated by the Board of Directors and appointed by a resolution of the Board of Directors. Independent Directors serve for the period fixed in their terms of appointment, as specified by the Board.

The Board of Directors elects one of its members to act as the Chairman of the Board.

Powers of the Board of Directors

The Board of Directors is granted the authority to manage the business affairs of the Company. They have the authority to make decisions relating to, among other things, the following:

- The right to issue shares and other securities (except as otherwise required by MGL's Memorandum and Articles of Association)

Name	Position	Date of appointment	Expiry of term
Dmitry Grishin	Chairman	June 5, 2015	2017 AGM
Boris Dobrodeev	Elected Director	February 25, 2016	2017 AGM
Matthew Hammond	Elected Director	June 5, 2015	2017 AGM
Vladimir Streshinskiy	Elected Director	June 5, 2015	2017 AGM
Charles Searle	Elected Director	June 5, 2015	2017 AGM
Mark Remon Sorour	Elected Director	June 5, 2015	2017 AGM
Vasily Brovko	Elected Director	June 5, 2015	2017 AGM
Vasileios Sgourdos	Elected Director	June 5, 2015	2017 AGM
Jan Buné	Independent Director	June 5, 2015	2017 AGM
Sang Hun Kim	Independent Director	June 5, 2015	2017 AGM

Senior management

The senior management is involved in the day-to-day management of the Company.

Name	Position	Appointment
Dmitry Grishin	Chief Executive Officer, Russia	November 2010
Matthew Hammond	Managing Director; Chief Financial Officer	April 2011 June 2013
Vladimir Nikolsky	Chief Operating Officer, Russia	June 2013
Dmitry Sergeev	Deputy Chief Executive Officer, Russia	October 2014

- The approval of the annual budget and annual financial statements of the Company
- The declaration of any dividend
- The convening of any shareholders' meeting
- The appointment of the Company's auditors
- The appointment of any committee of the Board of Directors, including MGL's Audit Committee and Remuneration Committee (see below)
- The exercise of all rights of MGL in relation to ICQ LLC
- The approval of any proposal under which MGL or any subsidiary of MGL delegates any substantial management authority to any other entity
- The approval of transactions which are not Substantial Transactions (as defined in the Memorandum and Articles of Association)
- The appointment and removal of any Officer of MGL, or any Officers or Directors of any direct subsidiary of MGL (including, but not limited to the Managing Director (being the chief executive officer of the Company), Chief Financial Officer or Chief Operating Officer) and the determination of the scope of authority of such Officers of the Company.

The Board of Directors, or any committees thereof, meet when and how the Directors determine to be necessary or desirable.

Meetings are held in MGL's principal office or wherever the majority of the Directors agree.

A resolution at a duly constituted meeting of the Board of Directors or of a committee of Directors is approved by a simple majority vote of the Directors. A resolution consented to in writing is approved by an absolute majority of all the Directors. For the purposes of establishing a majority, the Chairman of the Board (or chairman of the meeting as the case may be) has a casting vote in the event of a tie.

Committees of the Board of Directors

MGL has an Audit Committee and a Remuneration Committee.

Audit Committee

The Audit Committee is approved by MGL's Board of Directors and meets on a regular basis, but not less than once per six months.

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

- the quality and integrity of the Company's integrated reporting including its financial statements;
- the Company's compliance with key applicable legal and regulatory requirements as relating to financial reporting;
- the quality and independence of the Company's external auditors;

- the performance of the Company's internal audit function and the external auditors;
- the adequacy and effectiveness of internal control measures, accounting practices, risk management, information systems and audit procedures; and
- monitoring compliance with MGL's code of ethics.

The Audit Committee is responsible, among other things, for:

- Annual financial statements and interim financial results
- Regular internal reports to management prepared by the internal auditing department and management's response
- External auditors' reports – including the receipt and review of reports, which furnish, in a timely fashion, information relating to various accounting matters – and matters relating to internal controls if applicable
- Annually reviewing and reporting on the quality and effectiveness of the audit process. Assessing the external auditors' independence, deducing whether they have performed the audit as planned and establishing the reasons for any changes. Obtaining feedback about the conduct of the audit from key members of the Company's management, including the CFO
- Reviewing the performance of the external auditors and evaluating the lead partner and discharging and replacing, in consultation with the Board, the external auditor or lead audit partner when circumstances warrant
- Presenting the Committee's conclusions in respect of the external auditors to the Board
- Evaluating and providing commentary on the external auditors' audit plans and scope of findings, identifying issues and reports, and approving non-audit services performed by the external auditor

Members of the Committee

Jan Buné, Chairman
Sang Hun Kim
Vasileios Sgourdos

Remuneration Committee

The Remuneration Committee is responsible for approving the terms of appointment and remuneration of the Company's senior managers as well as the approval of options to be granted under the option plan.

The Remuneration Committee meets on as and when appropriate basis.

Members of the Committee

Vladimir Streshinskiy, Chairman
Charles Searle
Sang Hun Kim
Dmitry Grishin

Internal control system in relation to the financial reporting process

Internal control is exercised by the Board of Directors, executive and regulatory bodies, officers and other employees of the Company. Their aim is to secure the achievement of goals set by MGL in the following areas:

- efficiency and effectiveness of business activity of the Company;
- reliability and credibility of the Company's reporting; and
- compliance with the requirements of regulatory acts and internal documents of the Company.

The following functions are performed by the Internal Audit Department:

- Carrying out internal audits, reviews and other engagements with respect to MGL's subsidiaries
- Assessing the effectiveness of the internal control systems of MGL, including its subsidiaries and associates and proposing recommendations as a result of those assessments
- Assessing the effectiveness of the risk management process within the Company and proposing recommendations as a result of those assessments
- Providing necessary consultations to the management of MGL and its subsidiaries and associates on appropriate corrective action plans flowing from internal audits.

Risk management system

Mail.Ru Group is subject to certain risks that affect our ability to operate, serve our clients, and protect our assets. Controlling these risks through a formal program is necessary for the well-being of Mail.Ru Group. The Company is committed to identifying and managing risk, in line with international best corporate governance practice.

The existing risk management system operates as follows:

The board of directors has a responsibility to ensure that it has dealt with the governance of risk comprehensively;

The CEO is accountable to the Board for the enterprise-wide management of risk;

Management is responsible for assessing and managing the risks in accordance with approved plans and policies;

The Risk Management Committee assists the management in carrying out its responsibility for the governance of risk, reviews and approves risk management policy, risk map and register, risk assessments and mitigation activities; ensuring that an appropriate enterprise-wide risk management system and process is in place with adequate and effective risk management processes that include strategy, ethics, operations, reporting, compliance, IT and sustainability;

The Audit committee assists the Board in its responsibility for overseeing the risks, including financial reporting risks and internal financial controls, as well as fraud and IT risks as they relate to financial reporting; overall adequacy and effectiveness of risk manageme;

Internal audit provides assurance on the adequacy and effectiveness of the risk management process across the Company.

The Risk Management Committee comprises principal operating managers of the Company (heads of principal business units) appointed by the CEO or his Deputy. The Risk Management Committee is chaired by the Deputy CEO. Members of the Risk committee, taken as a whole, must comprise individuals with risk management skills and experience.

Corporate governance code

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

However, MGL does apply corporate governance standards, including: the appointment of two Independent Directors to its Board of Directors, the appointment of Remuneration and Audit Committees, and periodic re-election of Directors. This goes beyond the requirements of national law.

The Board of Directors has adopted various policies and charters relating to MGL's governing bodies. These include the Board Charter, Code of Ethics and Business Conduct, Directors' Right to Access Information/Documents Policy, Legal Compliance Policy, Charter of the Audit Committee, Internal Audit Charter, Remuneration Committee Charter, Risk Committee Charter, Risk Management Policy, and the Trading Policy for Directors, Senior Managers and Employees. These are all followed by the Company in all material respects.

Policies and other details of MGL's corporate governance practices can be found at http://corp.mail.ru/en/investors/management/.

Risk management

Summary

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

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

The Company's principal financial liabilities, other than derivatives, comprise a 4-year bank loan used for financing the VK acquisition, short-term payables and accrued expenses. The main purpose of these liabilities, other than the loan, is to finance the Company's operations. The Company has short-term receivables, short-term time deposits, cash and cash equivalents, and other current financial assets that are created by its strategic and venture capital operations.

We present below the major aspects of our financial risk management policies and objectives (see Note 20 to the financial statements for further details), as well as principal operating risks and uncertainties faced by the Company.

Financial risk management structure

The Company has developed risk management policy which covers the following major aspects: identification, mapping and analysis of the risks the Company faces, setting appropriate control frameworks, monitoring risks and ensuring that major risks are properly identified, assessed, reported, and adequately mitigated. Risk management procedures and systems are reviewed regularly. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment. The overall objective of the financial risk management is to minimise the risks to an acceptable level.

MGL's Audit Committee has been established to oversee, among other things, how management monitors compliance with the Company's risk management practices and procedures. Management regularly performs its assessment of the principal strategic and business risks that the Company faces and has proper mitigation plans developed.

Further information on Risk management system can be found in the Corporate governance section on page 43.

Liquidity and financial resources

Credit risk

Financial assets, which potentially subject MGL and its subsidiaries and associates to credit risk, consist principally of cash and cash equivalents, short-term time deposits and short-term receivables. The total of these account balances represents the Company's maximum exposure to credit risk.

The Company places its cash and cash equivalents with highly rated financial institutions, which are considered at the time of deposit to have minimal risk of default. We do not require collateral or other security to support financial instruments which are subject to credit risk. The credit payment terms with which we provide our customers are based on market practices and thorough reviews of their profiles and creditworthiness.

Capital management policy

For the purposes of our capital management, capital includes issued capital, share premium and other equity reserves attributable to the equity holders of the parent as well as debt. The primary objective of our capital management is to maximise the shareholder value. The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The market risks the Company is exposed to are of two types: currency risk and equity risk. The financial instruments that are affected by market risk include payables, cash and cash equivalents, short-term time deposits, available-for-sale investments, financial investments in associates and derivative financial instruments.

Foreign currency risk

The functional currency of MGL and majority of its subsidiaries and associates is the Russian rouble. The Company has, however, monetary assets and liabilities which are denominated in other currencies, and changes in exchange rates can result in gains or losses. In 2015, the Company recorded a gain of RUR 832million (2014: a gain of RUR 4,661 million).

The Company incurs significant costs in currency other than RUR (mainly USD and EUR) – principally to purchase hardware from vendors and acquire certain services, including online game development services by third parties – and earns a majority of its revenues in RUR. There is a risk that volatile exchange rates would increase the costs significantly which would lead to a decrease in net profits, increased demand in cash funds in RUR, threaten our ability to repay the loan on time or disrupt timely financing of our operations and capital expenditures. There is also a risk of inflation in RUR denominated expenses, such as payroll, due to growth in inflation rate and RUR devaluation.

Cash flow risk and risk of breach of covenants related to the loan

The Company does not, in relation to its use of financial instruments, believe it has a cash flow risk which is material for the assessment of its assets, liabilities, financial position and performance. In 2014, the Company received a bank loan to finance the acquisition of VK. The loan is for 4 years, payable in quarterly instalments, bears a fixed interest rate and subjects the Company to certain financial and non-financial covenants. Approximately 32% of the Company's debt outstanding as of December 31, 2015 will mature in 2016. The management assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. However, there is a risk that the Company may fail to comply with the covenants which may lead to a default on the loan.

Hedging

The Company has no hedging operations.

Business risks

Technological changes

The internet industry is characterised by constant and rapid change in technology, consumer preferences, the nature of services offered and business models. If we are unable to respond effectively to change and to continue to offer attractive and innovative products to our users, the popularity of our websites and services may decline, which could adversely affect our business in a number of ways, including through lower revenues from advertising and IVAS.

Quality products for expansion to new markets

The Company aims to continue its expansion to foreign markets of Europe and the USA by offering innovative and competitive products to audiences. Should we fail to ensure sufficient supply of high quality game titles, mail services and social network features for our users, we may face decline in respective audiences and, subsequently, revenues.

Mobile distribution

We distribute our mobile products primarily via two app stores. If Google Play or Apple App Store alternate search mechanisms or otherwise modify the rating systems, we may face decrease in ratings for our products and, subsequently, changes in mobile market shares.

Mobile technology development

Users tend to use mobile devices to access internet services more and more every year. Mobile devices monetisation may not catch up with desktop monetisation rates. There is a risk that the Company might suffer revenue decline due to further development of the mobile internet.

Underlying markets

If penetration rates for internet, spending on advertising and IVAS in Russia, do not increase, our ability to increase revenue could be materially and adversely affected.

Third party suppliers

We purchase our servers and some other computer hardware from several Russian companies, most of which import equipment into Russia, and in some cases directly from manufacturers outside of Russia. If these companies are prevented from importing the servers and such other computer hardware into Russia, or are unable to supply the servers and such other computer hardware to us for any other reason, our business and results of operations could be materially and adversely affected. We also rely on third parties to provide a number of important services in connection with the business, and any disruption to the provision of these services to us could negatively affect the Company's results of operations and business prospects.

Competition

The development of products, which compete with the services provided by the Company, by domestic and large international internet companies could decrease the Company's user base and make it less attractive to advertisers.

Increased competition could result in a reduction in the number of users who buy the Company's Community IVAS – including games – which, in turn, would result in lower revenue and net income. Similarly, the Company may be required to spend additional resources to promote or improve its services in order to compete effectively, which could require additional capital or adversely affect the Company's profitability.

Development

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

Delays in launch of new game titles

We might face delays in the launch of new game titles due to insufficient staffing and/or failures from third party developers. Delays in launch time may disappoint users and lead to loss of potential audience and revenue and/or result in higher-than-expected development spend.

Unsuccessful game titles

There is a risk of failure of any of the major new MMO titles to gain traction with users, which would lead to underperformance of the online games business and lower-than-expected revenues. Mobile games might also be unsuccessful as they may fail to achieve the required profitability targets due to high cost of marketing and revenue share payable to mobile platforms.

Personnel

As competition in Russia's internet industry increases, our business and operations could be adversely affected by difficulties in hiring, motivating and retaining highly-skilled people. Our performance and future success depend on the talents and efforts of a large number of highly skilled individuals within the Company. We will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organisation, including those with programming skills on rare languages. Competition in the internet industry, and in particular in Russia, for suitably qualified employees is high. As competition in the internet industry in Russia increases, and in particular if larger multinational internet companies focus their attention on the Russian speaking market, it may be more difficult for us to motivate, retain and hire highly skilled personnel. If we do not succeed in retaining or motivating existing personnel or attracting additional highly skilled personnel, our business and results of operations may be materially and adversely affected.

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

In addition, even if sufficient numbers of highly skilled personnel can be retained, salaries may rise significantly due to competition within the internet industry in Russia, increasing our costs, which could have a material adverse effect on our business, results of operations and financial condition.

Infrastructure and capacity

If the infrastructure in Russia were not able to support increased demand, the Company's services could be interrupted or the Company's systems damaged. A limited availability of third-party providers of network and server capacity could limit the Company's ability to offer certain services or to expand. Network or power failures could result in the loss of data and in a reduction in the number of users, which could have a material effect on the Company's business, results of operations and financial condition.

