2016

ANNUAL REPORT

@mail.ru group

Contents

Who we are

Mail.ru Group Limited is a leading company in the Russian-speaking internet market. Our products reach over 90% 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.

Our products

In line with the '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, various instant messaging services and mobile location-based marketplace Youla. In addition, we own 100% of mobile games developer Pixonic, and 100% of Delivery Club, the number one food delivery company in Russia.

1 Source: comScore, MMX Multi-Platform, Russia, age 6+, December 2016

2 Source: TNS Russia

3 Source: comScore, Desktop, age 15+, Dec 2016

4 Source: TNS, all Russia, age 12-64, desktop, Dec 2016

5 Source: comScore, MMX Multi-Platform, Russia, age 6+, December 2016

Mail.Ru Group in brief

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

Social Networks

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

Email, Portal & IM

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

Online Games

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

Search, E-commerce and Other

#1 food delivery company in Russia (Delivery Club), a mobile location-based marketplace (Youla), an online learning platform for developers (GeekBrains), the 3rd largest search engine in Russia, an offline mobile maps service (MAPS.ME)

How we work

OUR STRATEGY

To remain the leading communications and entertainment platform domestically while pursuing growth opportunities internationally.

Focus on Russian-speaking internet markets

Monetisation through various ad products and user payments

Leverage our user base and expertise to grow in O2O markets

Expand in international markets

Our people

We value our employees and believe that our culture encourages individuality, creativity and a systematic approach to providing excellent service to our users. This year we added photos of the winners of Mail.Ru Group People Awards 2016, our annual employee recognition program, to our annual report in appreciation of their dedication.

Mail.Ru Group People Awards

EGOR ABRAMETS

Startup of the Year
Mail.Ru People Awards

YULIA AKULOVA

Person of the Year
Mail.Ru People Awards

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 launched a mobile ad platform

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

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

Feb 2014 Mail.Ru Group set up Technosphere in cooperation with Lomonosov Moscow State University (MSU)

Nov 2014 Acquisition of offline mobile maps service MAPS.ME

Mar 2015 Launch of myTarget, an advertising platform combining all Company’s properties

Apr 2015 myTarget launched an affiliate advertising network

Apr 2015 Launch of MMORPG Skyforge

Jul 2015 First VK Fest, a major offline festival in Saint Petersburg

Sep 2015 Launch of MMO game Armored Warfare

Sep 2015 Mail.Ru Group set up Technotrack in cooperation with Moscow Institute of Physics and Technology (MIPT)

Oct 2015 Launch of mobile location-based marketplace Youla

Nov 2015 Establishment of VK University

ALEXEY ANTROPOV

Internal Solution of the Year
Mail.Ru People Awards

ALAN BASISHVILI

Release of the Year
Mail.Ru People Awards

2016 Key highlights

January

Mail.Ru email app for iOS got an advanced search and an undo action function

Mail.Ru Group launched a new Big Data business unit focused on B2B services

VK provided Messages for Business API enabling companies to communicate with VK users via third-party client support services

ICQ launched voice messages with speech recognition

February

Global launch of the Juggernaut Wars mobile game

VK released wiki pages for groups with different formatting options and an ability to create landing pages to effectively attract new audience

ICQ launched massive live chats that can host thousands of participants

OK introduced P2P money transfers

Mail.Ru Group sold HeadHunter to an investor consortium led by Elbrus Capital

OK released Smart TV app

March

VK launched smart (algorithmic) newsfeed

ICQ launched a new version for Windows and made its code available on GitHub for external developers

TV Sync launch, synchronization of ads served on TV and Internet based on TNS Russia data

OK introduced promotional posts in the mobile version

April

Mail.Ru Group launched Data Storage System, the new business unit offering a range of services powered by the Company's open source solution Tarantool, the database management system

MAPS.ME introduced in-app editing of OpenStreetMap data

Afisha Mail.Ru was relaunched under the Cinema Mail.Ru brand featuring a player enabling users to opt for an online content provider

Mail.Ru Group launched two new services for online media: myWidget and Mediator

May

ICQ became the world's first messenger to offer fully encrypted video calls; its iOS version introduced a data saving mode for video calls, which significantly reduces data consumption

VK improved its music service

OK introduced games.ok.ru platform for live game streaming

Armored Warfare was licensed out for operation in China

June

MAPS.ME entered into partnership with Booking.com, allowing users to view hotel details and make bookings

VK rolled out sticker suggestions depending on the context of a message or a comment

OK started its first own live show OK Online

VK released a high speed HTML5 video player

Multiple myTarget updates: carousel ads in OK and VK mobile newsfeeds; full screen video ads (reward/non-reward) in the mobile ad network; server-to-server API for mobile ad network publishers; affiliate network for CPI-based sales

VK introduced short links (vk.me) to quickly join the chat with users or communities

Acquisition of a license to operate MMORPG Revelation Online in Russia, Europe and North America

July

My.com launched new PvP strategy game Jungle Clash

ICQ introduced Stories feature and a separate feed for public photos and videos

OK launched OK Messages, a fast, free and simple messaging app for iOS and Android

OK Live app was released in Russia and other countries

Mail.Ru Group and United Music Agency partnered with Universal Music, Sony Music and Warner Music to provide the music content for social networks

VK rolled out a photo editor with stickers and graffiti in private messages

VK held VK Cup 2016, a contest for young programmers, and VK Fest 2016, a two-day open-air festival in St. Petersburg

OK launched international money transfers

Mail.Ru Group's Big Data business unit, in cooperation with Equifax Credit Services, launched a credit risk assessment big data product for the Russian banking system

Launch of Artisto and Vinci mobile apps that utilize neural networks and artificial intelligence to process short videos and photos respectively in the style of famous artist and artistic patterns

August

Mail.Ru Group acquired control of GeekBrains, an educational platform for developers

VK introduced a major redesign of the desktop version

MAPS.ME introduced offline Bicycle Navigation

ICQ released a photo and video editor and new filters that utilize neural networks

VK introduced community's message widget for external sites

Our mobile marketplace Youla reached over 2.5m MAU

OK launched a 2-year education program Technopolis in collaboration with Peter the Great St. Petersburg Polytechnic University

September

Launch of mobile game Juggernaut Champions

Mail.Ru Group released Screenshoter, a desktop app to make and share screenshots

VK launched voice messages

Restoration of the music section in VK and OK apps for iOS

VK introduced P2P money transfers

VK launched a streaming service for gamers and eSports fans

ICQ for iOS introduced masks for video calls

Mail.Ru Group launched VR Invaders, the first virtual reality PC game in its portfolio

OK introduced games in messaging service on desktop and mobile

Navigation in MAPS.ME was updated with altitude charts and a new ergonomic design

October

Boris Dobrodeev became CEO (Russia) of Mail.Ru Group

Mail.Ru Group acquired Pixonic, a global mobile game developer

ICQ introduced voice live chats

VK and OK launched video autoplay in newsfeed

Donation Alerts, our notifications and donation service for streamers, added support for YouTube, Hitbox, OK and VK

VK launched an app-in-app platform for communities

New types of groups (for public pages, businesses, places, celebrities, events, etc.) were introduced on OK

November

EMERCOM of Russia started warning of emergencies via Mail.Ru Group's platforms

Mail.Ru Group acquired Delivery Club, the number one online food delivery company in Russia

Mail.Ru for Business launched an option to create corporate intranet

Mail.Ru email service updated its interface for composing messages

VK released multiple notification updates enabling users to respond in the notification center without leaving the current page

Mail.Ru Group rolled out a big data analysis system assessing offline sales conversion efficiency of online ads

Call-to-action buttons appeared in the ads on VK

VK hosted the first hackathon focused on creating community apps

OK launched a special feature for selling goods and offering services via posts in special open communities

VK improved audio and video search navigation with a new interface, suggestions and search history

December

Cloud Mail.Ru apps for iOS and Android were updated with photo & video gallery and paid plans optimized for media files storage

Mail.Ru for Business was relaunched as a platform aggregating the Company's B2B services

Launch of Cloud for Business, a B2B service offering solutions for cold and hot data storage and storage for teamwork

Rollout of a newsfeed video ad format (cross-device on desktop and mobile)

VK introduced Stories, a feature that lets users instantly share photos and videos that are live for 24 hours

Launch of VK Live, a mobile app for live video streaming, and video streaming directly to the VK newsfeed with comments and donations (gifts, stickers)

MAPS.ME was updated with real time traffic data, a new routing engine and data compression

Launch of MMORPG Revelation Online in Russia

VADIM DOROHOV

Release of the Year
Mail.Ru People Awards


ELINA ISAGULOVA
Team of the Year
Mail.Ru People Awards

Financial highlights

+15%

2015 **37,227**
2016 **42,751**

Revenue, RUR mln

+26%

2015 **14,630**
2016 **18,442**

Online advertising revenue, RUR mln

-1%

2015 **18,086**
2016 **17,914**

EBITDA, RUR mln

+21%

2015 **9,401**
2016 **11,390**

MMO games revenue, RUR mln

+18%

2015 **9,844**
2016 **11,616**

Net profit, RUR mln

-5%

2015 **12,508**
2016 **11,854**

Community IVAS revenue, RUR mln

Chairman and CEO’s statement

2016 was an exciting year for Mail.Ru Group. We continued to consolidate a leading position in our core areas of communication and entertainment while also expanding our user offering into e-commerce and O2O. We retained our leading position in the Russian internet, both on desktop and mobile. We made 3 acquisitions that fit our strategy and strengthened our product portfolio.

2017 has had a strong start, as evidenced by our Q1 results 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.

Product strategic focus

As in previous years the strategic focus of our product development was to provide the widest offering with seamless cross-platform experience and interoperability. Mobile audience is significantly larger than desktop audience and continues to grow. Mail.Ru Group reaffirms its position of the largest mobile destination in Russia. We remain focused on not only allowing users to expand their use of the Mail.Ru Group 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 access the network will 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/social platforms or in games. Both of these areas play to Mail.Ru Group’s core user offering.

Key drivers of revenue growth

While online audience continues to grow, the higher penetration levels over the last few years mean that this will be at a slower rate than in the past. By the end of 2016 the number of internet users in the country had risen to 84mln[1] with Mail.Ru Group interacting with over 90%[2] of these users. Mobile traffic also continued to rise and Mail.Ru Group is the number one destination for mobile traffic in the country. With this background we see a number of opportunities to drive revenues both domestically and internationally.

Advertising

Advertising revenue growth remained strong through the entire of 2016 with 26.1% Y-o-Y growth to RUR 18,442m. We continue to focus on the growth of mobile advertising and the roll out of new ad technology. Engagement continues to rise across all platforms and our unique position allows us to continue to take advantage as advertising budgets continue to shift to digital, and especially mobile.

Search revenues through the year remained under some pressure. However this was more than compensated for by continued strong growth in targeted advertising across the social networks and in mobile.

In 2017 we expect to see a broad continuation of the trends seen in 2016, with further shift of ad budgets online, further growth in mobile and continued growth in native advertising. With the continued roll out of further ad products, especially those around mobile and video, we believe we remain well positioned, and as such expect to see solid growth in 2017 advertising revenues.