Private information

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

Intellectual property rights

The Company may be subject to infringement claims from third parties in the future resulting from the technology and intellectual property used in the provision and marketing of its services. If the Company is found liable for infringement, it may be required to pay significant damages, and if it is unable to license or develop non-infringing technology on a timely basis, it may be unable to continue offering the affected services without risk of liability.

Similarly, third parties may obtain and use the Company's intellectual property without authorisation. The validity, application, enforceability and scope of protection of intellectual property rights for many internet-related activities are uncertain and still evolving, which may make it more difficult for the Company to protect its intellectual property, which could have a material effect on its business, results of operations and financial condition. The Company and its associates have been subject to such proceedings in the past. Although none of them was individually significant, similar potential claims may potentially subject the Company to significant losses in the future, which currently cannot be reliably estimated.

Political, economic and social risks

Political instability in Russia

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

Economic and military conflicts

The involvement of the Russian Federation in any economic and military conflicts could negatively affect the Company's results of operations and business prospects.

Economic instability in Russia

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Company's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Inflation

High rates of inflation could increase our costs, and there can be no assurance that we will be able to maintain or increase our margins.

Legislative and legal risks

Regulation

The internet and its associated technologies are subject to government regulation. Substantial part of our business is subject to Russian laws. In addition, new laws and regulations, or new interpretations of existing laws and regulations, may be adopted with respect to the internet or other online services we provide.

For example, in September 2015, a new law requiring databases involved in processing personal data of Russian citizens to be stored in Russia and setting out sanctions for non-compliance with such requirement (including blocking of web-sites) came into force.

In January 01, 2016 the amendments to the Federal Law "On Information, Information Technologies and Protection of Information" (so-called law on "right to be forgotten") came into force. According to this law, the operator of search engine upon user's request is obliged to remove any search results (links), which lead to information about such user, distributed with violation of the laws of the Russian Federation, misleading or no longer relevant (except for the information on events that contain elements of criminal offense the limitation period for which has not expired, and the information about crimes committed by user if the record of conviction has not been removed or canceled).

In February, 2016 a draft law regulating online news aggregation services was introduced into Russian State Duma. The draft proposes to regulate activities of providers of news aggregation services, requiring registering with a governmental authority if daily audience of aggregation services is more than one million users and imposing on news aggregation services obligations similar to those of registered mass media. In addition, the draft law limits the ownership or control of news aggregation services by non-Russian individuals and entities to no more than 20% in a way analogous to similar restrictions that exist in respect of Russian registered mass media. If the draft law is adopted as it is, we will have to restructure our existing news aggregation services, suspend or cease to provide such services.

We are also subject to other various specific Russian laws, such as so called Anti-Piracy Law, Law on Bloggers, Anti-extremism Law, Black List Law etc.

Our failure or the failure of our third party providers to accurately comply with the applicable laws and regulations could create liability for us, result in adverse publicity, or could otherwise have a material adverse effect on our business, results of operations and financial condition, including blocking of our properties.

Legal proceedings

The Company has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Company. Management believes that the resolution of all current and potential legal matters will not have a material impact on the Company's financial position or operating results.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Company's management believes that its interpretation of the relevant legislation is appropriate and is in accordance with the current industry practice and that the Company's tax, currency and customs positions will be sustained. However, the interpretations of the relevant authorities could differ and the effect of additional taxes, fines and penalties on these consolidated financial statements, if the authorities were successful in enforcing their different interpretations, could be significant.

The Russian transfer pricing legislation, which came into force on January 1, 2012, allows the Russian tax authorities to apply transfer pricing adjustments and impose additional income tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all the transactions with each related party exceeds RUR 1,000 million. In cases where a domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities based on a special notification issued by an authorised body in due course. The current Russian transfer pricing rules have considerably increased the compliance burden for taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. Special transfer pricing rules apply to transactions with securities and derivatives. Because of the lack of clarity in current Russian transfer pricing legislation and the lack of court precedent, the Russian tax authorities may challenge the level of prices applied by the Company under "controlled" transactions and accrue additional tax liabilities unless the Company is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

The Russian Federation is actively considering measures that may be taken in order to prevent tax evasion, such as limiting the use of low tax jurisdictions and aggressive tax planning structures. Recent initiatives incorporated into Russian law include the concept of beneficial ownership, regulations relating to the tax residency of legal entities and the introduction of "controlled foreign companies" rules. Also, the Russian Government constantly seeks the conclusion of multilateral agreements for the exchange of information between tax authorities of different countries.

According to the recently adopted tax residency rule under the deoffshorization law, a non-Russian entity would be deemed a Russian tax resident based on the place of its effective management and control. The law lists a number of conditions to treat a non-Russian entity as having a place of effective management in Russia including, among other things, accounting and bookkeeping in Russia or keeping records of a non-Russian entity in Russia. Also, the law included a definition of a "beneficial owner" of income for tax purposes, which is intended to disallow double tax treaty benefits to entities that do not determine "future economic destiny" of income received from Russia. In turn, the "controlled foreign companies" rule may result in certain types of income of certain types of foreign companies controlled by a Russian entity or individual that is not distributed to such Russian owner becoming subject to Russian taxation.

No assurance can currently be given as to how the above legislative changes will be interpreted by the Russian tax authorities and their potential impact on the Company. The Company may be subject to additional tax liabilities as a result of such changes being applied to transactions carried out by the Company, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Modifications of the Company's legal structure made from time to time may result in additional taxes, interest, and penalties in various jurisdictions. Any such taxes or penalties caused by the Company's structure or its modifications could have a material adverse effect on the Company's business, operating results, financial condition or prospects.

Board and Management remuneration

The Remuneration Committee is responsible for approving the remuneration of the Directors and senior managers of the Company. It is also charged with reviewing and approving general policy relating to strategic compensation of the Company and the approval of grants under the incentive schemes.

Further information on the Remuneration Committee can be found in the Corporate governance section on page 43.

Interests of members of our Board of Directors and our employees

Certain members of our Board of Directors have beneficial ownership interests in our Global Depositary Receipts. The table below includes information of their ownership. Furthermore, it highlights options and RSUs over Ordinary Shares of MGL held, directly or indirectly, by each Director as of the date hereof.

The aggregate beneficial interest in MGL (excluding options granted over Ordinary Shares) held by senior managers and employees of the Company (including Dmitry Grishin and Matthew Hammond) as of the date hereof is about 2.16%.

Incentive scheme

In November 2010, the Board of Directors of MGL adopted an equity-based long-term incentive scheme. Under the scheme, the Board, or its Remuneration Committee, is authorized to grant options to acquire Ordinary Shares to a broad base of employees, consultants and Directors. This can be direct or through an employee benefit trust or vehicles controlled by such persons.

The 2010 Option Plan comprised options over an aggregate of 10,706,403 Ordinary Shares. On the IPO date, MGL assigned options for 6,423,842 Ordinary Shares to the Mail.Ru Employee Benefit Trust with an exercise price equal to the IPO price of US$27.70, which was reduced by US$3.80 on 17 August 2012 and then by US$4.30 on 20 March 2013 resulting in the exercise price of US$19.60. As of the date hereof, 3,097,452 of these options remain allocated, 3,057,327 of which are vested. Except for the options allocated for the benefit of the Directors, the options have generally a 4-year vesting schedule. Options allocated for the benefit of the Directors have a 2-year vesting schedule and are fully vested.

Subsequently, in December 2011 MGL assigned options for 4,282,561 Ordinary Shares to the Mail.Ru Employee Benefit Trust with an exercise price equal to the then current market price of US$25.60, which was reduced by US$3.80 on 17 August 2012 and then by US$4.30 on 20 March 2013 resulting in the exercise price of US$17.50. As of the date hereof, 2,571,500 of these options remain allocated, 2,499,875 of which are vested. The options have generally a 4-year vesting schedule.

In March, 2015 the Shareholders of MGL approved the issue of up to 10,977,971 Ordinary Shares to Mail.ru Employee Benefit Trust to establish an incentive plan for employees, directors, offices and consultants of MGL, to be known as the 2015 Restricted Stock Unit Plan. As of the date hereof, 4,915,175 RSUs are allocated, 1,001,675 of which are vested. The RSUs have a 4-year vesting schedule.

Compensation

Directors of MGL

In 2015, the total cash remuneration of the members of the Board of Directors (each a “Director” and collectively, “Directors”) of MGL amounted to RUR 94 million. It was RUR 55 million for 2014. In addition to the cash remuneration, Directors of MGL were granted options to acquire Ordinary Shares at the exercise price of US$27.70 (subsequently reduced to US$19.60), of which 250,160 remain unexercised and fully vested. None of the options or RSUs were granted in 2015 or 2014 for holding office in Director’s capacity. During year ended December 31, 2015, Directors did not forfeit or exercise any options over Ordinary Shares of MGL. The share-based payment expense recognized by the Company with respect to Directors’ options was a positive RUR 82 million in 2015 and a negative RUR 215 million in 2014.

Key Management of the Company

Total cash remuneration of the key management of the Company amounted to RUR 511 million in 2015 and RUR 459 million in 2014 (including remuneration of Matthew Hammond and Dmitry Grishin as senior managers of the Company). In addition to the cash remuneration key management of the Company were granted 4,180,000 RSUs out of the 2015 Restricted Stock Unit Plan in 2015 and options to acquire 23,000 Ordinary Shares at the exercise price of US$19.60 per share in 2014. Key management of the Company (excluding Directors) forfeited options over 83,250 Ordinary Shares in 2015 and 7,500 Ordinary Shares in 2014 and did not exercise any options over the shares in 2015 compared to 572,738 options in 2014. The corresponding share-based payment expense amounted to RUR 1,682 million in 2015 and RUR 552 million in 2014.

MANAGEMENT

	Class A shares (direct and indirect)	Ordinary shares/ GDRs (direct and indirect)	Total % of MGL's issued share capital represented by outstanding shares	Outstanding options and RSUs over Ordinary Shares
Dmitry Grishin	-	4,045,792	1.84%	3,950,000
Boris Dobrodeev	-	-	-	250,000
Vasily Brovko	-	-	-	-
Matthew Hammond	-	-	-	314,240
Sang Hun Kim	-	-	-	36,032
Charles Searle[1]	-	-	-	-
Vasileios Sgourdos[1]	-	-	-	-
Mark Remon Sorour[1]	-	-	-	-
Vladimir Streshinskiy	-	-	-	53,532
Jan Buné	-	-	-	-

1 160,596 options granted to the Directors nominated by MIH were assigned to the shareholder that nominated such Directors.

Responsibility statement

We confirm that, to the best of our knowledge:

The consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit and loss of MGL and the undertakings included in the consolidation taken as a whole.

This annual report includes a fair review of the development and performance of the business and the position of MGL and the undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Matthew Hammond

Managing Director, Chief Financial Officer

Mail.Ru Group Limited

20 April 2016

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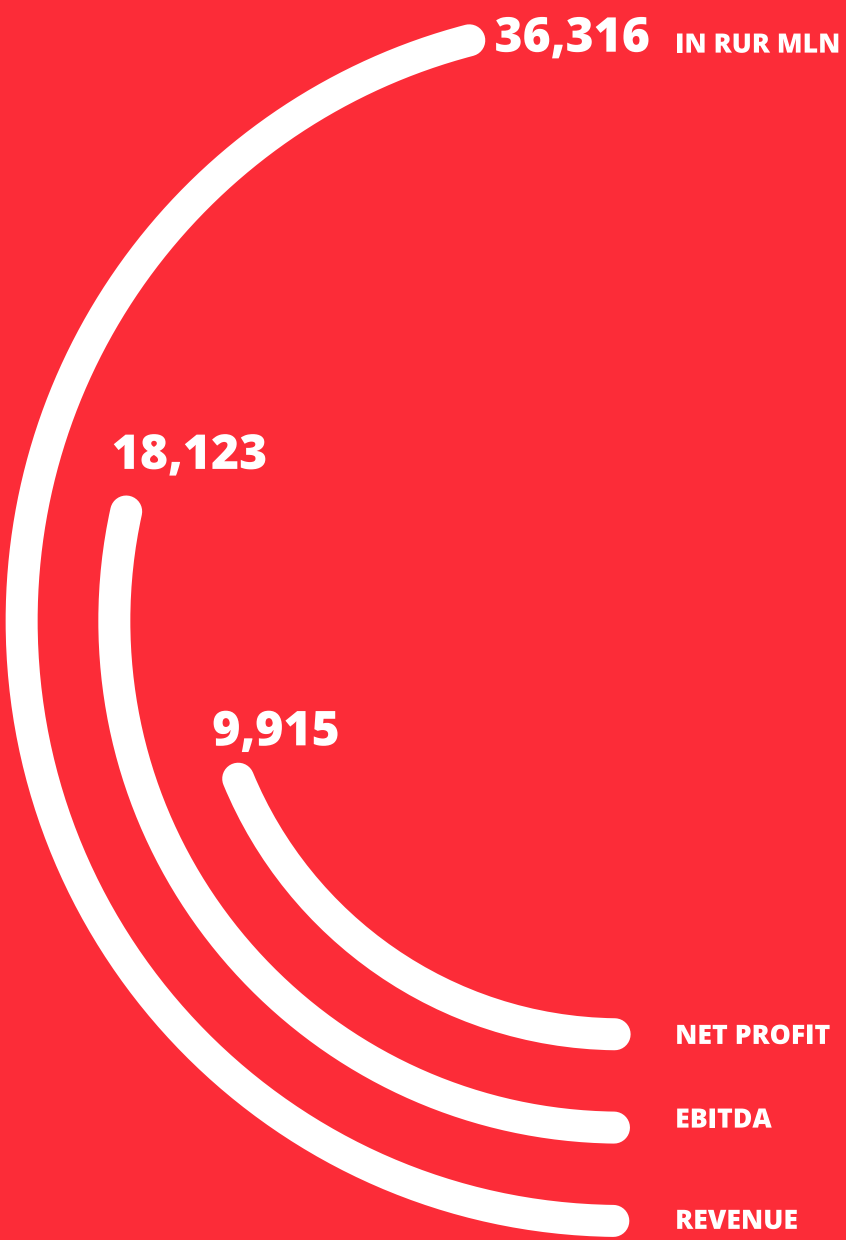
FINANCIAL STATEMENTS



GROUP AGGREGATE SEGMENT INFORMATION
2015

Mail.ru Group Limited

Consolidated Financial Statements

For the year ended December 31, 2015

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Independent auditors' report

To the Shareholders of Mail.ru Group Limited

We have audited the accompanying consolidated financial statements of Mail.ru Group Limited and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

20 April 2016

Moscow, Russia

Consolidated Statement of Financial Position

As of December 31, 2015
(in millions of Russian Roubles)

	Notes	As at December 31, 2015	As at December 31, 2014
ASSETS			
Non-current assets			
Investments in equity accounted associates	10	643	666
Goodwill	7,11	126,721	126,380
Other intangible assets	7	30,926	35,804
Property and equipment	8	3,687	3,517
Available-for-sale financial assets	22	932	809
Financial assets at fair value through profit or loss	22	1,071	1,547
Deferred income tax assets	18	1,730	784
Other non-current assets	15	745	751
Total non-current assets		166,455	170,258
Current assets			
Trade accounts receivable	12	3,584	3,672
Prepaid income tax		1,041	503
Prepaid expenses and advances to suppliers		1,855	897
Financial assets at fair value through profit or loss	22	172	70
Other current assets	15	195	304
Short-term time deposits	13	16	490
Cash and cash equivalents	13	8,676	4,585
Total current assets		15,539	10,521
Total assets		181,994	180,779
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	14	–	–
Share premium		49,328	46,644
Treasury shares	14	(1,293)	(1,301)
Retained earnings		100,602	97,665
Accumulated other comprehensive loss		(205)	(259)
Total equity attributable to equity holders of the parent		148,432	142,749
Non-controlling interests		15	16
Total equity		148,447	142,765
Non-current liabilities			
Deferred income tax liabilities	18	4,891	5,739
Deferred revenue		1,716	702
Long-term interest-bearing loans	22	10,331	16,205
Other non-current liabilities		–	96
Total non-current liabilities		16,938	22,742
Current liabilities			
Trade accounts payable		2,374	2,081
Income tax payable		277	169
VAT and other taxes payable		1,878	1,531
Deferred revenue and customer advances		4,139	3,525
Short-term portion of long-term interest-bearing loans	22	4,875	5,857
Other payables, provisions and accrued expenses	16	3,066	2,109
Total current liabilities		16,609	15,272
Total liabilities		33,547	38,014
Total equity and liabilities		181,994	180,779

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2015
(in millions of Russian Roubles)

	Notes	2015	2014
Online advertising		14,825	10,816
MMO games		7,673	7,628
Community IVAS		12,246	10,680
Other revenue	17.1	3,242	3,203
Total revenue		37,986	32,327
Net loss on venture capital investments and associated derivative financial assets and liabilities	22	(387)	(5)
Personnel expenses		(11,026)	(6,008)
Office rent and maintenance		(2,005)	(1,591)
Agent/partner fees		(4,942)	(4,171)
Marketing expenses		(1,338)	(1,188)
Server hosting expenses		(2,233)	(1,320)
Professional services		(454)	(369)
Other operating expenses	17.2	(1,447)	(939)
Total operating expenses		(23,445)	(15,586)
EBITDA		14,154	16,736
Depreciation and amortisation	7,8	(7,165)	(3,856)
Impairment of intangible assets	7	(1,397)	(408)
Share of profit of equity accounted associates		–	220
Finance income		613	408
Finance expenses		(2,326)	(767)
Other non-operating income/(expense)		(11)	9
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of subsidiaries and other agreements	22	23	400
Net gain on disposal of shares in equity accounted associates and loss of significant influence	6	–	6,482
Net gain on acquisition of control over equity accounted associates	6	–	40,831
Net foreign exchange gains		832	4,661
Profit before income tax expense		4,723	64,716
Income tax expense	18	(1,736)	(2,322)
Net profit		2,987	62,394
Attributable to:			
Equity holders of the parent		2,937	62,353
Non-controlling interest		50	41
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations:			
Differences arising during the period		(78)	(184)
Available-for-sale financial assets:			
Gains/(losses) arising during the period (net of tax effect of zero)		123	(137)
Total other comprehensive income/(loss) net of tax effect of 0		45	(321)
Total comprehensive income, net of tax		3,032	62,073
Attributable to:			
Equity holders of the parent		2,991	62,032
Non-controlling interest		41	41
Earnings per share, in RUR:			
Basic earnings per share attributable to ordinary equity holders of the parent	19	14.1	299.4
Diluted earnings per share attributable to ordinary equity holders of the parent	19	14.1	294.2

Consolidated Statement of Cash Flows

For the year ended December 31, 2015
(in millions of Russian Roubles)

	Notes	2015	2014
Cash flows from operating activities			
Profit before income tax		4,723	64,716
Adjustments for:			
Depreciation and amortisation	7, 8	7,165	3,856
Bad debt expense	12	90	180
Net gain on financial assets and liabilities at fair value through profit or loss over subsidiaries and other agreements	22	(23)	(400)
Net gain on disposal of shares in equity accounted associates and loss of significant influence	6	–	(6,482)
Net gain on acquisition of control over equity accouned associates	6	–	(40,831)
Loss on disposal of property and equipment and intangible assets	7, 8	63	26
Finance income		(613)	(408)
Finance expenses		2,326	767
Dividend revenue from venture capital investments	17.1	(83)	(168)
Share of profit of equity accounted associates		–	(220)
Impairment of intangible assets	7	1,397	408
Net foreign exchange gains		(832)	(4,661)
Share-based payment expense	5, 24.2	2,989	(117)
Other non-cash items		50	(15)
Decrease/(Increase) in accounts receivable		141	(446)
Increase in prepaid expenses and advances to suppliers		(889)	(101)
Decrease in other assets		137	112
Increase in accounts payable, provisions and accrued expenses		711	397
Decrease in other non-current assets		163	181
Increase in deferred revenue and customer advances		1,610	1,121
Decrease/(Increase) in financial assets at fair value through profit or loss	22.3	387	(10)
Operating cash flows before interest and income taxes		19,512	17,905
Dividends received from financial investments		92	198
Interest received		610	452
Interest paid		(2,300)	(595)
Income tax paid		(3,968)	(5,279)
Net cash provided by operating activities		13,946	12,681
Cash flows from investing activities			
Cash paid for property and equipment		(1,378)	(978)
Cash paid for intangible assets		(1,294)	(1,672)
Dividends received from equity accounted associates	10	24	226
Proceeds from disposal of shares in equity accounted associates		–	6,401
Issuance of loans		(17)	(24)
Cash paid for acquisitions of subsidiaries, net of cash acquired	6	(963)	(54,585)
Cash paid for investments in equity accounted associates	6	–	(12,430)
Cash paid for other acquisition		–	(284)
Collection of short-term and long term deposits		483	295
Acquisition of short-term and long term deposits		(10)	(470)
Net cash used in investing activities		(3,155)	(63,521)
Cash flows from financing activities			
Cash paid for non-controlling interests in subsidiaries		–	(5)
Loan received, net of origination fee	22	–	22,037
Loan repaid		(6,927)	–
Cash paid for treasury shares	14	–	(1,337)
Dividends paid by subsidiaries to non-controlling shareholders		(42)	(38)
Net cash (used in)/provided by financing activities		(6,969)	20,657
Net increase/(decrease) in cash and cash equivalents		3,822	(30,183)
Effect of exchange differences on cash balances		269	3,781
Cash and cash equivalents at the beginning of the period		4,585	30,987
Cash and cash equivalents at the end of the period		8,676	4,585

Consolidated Statement of Changes in Equity

For the year ended December 31, 2014
(in millions of Russian Roubles)

	Notes	Share capital: Number of shares issued and outstanding	Share capital: Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2014		208,710,192	–	46,283	(472)	35,312	65	81,188	6	81,194
Profit for the period		–	–	–	–	62,353	–	62,353	41	62,394
Other comprehensive income:		–	–	–	–	–	–		–	
Foreign currency translation		–	–	–	–	–	(184)	(184)	–	(184)
Net change in cumulative holding gains on available-for-sale investments		–	–	–	–	–	(137)	(137)	–	(137)
Total other comprehensive income		–	–	–	–	–	(321)	(321)	–	(321)
Total comprehensive income		–	–	–	–	62,353	(321)	62,032	41	62,073
Share-based payment transactions	24.2	–	–	665	–	–	–	665	–	665
Exercise of options over the shares of the Company		418,825	–	(502)	508	–	–	6	–	6
Acquisition of treasury shares	14	(1,012,885)	–	–	(1,337)	–	–	(1,337)	–	(1,337)
Acquisitions of non-controlling interests in existing subsidiaries		–	–	(13)	–	–	–	(13)	7	(6)
Share-based payment transactions by equity accounted associates		–	–	27	–	–	–	27	–	27
Dividends by subsidiaries to non-controlling shareholders		–	–	–	–	–	–	–	(38)	(38)
Issuance of shares and other changes in net assets of equity accounted associates		–	–	184	–	–	(3)	181	–	181
Balance at December 31, 2014		208,116,132	–	46,644	(1,301)	97,665	(259)	142,749	16	142,765

Consolidated Statement of Changes in Equity

For the year ended December 31, 2015
(in millions of Russian Roubles)

	Notes	Share capital: Number of shares issued and outstanding	Share capital: Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2015		208,116,132	–	46,644	(1,301)	97,665	(259)	142,749	16	142,765
Profit for the period		–	–	–	–	2,937	–	2,937	50	2,987
Other comprehensive income:										
Foreign currency translation		–	–	–	–	–	(69)	(69)	(9)	(78)
Net change in cumulative holding gains on available-for-sale investments		–	–	–	–	–	123	123	–	123
Total other comprehensive income		–	–	–	–	–	54	54	(9)	45
Total comprehensive income		–	–	–	–	2,937	54	2,991	41	3,032
Share-based payment transactions	25	–	–	2,692	–	–	–	2,692	–	2,692
Exercise of options over the shares of the Company		11,240	–	(8)	8	–	–	–	–	–
Issue of shares to be transferred to treasury shares	14	10,977,971	–	–	–	–		–	–	–
Transfer to treasury shares	14	(10,977,971)	–	–	–	–		–	–	–
Dividends by subsidiaries to non-controlling shareholders		–	–	–	–	–	–	–	(42)	(42)
Balance at December 31, 2015		208,127,372	–	49,328	(1,293)	100,602	(205)	148,432	15	148,447

1 Corporate information and description of business

These consolidated financial statements of Mail.ru Group Limited (hereinafter "the Company") and its subsidiaries (collectively – "the Group") for the year ended December 31, 2015 were authorised for issue by the directors of the Company on April 20, 2016.

The Company was registered on May 4, 2005 in the Territory of the British Virgin Islands ("BVI"), pursuant to the International Business Companies Act (the "Act"), Cap. 291. The principal office of the Company is at 232 28th October Street, Office 501, 3035 Limassol, Cyprus.

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

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

2 Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis, except for financial assets and liabilities designated as at fair value through profit or loss, derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

2.1 Statement of compliance

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

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

2.2 Application of new and amended IFRS and IFRIC

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations effective as of January 1, 2015:

IFRS 8 Operating Segments
The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group disclosed judgements made by management in applying the aggregation criteria in Note 5.

2.3 New accounting pronouncements

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective. Management of the Group has not completed the assessment of the impact of Standards and Interpretations not yet effective.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

2 Basis of preparation (continued)

2.3 New accounting pronouncements (continued)

Annual improvements 2012-2014 Cycle
These improvements are effective on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal
Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements
In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that an entity shall apply those amendments for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase ”and interim periods within those annual periods”, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report.

IAS 34 Interim Financial Reporting – disclosure of information ‘elsewhere in the interim financial report’
The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The IASB specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

IFRS 16 Leases
In January 2016, the IASB issued the final version of IFRS 16 *Leases* which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 *Leases*. The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15 *Revenue from Contracts with Customers*, has been applied, or is applied at the same date as IFRS 16.

3 Summary of significant accounting policies

Set out below are the principal accounting policies used to prepare these consolidated financial statements.

3.1 Principles of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2015 and for the year then ended.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

3 Summary of significant accounting policies (continued)

3.1 Principles of consolidation (continued)

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

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

If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interests;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3.2 Business combinations and goodwill

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

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

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

If control is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value as at the acquisition date through profit or loss.

A contingent liability of the acquiree is recognised in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Only components of non-controlling interest constituting a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are measured at their acquisition date fair value.

The Group accounts for a change in the ownership interest of a subsidiary (without loss of control) as a transaction with owners in their capacity as owners. Therefore, such transactions do not give rise to goodwill, nor do they give rise to a gain or loss and are accounted for as an equity transaction.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

If the Group reorganises its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill is reallocated to the units affected. The reallocation is performed using a relative value approach similar to that used in connection with the disposal of an operation within a cash-generating unit, unless some other method better reflects the goodwill associated with the reorganised units.

3 Summary of significant accounting policies (continued)

3.3 Investments in associates

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

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

3.3.1 Financial investments in associates

Financial investments, or venture capital investments, are the Group's investments in start-up Internet ventures and smaller Internet companies in Russia, Ukraine and Israel with onwership ranging from 1.5% to 50% and which gives the Group significant influence in some of these investments. They form the Group's venture capital portfolio and are monitored and managed exclusively on the basis of their fair values. The Group's involvement in the operating management of the investees is limited, and the possibility of the Group maintaining a specific financial investment in its investment portfolio in the long run is remote. Financial investments are carried in the statement of financial position at fair value even though the Group may exert significant influence over those companies. This treatment is permitted by IAS 28 *Investments in Associates and Joint Ventures*, which allows investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change. Accounting policies of the Group with respect to financial investments in associates are discussed in more detail under 3.12 below as part of the Group's accounting policies with respect to financial assets.

3.3.2 Investments in equity accounted associates

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

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of associates. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes in the investment balance and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

The share of profit and other comprehensive income of equity accounted associates is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the associates and therefore is profit after tax of the associates and after non-controlling interests in the subsidiaries of the associates. The Group's share of movements in reserves is recognised in equity. However, when the Group's share of accumulated losses in a equity accounted associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

The financial statements of equity accounted associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. Determining whether the investment is impaired is based on the guidance of IAS 39 discussed under 3.12.6.

If there is objective evidence that an associate is impaired, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value in accordance with IAS 36 (as discussed under 3.14) and recognises the amount of impairment in earnings under '*Impairment losses related to equity accounted associates'*. If the recoverable amount of the impaired investment subsequently increases, the related impairment is reversed to the extent of such increase.

Step acquisitions of significant influence in equity accounted associates previously classified as available-for-sale financial assets are accounted for using a cost-based approach whereby the investment in associate is recognised at the aggregate of (a) the historical cost of the available-for-sale investment and (b) the consideration transferred by the Group upon acquisition of significant influence. Any changes in the fair value of the available-for-sale investment are reversed through other comprehensive income upon acquisition of significant influence. Goodwill is calculated as a difference between (c) the cost of the investment so determined and (d) the Group's share in the fair value of the investee's net assets at the date significant influence is attained.

Upon acquisition of an additional stake in an existing associate where control is not obtained, the fair value of the consideration transferred for the additional stake is allocated to the acquired share of the fair value of associate's assets and liabilities, and the excess is recognised as goodwill as part of the investment in equity accounted associates.

Upon loss of significant influence over a equity accounted associate, the Group measures and recognises any remaining investment at its fair value. Any difference between (a) the carrying amount of the associate upon loss of significant influence and (b) the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

3 Summary of significant accounting policies (continued)

3.4 Property and equipment

3.4.1 Property and equipment

Property and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment. Interest costs on borrowings to finance the construction of property and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Expenditures for continuing repairs and maintenance are charged to earnings as incurred.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are recognised net under '*Other non-operating income/(expense)'* in the statement of comprehensive income.