Games

In FY 2016 on a pro forma basis our MMO games revenue grew 21.2% Y-o-Y to RUR 11,390m. At the end of the year Warface remained our largest game, followed by War Robots. Through 2016 we launched a number of titles both domestically and internationally. While both Armored Warfare and Skyforge did not meet initial expectations, and this resulted in a disappointing Q3 games performance, we continue to see significant opportunities for both franchises on different platforms, but also based around a simpler gameplay style.

2017 saw a good start with the international release of Revelation Online and the console version of Skyforge for PS4. In addition to this there will be a number of mobile titles. In future our games strategy will be concentrated around both the domestic and international expansion of our key franchises over multiple platforms. The acquisition of Pixonic brought not only a great product in the form of the War Robots game but also a very strong team with expertise in the internationalization of mobile games and in the best ways to market them. With all this taken into account, and as the results in Q1 show, we expect to see good growth from games in 2017.

1 Source: GfK Omnibus, 2016, all Russia 16+

2 Source: comScore, MMX Multi-Platform, Russia, age 6+, December 2016

E-commerce 2.0

In the past Mail.Ru Group has been cautious of expanding into e-commerce. This was largely a function of the high capex, high inventory, low margin models which we did not think would suit Mail.Ru Group. However we have seen the emergence of newer models which do not involve the high inventory or capex. These models allow us to leverage our leading position in social networks and in messaging. In 2016 we launched Youla, a C2C location-based marketplace, and by the time we reported FY 2016 results it had almost 10m monthly, and 2m daily users[3]. In November we also announced the acquisition of Delivery Club, the leading online food delivery business in Russia. In March 2017 the number of orders doubled Y-o-Y to 718,000 (with a high of 50,000 orders per day on March 8) and the number of restaurants exceeded 5,200. In Q1 2017 we also announced the launch of our long distance ride sharing service called BeepCar. The initial user response has been very promising with over 1m mobile app installs already.

These three new business lines all share similar characteristics of zero, or low working capital, potential market leading positions and business which fit very naturally alongside the user experience inside the social networks. We will continue to look for further areas of expansion, both organically and through acquisitions to extend our user offering in these areas.

VK

During 2016 VK continued to perform very well with engagement and audience increasing through the year. In FY 2016 revenues grew 43.4% to RUR 8,936m with Q4 growth of 49.9% to RUR 2,999m. The redesign of the desktop and the addition of new features, especially the smart newsfeed, on mobile in 2016 were well received by users and led to increased engagement. Total monthly active users set a new record of 95m in December with the embedded VK messaging on mobile and desktop reaching 82m monthly active users[4]. Mobile usage also continued to see strong growth with a new record of over 78m mobile monthly users in December[5].

In terms of monetization, in 2017 the focus will remain on native, and especially mobile and video advertising in the newsfeed. As previously commented we expect the ad load and pricing to continue to increase from the current levels. At the time of the acquisition of the remaining 48.01% of VK in September 2014 we said that we would at least double revenues in 3 years. This has been achieved in 2 years. We continue to see significant further opportunities for VK with both an expanding user base and an increasing number of features, and as such, expect to be able to double the VK revenues again over the next 3 to 4 years.

VK messenger remains a core part of our future strategy and we believe that with other IM's now trying to integrate social features into their offering the position of VK messenger is very strong. Recently, it was again confirmed as the number 1 messenger in Russia by independent third party research[6] and with over 5bn daily messages continues to have a dominant position. As we have seen in other markets messengers with integrated payment channels can become the core of an O2O ecosystem.

2016 financial performance

Solid FY 2016 results

In FY 2016, including Pixonic and Delivery Club on a pro-forma basis, the Company achieved revenue growth of 14.8% Y-o-Y to RUR 42,751m. In 2016 there was a non-cash one time exceptional tax charge of RUR 768m above the EBITDA line and RUR 254m below the line. In 2016 the combined effect of Delivery Club and Pixonic was broadly EBITDA neutral. As a result overall EBITDA margins were 41.9% giving group EBITDA of RUR 17,914m. Excluding the non-cash one-time tax charge FY 2016 EBITDA margins were 43.7% and EBITDA RUR 18,682m. Excluding Delivery Club and Pixonic and the VAT benefit and non-cash one-time tax charge, EBITDA margin would have been 46.9% and EBITDA RUR 18,629m.

Strong balance sheet

Through 2016 the cash generating capacity of our business remained unchanged and cash conversion was as expected. As a result net cash at the end of 2016 was RUR 5,391 million. This is prior to the final payment of USD 10m for Delivery Club due in Q1 2017. We will continue to examine further acquisition opportunities of a similar size to the ones made in 2016.

Corporate and outlook

Change in management roles

At the time of the Q3 results in October we also announced some changes in management responsibility. Dmitry Grishin announced that he would move from CEO (Russia) and Chairman to become Chairman with a focus on strategy, international expansion and M&A. Boris Dobrodeev, who was previously CEO of VK and also head of strategy and development, took responsibility for day-to-day operations as CEO (Russia). Dmitry Grishin remains fully involved with the Company as Chairman.

Acquisition of Pixonic, and Delivery Club, disposal of remaining non-core assets

In October 2016 we announced the acquisition of Pixonic and in November 2016 of Delivery Club. Both acquisitions have subsequently been fully integrated into the Group. Pixonic with its key game War Robots continues to see very strong growth in users, which have more than doubled since the acquisition. We expect to see continued strong growth through 2017.

Since the acquisition of Delivery Club in November 2016 we have seen orders rise over 60%. We already see that leveraging our mobile marketing resources intensifies new user acquisition. Compared to other markets, penetration of food delivery services in Russia remains low. We expect to see significant further growth in Delivery Club through 2017.

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 USD 2bn in these assets and the return of around USD 1.7bn to shareholders was the result of this commitment. The process was finally finished in H2 2016 with the disposal of the last 1.3% in Qiwi.

MegaFon becomes a shareholder

In December 2016 MegaFon announced that they intended to acquire the 15.2% equity stake owned by USM. This was then approved by MegaFon shareholders in January 2017. Statements from both companies have made clear that both businesses will continue to operate separately and there is no change to Mail.Ru Group governance, culture, operating procedures or management. Any co-operation between the companies will be on arm's length basis and fully commercial terms. However, as a result of the 63.5% voting

3 Source: Company data
4 Source: Company data
5 Source: Company data
6 Source: J'son & Partners Consulting, Russian and International Mobile Messengers Market Outlook up to 2020, March 2017

weight attached to these shares MegaFon will now consolidate Mail.Ru Group into its accounts. As such, starting from Q1 2017 Mail.Ru Group will move from being a half year reporting business with quarterly revenue updates to a full quarterly reporting business.

Our people and culture

In every annual report for the last few years we have said and it is worth re-iterating that our main asset is our people and the technology-driven culture which they create. 2016 was no different in this respect. Our unique culture remains 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.

We continue to support and expand our student development centers at Bauman Moscow State Technical University (Technopark), Lomonosov Moscow State University (Technosphere), Moscow Institute of Physics and Technology (Technotrack), National Research Nuclear University MEPhI (Technoatom) and Peter the Great Saint Petersburg Polytechnic University (Technopolis) and we continue to create a high number of graduate level positions every year. In Saint Petersburg we also continue to support and grow the VK University, a school for young developers, where members of VK team teach students programming skills.

We added photos of the winners of Mail.Ru Group People Awards 2016, our annual employee recognition program, to this report in appreciation of their dedication.

2017 outlook

We had a strong finish to FY 2016 with good contributions from advertising and games. We continue to believe we are well positioned to benefit from the ongoing structural trends in advertising. Games returned to growth in Q4 and with both War Robots and a full release schedule we expect games to see good growth in 2017. We are very excited by the potential for Youla and Delivery Club and continue to see very strong engagement and user growth.

As evidenced by the Q1 growth of 24.4%, 2017 has had a strong start and as such, and based on current visibility, we are pleased to increase our FY 2017 revenue guidance from previous guidance of 16–19% pro-forma revenue growth to pro-forma revenue growth of 17–21% to RUB 50.0–51.7bn. We will continue to invest in our new initiatives and do not expect them to contribute to EBITDA this year. We also do not anticipate any meaningful revenue contributions from BeepCar or Youla in 2017. Taking this into account we expect our 2017 EBITDA margin to be around 40%.

Thanks and Appreciation

As in previous years it is absolutely necessary to acknowledge a number of key groups. First off, our employees. Over the years our success is down to the dedication, commitment and passion that they show every day. As our business continues to expand and grow this is more true than ever. Staff retention remains unchanged, and we believe that this is a function not only of our culture but also of our people. The Board is happy to extend our thanks to them and to recognize their contribution.

Secondly, on behalf of the Board we want to thank our shareholders. They continue to believe in, encourage and support us. 2016 saw a strong finish both in terms of financial results and the strategic moves made by the Company. The background to 2017 seems more stable than that seen in 2016 and we are very pleased with the performance in Q1. As such, we continue to see many exciting opportunities for the business and we approach 2017 with a high degree of optimism and confidence.

Dmitry Grishin
Co-founder and Chairman of the Board

Boris Dobrodeev
Director, Chief Executive Officer (Russia)

ALEXEY IZOTOV

Leader of the Year
Mail.Ru People Awards

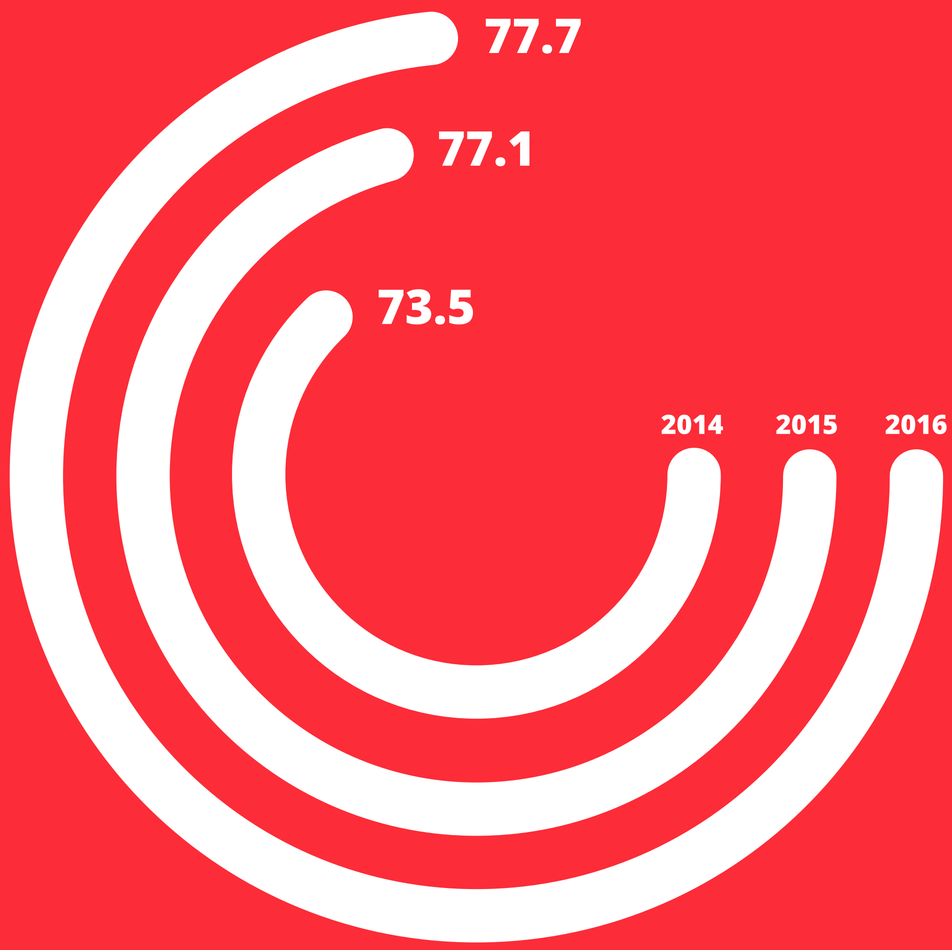
MARINA KRASNOVA

Team of the Year
Mail.Ru People Awards


DMITRIY KRUTITSKIY
Expert of the Year
Mail.Ru People Awards

01

OPERATING REVIEW



MAIL.RU GROUP
MAU, MLN, COMSCORE, RUSSIA, MMX MULTI-PLATFORM

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.