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

3.4.2 Depreciation and useful life

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

	Estimated Useful Life (in Years)
Servers and computers	2-5
Furniture	7
Office IT equipment	2-3
Leasehold improvements	Lesser of useful life or life of lease

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

3.5 Intangible assets other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

3.5.1 Software development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of comprehensive income when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Research and development costs recognised as an expense in the statement of comprehensive income during 2015 amounted to RUR 305 (2014: RUR 146).

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

3.5.2 Useful life and amortisation of intangible assets

The Group assesses whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset is regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. The Group did not have any intangible assets with an indefinite useful life in the years ended December 31, 2015 and 2014.

3 Summary of significant accounting policies (continued)

3.5 Intangible assets other than goodwill (continued)

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

Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The estimated useful lives of the Group's intangible assets are as follows:

	Estimated Useful Life (in Years)
Patents and trademarks	7-20
Capitalised software development costs	3
Domain names	10
Games	3-9
Customer base	3-15
Licenses	3-5
Purchased software	1-4

3.6 Cash and cash equivalents

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

3.7 Employee benefits

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

Under provisions of Russian legislation, social contributions are made through social insurance payments calculated by the Group by the application of a 30% rate to the portion of the annual gross remuneration of each employee not exceeding RUR 711 thousand and a rate of 15% to the portion exceeding this threshold.

3.8 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

3.9 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from services are recognised in the period when services are rendered.

3.9.1 Online advertising

3.9.1.1 Display advertising

Promo posts in social networks, video and banner advertising space for display advertising is sold on a dynamic basis (i.e., a function of time that an advertisement lasts) or a static basis (i.e., according to the number of page views on an advertisement). The Group has standard rates for online advertisements that depend on several factors, including the specific web page on which the banner appears, the length of the contract, the season, and the format, size and position of the advertisement. Display advertising revenue is recognised as the services are provided (i.e., as per page view for dynamic banners and over the contractual term for static banners). For display advertising sold through some third party advertising agencies, revenue generally is recognised net of any portion attributable to the third parties.

3 Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

3.9.1.2 Context advertising

The Group earns revenues for search context advertising through partnerships with third parties. Once a user carries out a search on certain of the Group's websites, search results and advertisement links are displayed on the webpage based on relevancy to the search topic and other known user parameters. When clicked on by the user, the advertisement links lead to sites owned by the third parties' advertising customers, for which the third party receives a fee, a portion of which it shares with the Group. Context advertising revenue is recognised as the services are provided (i.e., upon "click-through", which is when a user clicks on an advertiser's listing) on a net basis. This type of context advertising revenues is based on reports provided by third parties.

Context advertising also includes revenue from the Group's myTarget self-serve advertising technology ("target advertising"). Target advertisements are priced on either pay-per-click or pay-per-view basis. Revenue from pay-per-click advertisements is recognised upon click-through, while revenue from pay-per-view advertisements is recognised as the advertisements are viewed.

Context advertising also includes revenue related to the placement of target advertising, display advertising and advertising through integration in applications, advertising thought offers on the Group's websites and in applications, advertising via networks comprising advertising banners placement on third party websites and advertising on the Group's site communities pages. The revenue from advertising in applications, on the web pages of communities and via networks is recognised on a gross basis with costs and commissions paid to third party owners and administrators of websites, applications, platforms and communities recognised in "Agent/partner fees".

3.9.2 Internet value-added services ("IVAS")

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

3.9.2.1 Revenue from MMO games

The Group operates its games mainly under the free-to-play game model. The Group derives its online game revenue from in-game virtual items representing additional functionality and features for the game players' characters purchased by game players to play the Group's MMO games and casual games. The amounts of cash or receivables from payment systems for cash from the users, net of short messaging service operators, are not recognised as revenues and are credited to deferred revenue. They are then converted by the players into in-game points. In-game points are used to purchase in-game items. Under the item-based revenue model, revenues are recognised over the life of the in-game virtual items that game players purchase or as the in-game virtual items are consumed. Deferred revenue is reduced as revenues are recognised. The estimated life span of in-game items is determined based on historical player usage patterns and playing behaviour.

The Group enters into licensing arrangements with overseas licensees to operate the Group's games in other countries and regions. These licensing agreements provide two separate elements, each having commercial substance: the initial non-refundable fees and the usage-based royalty fees. The initial non-refundable payment represents the license of the game and is recognised as license revenue immediately once the games are launched into commercial use by the licensees. Ongoing usage-based royalties determined based on the amount of money charged to the players' accounts or services payable by players in a given country or region to the licensees are recognised when they are earned, provided that the collection is probable.

3.9.2.2 Community IVAS

The Group derives Community IVAS revenues through certain communication products, where users pay a fee for the paid content and online services, mainly through social networking web sites and through the commission from third party developers of the various applications placed on social networking web sites, including games, based on the respective applications' revenue. The fees for such services are collected from customers using various payment channels, including bank cards, online payment systems and mobile operators and from the applications developers. The mobile network operators collect fees for such services from their customers, usually through mobile short message services ("SMS"), and pass such fees to the Group. Revenues from third party applications and developers on the Group's platforms are recognised net of commission to mobile operators and any portion attributable to the developer of the application, at the time when customer payment is due. Revenues from services including games developed by the Group and operated on third party platforms are reported gross as the services are provided net of commission to mobile operators. If the amount of revenue is measured based on third party data, such amounts of revenue are recorded based on the best available data at the date of issuance of the financial statements.

3.9.3 Other revenue

3.9.3.1 Online recruitment revenue

Online recruitment revenues primarily consist of the following:

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

3 Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

Other revenue from recruitment services. Revenues from other recruitment services include revenues from different services related to recruitment process, such as training of HR managers and job seekers, assistance in conducting recruiting campaigns, etc. The Group recognises revenues related to these services in the period when the services are rendered.

3.9.3.2 Other revenues

Other revenues primarily consist of listing fees, dividend from venture investments and revenues from hosting services to third parties.

3.10 Income taxes

The Company as a Cypriot tax resident is not subject to tax on capital gains and withholding taxes. However, in some jurisdictions where the Company's subsidiaries and associates are incorporated (particularly in Russia), investment income is subject to withholding tax deducted at the source of the income. The Group presents the withholding tax separately from the gross dividend income in the statement of comprehensive income and the statement of cash flows.

The Group is also subject to taxation in Russia, the Netherlands, the United States of America and some other jurisdictions its subsidiaries operate in (see also Note 18).

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in profit or loss.

Deferred income tax
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.11 Share-based payment transactions

Employees (including senior executives) of the Group and its associates (each of which a "share-based payment recipient"), may receive remuneration in the form of share-based payment transactions, whereby share-based payment recipients render services as consideration for equity instruments ("equity-settled transactions") or a cash equivalent thereof ("cash-settled share-based payments").

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

If the Group has a choice to settle share-based payments in cash or in equity, the entire transaction is treated either as cash-settled or as equity-settled, depending on whether or not the Group has a present obligation to settle in cash.

3.11.1 Equity-settled transactions

The cost of equity-settled transactions with share-based payment recipients for awards granted is measured by reference to the fair value of the awards at the date on which they are granted. The fair value is determined using an appropriate pricing model (Black-Scholes-Merton, binomial, Monte-Carlo or other).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant share based payment recipients become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period recognised in profit or loss represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest based on estimated forfeiture rates or as actual forfeitures occur for groups of employee where we cannot make reliable estimates.

3 Summary of significant accounting policies (continued)

3.11 Share-based payment transactions (continued)

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

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (Note 19).

3.11.2 Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are provided in Note 24. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in *'Personnel expense'*.

3.11.3 Accounting for the change in form of settlement of share-based payments

As a result of modification of share-based payment awards from equity-settled to cash-settled the Group recognises a share-based payment expense which comprises as a minimum the following elements:

- the grant date fair value of the original equity-settled award; plus
- any incremental fair value arising from the modification of that award; plus
- any remeasurement of the liability between its fair value at modification date and the amount finally settled.

At the date of modification a liability is recognised based on the fair value of the cash-settled award as at that date and the extent to which the vesting period has expired, with a corresponding increase in equity. The total fair value of the cash-settled award is remeasured through profit or loss on an ongoing basis between the date of modification and the date of settlement.

3.12 Financial instruments

3.12.1 Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as effective hedging instruments, as appropriate.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as effective hedging instruments, as appropriate.

The Group determines the classification of its financial assets and liabilities at initial recognition. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, directly attributable transaction costs.

The Group’s financial assets include cash and cash equivalents, short-term time deposits, trade and other receivables, available-for-sale investments in listed and non-listed equity instruments, financial investments in associates (as defined under 3.3.1), and derivative financial assets, mainly over equity instruments of the Group’s investees. The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial liabilities, mainly over equity instruments of the Group’s associates and subsidiaries. None of the derivative financial instruments held by the Group were designated as effective hedging instruments.

3.12.2 Subsequent measurement

The subsequent measurement of financial instruments depends on their classification. The Group classifies its financial assets and liabilities into the categories below in accordance with IAS 39, as follows:

3.12.2.1 Financial assets and liabilities at fair value through profit or loss

The category of financial assets and liabilities at fair value through the profit or loss is further sub-divided into:

Financial assets and liabilities held for trading: This sub-category consists of all derivative financial assets and liabilities held by the Group. The Group did not designate any derivative financial assets and liabilities as hedging instruments in hedge relationships as defined by IAS 39.

3 Summary of significant accounting policies (continued)

3.12 Financial instruments (continued)

Financial instruments designated as at fair value through profit or loss upon initial recognition: Financial assets and liabilities at fair value through profit and loss are carried in the statement of financial position at fair value. The changes in their fair value are recognised in the statement of comprehensive income as follows:

- The changes in the fair value of financial investments in associates and those derivative financial assets and liabilities where the underlying asset is represented by equity instruments of a financial investee, are recorded under *'Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities'* and are included in the Group's operating income; and
- The changes in the fair value of derivative financial assets where the underlying asset is represented by equity instruments of a subsidiary, as well as other derivative financial assets, are recorded under *'Net gain/(loss) on financial assets and liabilities at fair value through profit or loss over the equity of subsidiaries and other agreements'*;

3.12.2.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in the statement of comprehensive income under *'Bad debt expense'* in *'Other operating expenses'*.

Loans and receivables include the assets shown in the statement of financial position under *'Trade accounts receivable'* and *'Short-term time deposits'*. Short-term time deposits are mostly deposits with Russian banks with contractual terms less than one year.

3.12.2.3 Available-for-sale investments

Available-for-sale investments includes the Group's equity investments which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial measurement, available-for-sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is de-recognised, at which time the cumulative gain or loss is recognised in other income, or determined to be impaired, at which time the cumulative loss is recognised in the statement of comprehensive income under '*Impairment losses related to available- for-sale investments'* and removed from the available-for-sale reserve. The Group elected the trade date accounting approach for recognition and de-recognition of regular way purchases and sales of financial assets. The Group elected the weighted average formula approach for determining the cost at disposal of available-for-sale financial assets.

3.12.2.4 Loans and borrowings and other financial liabilities

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in '*Finance expenses* in the statement of comprehensive income.

3.12.3 De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised where:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group de-recognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

3.12.4 Offsetting of financial instruments

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

3 Summary of significant accounting policies (continued)

3.12 Financial instruments (continued)

3.12.5 Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include: using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 22.

3.12.6 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

3.12.6.1 Financial assets carried at amortised cost

For financial assets carried at amortised cost (loans and receivables), evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss as a *'Bad debt expense'* in *'Other operating expenses'*. The allowance is estimated based on a combination of specific accounts and general ageing analysis.

Trade accounts receivable are recorded at the invoiced amount and are non-interest bearing. Credit is only granted to customers after a review of credit history. The Group maintains an allowance for doubtful accounts to reserve for the portion of receivables when collection becomes doubtful.

3.12.6.2 Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. Objective evidence of impairment of the Group's available-for-sale equity investments would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in earnings – is removed from other comprehensive income and recognised in earnings. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

3.13 Foreign currency translation

The consolidated financial statements are presented in RUR, which is the Group's presentation currency, and all values are rounded to the nearest million (RUR '000000) except per share information and unless otherwise indicated. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Group's Russian subsidiaries and associates as well as the Company itself is RUR.

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

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

3 Summary of significant accounting policies (continued)

3.14 Impairment of non-financial assets and investments in equity accounted associates

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in earnings in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in earnings.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

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

3.15 Earnings per share

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

Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which may comprise share options granted to employees of the Group.

3.16 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4 Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the reporting dates and the reported amounts of revenues and expenses during the reporting periods. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

4.1 Judgments

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the consolidated financial statements:

4.1.1 Consolidation and accounting for associates

The Company directly or indirectly owned more than 50% in certain of its investments, and owns from 20% to 50% in certain other investments. Based on its voting rights and restrictions in the respective governing documents, the Group made judgments about whether it has control or significant influence over these investments. Subsequently, these entities are either accounted for as subsidiaries (consolidated) or associates (accounted for under the equity method or as financial assets through profit or loss).

4 Significant accounting judgments, estimates and assumptions (continued)

4.1 Judgments (continued)

4.1.2 Consolidation of a structured entity

In November 2010, the Company established, as settlor, an employee benefit trust (the "Trust") under a Trust Deed dated November 11, 2010 ("Trust Deed"), the trustee of which is Mail.ru Employee Benefit Trustees Limited (the "Trustee"). The purpose of the Trust consists in holding trust funds for present and former employees and consultants and related persons. The Trustee manages employee stock options under the 2010 Option Plan (as defined in Note 24). Starting from October 2011, the Trustee was also instructed by the Company to acquire GDRs representing shares of the Company on the stock market and transfer those GDRs to employees in settlement of the 2010 Option Plan options as the options are exercised by the employees. The Group does not hold any equity interest in the Trust; however, under the Trust Deed, the Group has the power to appoint and remove the Trustee at its sole discretion. The operations of the Trust are restricted per the Trust Deed to the activities described above and are solely used by the Group. Based on these facts and circumstances, management concluded that the Group controls the Trustee and, therefore, consolidates the Trustee in its financial statements.

4.1.3 Accounting treatment of share-based payments where the Group has a choice to settle in cash or equity

The Group has wide discretion over the manner of settlement of options issued and determines the accounting treatment of the options based on whether the Group has a present obligation to settle in cash. Specifically, any option holder granted an aggregate of 20,000 or more options was only allowed to exercise the respective portion options in the form of GDRs, while exercises by the optionees granted a smaller cumulative number of options can continue to be in GDRs or cash at the Group's discretion. The terms of the option plan and past exercise history make it reasonable to expect cash settlement of most of the smaller option exercises, even though the Group continues to have discretion over the way of option exercise settlement. Larger than cumulative 20,000 options per person continue to be accounted for as equity awards.

4.2 Estimates and assumptions

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

- revenue recognition;
- fair value of financial instruments;
- useful lives of intangible assets;
- software development costs;
- impairment of goodwill and other intangible assets;
- fair value of assets and liabilities in business combinations;
- share-based payments; and
- deferred tax on undistributed earnings.

Actual results could materially differ from those estimates.

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

4.2.1 Revenue recognition – in-game items life span

Deferred revenue is recognised as revenue over the estimated life span of the in-game items purchased or as the in-game items purchased with the game points are consumed. The estimated life span of in-game items is determined based on historical player usage patterns and playing behaviour. Future usage patterns may differ from the historical usage patterns on which the Group's revenue recognition policy is based. The Group monitors the operational statistics and usage patterns of its online games and modifies the expected life span when materially different.

4.2.2 Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates and assumptions have to be made, and a degree of judgment has to be applied in establishing fair values. The judgments, estimates and assumptions include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The expected volatility in the pricing models used to measure the fair value of the derivative financial assets and liabilities is determined by reference to peer companies' historical volatility, as the issuers of the underlying equity instruments are not public. When determining risk-free rates to be used in the pricing models, regard is given to US Treasury bonds or Russian government bonds with maturities equal to the expected terms of the respective derivative financial instruments.

Detailed information on the fair values of the Group's financial instruments is available in Note 22.

4 Significant accounting judgments, estimates and assumptions (continued)

4.2 Estimates and assumptions (continued)

4.2.3 Useful life of intangible assets

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

4.2.4 Software development costs

Software development costs are capitalised in accordance with the accounting policy described in Note 3.5.1. Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

4.2.5 Impairment of goodwill and other intangible assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow (“DCF”) model. The cash flows are derived from management forecast. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Notes 7 and 11.

4.2.6 Fair value of assets and liabilities in business combinations

At the acquisition date the Group recognises separately the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation methods that require considerable judgment in forecasting future cash flows and developing other assumptions.

4.2.7 Share-based payments

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

4.2.8 Deferred taxes on undistributed earnings

Deferred tax is recognised based on estimated dividends distributions of Company’s subsidiaries taking into account limitation of cash and cash equivalents available at the reporting date.

4.3 Changes in estimates

4.3.1 Revenue deferral in certain online games

In 2015, the Group changed its estimates with respect to useful live of certain MMO games used in calculation of deferred revenue. The changes resulted from reassessment by management of the games’ remaining useful lives based on relevant recent operational statistics. The changes in estimates were recorded prospectively starting from December 31, 2015 and resulted in a decrease in revenue and an increase in deferred revenue estimated at RUR 220.

4.3.2 Deferred taxes on distribution of earnings

In 2014 the Group`s cash available significantly decreased as a result of certain business combinations (Note 6). The Group revised the estimate of possible distribution and reversed approximately RUR 1,114 of deferred taxes on unremitted earnings accrued in prior years.

Notes to Consolidated Financial Statement (continued)

5 Operating segments

In reviewing the operational performance of the Group and allocating resources, the Chief Executive Officer of the Group, who is the Group's CODM, reviews selected items of each segment's income statement, assuming 100% ownership in all of the Group's key operating subsidiaries, based on management reporting.

Management reporting is different from IFRS, because it does not include certain IFRS adjustments which are not analysed by the CODM in assessing the core operating performance of the business. Such adjustments affect such major areas as revenue recognition, deferred tax on unremitted earnings of subsidiaries, share-based payments, disposal of and impairment of investments, business combinations, fair value adjustments, amortisation and impairment thereof, net foreign exchange gains and losses, share in financial results of equity accounted associates, as well as irregular non-recurring items that occur from time to time and are evaluated for adjustment as and when they occur. The tax effect of these adjustments is also excluded from management reporting.

The financial information of the key subsidiaries acquired during the reporting period or after the reporting period but prior to the date of these consolidated financial statements is included into the segment disclosure starting from the later of:

- the beginning of the earliest comparative period included in the financial statements; and
- the date of the Group's acquisition of its first interest in the respective key subsidiary.

The financial information of subsidiaries disposed of prior to the date of these consolidated financial statements is excluded from the segment presentation starting from the beginning of the earliest period presented.

The Group has identified the following reportable segments based on the types of products and services offered:

- Email, Portal and IM;
- VK (Vkontakte);
- Social Networks (excluding VK);
- Online Games; and
- Search, E-commerce and Other Services.

The Email, Portal and IM segment includes email, instant messaging and portal (main page and verticals). It earns substantially all revenues from display and context advertising.

The VK segment includes the Group's social network Vkontakte (VK.com) and earns revenues from (i) commission from application developers based on the respective applications' revenue, and (ii) online advertising, including display and context advertising.

The Social Networks (excluding VK) segment includes the Group's two other social networks (OK and My World) and earns revenues from (i) user payments for virtual gifts, (ii) commission from application developers based on the respective applications' revenue, and (iii) online advertising, including display and context advertising.

The Online Games segment includes online gaming services, including MMO, social and mobile games. It earns substantially all revenues from (i) sale of virtual in-game items to users and (ii) royalties for games licensed to third-party online game operators.

The Search, E-commerce and Other Services segment primarily consists of search engine services earning substantially all revenues from context advertising. This segment also includes a variety of other services, which are considered insignificant by the CODM for the purposes of performance review and resource allocation.

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

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

The information about the breakdown of revenue from external customers by the customers' country of domicile and non-current assets by country is not available to the management of the Group, and it considers that the cost to develop such information would be excessive.

5 Operating segments (continued)

The income statement items for each segment for the year ended December 31, 2015, as presented to the CODM, are presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	Search, e-commerce and other	Eliminations	Group
Revenue							
External revenue	4,544	14,085	9,061	6,214	2,412	–	36,316
Intersegment revenue	4	16	–	18	346	(384)	–
Total revenue	4,548	14,101	9,061	6,232	2,758	(384)	36,316
Total operating expenses	2,805	3,863	6,615	3,157	2,137	(384)	18,193
EBITDA	1,743	10,238	2,446	3,075	621	–	18,123
Net profit							9,915

The income statement items for each segment for the year ended December 31, 2014, as presented to the CODM, are presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	Search, e-commerce and other	Eliminations	Group
Revenue							
External revenue	4,569	12,639	8,609	4,320	2,571	–	32,708
Intersegment revenue	3	31	–	1	328	(363)	–
Total revenue	4,572	12,670	8,609	4,321	2,899	(363)	32,708
Total operating expenses	2,322	3,453	5,895	2,633	1,918	(363)	15,858
EBITDA	2,250	9,217	2,714	1,688	981	–	16,850
Net profit							11,479

A reconciliation of total revenue, as currently presented to the CODM, to IFRS consolidated revenue of the Group for the years ended December 31, 2015 and 2014 is presented below:

	2015	2014
Group aggregate segment revenue, as presented to the CODM	36,316	32,708
Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:		
Effect of difference in dates of acquisition and loss of control in subsidiaries	3,025	137
Differences in timing of revenue recognition	(1,515)	(735)
Barter revenue	77	49
Dividend revenue from venture capital investments	83	168
Consolidated revenue under IFRS	37,986	32,327

A reconciliation of EBITDA, as currently presented to the CODM, to IFRS consolidated profit before income tax expense of the Group for the years ended December 31, 2015 and 2014 is presented below:

	2015	2014
Group aggregate segment EBITDA, as presented to the CODM	18,123	16,850
Adjustments to reconcile EBITDA as presented to the CODM to consolidated profit before income tax expense under IFRS:		
Effect of difference in dates of acquisition and of control in subsidiaries	1,446	432
Differences in timing of revenue recognition	(1,515)	(735)
Net loss on venture capital investments	(387)	(5)
Share-based payment transactions	(2,989)	117
Dividend revenue from venture capital investments	83	168
Non-recurring VAT charge	(250)	–
Expenses related to business combination and other	(357)	(91)
EBITDA	14,154	16,736
Depreciation and amortisation	(7,165)	(3,856)
Impairment of intangible assets	(1,397)	(408)
Share of profit of equity accounted associates	–	220
Finance income	613	408
Finance expenses	(2,326)	(767)
Other non-operating (expense)/ income	(11)	9
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of subsidiaries and other agreements	23	400
Net gain on disposal of shares in equity accounted associates and loss of significant influence	–	6,482
Net gain on acquisition of control over equity accounted associates	–	40,831
Net foreign exchange gains	832	4,661
Consolidated profit before income tax expense under IFRS	4,723	64,716

5 Operating segments (continued)

A reconciliation of net profit, as currently presented to the CODM, to IFRS consolidated net profit of the Group for the years ended December 31, 2015 and 2014 is presented below:

	2015	2014
Group aggregate segment net profit, as presented to the CODM	9,915	11,479
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payment transactions	(2,989)	117
Differences in timing of revenue recognition	(1,515)	(735)
Effect of difference in dates of acquisition and loss of control in subsidiaries	1,166	694
Amortisation of fair value adjustments to intangible assets and impairment thereof	(4,804)	(2,707)
Net (loss) / gain on financial instruments at fair value through profit or loss	(365)	395
Net gain on disposal of shares in equity accounted associates and loss of significant influence	–	6,482
Net gain on acquisition of control over equity accounted associates	–	40,831
Net foreign exchange gains	832	4,661
Share in financial results of equity accounted associates	–	220
Non-recurring VAT charge	(250)	–
Expenses related to bussines combination and other	(341)	(90)
Tax effect of the adjustments and tax on unremitted earnings	1,338	1,047
Consolidated net profit under IFRS	2,987	62,394

6 Acquisitions and disposals for 2014 and 2015

6.1 VK

In April 2014 the Group acquired 12.00% of economic interest in equity accounted associate VK.Com Limited (“VK”) for an aggregate consideration of RUR 12,630 including RUR 12,430 in cash and a written call option to acquire 100% of Headhunter with a fair value of RUR 200 (Note 22). As a result of the acquisition the Group increased its economic interest in VK to 51.99%, but did not acquire control over VK as the Group did not receive enough representation on the board of directors required for approval of major operational decisions and thus continued to account for the investment using the equity method. The Group allocated RUR 9,908 to goodwill as part of the equity method investment, RUR 3,159 to intangible assets as part of the equity method investment and RUR 437 to the acquired share in net liabilities of VK.

The acquisition of the remaining 48.01% of VK not previously owned by the Group was closed on September 16, 2014. As a result the Group obtained control over VK. The acquisition of the 48.01% was fully paid in cash in the aggregate amount of RUR 55,840. The Group funded the acquisition with its existing cash and loan (Note 22).

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

	Fair value
Property and equipment (Note 8)	1,040
Intangible assets (Note 7)	26,362
Trade accounts receivable	499
Prepaid expenses and advances to suppliers	36
Other current assets	45
Cash and cash equivalents	1,255
Total assets	29,237
Deferred income tax liabilities (Note 18)	5,157
Deferred revenue and customer advances	225
Trade accounts payable	631
Income tax payable	27
VAT and other taxes payable	101
Other payables, provisions and accrued expenses	137
Total liabilities	6,278
Total net assets	22,959

Goodwill on the transaction was calculated as the excess of:

(a) the consideration transferred by the Group measured at fair values:	
[1] Cash paid	55,840
[2] the acquisition date fair value of the Group’s previously held equity interest	60,469
Consideration transferred by the Group	116,309
over	
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	22,959
Goodwill (Note 11)	93,350

Notes to Consolidated Financial Statement (continued)

6 Acquisitions and disposals for 2014 and 2015 (continued)

6.1 VK (continued)

Goodwill is mainly attributable to the potential of VK to further enhance its leadership position in the Russian social networking market, as well as the prospects of more effective monetisation and potential synergies with the Group's other operations. Goodwill is not expected to be deductible for income tax purposes.

Intangible assets mainly include VK's trademark and customer base and are amortised over the period of 4 to 10 years.

The Group recognised a net gain of RUR 40,831 as a result of remeasuring to the acquisition date fair value of the previously held 51.99% equity interest in VK. The gain has been included in "*Net gain on acquisition of control over equity accounted associates*" in the statement of comprehensive income.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	55,840
Cash acquired (included in cash flows from investing activities)	(1,255)
Net cash flow on acquisition	54,585

The effects of the VK acqusition on the Group's revenue and net income for 2014 are presented below:

	Revenue	Net profit
The Group, excluding entities acquired in 2014	30,981	21,092
Contributed by VK	1,346	41,302*
The Group	32,327	62,394
Effect of VK acquisition as if occuring on January 1, 2014 (from January 1 to September 15, 2014)	2,987	425
The Group, as if the acquisition of VK occurred on January 1, 2014	35,314	62,819

* including gain on acquision of control in VK in the amount of RUR 40,831.

6.2 Qiwi

In 2014 the Group sold 9.11% of economic interest in equity accounted associate Qiwi plc ("Qiwi") for an aggregate net cash consideration of RUR 6,401. As a result of the disposal the Group recognised a gain in the amount of RUR 6,482 under "*Net gain on disposal of shares in equity accounted associates and loss of significant influence*" in the consolidated statement of comprehensive income. After partial disposal of the investment the Group retained a 1.31% economic interest and lost the power to participate in the financial and operating policy decisions with respect to Qiwi. Accordingly the Group derecognised its share in Qiwi as associate accounted for using the equity method and recognised its remaining investment as available-for-sale. Included in the above gain is revaluation, in the amount of RUR 824, of the retained economic investment to its fair value of RUR 946.

6.3 ICVA

In May 2015, the Group acquired an operator of a data center through the acquisition of 100% of ICVA Ltd. ("ICVA") for a cash consideration of RUR 919. The primary purpose of the acquisition of ICVA was to enhance the Group's technological independence from third party hosting service providers and to integrate the Group's data storage and transmission management. Before acquisition the Group received hosting services from ICVA based on market terms.

In accounting for the business combination, the Group has provisionally determined the amounts of ICVA's identifiable assets and liabilities. The acquisition accounting will be finalised upon completion of the tax planning and valuation of ICVA's assets and liabilities.

Notes to Consolidated Financial Statement (continued)

6 Acquisitions and disposals for 2014 and 2015 (continued)

6.3 ICVA (continued)

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

	Fair value
Property and equipment (Note 8)	424
Deferred tax assets (Note 18)	26
Other non-current assets	158
Trade accounts receivable	2
Prepaid expenses and advances to suppliers	27
Income tax prepaid	1
Other current assets	3
Cash and cash equivalents	15
Total assets	656
Deferred income tax liabilities (Note 18)	35
Trade accounts payable	20
VAT and other taxes payable	6
Other payables, provisions and accrued expenses	17
Total liabilities	78
Total net assets	578

Goodwill on the transaction was calculated as the excess of:

(a) the consideration transferred by the Group measured at fair values: Cash consideration	919
Consideration transferred by the Group	919

over

(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	578
Goodwill (Note 11)	341

Goodwill is mainly attributable to expected cost savings and synergies with the Group's other operations. Goodwill is not expected to be deductible for income tax purposes.