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, videos, stories 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.

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

VK

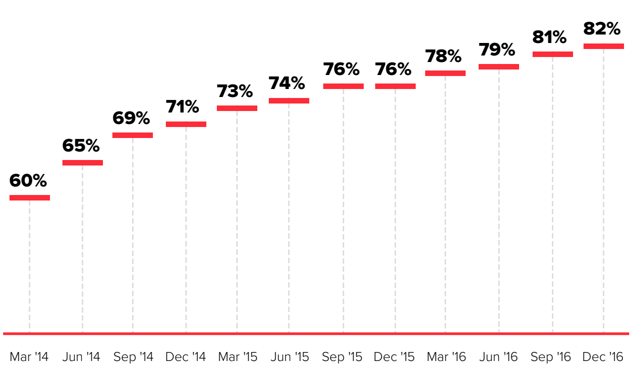
VK remains the biggest communication platform in Russia, Ukraine and other CIS countries. Various updates including the redesign of the desktop version received a positive response and increased engagement of our audience. In December 2016 monthly active audience of VK reached a record high of 95 million[1]; the total number of active users of the built-in messenger in the mobile and desktop versions amounted to 82 million[1] a month. The usage of VK on mobile devices grew steadily: monthly active audience in December was 78 million[1].

A new design standardized VK interface on all devices, thus users of the desktop version can easily switch to mobile and vice versa. After the launch of a new design a number of private messages increased by 6% and users added new friends 12% more often.

In 2016 the smart newsfeed became available on all VK platforms after which post views grew by 20% and likes surged by 40%. The new algorithm forms a more interesting and relevant newsfeed for the user; post authors reach a bigger target audience. In addition, best comments and other activities related to the post are now displayed directly in the newsfeed encouraging further engagement.

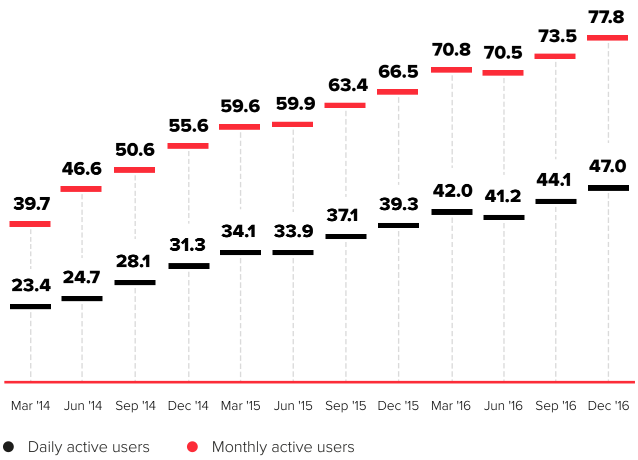
Autoplay media in the newsfeed made posts more dynamic and entertaining leading to an increased attention of the audience. Geo-located and hidden promo posts let VK users see more relevant ads in their newsfeeds.

VK, share of monthly active users accessing via mobile devices[2]



Source: Company data

VK, mobile users, mln[2]



Source: Company data

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.

In early 2017 all platforms featured a new tool calculating post views displayed along with likes and repost indicators which provides additional information to the content creator.

VK has 146 million groups (communities) and we keep on developing them. In October 2016 we launched a platform of community apps with additional functions related to groups, public pages and meetings which substitutes websites and mobile apps. Multi-purpose apps for complex forms and polls, interactive testing, service booking, ticket sales, registration for events etc. are available now.

Users and companies can communicate on external websites using the Community's Message widget. Audience reach of all community posts can be divided into organic, viral, advertising and general. Group members' activity can be monitored through Callback API.

Administrators can now upload community page covers, wide images on top of their community pages, so they can try different designs of groups, public pages and events.

We constantly improve VK's messaging service. Users can now draw and attach graffiti to their private messages; since 2007 this function was available only on users' walls. We also upgraded our photo editor by adding funny stickers, emoji, texts and drawings which can be applied to users' photos. Suggested stickers pop up when users type particular words or phrases.

Furthermore, we let users tag people in group chats, the tagged person immediately receives the notification. We added voice messages designed for users who prefer live conversations, want to save time or cannot type a text message.

In September 2016 we introduced a P2P money transfer service via private messages with a bank card. The service is available on VK's web site and mobile apps.

At the end of 2016 we rolled out VK Stories, a new feature allowing users to share their photos and short videos with their friends. New photos and videos are displayed in a new section above the newsfeed and can be accessed by friends and subscribers within 24 hours. Stickers, texts and drawings can be added. Stories can be viewed on all VK platforms; however they can be posted via mobile devices only.

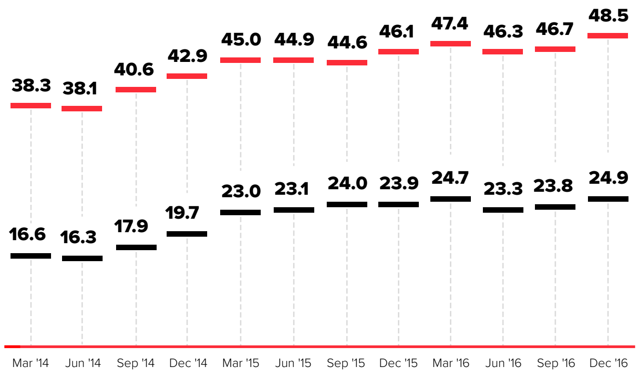
We continue working on our video platform. For any video uploaded to our website any picture can be selected as a video thumbnail to get more views. We are also enhancing our live streaming service: interactive shows, gaming streams, 24-hour broadcasting and reports from around the world can be streamed on VK.

With VK Live everyone can stream, comment other people's streams and send stickers to the streamer. Streamers can monetize on donations in the form of virtual gifts from their viewers.

At the beginning of 2017 we launched VK Market, a catalogue of goods and services offered by users and communities. The main difference between VK Market and other marketplaces lies in the fact that users see ads placed by their friends and friends of friends first.

In Summer 2016 we held the second annual VK Fest, a two-day open-air festival in Saint Petersburg. More than 70,000 visitors attended with more than 40 artists and music bands and 70 speakers and bloggers in 15 festival zones. Shortly before that, we arranged VK Cup 2016, a programming competition, with a RUR 2.5 million prize pool.

OK, mobile users, mln[1]



Source: Company data

Note: following an error correction in our methodology, we restated DAU data for Dec-15; the error made no impact on prior periods.

OK

OK is a social entertainment network with 71 million monthly active users[2] globally. OK is a leading social network in Russia by video audience and video views[3] and one of the leading websites in Russia in terms of the average time spent per user[3].

2016 was highly significant for the social network in terms of product launches, including OK Live app for mobile video streaming, OK Messages mobile messenger, Smart TV app for videos, and OK Online video show. We also implemented new strategic features, which are incredibly useful for the audience and help us increase user's time spent online: person-to-person money transfers and person-to-group transfers in Russia, Ukraine and CIS, an ability to sell and purchase goods in groups and a page with eSport events.

Enhancing mobile versions of the social network is one of our main priorities. Nearly 70% of our monthly active audience use the mobile version of OK. The number of monthly mobile only users increased by 17% Y-o-Y[2]. OK mobile apps for Android and iOS, as well as OK Live, were listed among the best apps of 2016 by Google Play and Apple App Store respectively.

During 2016, videos were one of the key drivers of users and traffic growth. OK has 300 million video views per day[2]. In 2016, the number of video viewers and uploads increased by 29% and 27% respectively[2]. This year, we launched live broadcasting in groups and apps for Chromecast and Apple TV, and added video autoplay in the mobile newsfeed. These new features and improvements boosted users' interest in the video service and contributed to our 32% year-on-year views growth[2]. We also introduced virtual masks and an ability to draw on images during live streaming, video statistics right after broadcasting and a special search tool on OK Live, designed for media seeking for video materials.

We let our users on Android and iOS make their profile pictures in the form of GIF images. GIF usage for this year increased by 50%, and now we have more than 750 million GIF views per day[2].

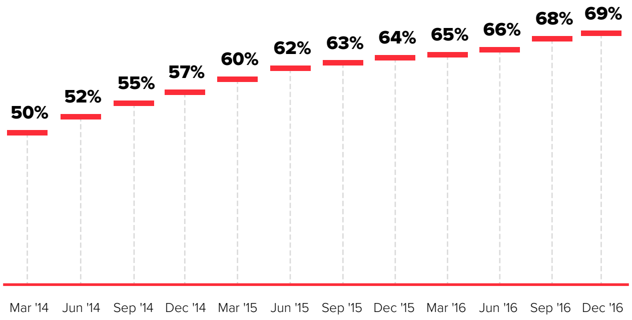
Messaging is one of the most popular services among OK users. With this in mind, we launched a new and unique separate app for Android

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.

2 Source: Company data, December 2016

3 Source: comScore, December 2016

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



Source: Company data

and iOS. OK Messages allow users to chat on OK, making it faster and easier with new network solutions. This app helps keep users that utilize the messaging feature only, and it has become quite popular based upon an increasing usage of messaging. We also made instant messaging more convenient and fun with a new showcase of stickers, text search, read status along with animated stickers and full-screen animation in messages. To improve personal communication experience, we created “one-click content sharing” from the OK newsfeed to messaging. This action resulted in a two-fold increase in the shared objects within 3 months of the launch[2].

In 2016, the amount of OK groups including media, brands and special-interest communities grew significantly. We created various tools to manage and promote groups on OK: messages to groups in the web version, subscription to group notifications, new types of groups, an ability to share groups’ content in messages, save a post, restrict post visibility to target a certain audience and suggest posts.

Furthermore, we experienced an increase of 35% in average number of posts seen by every user per day[2]. These results were possible due to the upgrade of the newsfeed algorithm. To promote new content on OK, we support posts search by hashtag, providing users with a set of popular hashtags on the web.

Under our mobile strategy, we updated OK’s gaming platform – all new games for the plarform are now rolled out through the soft launch system. We also developed a mobile showcase that presents new games via messages on Android. At the end of 2016, OK’s mobile gaming audience surged by 50%.

IVAS accounts for a significant proportion of the overall OK revenue. All new features were created to increase coverage, average ARPPU and share of long-term subscriptions. In 2016, we introduced music gifts, post cards, video cards and interactive gifts, as well as features for avatar decoration. We created new types and formats of sales and new methods of payment, including those for apps.

We also introduced new advertising products across the platform, including carousel, promo posts, music promo, hidden posts, new formats of video advertisements such as cross-platform native video on autoplay and TV sync advertising.

In 2017, we plan to carry on developing the OK entertainment ecosystem. We will continue to focus on videos, messages, mobile games and new products, which will be helpful for our users.

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.

2 Source: Company data, December 2016

IGOR MAKAROV

Internal Solution of the Year
Mail.Ru People Awards

Email, Portal & IM

Email

We provide the largest email service in the Russian-speaking internet segment and the sixth largest email service globally in terms of monthly active users[1]. Currently our email service delivers approximately 550 million messages a day and has a data storage capacity exceeding 28 petabytes.

In 2016, we introduced a number of web interface updates geared towards enhancing user experience.

We redesigned the email compose page, making it smarter, sleeker and more convenient. A quick actions panel was added to make a number of options more accessible, including marking a message as important and requesting a read receipt. We now offer our users an option to add contact information with HTML formatting, including pictures, animation and text styles.

We introduced a host of features to streamline work with attachments, including the support for the in-line attachments that can be viewed in the message body as well as via a built-in image viewer. Images can be attached via drag-n-drop and Copy + Paste, as well as by clicking the corresponding button. We also developed a smart algorithm that reminds the user to attach a file based on the text of a message, or when a new participant is added to a conversation thread.

We launched search query suggestions and improved contacts suggestions for groups and contacts not in the address book.

We also enabled our users to schedule email sending by specifying the exact date and time. Thus, a user can write an email at any moment and schedule sending for the most suitable time for the recipient to read it.

As we are always striving to further improve the web interface, we took a few steps to make it more informative. We redesigned the login page, which now offers information about key features of Mail.Ru email service. We also updated the registration page for the mobile web version of Mail.Ru, and templates for non-delivery reports (mailer-daemon bounce messages) making them more user friendly. Users also can now find product news in the “More” section of the menu bar.

At the end of 2016, we introduced Bonus Mail.Ru, a unique loyalty program with special offers for Mail.Ru users. The program offers special discounts to loyal users. The number of offers available to a user depends on the number of email service features he or she uses: more engaged users can access more offers.

Security of our users remains our priority. We implemented strict DMARC (Domain-based Message Authentication, Reporting & Conformance) policies to prevent email spoofing. To protect Mail.Ru users from third-party attacks, incoming messages that have not passed DMARC checks are now rejected. In addition, our iOS users can now enjoy an improved two-factor authentication experience thanks to the Access Code for iOS, a mobile app that generates a 2-step verification code. We also added a new layer of security as we started to use middle digits of a phone number when restoring a password. We also set up a page prompting users to link their phone numbers to their email accounts.

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

myMail and Mail.Ru email apps

In 2016, we focused on boosting performance of our apps and optimizing them to ensure that they work smoothly even if the internet connection is slow or unstable, or the device itself is old. We managed to improve user experience significantly by reducing the size of the app installer file (up to 50%), speeding it up and reducing launch time. In addition, we optimized traffic requirements and turned off image loading over low-speed internet connection. Both apps now feature background email sending to make working with emails quicker.

The users apparently appreciated this speed and stability boost, as our apps saw retention growth by 25%.

Recognizing that some email services suffer from server connection issues, we developed a unique hybrid solution that combines both client and server IMAP support. The solution allows us to benefit from using our unique server IMAP technology, while ensuring stable connectivity for email services that have server connection problems.

As we remain committed to implementing all the new developments offered by two major mobile platforms, iOS and Android, we strive to provide the support for latest OS versions (currently iOS 10 and Android N). In 2016, we updated our email apps to offer our users a wide range of new features, including integration with Apple Spotlight, cross-device authorization via iCloud Keychain, a host of new interface themes, 1Password and Today Widget support (on iOS) and cross-device authorization using SmartLock and shortcuts support on Android 7.1.

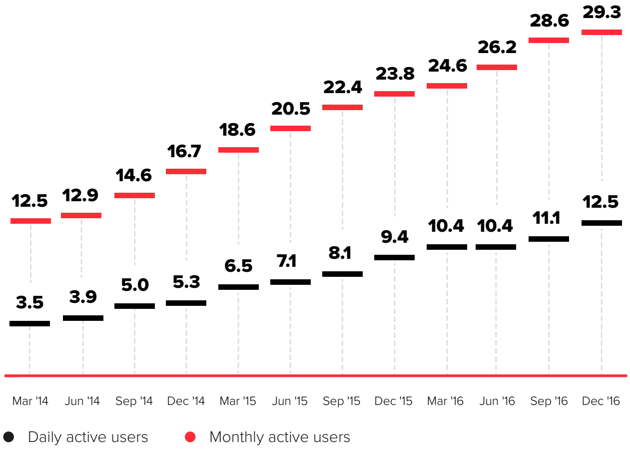
By the end of 2016 combined audience of Mail.Ru email applications reached 6.5mln daily active users and 16.9mln monthly active users with majority of them using Android- and iOS-based devices. Total number of mobile daily active users, including applications and web, accounted for 54% of the email service daily audience.

Cloud Mail.Ru

In December 2016, we launched redesigned Cloud Mail.Ru apps for iOS and Android. The new version is aimed to replace a photo gallery, as it stores and manages photo and video content. Now the photo gallery

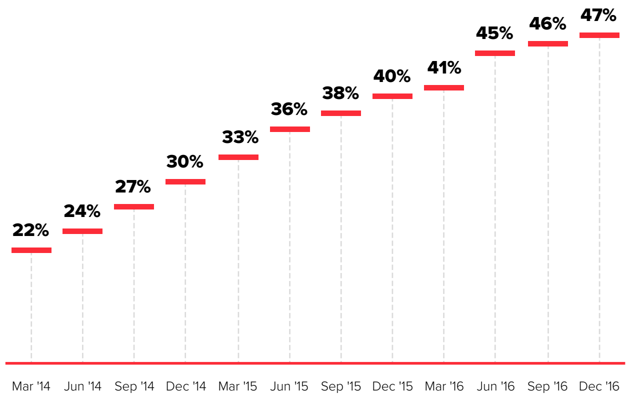
1 Source: comScore, worldwide, desktop, December 2016

Mail.Ru email, mobile users[1], mln



Source: Company data

Mail.Ru email, share of monthly active users accessing via mobile devices[1]



Source: Company data

is at users' fingertips, as we set it as the app launch screen, with photos and videos grouped by time periods.

Furthermore, we introduced new mobile paid plans promoting purchase of additional storage for smartphone photos. Users can choose a plan according to which storage capacity (8Gb, 16Gb etc.) they need.

We also entered the B2B market with Cloud for Business, a B2B service offering solutions for cold and hot data storage (Icebox and Hotbox) and storage for team collaboration. We are eager to capitalize on the rapid growth of the cloud services market in Russia, as we can ensure minimum latency and provide cloud storage services in accordance with the Russian legal requirements.

Cloud for Business is available as a part of the relaunched Mail.Ru for Business platform.

Mail.Ru for Business

At the end of 2016, we relaunched Mail.Ru for Business as a platform aggregating Mail.Ru Group's B2B services. Product offerings include free and paid options, such as Email for Business, Cloud for Business, My Company, a service to create an organizational structure of the company with employee contact information, and others.

Instant messengers

2016 marked an important year in the history of ICQ, which celebrated its 20th anniversary.

Last year we introduced Stories – a new type of visual content – chronological series of photos and videos available for 24 hours. Such a popular format drew attention of teenagers and video bloggers, making ICQ a platform for vlogging. Jointly with powerful photo and video editor tools, containing neural network filters, masks, stickers, geo badges etc., Stories have become an inspiration for vlogging. The editor is widely used to make a personal story live and colorful.

On the technology side, the editor features an internally developed engine which creates and applies masks to photos, videos and video calls. We regularly introduce new masks and stories compilations related to certain marketing campaigns and geographic locations.

A new Explore tab with a collection of best stories and live chats has become a powerful communication, collaboration and entertainment platform.

We also pay particular attention to how people use live chats. For instance, when entering Middle East and Africa markets we discovered that voice messages in public chats and channels are extremely popular due to complexity of texting in regional languages. As a result, we introduced a new type of live chats – for voice messages only.

All these features allowed ICQ mobile to be regularly featured by mobile app stores and hit its historically high rating of 4.4/5 on both Google Play and App Store.

Media projects

Users of Mail.Ru portal can access a wide range of media projects, such as News Mail.Ru, Lady Mail.Ru, Cinema Mail.Ru, Kids Mail.Ru, Auto Mail.Ru, Hi-Tech Mail.Ru, Health Mail.Ru, etc. The majority of our media projects hold leading positions in their respective categories. We maintain this leadership by focusing on the quality of their content and regularly offering special projects covering major cultural, entertainment and sport events.

In 2016, we entered the B2B market and introduced two solutions: Mediator, a service for editorial analytics, and SEOSan, a tool for SEO professionals to monitor websites. We also launched two new courses for would-be journalists at MSU Faculty of Journalism and SPbSU School of Journalism and Mass Communications.

We followed all major sport events, which were of interest for both audience and advertisers (Olympics, UEFA Euro 2016 and Ice Hockey World Championship), and started working with new distribution channels.

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.

On News Mail.Ru we have been testing a media monetization model in the form of paid comments. We also introduced unique advertising products for pharmaceutical companies: triggers for allergy and flu. Using predictive models and data from Health Mail.Ru and Weather Mail.Ru the system determines the optimal time to launch ad campaigns for allergy and flu medicines and related products.

Afisha project was rebranded and is now known as Cinema Mail.Ru, which corresponds to the main focus of the project. Lady Mail.Ru presented Best Bloggers Awards for the first time; Hi-Tech Mail.Ru held annual Best Gadget Awards. Auto Mail.Ru, Health Mail.Ru, News Mail.Ru, Realty Mail.Ru and Hi-Tech Mail.Ru became the most cited sources in the mass media and social media (according to BrandAnalytics and Medialogia market research rankings); Cinema Mail.Ru and Hi-Tech Mail.Ru were awarded the Runet Prize. In addition, Hi-Tech Mail.Ru has become the only official Industry Partner representing Russia at CES (International Consumer Electronics Show).

ANASTASIYA MAKHONINA

Person of the Year
Mail.Ru People Awards

DMITRIY OSADCHUK

Mentor of the Year
Mail.Ru People Awards

Online Games

A slowdown in online games revenue growth in 2015-2016 driven by a slowdown of PC market and challenging launches of Skyforge and Armored Warfare on PC urged us to make a number of changes to our games strategy. We strengthened our MMO games portfolio by licensing Revelation Online from NetEase, taking over operation of Warface in Europe and North America from Crytek, and acquiring Pixonic with its mobile hit War Robots. Starting from 2017, we expect solid growth sustained by launches of new games and expansion of existing titles to new platforms.

Our MMO games portfolio, which remains an important part of our revenues, comprises a variety of game genres and supports stable growth despite even limited success of some titles from time to time. Our key expertise is concentrated in shooter and RPG genres. We have a loyal audience, we understand their needs and we effectively direct them to our new titles when the old ones reach the decline stage.

> A further expansion to international markets through the acquisition of Pixonic and launch of MMORPG Revelation Online in Russia, CIS, Europe and North America.

MMO games

Warface, our leading title, demonstrated fifth consecutive year of revenue growth and set a new peak concurrent users record of 208,000. This was achieved through frequent content updates and continuous in-game economy improvements. In December 2016, we acquired license to exclusively operate Warface in Europe and North America and now we are bringing our expertise and knowledge from working with the Russian & CIS audience to international users.