Property and equipment mainly includes ICVA's buildings with a remaining useful life of 15 years.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	978
Cash acquired (included in cash flows from investing activities)	(15)
Net cash flow on acquisition	963

The effects of the ICVA acquisition on the Group's revenue and net income for 2015 are presented below:

	Revenue	Net profit
The Group, excluding ICVA	37,986	2,982
Contributed by ICVA	–	5
The Group	37,986	2,987
Effect of ICVA acquisition as if occurring on January 1, 2015 (from January 1 to May 25, 2015)	–	125
The Group, as if the acquisition of ICVA occurred on January 1, 2015	37,986	3,112

7 Intangible assets

	Goodwill	Trademark	Customer base	Game software and software development costs	Other software, licenses and other	Total
Cost						
At January 1, 2014	32,969	4,468	5,494	7,167	1,568	51,666
Additions	–	8	1	1,405	222	1,636
Disposals	–	(1)	–	(358)	(103)	(462)
Additions due to acquisition of subsidiaries (Note 6)	93,411	9,401	16,269	–	951	120,032
Translation adjustment	–	20	1	709	108	838
At December 31, 2014	126,380	13,896	21,765	8,923	2,746	173,710
Additions	–	11	–	1,096	140	1,247
Disposals	–	(1)	–	(79)	(8)	(88)
Additions due to acquisition of subsidiaries (Note 6)	341	–	–	–	–	341
Translation adjustment	–	10	–	658	108	776
At December 31, 2015	126,721	13,916	21,765	10,598	2,986	175,986
Accumulated amortisation and impairment						
At January 1, 2014	–	(2,024)	(1,930)	(3,492)	(1,195)	(8,641)
Charge for the year	–	(728)	(1,129)	(653)	(294)	(2,804)
Disposals	–	1	–	352	102	455
Impairment	–	–	–	(408)	–	(408)
Translation adjustment	–	(19)	(1)	(19)	(89)	(128)
At December 31, 2014	–	(2,770)	(3,060)	(4,220)	(1,476)	(11,526)
Charge for the year	–	(1,422)	(2,922)	(636)	(415)	(5,395)
Disposals	–	–	–	41	2	43
Impairment	–	–	–	(1,397)	–	(1,397)
Translation adjustment	–	(10)	–	(7)	(47)	(64)
At December 31, 2015	–	(4,202)	(5,982)	(6,219)	(1,936)	(18,339)
Net book value						
At January 1, 2014	32,969	2,444	3,564	3,675	373	43,025
At December 31, 2014	126,380	11,126	18,705	4,703	1,270	162,184
At December 31, 2015	126,721	9,714	15,783	4,379	1,050	157,647

Game software and development costs consist of internally and externally developed and acquired software for online games in use and in process of development.

Games represent separable CGUs and the analysis of impairment was performed at the level of each game, where either impairment was previously recognised or current operating performance was below the original forecasts. The analysis included the comparison of the value in use determined based on discounted future cash flows to the carrying amount. The value in use calculation uses cash flow projections from financial budgets approved by senior management covering a period limited to the useful life of the respective game, ranging from 6 to 8 years.

Bacause of delayed launch of the game World of Speed and a significant downward revision of the forecasted cash inflows at the end of 2015, the Group fully impaired the game, recording an impairment charge of RUR 1,338. In 2014 the Group recorded an impairment charge of RUR 408 related to game software with a recoverable amount of RUR 585, mainly as a result of revisions of forecasted operating performance of the games already in use. The impairment entirely belongs to the Online Games operating segment.

The principal factors leading to the impairment loss recorded by the Group were reductions in the projected future cash flows of certain online games related to lower-than-expected actual cash inflows. The revision of the expected profitability of the games affected the future cash flow projections as of December 31, 2015. Although the Group continues to project future long-term growth in cash flows, such growth is lower for the impaired games than was estimated at the time games were launched or the businesses operating the games were acquired.

Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, remaining useful life, the amount and timing of expected future cash flows. The cash flows employed in the DCF analysis are based on the Group’s most recent budget and, for years beyond the budget, the Group’s estimates, which are based on assumed growth rates. The discount rates used in the DCF analysis are intended to reflect the risks inherent in the future cash flows of the respective cash generating units. The pre-tax discount rates used in the DCF models as of December 31, 2015 was 18.6% (2014: 27.6%).

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

- Russian online entertainment market growth rates;
- The Group's market share;
- Games operating performance and net profit margins;
- Discount rates.

8 Property and equipment

	Servers and computers	Leasehold improvements	Furniture, office equipment and motor vehicles	Assets under construction	Other property and equipment	Total
Cost						
At January 1, 2014	3,003	291	181	868	176	4,519
Additions	–	–	–	963	–	963
Transfers	1,069	212	54	(1,350)	15	–
Disposals	(82)	(2)	(15)	(12)	(19)	(130)
Additions due to acquisition of subsidiaries (Note 6)	951	18	11	60	–	1,040
Translation adjustment	88	4	31	10	(1)	132
At December 31, 2014	5,029	523	262	539	171	6,524
Additions	–	–	–	1,518	–	1,518
Transfers	1,529	11	14	(1,645)	91	–
Disposals	(149)	(12)	(7)	(15)	(1)	(184)
Additions due to acquisition of subsidiaries (Note 6)	–	–	2	49	363	414
Translation adjustment	45	1	9	4	9	68
At December 31, 2015	6,454	523	280	450	633	8,340
Accumulated depreciation and impairment						
At January 1, 2014	(1,740)	(97)	(83)	–	(81)	(2,001)
Charge for the year	(928)	(35)	(38)	–	(53)	(1,054)
Disposals	81	–	14	–	16	111
Translation adjustment	(43)	(3)	(19)	–	2	(63)
At December 31, 2014	(2,630)	(135)	(126)	–	(116)	(3,007)
Charge for the year	(1,553)	(66)	(37)	–	(114)	(1,770)
Disposals	146	12	7	–	1	166
Translation adjustment	(34)	(1)	(7)	–	–	(42)
At December 31, 2015	(4,071)	(190)	(163)	–	(229)	(4,653)
Net book value						
At January 1, 2014	1,263	194	98	868	95	2,518
At December 31, 2014	2,399	388	136	539	55	3,517
At December 31, 2015	2,383	333	117	450	404	3,687

9 Consolidated subsidiaries

These consolidated financial statements include the assets, liabilities and financial results of the Company and its subsidiaries, whose main activity is providing Russian-language Internet services. The significant subsidiaries as at December 31, 2015 and 2014 are listed below:

		Ownership,%*	
Subsidiary	Main Activity	December 31, 2015	December 31, 2014
Mail.Ru Internet N.V. (Netherlands)	Holding entity	100.0%	100.0%
Mail Coöperatief UA (Netherlands)	Holding entity	100.0%	100.0%
MRGroup Investments Limited (Cyprus)	Holding entity	100.0%	100.0%
Port.ru, Company (USA)	Holding entity	100.0%	100.0%
Mail.Ru, LLC (Russia)	Online portal services	100.0%	100.0%
NBCO Money.Mail.Ru, LLC (Russia)	Internet payment system	100.0%	100.0%
Mail.Ru Development LLC	Reserch and development of online products	100.0%	100.0%
Astrum Online Entertainment Limited (BVI)	Holding entity	100.0%	100.0%
Benstar Limited (BVI)	Support of online games	100.0%	100.0%
Mail.Ru Games LLC (Russia)	Development and support of online games	100.0%	100.0%
Online Games Holding Limited (BVI)	Holding entity	100.0%	100.0%
Headhunter Group Limited (BVI)	Holding company	100.0%	100.0%
Headhunter LLC (Russia)	Online recruiting services	100.0%	100.0%
Headhunter LLC (Ukraine)	Online recruiting services	51.0%	51.0%
Headhunter.KZ LLC (Kazakhstan)	Online recruiting services	66.0%	66.0%
CV Keskus OU (Estonia)	Online recruiting services	100.0%	100.0%
Headhunter FSU Limited (Cyprus)	Holding company	100.0%	100.0%
100 Rabot Tut LLC (Belarus)	Online recruiting services	50.0%	50.0%
OU Forticom (Estonia)	Holding company	100.0%	100.0%
Internet company Mail.Ru LLC	Holding company	100.0%	100.0%
Odnoklassniki LLC (Russia)	Social network	100.0%	100.0%
Odnoklassniki Ltd (UK)	Holding company	100.0%	100.0%
Radikal-Internet LLC (Russia)	Photo hosting	80.0%	80.0%
Forticom Group Limited (BVI)	Holding company	100.0%	100.0%
SIA Forticom (Latvia)	Development and support of social network	100.0%	100.0%
ICQ LLC (USA)	Holding company	100.0%	100.0%
Data Center M100 LLC (Russia)	Hosting services	100.0%	100.0%
My.com B.V.	Hosting services	100.0%	100.0%
Mail.ru Internet Holdings B.V.	Holding company	100.0%	100.0%
MGL Partnership C.V.	Holding company	100.0%	100.0%
Mail.ru Aggregates B.V.	Holding company	100.0%	100.0%
Mail.ru Foreign Holdings B.V.	Holding company	100.0%	100.0%
Mail.ru Holdings B.V.	Holding company	100.0%	100.0%
MY.COM US, Inc.	Support of online games and portal services	100.0%	100.0%
VK.COM Limited (BVI)	Holding company	100.0%	100.0%
VK.COM Holdings ltd (Cyprus)	Holding company	100.0%	100.0%
Vkontakte LLC (Russia)	Social network	100.0%	100.0%
Vkontakte LLC (Ukraine)	Social network	100.0%	100.0%
ICVA LLC (Russia)	Holding company	100.0%	100.0%

* The ownership percentages above represent the Company's effective indirect ownership in each subsidiary. There are no differences between economic and voting rigths which the Group holds in subsidiaries.

10 Investments in equity accounted associates

The Group has investments in associates operating popular Internet websites and providing various services over the Internet.

Investments in equity accounted associates at December 31, 2015 and 2014 comprised the following:

		Voting shares		Carrying value	
Associate	Main activity	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Haslop Company Limited (Cyprus) and Russian subsidiaries (collectively, "Mamba")	Provides content for www.love.mail.ru, a vertical of the www.mail.ru portal operated by a subsidiary of Mail.Ru Internet NV	31.19%	31.19%	563	586
Nikita Management Limited (BVI)	Holds 100% in OOO Fun Factory (Russia) engaged in online gaming services	50%	50%	80	80
Total				643	666

The above entities have the same reporting date as the Company. None of the entities were listed on a public exchange as of December 31, 2015.

In 2015 the Group received dividends from Mamba in the amount of RUR 23 (2014: 64).

11 Impairment testing of goodwill

The table below shows movements in goodwill per groups of CGUs, corresponding to the Group`s operating segments for each of the years ended December 31, 2015 and 2014:

	Email, Portal and IM	Social Networks	Online Games	Search	E-commerce and Other	Vkontakte	Total
Cost at January 1, 2014	8,192	18,474	1,952	2,496	1,855	–	32,969
Additions	–	–	–	–	61	93,350	93,411
Cost at December 31, 2014	8,192	18,474	1,952	2,496	1,916	93,350	126,380
Additions	–	–	–	–	–	341	341
Cost at December 31, 2015	8,192	18,474	1,952	2,496	1,916	93,691	126,721

The recoverable amount of goodwill has been determined based on value in use calculations as of December 31, 2015 and 2014.

Value in use

At December 31, 2015, value in use was determined using cash flow projections from financial budgets and forecasts approved by senior management covering a six to nineyear periods. The Group used the cash flow projections based on financial forecasts over a period longer than five years as it is confident that these projections are reliable and accurate.

The major assumptions used in the DCF models at December 31, 2015 are presented below:

	Email, Portal and IM	Social Networks	Online Games	Search	E-commerce and Other	Vkontakte
Terminal growth rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Pre-tax discount rate	18.6%	19.3%	19.8%	18.8%	18.6%	18.2%

Determining value in use requires the exercise of significant judgment, including judgment about appropriate discount rates, terminal growth rates, the amount and timing of expected future cash flows. The cash flows employed in the DCF analysis are based on the Group's most recent budget and, for years beyond the budget, the Group's estimates, which are based on assumed growth rates. The discount rates used in the DCF analysis are intended to reflect the risks inherent in the future cash flows of the respective cash generating units. Terminal growth rates approximate expected nominal GDP growth rates beyond the forecast period.

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

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

A decrease of 5 percentage points in VKontakte revenue CAGR would result in an impairment of 22% of carrying amount in the Vkontakte CGU as of December 31, 2015.

Reasonably possible changes in any valuation parameters would not result in impairment of goodwill of any other CGU. No impairment of goodwill was recognised in 2015 and 2014.

12 Trade accounts receivable

As of December 31, 2015 and 2014 trade receivables comprised the following:

	December 31, 2015	December 31, 2014
Trade accounts receivable, gross	4,045	4,061
Provision for impairment of trade receivables	(461)	(389)
Total trade receivables, net	3,584	3,672

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

Balance as of January 1, 2014	(209)
Charge for the year	(180)
Balance as of December 31, 2014	(389)
Charge for the year	(90)
Accounts receivable written off	18
Balance as of December 31, 2015	(461)

12 Trade accounts receivable (continued)

Trade receivables not impaired as of December 31, 2015 and 2014 are presented below:

		Ageing of receivables (days)			
	Total	<90	90-180	180-360	>360
As of December 31, 2015					
Trade accounts receivable	3,584	3,488	92	2	2
As of December 31, 2014					
Trade accounts receivable	3,672	3,370	298	2	2

The accounts receivable balances as of December 31, 2015 and 2014 mainly represented amounts due from online electronic payment systems and advertising customers.

The trade receivables are settled in RUR on a 40-90 days basis. There is no requirement for collateral to receive credit.

Management considers that the carrying amount of the receivable balances approximated their fair value as of December 31, 2015 and 2014.

13 Cash and cash equivalents and short-term deposits

As of December 31, 2015 and 2014 cash and cash equivalents consisted of the following:

	Currency	December 31, 2015	December 31, 2014
Current accounts and cash on hand:	USD	945	686
	RUR	1,772	1,039
	EUR	622	236
	Other	36	68
Total current accounts and cash on hand		3,375	2,029
Deposit accounts with an original maturity of three months or less:	USD	48	759
	RUR	5,248	1,780
	Other	5	17
Total deposit accounts with an original maturity of three months or less		5,301	2,556
Total cash and cash equivalents		8,676	4,585
Short-term deposit accounts with an original maturity of over three months	RUR	16	490
Total short-term deposits		16	490
Total cash and cash equivalents and short-term deposits		8,692	5,075

14 Share capital

14.1 Charter capital and share issues

The charter capital of the Company consisted of 208,582,082 ordinary shares and 11,500,100 Class A shares with USD 0.000005 par value each as of December 31, 2015, while the number of authorised shares of the Company as of the same date consisted of 10,000,000,000 ordinary shares and 10,000,000,000 Class A shares. GDRs representing 976,839 shares of the Company were held in treasury by the Group as of December 31, 2015.

The charter capital of the Company consisted of 197,604,111 ordinary shares and 11,500,100 Class A shares with USD 0.000005 par value each as of December 31, 2014, while the number of authorised shares of the Company as of the same date consisted of 10,000,000,000 ordinary shares and 10,000,000,000 Class A shares. GDRs representing 988,079 shares of the Company were held in treasury by the Group as of December 31, 2014.

As of December 31, 2015 and 2014 all issued shares were fully paid.

Rights attached to the share classes as of December 31, 2015 and 2014

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

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

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

14 Share capital (continued)

14.1 Charter capital and share issues (continued)

Each Class A share has the right to twenty five votes and each ordinary share has the right to one vote at a meeting of members of the Company or on any resolution of members of the Company.