In April 2016, we licensed Revelation Online from NetEase, the second largest gaming company in China. Revelation Online is an oriental fantasy RPG with a huge game universe and all the best MMORPG features, beloved by players worldwide: a seamless game world and countless flying zones, a vast variety of PvP, PvE content and socialization features, 3 control options to choose: classic, non-target and hybrid. In December 2016 the game was launched in Russia and CIS and in March 2017 – in Europe and North America. It is our first international release of a licensed MMO title and with its presales being more than twice as much as the ones of Skyforge and Armored Warfare we see a good potential for the game.

Under our Games business unit strategy, we are also entering Asian markets (mostly the Chinese market) through partnerships with local publishers and benefit from their experience and knowledge of the Asian audience. In May 2016, we licensed Armored Warfare to KongZhong Corporation. At the end of 2016, a CBT version of Armored Warfare, adapted for the Chinese market, was accepted by our partner. We expect an OBT launch of the game in the second half of 2017.

In 2016, we faced challenges with our internally developed titles that made us alter the product development strategy and bring value from these titles even in negative circumstances.

Armored Warfare is a MMO shooter game developed together with Obsidian Entertainment, a well-known US developer of single player titles. The game's financial results for 2016 do not reflect its potential and the main conclusion we made is that development of a big MMO is dramatically different from that of a single player game. The former requires regular updates, user support and feedback. To achieve that we need to cooperate with developers, possessing enough experience in MMO development and understanding this difference. Therefore, we decided to move PC development from Obsidian to an internal experienced team in Moscow.

We believe that Armored Warfare still has a great growth potential and we are highly focused on its development and launch of Balance 2.0 update on PC platform in the nearest future. The update will reassess every core gameplay mechanic, including damage mechanics, class abilities, retrofits, upgrades, and crew skills. Moreover, in May 2016 we hired an experienced console development team of Saber Interactive Inc. to port Armored Warfare to PS4 and Xbox One platforms and enter the console games market. Currently a CBT version is available on Sony PlayStation platform and an OBT launch is planned for 2017.

Skyforge is a highly-stylized MMORPG featuring an exciting dynamic combat system inspired by console action games with beautiful art designs, innovative character development and multi-class leveling systems where players can shift classes at any time. In 2016, revenues declined significantly due to a limited hardcore audience and a highly competitive PC MMORPG market. The main lesson we learnt is that we should engage players in testing on very early stages of development to avoid risks of long-term development and production delays and rebuilding while trying to meet demands of the target audience.

To overcome negative trends we have made some steps including simplification of game mechanics and repositioning to attract midcore audience and expansion to a console audience by developing PS4 and Xbox One versions. The global launch of Skyforge for PS4 was in April 2017.

In 2015, we made a full impairment of World of Speed. In 2016, we reevaluated basic parameters of the modified game and wrote off capitalized redevelopment costs with subsequent licensing of source codes to two different partners for future royalties from follow-up projects.

Mobile games

Smartphones and tablets will account for the largest share in the game market in the next two years, therefore we are actively investing in mobile games. We continue developing in-house mobile games and pursuing growth through our M&A strategy.

In October 2016, we acquired mobile game developer Pixonic known worldwide for its fast growing hit War Robots. War Robots is a mobile multiplayer shooter with 6x6 team combats in real-time; it features 24 battle robots with different strengths and more than 20 weapon types and allows users to join clans, participate in PvP battles and compete with best players from around the world in the league of champions. 2016 was a remarkable year for War Robots — the game was downloaded almost 25 million times, a fivefold increase compared to the previous year's amount. The game's total downloads have now passed 30 million, while its daily active audience has exceeded 1.5 million users. In December 2016, Google included War Robots in its ranking of Most Exhilarating Games on Android.

At the end of 2015, we started development of mobile game Planet of Heroes. The game aims to adapt an extremely popular MOBA genre to more frequent, short-duration content consumption patterns on mobile devices by fitting the same intense game experience to a 7-minute session time and, like traditional MOBA games for PC, focuses on long-term user retention rather than immediate monetization. In March 2017, Planet of Heroes was released for iOS devices worldwide.

In February 2016, we launched Juggernaut Wars, a new mobile game from our team that created Evolution: Battle for Utopia. It is a strategy RPG game, listed on App Store's Best of 2016 among the most innovative apps and games of the year. It exploits a well-known in Russia and CIS Juggernaut franchise and features a popular hero-collecting gameplay. Advanced animation, stunning 3D graphics, epic clan battles and socialization, PvP tournaments and PvE achievements can all be found in this game.

Another mobile game we are currently working on is Armored Warfare Mobile. It is an action MMO game featuring more than 80 modern tanks of 4 basic classes and 3x3 dynamic PvP modes: deathmatch, capture the point and the hunt. Based on Unreal Engine 4, it shows astonishing graphics and real physics that brings a feeling of AAA-quality of the game. The use of Armored Warfare franchise allows us to attract a loyal audience from the PC platform and retain it through synergetic activities on both platforms. Game launch is scheduled for 2017.

Major online games launches in FY2016-1Q2017

Game	Ownership	Type	Launch date
Juggernaut Wars	In-house	Mobile	Feb 2016
Juggernaut Champions	In-house	Mobile	Sep 2016
Revelation Online (Russia)	Licensed	MMO (client-based)	Dec 2016
Warface (International)	Licensed	MMO (client-based)	Dec 2016
Revelation Online (International)	Licensed	MMO (client-based)	Mar 2017
Planet of Heroes	In-house	Mobile	Mar 2017


ANDREY ROGOZOV
Leader of the Year
Mail.Ru People Awards

Search, e-commerce & other

Search

Our search service, Go.Mail.Ru, is the third largest search service in the Russian internet market: in December 2016, it processed 5.3% (LiveInternet) of all web search queries. In addition to Russia, our search has a large presence in other CIS countries. Search monetization is facilitated by Yandex technology.

In 2016, we introduced information cards showing up in searches for films, actors and recipes; now the verified structured information is displayed clearly and conveniently. New categories of information cards will be added later on. We also increased product search index and included new categories of goods such as clothes. Overall quality of our search was improved; web indexing was accelerated.

Additionally, we launched myWidget, a recommendation service based on user behavior and a thorough content analysis with the help of neural networks (NeuroClick technology). By the end of 2016 myWidget had more than 200 partners, besides Mail.Ru Group projects, and generated over 0.5bn recommendations (impressions) per day.

#1 food delivery company in Russia (Delivery Club), a mobile location-based marketplace (Youla), an online learning platform for developers (GeekBrains), the 3rd largest search engine in Russia, an offline mobile maps service (MAPS.ME)

Delivery Club

Delivery Club is the number one food delivery marketplace in Russia. Launched in September 2009, Delivery Club was acquired by Mail.Ru Group in November 2016. The platform is used by over 5,200 restaurants in more than 90 cities. The main focus is now on product and marketing.

Launch of own delivery service was the main development in 2016. The new service provides efficient customer acquisition and sales channels to restaurants, willing to avoid the complexities of handling their own delivery. Our couriers in branded uniform deliver food within 45 minutes, while average food delivery time in Russia is around 76 minutes. We have specialized software for dispatching and courier tracking that allows us to improve customer experience and lower late delivery time from the marketplace average of 25% down to less than 10%.

Today own delivery service, available in Moscow, Saint Petersburg and Rostov, works with more than 500 restaurants and processes up to 2,000 orders daily. We deliver from international chains such as Burger King, Papa Johns and various well-known local players like Shokoladnitsa, Obed Bufet and many others.

For orders delivered by restaurant couriers we implemented an in-app survey: users are asked whether their orders were delivered on time. It allowed us to lower the share of late deliveries from 25% to 20% on average.

At the beginning of 2016 up to 60% of all orders were made either by phone or by email. As a result, the average processing time was 9 minutes. We replaced outdated order processing instruments with our tablet software Vendor App, and it allowed us to reduce the average order processing time to 3 minutes.

To promote online payments for orders we modified our restaurants relations under which restaurants now have to accept card payments from our customers. The current share of online payments on the platform is more than 50% (vs. less than 6% at the beginning of 2016); whereas that for all orders delivered by own delivery exceeds 65%.

Youla

Our mobile location-based marketplace Youla is now the second largest player in the Russian online classifieds segment. By the time we reported FY 2016 results it had almost 10m monthly, and 2m daily users[1].

The concept was launched at the end of 2015. A minimum viable product was a mobile only platform that gave sellers an opportunity to place a listing in less than 30 seconds or 3 clicks through a convenient app. Buyers enjoyed location-based listings that helped to make purchases within an easy reach.

In January 2016, we enhanced the in-app messaging with calls that resulted in a 70% increase in listing responses. Then we added user profiles to develop longer-term relations with clients.

In October, we released a new feature allowing users to subscribe to sellers and receive push notifications about their newly published items. This resulted in a significant increase in user engagement. In December, we introduced user ratings to encourage trust and transparency across the user community, added similar item recommendations and launched a smart feed of listings that considers user search requests, social profiles together with in-app user behavior.

The aforementioned product developments resulted in 60x growth in visits during 2016.

BeepCar

In Q1 2017, we have branched out to the ride-sharing market launching BeepCar, an internally developed ride-sharing service to help drivers to search for travel companions and share trip costs with them. BeepCar is focused on long-distance rides and is now available in 19 countries, namely in Russia, Latvia, Estonia, Lithuania, Finland, Poland, Bulgaria, Hungary, Moldova, Slovakia, Romania, Czech Republic, Azerbaijan, Ukraine, Belarus, Kazakhstan, Uzbekistan, Turkmenistan, and Kyrgyzstan.

1 Source: Company data, February 2017

We are excited about the opportunities presented by the Russian ride-sharing market, and believe that our expertise in developing mobile services will allow us to offer users best products. Moreover, taking into account the low awareness of ride-sharing in Russia, we think that the reach of Mail.Ru Group's internet properties will allow us to build a solid presence in the market.

MAPS.ME

Throughout 2016, we continuously built new and improved existing features, as well as launched several monetization initiatives. All these actions significantly boosted our audience size and loyalty. Our monthly retention increased by 60% and our monthly active users doubled to 11 million.

First, we introduced a 3D buildings feature, designed for a better orientation for both pedestrians and car drivers. For car drivers we significantly improved navigation usability and functionality by adding a perspective view, night mode and speed details. Furthermore, we released a bike navigation support, which takes into account an elevation map. For pedestrians we added an "order a taxi" feature and an ability to save the last track in the app.

The next major launch was in April. We launched an easy-to-use OpenStreetMap POI editor that boosted active OSM community by 60% within just a few months. By the end of 2016, MAPS.ME became #1 world mobile OSM editor with about 1 million edits made by 100,000 contributors from 235 countries and dependent territories.

Furthermore, we divided downloadable maps into smaller and more lightweight parts. This significantly increased retention of users with a low-speed cellular connection and a lack of free space on the mobile device. We also improved the offline search engine resulting in faster map searching and an optimized search results ranking.

In June, we made the first monetization move by partnering with Booking.com to simplify search and booking of nearly 1 million hotels all over the globe. By the end of 2016, we became one of the biggest international partners of Booking.com. Later we added hotels filtering by user rating and price.

In July-August 2016 we enhanced the general user interface, added smart push notification system, and improved the map editor and elevation map for pedestrian and bike navigation.

We spent 3 months to bring car drivers live traffic support for 38 countries. Now we have more accurate ETAs and a completely reengineered routing engine, ready to be optimized for faster route building and multi-point navigation. With the unique traffic compression algorithm it takes 5 times less cellular data for one city ride with live traffic support. This is particularly useful abroad with roaming activated as well as in the home region when the connection is slow.

GeekBrains

In August 2016, Mail.Ru Group acquired a controlling stake in GeekBrains, an online educational platform for programming, design and marketing. The platform offers more than 80 online courses and 18 specializations with a guaranteed internship. In 2016, the number of registered users increased threefold and now amounts to 1.6 million. More than 10,000 users have taken courses on GeekBrains.

Big Data B2B Services

At the beginning of 2016, Mail.Ru Group announced a new business unit Big Data.

The new team is working on analytical services based on predictive models built with the help of machine learning methods. Mathematical models are the kernel of our analytical platform containing unique algorithms for data processing and analysis.

The experience we gained in data science allows us to provide such services to companies regardless of their business location. The projects are primarily aimed at increasing the effectiveness of marketing, sales, manufacturing, logistics, risk management, people management and other business processes.

The services we create are related to AaaS (Analytics as a Service) class; we work with our clients through long-term subscriptions to our analytical services.

Among results we achieved in 2016 was collaboration with Equifax Credit Services in which we worked out a predictive model for credit risks assessment by means of machine learning methods.

In 2016, we developed a service for predictive marketing analytics, which is now used by established B2C companies for a better understanding of existing and potential customers and delivering customized offers and product parameters based on behavioral analyses. The service helps increase loyalty and LTV (lifetime value) of clients.

We signed Service Agreements with several financial companies and large retail and e-commerce companies such as Eldorado and Ozon.ru.

Data storage

In 2016, Tarantool, a NoSQL database management system, became a separate business unit and focused on product development and marketing activities in the form of conferences, articles, events and hackathons mostly in Russia so far. In terms of the product, the team was working on Vinyl, a disk-based storage engine, and full SQL support. Several enterprise clients started using Tarantool, among them are VimpelCom, an international communications company and the owner of the Beeline brand, and Yota, a mobile broadband services provider.

Payment systems

We developed a solution that allows implementing P2P card-to-card money transfers on social networks OK and VK. It is a convenient and secure service to send and receive money between friends – there is no need to provide bank details of the payee. The payee, having up to 5 days to decide how to receive money, enjoys more flexibility. The service provides thousands of new cards data every day, securing a good basis for new e-commerce services in the near future.

YAN ROMANIKHIN

Mentor of the Year
Mail.Ru People Awards

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 2016, our peak network traffic increased to 3.85 terabits per second and the total amount of outgoing data reached 6,600 petabytes. In Moscow and St. Petersburg we have 66,200 servers with a total storage capacity of 228 petabytes located in ten data centers. It ensures load balancing and protection against the loss of data caused by network or power failures. In 2016, 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 1,200 of our servers.

In 2016 we modified VK cache software and equipment. Thereby traffic from the cache locations increased several times. The quality of the popular video content that VK translates from their caches significantly increased. We also implemented a video quality measurement system for all VK content. Based on this we can analyze and improve quality according to video parameters, regions and ISPs.

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 all 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 a high level of availability of our products and services.

We place a high priority on providing our users with the consistently high-quality service and support through our technical support staff.

Sales and marketing

We sell advertising inventory through a contract-based process managed by our own sales force as well as through a 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. Our largest advertising clients are generally major FMCG companies, automotive manufacturers, mobile telecommunications operators, e-commerce businesses and mobile app developers.

In 2016, we focused on three aspects of our ad technologies' improvement:

- New native advertising formats, especially on mobile and around video;
- Enhancement of ad impression technologies on our properties;
- Ad campaign measurement and ad campaign effectiveness.

A range of innovative advertising formats, aimed at increasing the effectiveness of communication, was launched:

- Newsfeed video ad formats on VK and OK and a cross-platform video ad format with an autoplay mode and control of cross-frequency of the ad message impression. A campaign using this format can reach 50+ million users weekly in Russia, the largest possible campaign reach for this market;
- Programmatic Creative Platform, a platform to customize dynamic ad creatives for different audience groups and connect creatives with the data of CRM systems of advertisers;
- Carousel ads on mobile;
- Interactive advertising formats allowing advertisers to reach a wider audience during non-standard campaigns;
- Canvas interactive format on the main page of the portal aimed at increasing audience engagement with the advertised brand and letting the advertiser introduce goods and services in detail;
- Call-to-action buttons on promoted posts on VK. Advertisers receive detailed statistics on all interactions with their ads;
- Hidden ad posts on VK and OK allow more flexibility in ad targeting without overloading the advertiser's group content.

In 2016, we continued working on complex technology increasing effectiveness of advertising campaigns on our properties and connecting them with the ads in other media or with various events:

- Developing and implementing a trigger platform;
- TV Synch launch, synchronization of ads served on TV and Internet based on TNS Russia data;
- Hyper-local geo targeting of ads on our social networks and myTarget, our self-serve advertising platform;
- Creating lookalike audiences to reach new people for the ad.

We also introduced a range of solutions aimed at measurements:

- Partnership with Moat Inc., a leading provider of analytics for brand advertisers and publishers, will let our clients receive independent audit of their ads' visibility on our properties;

- The system assessing performance of ads for offline locations, unique in the Russian market. With this system advertisers gain access to additional information on visitors' behavior in offline points of sale and new methods for assessment of online ad performance.

- Development and launch of a brand lift system, estimating and verifying lifts in brand awareness and purchase intent among the audience of Mail.Ru Group.

Throughout the year, we launched several massive special projects with the biggest brands, which received a lot of response from the audience.

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, various 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 2016, we continued to develop and improve myTarget. First, we offered various new ad formats (carousel ad format in VK mobile newsfeed and OK newsfeed across all platforms, cross-platform video posts on VK and OK, pre-roll video ads on mobile and desktop across all Mail.Ru Group properties, full-screen video ads in the mobile ad network, etc.) and introduced a single interface for multi-format ad placement and a new ads dashboard with an improved ability to manage large number of creatives.

Second, we added CPI ad pricing model (in addition to CPM and CPC models), introduced optimized CPM (oCPM) strategy and launched CPI affiliate network.

Next, we allowed third-party data providers (data management platforms) to create accounts and sell their own audience segments to advertisers on myTarget. Finally, at the end of the year we launched look-alike audience.

Employees

At the end of 2016, the Company had a total of 3,463 full-time employees (including new businesses - GeekBrains, Pixonic and Delivery Club). 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 projects by generating new products and enhancing existing ones. In 2016, our research and development activities were primarily focused on machine learning, ad tech, communication products and mobile games. Our collaborative and innovative culture and efforts created outstanding results in new in-house projects (Youla, Tarantool, Artisto etc.), effective integration of new businesses, collaboration on new services creation among e-commerce, messengers, search and social networks teams. We introduced a new annual employee recognition program, Mail.Ru Group People Awards, to celebrate our people's success in the core focus areas of the company strategy and culture.

Our recruitment strategy is to hire the most driving, competent, collaborative and innovative people with the focus on mobile products and machine learning technologies in particular.

Also in 2016, we continued creating new and developing existing internal professional communities. They allow our employees to share experience and help solving difficult issues across the organization. We arranged more than 70 meetups for leading experts and young developers in various IT fields where all external and internal talents can meet. In addition, our experts held more than 60 events for internal audience as well as 30 technical training programs and 28 leadership and management skills programs. We introduced a new simulation for the purpose of orientation for the newcomers and improved our mentoring process for newcomers' better adaptation and acceleration of their effectiveness. We continued expanding our training and development opportunities for managers, created virtual community and an interactive quiz for current and prospective team leaders to raise an interest in teams leadership.

In addition to our existing student development centers at Bauman Moscow State Technical University (Technopark), Lomonosov Moscow State University (Technosphere), Moscow Institute of Physics and Technology (Technotrack) and VK University we launched two new educational projects in the National Research Nuclear University MEPhI (Technoatom) and Peter the Great Saint-Petersburg Polytechnic University (Technopolis). We introduced a new assessment/training/practice program for eSports referees for students of Russian State University of Physical Education, Sport, Youth and Tourism (SCOLIPE). Every semester we teach over 1,800 students. We managed to keep a very high level of competitiveness in our program (9 applicants per place at key universities). We also created 21 new offline courses as a part of university programs development as well as 11 open online courses, 150 new video lectures, totaling 70,000 minutes of video content. Dozens of graduates of these programs land their dream jobs with various businesses at Mail.Ru Group. More than 8,000 students took part in our Technocup programming competition. They were able to practice their problem-solving skills; the winners got extra points for admission to universities. For experienced users, we created and launched ML Boot Camp, an online platform for machine learning and data mining. Our annual IT contests, including those in coding (Russian Code Cup and VK Cup), artificial intelligence (Russian AI Cup) and product prototyping (Russian DevCup), are gaining popularity in the Russian-speaking internet community and attracting more participants, from students and beginning programmers to leading experts.

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 and social projects

Today Dobro Mail.Ru comprises 113 verified charity organizations from 24 regions of Russia and allows users to easily participate in social projects as volunteers or with one-off or regular donations. This is a major online platform for charitable funds and nonprofits.

Donations made in 2016 increased threefold over the year. Dobro helps change the perception of charity and those who need support. In 2016, we published the results of our research on help to adults in Russia conducted together with FOM[2]. The research revealed that people in Russia would rather help children, seniors and homeless pets than seriously ill adults. Our communication campaign contributed to changing this stereotype and statistics: The total donations to adults increased threefold, 72% of the projects were successfully completed.

Dobro supports professional growth of nonprofit organizations in Russia with the help of educational conferences. We also actively promote charity together with the leading mass media.

VK partnered with Downside Up charity foundation for Love Syndrome campaign to raise awareness of Down syndrome. VK started supporting and funding Your Territory, the organization for youth suicide prevention, that now monitors social network to block users and communities influencing suicide-related behavior.

In 2016 VK introduced Donate app for communities that allows easily embedding payment form.

In March 2016, OK took part in the worldwide Earth Hour movement organized by WWF. The same month, the social network joined the UNESCO's campaign aimed at increasing general awareness of HIV/AIDS.

In November 2016, the Russian Ministry of Emergency Situations (EMERCOM) and Mail.Ru Group signed an agreement to establish a warning system on VK and OK to notify users about potential and existing emergencies. This is the world's first emergency service providing real-time notifications of emergencies using social media.

The system was used multiple times, including after the terrorist attacks in Paris and Nice, when OK and VK users who happened to be in these cities received notifications on security measures. Users who were in Turkey during the attacks received a message on VK with the phone numbers of the Russian embassy and consulates general, while OK sent out alerts from OK Operatively group.

In 2016, Mail.Ru Group also collaborated with The Pushkin State Museum of Fine Arts to present the project "House of Impressions. Classic and Contemporary Media Art" featuring artworks of outstanding video and media artists of the 20th and 21st centuries. In 2017, we will expand the collaboration and cooperate with The Pushkin State Museum of Fine Arts at the upcoming 57th Venice Art Biennale.