For additional details on the options over the shares of the Company outstanding as of December 31, 2015 and 2014, refer to Note 24.

14.2 GDR buying programme

Starting 2011, the Trustee commenced a GDR buying programme in order to cover a part of the employee and director options. Under the GDR buying programme, the Trustee acquires GDRs representing shares of the Company and will subsequently transfer the GDRs to the respective option holders upon the exercise of the options. The Trustee intends to hold the GDRs to be used over the next four years.

During 2014 the Trustee acquired a total of 1,012,885 GDRs on the market for an aggregate consideration of RUR 1,337. The Group accounts for GDRs repurchased as treasury shares.

14.3 Restricted stock

In February 2015, the Board of Directors of the Company approved a new long-term incentive plan based around restricted stock units (RSU) equivalent to up to 5% of total shares outstanding. In June 2015 the Company issued the shares that were transferred to be held as treasury shares. The transaction was recognised at nominal amount.

15 Other assets

The table below represents other non-current assets:

	December 31, 2015	December 31, 2014
Advance under office lease contract	565	730
Other non-current assets	180	21
Total other non-current assets	745	751

The following table represents other current assets:

	December 31, 2015	December 31, 2014
Inventory	26	46
VAT receivable	85	155
Interest receivable	10	16
Other current assets	74	87
Total other current assets	195	304

16 Other payables, provisions and accrued expenses

Other payables, provisions and accrued expenses consist of:

	December 31, 2015	December 31, 2014
Payables to personnel	1,830	923
Accrued vacations	606	561
Accrued professional consulting expenses	35	42
Interest payable	101	147
Payables under lease contract	154	117
Other current payables and provisions	340	319
Total other payables, provisions and accrued expenses	3,066	2,109

Notes to Consolidated Financial Statement (continued)

17 Other revenues and expenses

17.1 Other revenues

	2015	2014
Online recruitment services	2,814	2,784
Listing fees	95	95
Dividend revenue from venture capital investments	83	168
Other	250	156
Total other revenue	3,242	3,203

17.2 Other operating expenses

In 2015 Other operating expenses primarily consist of bad debt allowance, VAT and other taxes, various office expenses. Other operating expenses increased by 54% mostly due to a non-recurring VAT charge.

18 Income tax

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

The Russian Federation

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

Cyprus

The Company and the Group's subsidiaries and associates incorporated or tax residents in Cyprus are subject to a 12.5% corporate income tax applied to their worldwide income. Capital gains derived from sale of securities are tax exempt (except for capital gains realised in connection with sale of shares in companies deriving their value or the greater part of their value from immovable property located in Cyprus). Dividend income is also tax exempt.

British Virgin Islands

The Company and its subsidiaries and associates incorporated in the British Virgin Islands are exempt from all taxes under the respective laws, unless they become tax residents in other jurisdictions.

The United Kingdom

The Group's subsidiaries registered in the United Kingdom are subject to corporate income tax at a standard rate of 20.25% rate applied to their worldwide income.

United States of America

The Group's subsidiaries incorporated in the USA are subject to federal corporate income tax at standard rates of up to 35% applied to their taxable income.

Estonia

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

The Netherlands

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

18 Income tax (continued)

The reconciliation between tax expense and the product of accounting profit multiplied by domestic rates applicable to individual Group entities for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Profit before income tax expense	4,723	64,716
Tax at domestic rates applicable to individual Group entities	(1,867)	(3,367)
Non-taxable foreign exchange gains	746	–
Non-deductible expenses	(434)	(122)
Tax on unremitted earnings	(136)	1,216
Tax accruals and penalties	(129)	–
Tax on dividends	(19)	(101)
Adjustments in respect of current income tax of previous year	72	(4)
Utilisation of previously unrecognised tax loss	31	56
Total income tax expense	(1,736)	(2,322)

The majority of our taxable profits as well as income tax expenses in 2015 and 2014 are generated in Russia. Pre-tax gains and losses in other jurisdictions in 2015 and 2014 mostly relate to acquisitions and disposals, fair value revaluation, foreign exchange gains and losses, and other similar items which are generally non-taxable in those jurisdictions. These items affect pre-tax profit, but do not have an influence on income tax expense, which has an effect on the blended tax rate.

Deferred income tax assets and liabilities as of December 31, 2015 and 2014 are summarised below:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	December 31, 2015	December 31, 2014	2015	2014
Deferred tax liabilities arising from:				
Intangible assets book basis in excess of tax basis	(5,241)	(6,151)	909	516
Basis of investment in associate in excess of tax basis	(135)	(135)	–	–
Unremitted earnings of subsidiaries	(482)	(343)	(136)	1,216
Other	(148)	(166)	58	(22)
Total deferred tax liabilities	(6,006)	(6,795)	831	1,710
Deferred tax assets arising from:				
Tax credit carryforwards	–	71	(73)	62
Deferred compensation and accrued employee benefits	273	183	84	(24)
Accrued expenses	142	68	73	(7)
Revenue recognition	1,716	1,352	361	544
Impairment of intangible assets	328	–	328	–
Unrealised intercompany profit	162	63	99	15
Other	224	103	101	28
Total deferred tax assets	2,845	1,840	973	618
Net deferred tax assets/(liabilities)	(3,161)	(4,955)	1,804	2,328

As of December 31, 2015 and 2014, deferred tax liability was provided for withholding and other taxes on unremitted retained earnings of Mail.Ru Coöperatief UA subsidiaries, because in 2009 those subsidiaries started to pay dividends to their shareholders and the Group expects this practice to continue in the future. The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised, aggregate to RUR 52,239 (2014: RUR 42,682).

Changes in net deferred tax liability from January 1, 2014 to December 31, 2015 were as follows:

	2015	2014
Total deferred income tax liability, net at January 1	(4,955)	(2,145)
Translation reserve	(1)	19
Deferred tax benefit	1,804	2,328
Effect of acquisition of control	(9)	(5,157)
Total deferred income tax liability, net at December 31	(3,161)	(4,955)

	2015	2014
Current income tax expense	3,540	4,650
Deferred income tax benefit	(1,804)	(2,328)
Total income tax expense	1,736	2,322

19 EPS

19.1 Basic EPS

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

	2015	2014
Net profit attributable to equity holders of the Company	2,937	62,353
Weighted average number of ordinary and class A shares in issued and outstanding	208,120,764	208,259,629
Basic EPS (RUR per share)	14.1	299.4

19.2 Diluted EPS

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

For share options and RSUs, a calculation is done to determine the number of shares that would have been issued assuming the exercise of the share options and RSUs. The above number is added to the denominator as an issue of ordinary shares for no consideration. Net profit attributable to shareholders of the Company (numerator) is adjusted for the gain from cash settled options

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

	2015	2014
Net profit attributable to equity holders of the Company	2,937	62,353
Adjustment for the gains from cash setlled options	-	(537)
Adjusted net profit attributable to equity holders of the Company	2,937	61,816
Weighted average number of ordinary and class A shares issued and outstanding	208,120,764	208,259,629
Effect of equity-settled share based payments of the Company	481,280	1,862,226
Total diluted weighted average number of shares	208,602,044	210,121,855
Diluted EPS (RUR per share)	14.1	294.2

20 Commitments, contingencies and operating risks

20.1 Operating environment of the Group

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

In 2015, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries in 2014. The Rouble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

20.2 Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group’s management believes that its interpretation of the relevant legislation is appropriate and is in accordance with the current industry practice and that the Group’s tax, currency and customs positions will be sustained. However, the interpretations of the relevant authorities could differ and the effect of additional taxes, fines and penalties on these consolidated financial statements, if the authorities were successful in enforcing their different interpretations, could be significant.

20 Commitments, contingencies and operating risks (continued)

20.2 Taxation (continued)

The Russian transfer pricing legislation, which came into force on January 1, 2012, allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all the transactions with each related party exceeds RUR 1,000. In cases where a domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities based on a special notification issued by an authorised body in due course. The current Russian transfer pricing rules have considerably increased the compliance burden for taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions which took place in 2014 and 2015 but also to the prior transactions with related parties if related income and expenses were recognised in 2014 and 2015. Special transfer pricing rules apply to transactions with securities and derivatives. Because of the lack of clarity in current Russian transfer pricing legislation and the absence of court precedent, the Russian tax authorities may challenge the level of prices applied by the Group under "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

20.3 Legal proceedings

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all current and potential legal matters will not have a material adverse impact on the Group's financial position or operating results.

20.4 Competition

The development by domestic and large international internet companies of Russian language versions of the services competing with the services the Group provides could decrease Group's user base and make it less attractive to advertisers.

Increased competition could also result in a reduction in the number of users who buy the Group's Community IVAS which, in turn, would result in lower revenue and net income. Similarly, the Group may be required to spend additional resources to promote or improve its services in order to compete effectively, which could require additional capital or adversely affect the Group's profitability.

20.5 Private information

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

20.6 Intellectual property rights

The Group may be subject to infringement claims from third parties in the future resulting from the technology and intellectual property used in the provision and marketing of its services. If the Group is found liable for infringement, it may be required to pay significant damages, and if it is unable to license or develop non-infringing technology on a timely basis, it may be unable to continue offering the affected services without risk of liability. Similarly, third parties may obtain and use the Group's intellectual property without authorisation. The validity, application, enforceability and scope of protection of intellectual property rights for many Internet-related activities are uncertain and still evolving, which may make it more difficult for the Group to protect its intellectual property and could have a material effect on its business, results of operations and financial condition. The Group has been subject to such proceedings. Although none of them was individually significant, similar potential claims may subject the Group to significant losses in the future, which currently cannot be reliably estimated.

20.7 Development

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

20.8 Regulation

New laws and regulations, or new interpretations of existing laws and regulations (especially in the payment processing business), could require the Group to invest in restructuring certain services or could lead to a reduction in their take-up by users, with a resulting effect on revenue and profitability.

The law on amending the Federal Law *On Information, Information Technologies and Protection of Information* (the "Anti-extremism Law") came into force on February 1, 2014. According to the Anti-Extremism law, the Prosecutor General of Russia (or his deputies) may apply to Roscomnadzor to block websites on which the Prosecutor finds any prohibited information concerning appeals to mass riots, extremist activities or participation in mass (public) actions held in infringement of the established order. The website may be blocked without the need for any court order or a mandatory preliminary notification to the site. Access is granted anew after the prohibited information is removed and Roscomnadzor is notified. The Group's failure or the failure of Group's third party providers, to accurately comply with the Anti-extremism Law or takedown requests could create liability for the Group, result in adverse publicity, or could otherwise have a material adverse effect on Group's business, results of operations and financial condition.

20 Commitments, contingencies and operating risks (continued)

20.8 Regulation (continued)

A Law No. 97-FZ came into force on August 1, 2014 ("Law on Bloggers"). This law among other introduces requirements to the sites and/or services that enable users to publish and share information to, amongst others, notify the authorities about the commencement of such activities, store the data on receipt, transfer, processing of the users' information in the Russian Federation for the period of 6 months, share the information on users' actions with the authorized governmental body upon a relevant request, and be in line with certain technical requirements set by authorities. Access to web-sited non-complying with the requirements could be blocked. In addition, owners of web-sites and internet pages with more than 3,000 daily users are required to be identified, registered with a special register and comply with certain requirements in respect of the materials published on web-sites and internet pages under their control.

On July 13, 2015 Amendments to the Federal Law No. 264-FZ *Concerning Information, Information Technologies and Information Security* and Articles 29 and 402 of the Civil Procedure Code of the Russian Federation were introduced. The law enters into force from January 1, 2016. According to this law, the operator of a search engine upon user's request is obliged to remove any search results (links), which lead to information about such user, distributed with violation of the laws of the Russian Federation, misleading or no longer relevant, except for the information on events that contain elements of criminal offense the limitation period for which has not expired, and the information about crimes committed by user if the record of conviction has not been removed or canceled. The user may file a claim with the court if the operator refuses to remove the link.

The Group complies with the new laws and none of the Group's properties have been blocked up to date.

20.9 Personnel

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

20.10 Infrastructure and capacity

If the infrastructure in Russia were not able to support increased demand, the Group's services could be interrupted or the Group's systems damaged. A limited availability of third-party providers of network and server capacity could limit the Group's ability to offer certain services or to expand. Network or power failures could result in the loss of data and in a reduction in the number of users, which could have a material effect on the Group's business, results of operations and financial condition.

20.11 Operating lease commitments – the Group as a lessee

The table below summarises minimum lease payments under non-cancellable operating lease contracts where the Group is a lessee:

	2015	2014
	Minimum lease payments	Minimum lease payments
Less than 1 year	2,558	1,710
From 2 to 5 years	1,885	6,145
More than 5 years	–	–
Total	4,443	7,855

The Group mainly leases office premises. In 2015 operating lease expense in the consolidated statement of comprehensive income amounted to RUR 1,786 (2014: RUR 1,369). The minimum lease payments denominated in currency other than RUR are calculated based on exchange rate of Central Bank of Russia as of December 31, 2015 or according to appropriate agreement.

21 Balances and transactions with related parties

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year, excluding Directors and key management of the Group (see Notes 21.2 and 21.3). All related party transactions were made in accordance with contractual terms and conditions agreed between the parties.

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
2015				
Equity accounted associates	137	–	52	5
Other entities	–	17	–	2
2014				
Equity accouned associates	256	120	127	5
Other entities	–	37	–	3

21 Balances and transactions with related parties (continued)

21.1 The ultimate controlling party

Starting from June 7, 2013, the Group was ultimately controlled by Mr Alisher Usmanov. The Group did not have an ultimate controlling party prior to that date. In August 2014, Mr Alisher Usmanov lost control over the Group as a result of a decrease in voting power in USM Holdings Ltd. ("USM") to 48%. Thenceforth, USM has been the ultimate controlling party of the Group through ownership in New Media and Technology Investment L.P, New Media Technologies Capital Partners Limited and Ardoe Finance Limited, the shareholders of the Group.

21.2 Directors of the Company

Total cash remuneration of the members of the Board of Directors (each a “Director” and collectively, “Directors”) of the Company amounted to RUR 94 for the year ended December 31, 2015 (2014: RUR 55). No options over the shares of the Company were granted to Directors in 2015 or 2014. During the year ended December 31, 2015, Directors did not forfeit any options (2014: nil) and did not exercise any options (2014: nil). The corresponding share-based payment expense was RUR 82 for the year ended December 31, 2015 (2014: a negative RUR 215).

21.3 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 511 for the year ended December 31, 2015 (2014: 459). In addition to the cash remuneration for the year ended December 31, 2015, key executive employees of the Group were granted 4,180,000 RSUs out of 2015 RSU Plan (Note 24) (2014: 23,000 options at the exercise price of USD 19.6 per share). During the year ended December 31, 2015, key management of the Group (excluding Directors) forfeited options over 83,250 shares (2014: 7,500) and did not exercise any options (2014: 572,738). The corresponding share-based payment expense amounted to RUR 1,682 for year ended December 31, 2015 (2014: 552).

22 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of December 31, 2015 and December 31, 2014 and are presented by category of financial instruments in the table below:

	Category*	December 31, 2015	December 31, 2014
Financial assets			
Financial investments in associates	FAFVPL	963	1,350
Financial derivatives under lease and hosting contracts	FAFVPL	280	267
Available-for-sale equity investment	AFSFA	932	809
Long-term deposits	LR	2	1
Trade accounts receivable	LR	3,584	3,672
Loans and interest receivable	LR	70	61
Short-term time deposits	LR	16	490
Cash and cash equivalents	LR	8,676	4,585
Total financial assets		14,523	11,235
Current		*12,505*	*8,871*
Non-current		*2,018*	*2,364*
Total derivative financial assets		280	267
Current		*173*	*70*
Non-current		*107*	*197*
Financial liabilities			
Long-term interest-bearing loans and related interest payable	FLAC	15,307	22,209
Other non-current liabilities	FLFVPL	–	96
Trade accounts payable	FLAC	2,374	2,081
Total financial liabilities		17,681	24,386
Current		*7,350*	*8,085*
Non-current		*10,331*	*16,301*

* Financial instruments used by the Group are included in one of the following categories:

- FAFVPL – financial assets at fair value through profit or loss;
- AFSFA – available-for-sale financial assets;
- LR – loans and receivables;
- FLFVPL – financial liabilities at fair value through profit or loss; or
- FLAC – financial liabilities at amortised cost.

22 Financial instruments (continued)

Except for the Group's available-for-sale investment in Qiwi none of the Group's financial investees are public companies and none of the Group's financial instruments are traded in active markets. Accordingly, fair values of the Group's financial assets and liabilities at fair value through profit or loss are determined using valuation techniques, including discounted cash flow models, comparison to similar instruments for which observable market prices exist, option pricing models and other relevant valuation models. Such valuation techniques require management to make certain assumptions about model inputs, including credit risk and volatility.

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

22.1 Available-for-sale financial assets

The Group's available-for-sale equity instruments as of December 31, 2015 and 2014 are summarised in the table below:

	Economic shareholding*		Carrying amount	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Investment in Qiwi	1.31%	1.31%	932	809
Total			932	809

* Share calculated excluding the potential dilutive effect of options and other instruments convertible into shares of the investee

The fair value of the Group's investment in Qiwi was determined based on the quoted price of the Qiwi shares.

22.2 Financial assets classified as loans and receivables

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

22.3 Fair value hierarchy

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

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

As at December 31, 2015 and 2014 the Group held the following financial instruments measured at fair value:

	December 31, 2015	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in associates	963	–	–	963
Financial derivatives under lease and hosting contracts	280	–	–	280
Total financial assets at fair value through profit or loss	1,243	–	–	1,243
Available-for-sale equity investment	932	932	–	–
Total financial assets measured at fair value	2,175	932	–	1,243

	December 31, 2014	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in associates	1,350	–	–	1,350
Financial derivatives under lease and hosting contracts	267	–	–	267
Total financial assets at fair value through profit or loss	1,617	–	–	1,617
Available-for-sale equity investment	809	809	–	–
Total financial assets measured at fair value	2,426	809	–	1,617
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – derivative and other financial liabilities over the equity of investees	(10)	–	–	(10)
Total financial liabilities measured at fair value	(10)	–	–	(10)

Notes to Consolidated Financial Statement (continued)

22 Financial instruments (continued)

22.3 Fair value hierarchy (continued)

The balance of Level 3 measurements as of January 1, 2014 is reconciled to the balance of those measurements as of December 31, 2015 as follows:

	Balance as of January 1, 2014	Reclassification	Purchases	Issue of option as part of consideration for VK	Sales	Gains/(losses) recognized in profit and loss	Balance as of December 31, 2014
Financial assets measured at fair value							
Financial assets at fair value through profit or loss:							
Financial investments in associates	1,293	46	81	–	(65)	(5)	1,350
Financial derivatives under lease and hosting contracts	37	–	–	–	–	230	267
Convertible note	46	(46)	–	–	–	–	(0)
Derivative financial assets over the equity of investees	20	–	–	–	–	(20)	–
Total financial assets at fair value through profit or loss	1,396	–	81	–	(65)	205	1,617
Financial liabilities measured at fair value							
Financial liabilities at fair value through profit or loss – derivative and other financial liabilities over the equity of investees	–	–	–	(200)	–	190	(10)
Total financial liabilities measured at fair value	–	–	–	(200)	–	190	(10)

	Balance as of January 1, 2015	Gains/(losses) recognized in profit and loss	Balance as of December 31, 2015
Financial assets measured at fair value			
Financial assets at fair value through profit or loss:			
Financial investments in associates	1,350	(387)	963
Financial derivatives under lease and hosting contracts	267	13	280
Total financial assets at fair value through profit or loss	1,617	(374)	1,243
Financial liability measured at fair value			
Financial liabilities at fair value through profit or loss - derivative over the equity of subsidiary	(10)	10	–
Total financial liabilities measured at fair value	(10)	10	–

In March 2014 the Group issued a three month call option over 100% of Headhunter as a part of consideration for VK additional stake acquisition (Note 6) with a fair value of RUR 200. In June 2014 the option expired unexercised. The Group de-recognised the respective financial liability and recognized a gain under "Net gain on financial assets and liabilities at fair value through profit or loss over the equity of equity accounted associates, subsidiaries and other agreements" in its consolidated statement of comprehensive income. The Group retained control over Headhunter considering non-substantive nature of the option

22.4 Interest-bearing loan

In September 2014 the Group partially funded the VK acquisition with a 11.5% fixed rate loan in the total amount of RUR 22,037 (net of a loan origination fee of RUR 189) with a maturity date of September 10, 2018 (Note 6). The loan agreement contains restrictive financial and non-financial covenants that the Group as the borrower is obliged to fulfill. Restrictive covenants include maintaining certain financial ratios. As of December 31, 2015 the Group complies with all restrictive covenants contained in loan agreement.

The principal amount is repayable as follows:

	RUR
2016	4,927
2017	5,927
2018	4,445
Total	15,299

The interest is paid on a quarterly basis.

23 Financial risk management objectives and policies

23.1 Introduction

The Group's principal financial liabilities, other than derivatives, mainly comprise an interest-bearing bank loan and trade accounts payable. The main purposes of these financial liabilities are to finance the Group's operations and, in the case of the loan, a business acquisition. The Group has short-term receivables, short-term time deposits, cash and cash equivalents and other current financial assets that arise directly from the Group's operations. The Group believes that the interest rate risk which related to fluctuation of market interest rate has been largely mitigated through the use of a fixed interest rate on the loan, applicable for the entire period of the loan.

The Group also has a venture capital investment portfolio consisting of equity investments in Internet start-ups and smaller Internet companies and derivative contracts over the equity of the Group's venture capital investees.

The Group's senior management is responsible for identifying and controlling risks. These activities are supervised by the Board of Directors, the Group's governing body that is ultimately responsible for the Group's overall approach to risk management. The Board of Directors is developing risk management policies covering the following major aspects: identification and analysis of the risks the Group faces, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management procedures and systems are contemplated to be reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

The Group's Audit Committee has been established to oversee, inter alia, how management monitors compliance with the Group's risk management practices and procedures when these are approved by the Board of Directors.

23.2 Liquidity and financial resources

The Group monitors its risk of a shortage of funds using a liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of operating cash flows, bank overdrafts, bank loans (Note 22). Approximately 32% of the Group's debt will mature in less than one year at December 31, 2015, based on the carrying value of borrowings reflected in the financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Other financial liabilities of the Group are mostly represented by trade payables with maturity less than one year.

23.3 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

Financial assets, which potentially subject the Company and its subsidiaries and associates to credit risk, consist principally of cash and cash equivalents, short-term time deposits and short-term receivables. The total of these account balances represents the Group's maximum exposure to credit risk.

The Group places its cash and cash equivalents with highly rated financial institutions, which are considered at the time of deposit to have minimal risk of default. The Group does not require collateral or other security to support the financial instruments subject to credit risk. Accounts receivable from the two largest customers collectively represented 18% of total trade accounts receivable of the Group as of December 31, 2015 and 16% as of December 31, 2014. No customer accounted for more than 5% of revenue in 2015 or 2014.The Group provides credit payment terms to its customers in accordance with market practices and based on thorough review of the customer's profile and creditworthiness. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss beyond the allowance already recorded.

23.4 Capital management policy

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value. The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants it is subject to under the loan agreement (see Note 22).

23.5 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The market risks the Group is exposed to comprise two types of risk: currency risk (Note 23.6) and equity risk. The Group's financial instruments affected by market risk include payables, cash and cash equivalents, short-term time deposits, available-for-sale investments, financial investments in associates and derivative financial instruments. The Group's equity risk arise from uncertainties about future values of the investment into unlisted securities. The effects of a reasonable changes of unobservable inputs on fair value presented below:

Model	Unobservable inputs	Reasonable change	December 31, 2015	Decembler 31, 2014
DCF method	Earrnings stream	10.0%	52	75
DCF method	Discount rate	5.0%	101	130
Recent cash transaction	Price	5.0%	16	28

23 Financial risk management objectives and policies (continued)

23.6 Foreign currency risk

The following tables demonstrate the sensitivity to a reasonably possible change in USD and EUR exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	Effect on profit before tax
2015	+30%	184
	-30%	(184)
2014	+42%	770
	-42%	(770)

	Change in EUR rate	Effect on profit before tax
2015	+17%	66
	-17%	(66)
2014	+34%	97
	-34%	(97)

24 Share-based payments

24.1 Share-based payment arrangements of the Company

24.1.1 Option plans

During 2015 and 2014, the Company had the following outstanding option plans:

	2010 Option Plan	2015 RSU Plan
Adoption date	November 2010	February 2015
Type of shares	Ordinary shares	Ordinary shares
Number of options or RSU reserved	10,706,403	10,997,971
Exercise price	Granted: • prior December 31, 2011 – USD 19.60 • since December 31, 2011 – USD 17.50	nil
Exercise basis	Prior to November 2011 – net share basis only Since November 2011 – net share basis or cash at the Group's discretion	Shares or cash at the Group's discretion
Expiration date	December 2022	December 2022
Vesting period	Generally 4 years	Generally 4 years
Other major terms	• The options are not transferrable; • All other terms of the options under the 2010 Option Plan are to be determined by the Company's Board of Directors or Remuneration Committee.	• The options are not transferrable; • All other terms of the options under the 2015 RSU Plan are to be determined by the Company's Board of Directors or Remuneration Committee.

24 Share-based payments (continued)

24.1 Share-based payment arrangements of the Company (continued)

24.1.2 Changes in outstanding options

The table below summarises the the number and weighted average exercise prices (WAEP) of and movements in share options and RSUs in 2015 and 2014:

	Number of options/RSUs	WAEP
Outstanding as of December 31, 2013	6,811,790	18.65
Exercisable as of December 31, 2013	2,571,540	18.72
Available for grant as of December 31, 2013	659,293	17.51
Granted during the year	48,000	18.73
Exercised during the year	883,988	18.76
Cancelled during the year	10,400	19.60
Forfeited during the year	84,200	18.60
Outstanding as of December 31, 2014	5,881,202	18.63
Exercisable as of December 31, 2014	4,778,427	18.82
Available for grant as of December 31, 2014	705,893	17.59
Granted during the year	5,248,000	0.10
Exercised during the year	79,500	18.13
Cancelled during the year	11,750	19.60
Forfeited during the year	132,250	17.85
Outstanding as of December 31, 2015	10,905,702	9.72
Exercisable as of December 31, 2015	6,872,952	15.11
Available for grant as of December 31, 2015	6,579,864	2.20

The weighted-average share price was USD 37.07 for options exercised in 2014 and USD 23.36 for options exercised in 2015.

The range of exercise prices for options and RSUs outstanding as of December 31, 2015 and 2014 presented in the table below:

Exercise price	December 31, 2015	December 31, 2014
–	5,218,000	–
17.5	2,589,000	2,724,750
19.6	3,098,702	3,156,452

24.1.3 Valuations of share-based payments

The valuations of all equity-settled options granted during 2015 and 2014 are summarised in the table below:

Option plan/Grant date	Number of options/RSUs	Dividend yield %	Volatility, %	Risk-free interest rate, %	Expected term, years	Share price (USD)	Fair value, total (million RUR)	Fair value per option/RSU (RUR)	Valuation method
2010 Option Plan/ 2014	43,000	0%	45%-56%	1.46%-1.61%	N/A	22.8-41.50	27	639	Binomial
2015 RSU Plan/ 2015	5,218,000	0%	56%	1.69%-1.97%	N/A	16.75-22.65	5,951	1,141	Binomial

The valuations of all cash-settled options as of December 31, 2015 are summarised in the table below:

Number of options	Dividend yield %	Volatility, %	Risk-free interest rate, %	Expected term, years	Share price (USD)	Fair value, total (million RUR)	Fair value per option (RUR)	Valuation method
951 237	0%	55%	1.97%	N/A	22.10	781	821	Binomial

The forfeiture rate used in all valuation models in 2015 is 4.0%. It is based on historical data and current expectations and is not necessarily indicative of forfeiture patterns that may occur.

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

24.2 Share-based payment expense

The Group recognised RUR 2,989 in share-based payment expenses in the year ended December 31, 2015 (2014: a negative RUR 117), including RUR 2,702 (2014: 643) related to equity-settled share-based payments. The expense was included under *“Personnel expenses”* in the consolidated statement of comprehensive income.

25 Events after the reporting period

25.1 HeadHunter disposal

In February 2016 the Group sold 100% of HeadHunter for a cash consideration of RUR 10,000. For the year ended December 31, 2015 HeadHunter generated RUR 3,120 in revenue and RUR 1,320 in net profit.

Cautionary statements

Forward-looking statements

The Mail.Ru Group Limited Annual Report and Accounts for 2015 contains certain "forward-looking statements" which include all statements other than those of historical facts that relate to the Company's plans, financial position, objectives, goals, strategies, future operations and performance, together with the assumptions underlying such matters. Mail.Ru Group Limited generally uses words such as "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and other similar expressions to identify forward-looking statements. Mail.Ru Group Limited has based these forward-looking statements on the current views of its management with regard to future events and performance. These views reflect management's best judgment, but involve uncertainties and are subject to certain known and unknown risks together with other important factors outside the Company's control, the occurrence of which could cause actual results to differ materially from those expressed in Mail.Ru Group Limited forward-looking statements.

Competitive position

Statements referring to the Company's competitive position reflect the Company's beliefs and, in some cases, rely on a range of sources, including investment analysts' reports, independent market studies and the Company's internal estimates of market share based on publicly-available information regarding the financial results and performance of various market participants.

Rounding

Certain figures included in this document have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Terminology

In this document any reference to a position of Dmitry Grishin as Chief Executive Officer (CEO) means reference to his position as Chief Executive Officer (CEO), Russia. Any reference to a position of Vladimir Nikolsky as Chief Operating Officer (COO) means reference to his position as Chief Operating Officer (COO), Russia. Any reference to a position of Dmitry Sergeev as Deputy Chief Executive Officer means reference to his position as Deputy Chief Executive Officer, Russia.

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