Employees by function as at the end of 2016

2,667
IT & Product

796
Other

2 Public Opinion Foundation (FOM)

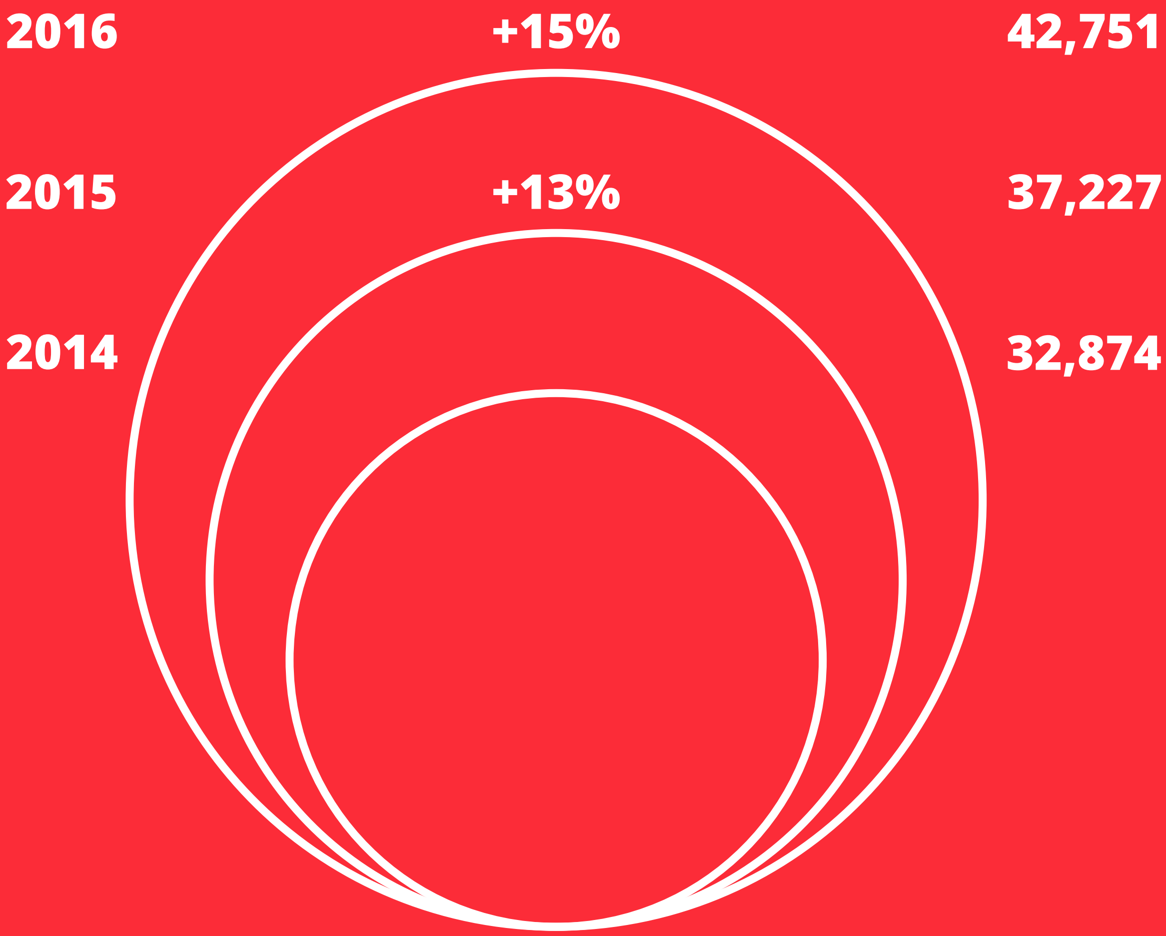
VADIM RUMYANTSEV

Internal Solution of the Year
Mail.Ru People Awards


DMITRIY RYABININ
Expert of the Year
Mail.Ru People Awards

02

FINANCIAL REVIEW



REVENUE & YOY GROWTH
RUR MLN

Financial review

This review reflects highlights of our financial performance for 2016. Full details can be found in the annual financial statements presented on pages 82 to 128 of this annual report.

Overview of consolidated results

We are pleased to have demonstrated solid progress throughout 2016 in key communitainment areas, while also expanding into select e-commerce and O2O markets. Online advertising showed strong growth, driven by targeted advertising, especially mobile, VK and advertising network. While Skyforge and Armored Warfare did not entirely meet our initial expectations, MMO games performed well overall, mostly driven by continued growth of Warface and input from the acquisition of Pixonic. Community IVAS revenues were negatively affected by continued migration of our social network audience to mobile, where, unlike advertising, monetisation via IVAS is lower than on desktop. We are continuing to focus on further growing our audience, increasing user engagement, and strengthening our product portfolio both organically and via acquisitions.

Structure

In 2016 we sold HeadHunter and acquired GeekBrains, Delivery Club and Pixonic, and as a result, our segment reporting is now prepared on a pro forma basis starting January 1, 2015 and includes the following reportable segments: (1) 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.RU and My World social networks; the Online Games segment comprises our mobile, client-based, browser-based and social games. The VK segment includes the VK.com social network. The Search, E-Commerce and Other segment includes search services, e-commerce (including O2O services) 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 a number of small venture capital investments in various internet companies in Russia, Ukraine, USA and Israel.

Acquisitions and disposals

In February 2016 we sold 100% of HeadHunter for a cash consideration of RUR 10,130 million. As of the date of disposal the net assets of HeadHunter attributable to the Company were RUR 1,138 million, including goodwill of RUR 1,855 million and cash and cash equivalents of RUR 421 million. Disposed liabilities of HeadHunter mostly included Deferred revenue and customer advances. In addition, currency translation reserve attributable to HeadHunter in the amount of RUR 280 million was reclassified to profit or loss. As a result of the disposal we recognised a gain in the amount of RUR 8,712 million recorded under “Net gain from disposal of subsidiaries” in the statement of comprehensive income.

In October 2016 we acquired Pixonic, a global mobile games developer through the acquisition of a 100% of equity interest in several legal entites (together “Pixonic”) for a cash consideration of RUR 1,251 million and contingent consideration of RUR 625 million (USD 10 million) based on ongoing revenue KPIs. The primary purpose of the acquisition of Pixonic was to enhance our position and expertise in the global mobile games market.

In November 2016 we acquired a 90% equity interest in Delivery Club LLC (“Delivery Club”), Russia’s leading food delivery marketplace operator, for a cash consideration of RUR 5,714 million. Simultaneously, we signed an option agreement in respect of 10% shares of Delivery Club. Under this agreement, we had the right to acquire (the call option) and the seller had the right to sell (the put option) 10% of shares in Delivery Club for USD 10 million (RUR 628 million based on the exchange rate as of the date of the business combination). We assessed that the options were substantial at the date of business combination and the economic benefits have been effectively transferred to the Company since that date. Thus, we effectively acquired 100% equity interest in Delivery Club. The primary purpose of the acquisition of Delivery Club was to enhance our product portfolio by entering the fast-growing Russian food delivery market while leveraging our large and highly engaged mobile audience. See also Note 6 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 132,309 million as at December 31, 2016, and increased by RUR 5,588 million from December 31, 2015 mostly as a result of the Delivery Club and Pixonic acquisitions, partially offset by the disposal of HeadHunter.

The goodwill is allocated to groups of cash-generating units (CGUs) – "Email, Portal and IM", "Search", "Online Games (ex Pixonic)", "Social Networks (ex VK)", "VK", "Delivery Club", "Pixonic" 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:

	2016 RURm	2015 RURm
Total revenue	**40,001**	**37,986**
Net loss on venture capital investments and associated derivative financial assets and liabilities	(769)	(387)
Total operating expenses (excluding depreciation, amortisation and impairment)	**(25,858)**	**(23,445)**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**13,374**	**14,154**
Profit before income tax expense	**12,669**	**4,723**
Income tax expense	(838)	(1,736)
Net profit	**11,831**	**2,987**
Attributable to:		
Equity holders of the parent	11,813	2,937
Non-controlling interest	18	50

Consolidated revenue

In 2016 our consolidated revenue increased by 5.3% to RUR 40,001 million (2015: RUR 37,986 million) due to a combination of organic growth, new acquisitions and the effect of only two months of revenues from HeadHunter in 2016 compared to a full year in 2015, as we stopped consolidating HeadHunter from March 1, 2016. Excluding HeadHunter and 2016 acquisitions effect, the consolidated revenue would have grown 10.1% in 2016. The primary drivers of the organic revenue growth are described under "Operating segments performance" below.

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

EBITDA decreased by 5.5% to RUR 13,374 million (2015: RUR 14,154 million) and EBITDA margin decreased to 33.4% in 2016 (2015: 37.3%) as a result of operating expenses (excluding depreciation, amortisation and impairment) growing at a faster pace than revenues.

Operating expenses grew by 10.3% to RUR 25,858 million, or 64.6% of revenue (2015: RUR 23,445 million, or 61.7% of revenue).

The growth in operating expenses was primarily driven by a RUR 1,570 million increase in Agent/partner fees and a RUR 1,091 million increase in Marketing expenses, both mostly organic.

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 increased to RUR 12,669 million (2015: RUR 4,723 million) primarily as a result of the one-time gain recognised in 2016 as a result of the HeadHunter disposal, as well as a foreign exchange loss in 2016, compared to a foreign exchange gain in 2015, and the decrease in EBITDA as discussed above.

Net profit for the year increased to RUR 11,831 million (2015: RUR 2,987 million) as a result of the increase in profit before tax, offset by a 51.7% decrease in income tax expense.

The decrease in income tax expense is primarily due to a decrease in deferred tax liabilities on unremitted earnings of subsidiaries in 2016, partially offset by a RUR 254 million one-time income tax charge assessed as a result of prior years' tax audits.

The change in income tax expense was not correlated with the increase in profit before income tax also because the gain on the HeadHunter disposal and share-based payment transactions 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 Pixonic and Delivery Club is consolidated and the results of HeadHunter are de-consolidated in segment reporting on a pro forma basis starting from January 1, 2015.

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 (including O2O) 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 2016 results compared with 2015

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.

IGOR SEMENYUK

Expert of the Year
Mail.Ru People Awards

NIKOLAY SHULYAKOVSKIY

Mentor of the Year
Mail.Ru People Awards

Group aggregate segment financial information*

	2016 RURm	% of revenue	2015 RURm	% of revenue	% YoY
Group aggregate segment revenue [1]					
Online advertising	18,442	43.1%	14,630	39.3%	26.1%
MMO games	11,390	26.6%	9,401	25.3%	21.2%
Community IVAS	11,854	27.7%	12,508	33.6%	-5.2%
Other revenue**	1,065	2.5%	689	1.9%	54.6%
Total Group aggregate segment revenue	**42,751**	**100.0%**	**37,227**	**100.0%**	**14.8%**
Group aggregate operating expenses					
Personnel expenses	8,630	20.2%	7,071	19.0%	22.1%
Office rent and maintenance	2,052	4.8%	1,932	5.2%	6.2%
Agent/partner fees	6,892	16.1%	4,995	13.4%	38.0%
Marketing expenses	3,017	7.1%	1,447	3.9%	108.5%
Server hosting expenses	1,894	4.4%	2,145	5.8%	-11.7%
Professional services	509	1.2%	414	1.1%	22.7%
Other operating (income)/expenses, excluding depreciation, amortisation and impairment	1,844	4.3%	1,137	3.1%	62.2%
Total Group aggregate operating expenses	**24,837**	**58.1%**	**19,141**	**51.4%**	**29.7%**
Group aggregate segment EBITDA [2]	**17,914**	**41.9%**	**18,086**	**48.6%**	**-1.0%**
Depreciation, amortisation and impairment*** [3]	2,940	6.9%	3,723	10.0%	-21.0%
Other non-operating income (expense), net ****	115	0.3%	-1,766	-4.7%	
Profit before tax [4]	**15,089**	**35.3%**	**12,597**	**33.8%**	**19.8%**
Income tax expense [5]	3,473	8.1%	2,753	7.4%	26.2%
Group aggregate net profit [6]	**11,616**	**27.2%**	**9,844**	**26.4%**	**18.0%**

*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 1,397 and 52 million in 2015 and 2016 respectively

**** Including interest expenses of RUR 2,351 and 767 million in 2015 and 2016 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, amortization 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 – 2016

	Email, Portal and IM	Social Net-works (ex VK)	Online Games	VK	Search, E-commerce and other	Eliminations	Group
Revenue							
External revenue	4,799	14,218	11,740	8,882	3,112	-	42,751
Intersegment revenue	4	20	-	54	383	(461)	-
Total revenue	**4,803**	**14,238**	**11,740**	**8,936**	**3,495**	**(461)**	**42,751**
Total operating expenses	3,252	4,657	9,590	3,600	4,199	(461)	24,837
EBITDA	**1,551**	**9,581**	**2,150**	**5,336**	**(704)**	**-**	**17,914**
Net profit							**11,616**

Operating segments performance – 2015

	Email, Portal and IM	Social Net-works (ex VK)	Online Games	VK	Search, E-commerce and other	Eliminations	Group
Revenue							
External revenue	4,544	14,101	9,516	6,214	2,852	-	37,227
Intersegment revenue	4	-	-	18	362	(384)	-
Total revenue	**4,548**	**14,101**	**9,516**	**6,232**	**3,214**	**(384)**	**37,227**
Total operating expenses	2,800	3,855	7,039	3,156	2,675	(384)	19,141
EBITDA	**1,748**	**10,246**	**2,477**	**3,076**	**539**	**-**	**18,086**
Net profit							**9,844**

Online advertising

Mail.Ru Group online advertising products include two major kinds of advertising technology: display and context (including programmatic inventory).

Display advertising revenue is generated from banners, video, special projects, rich-media and similar advertisements on our properties. 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 programmatic myTarget technology, as well as through partnerships with third parties.

myTarget (formerly known as Target Mail.Ru), our proprietary self-service programmatic advertising technology, which sells the advertisements through an online auction both on desktop and mobile using CPM/CPC/CPI models. The technology is integrated in almost all banner formats, so the advertiser can choose whether to purchase impressions via display ads based on fixed CPM or use online auction in myTarget programmatic system with possible lower CPM/CPC but with lower view priority. The new sub-products of the technology are hyperlocal geo-targeting, brand-lifting interface and CPI ad pricing model for mobile apps.

Context advertising revenue is also generated 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.

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 18,442 million from online advertising in 2016 (2015: RUR 14,630 million). The advertising revenue grew 26.1%, ahead of the Russian online advertising market, mainly driven by myTarget advertising revenue, particularly on mobile and display video inventory.

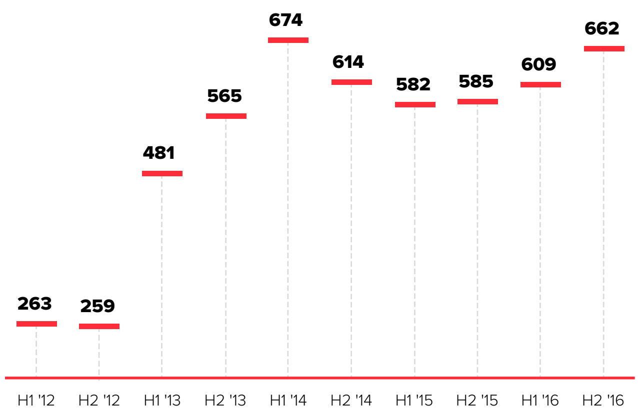
IVAS

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 2016, we generated revenues from MMO games of RUR 11,390 million (2015: RUR 9,401 million). The 21.2% increase in MMO revenues is primarily due to the significant growth in revenue from Pixonic's flagship mobile title War Robots and continued solid growth of Warface. In 2016 the average number of monthly MMO paying users increased as a result of the Warface and War Robots paying users organic growth. MMO paying users data is presented in the chart below:

MMO games, thousands of average monthly paying users



Source: Company data

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

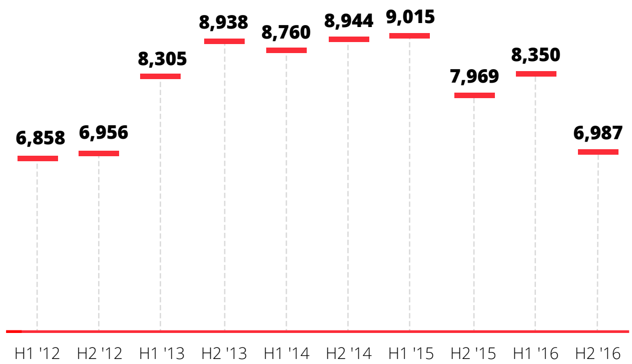
Community IVAS

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 decreased by 5.2% to RUR 11,854 million (2015: RUR 12,508 million) and was negatively affected by continued migration of audience to mobile and the resulting decrease in paying users, partially offset by increased ARPPU.

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

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

BUSINESS REVIEW

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 22.1% to RUR 8,630 million (2015: RUR 7,071 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 in 2015 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 compensations.

While most of our office rent and maintenance expenses are denominated in USD but at a fixed rate to the RUR significantly below the actual exchange rate, those expenses increased by only 6.2% to RUR 2,052 million (2015: RUR 1,932 million).

Agent/partner fees increased by 38.0% to RUR 6,892 million (2015: RUR 4,995 million). The increase in agent/partner fees was primarily driven by growth in revenue collection costs, outsourced product development and support services, SMS distribution services and advertising commissions paid to group administrators in VK.

Revenue collection costs represent fees to payment systems for processing payments for our games and Community 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 increase in revenue collection costs was mainly due to increased revenue from mobile games, mostly War Robots.

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 2016.

Product development and support outsourcing represents the use of resources and expertise from external studios and other contractors for support and further development of certain technologies and products (including certain MMO games). Outsourced MMO game 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 in 2016 was primarily due to a full year of outsourced Armored Warfare-related costs expensed in 2016, compared to only a portion of the respective costs expensed in 2015, as the commercial launch of the game happened in H2 2015. Outsourced development and support of products other than MMO games is generally expensed. The increase in these expenses in 2016 compared to 2015 was mostly driven by increased focus on development of experimental innovative products and features, mainly around messengers and social networks.

SMS distribution expenses represent payments to third parties for sending SMS notifications to our users. The increase in SMS distribution expenses was primarily driven by growth in average price per SMS distributed to users outside of Russia.

Marketing expenses grew 108.5% to RUR 3,017 million (2015: RUR 1,447 million), mostly due to aggressive promotion of fast-growing mobile products such as War Robots, Youla and Delivery Club.

Server hosting expenses decreased by 11.7% to RUR 1,894 million (2015: RUR 2,145 million), primarily as a result of continued synergies in VK, mostly with respect to the pricing of telecommunication channels rent.

Professional fees increased by 22.7% to RUR 509 million (2015: RUR 414 million). The increase was mainly driven by increased consulting support related to M&A.

Other operating expenses, excluding depreciation, amortisation and impairment, increased by 62.2% to RUR 1,844 million (2015: RUR 1,137 million), primarily as a result of a RUR 768 million non-cash one-time non-recoverable VAT charge assessed as part of prior years' tax audits.

Our aggregate segment EBITDA margin decreased to 41.9% (2015: 48.6%) primarily as a result of increased personnel expenses, agent/partner fees, marketing expenses and other operating expenses, partially offset by decreased server hosting expenses.

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

Depreciation, amortisation and impairment decreased by 21.0% to RUR 2,940 million (2015: RUR 3,723 million), primarily reflecting the impairment of World of Speed recognised in 2015 in the amount RUR 1,338 million (see also Note 7 to our consolidated financial statements).

Other non-operating income amounted to RUR 115 million (2015: net expense of RUR 1,766 million), with the variance primarily driven by decreased interest expense, which amounted to RUR 767 million in 2016 compared to RUR 2,351 million in 2015. The interest expense is related to the loan we partially funded the VK acquisition with. The interest decreased in 2016 compared to 2015, as we fully repaid the loan in June 2016.

Income tax expense increased by 26.2% to RUR 3,473 million (2015: RUR 2,753 million) primarily driven by an increase in profit before income tax by 19.8% to RUR 15,089 million (2015: RUR 12,597 million) and a RUR 254 million one-time income tax charge assessed as a result of prior years' tax audits.

Group aggregate net profit increased by 18.0% to RUR 11,616 million (2015: RUR 9,844 million) driven by the increase in profit before tax and partially offset by the increase in effective tax rate.

Reconciliation to IFRS

	2016 RURm	2015 RURm
Group aggregate segment revenue, as presented to the CODM	**42,751**	**37,227**
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	(1,076)	2,114
Differences in timing of revenue recognition	(1,740)	(1,515)
Barter revenue	30	77
Dividend revenue from venture capital investments	36	83
Consolidated revenue under IFRS	**40,001**	**37,986**

	2016 RURm	2015 RURm
Group aggregate segment EBITDA, as presented to the CODM	**17,914**	**18 086**
Adjustments to reconcile EBITDA as presented to the CODM to consolidated profit before income tax expenses under IFRS:		
Effect of difference in dates of acquisition and loss of control in subsidiaries	206	1,445
Differences in timing of revenue recognition	(1,740)	(1,515)
Net loss on venture capital investments	(769)	(387)
Share-based payment transactions	(2,226)	(2,989)
Dividend revenue from venture capital investments	36	83
Non-recurring VAT charge	-	(250)
Other	(47)	(319)
EBITDA	**13,374**	**14,154**
Depreciation and amortisation	(7,754)	(7,165)
Impairment of intangible assets	(52)	(1,397)
Share of profit of equity accounted associates	27	-
Finance income	839	613
Finance expenses	(732)	(2,326)
Other non-operating income/(loss)	39	(11)
Net loss on disposal of shares in available-for-sale investments	(342)	-
Net (loss)/gain on derivative financial assets and liabilities at fair value through profit or loss	(112)	23
Net gain on disposal of shares in subsidiaries	8,712	-
Net foreign exchange (loss)/gain	(1,330)	832
Consolidated profit before income tax expense under IFRS	**12,669**	**4,723**

	2016 RURm	2015 RURm
Total net profit, as presented to the CODM	**11,616**	**9 844**
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payment transactions	(2,226)	(2,989)
Differences in timing of revenue recognition	(1,740)	(1,515)
Effect of difference in dates of acquisition and loss of control in subsidiaries	214	1,237
Amortisation of fair value adjustments to intangible assets and impairment thereof	(4,867)	(4,804)
Net loss on financial instruments at fair value through profit or loss	(882)	(365)
Net gain on disposal of shares in subsidiaries	8,712	-
Net foreign exchange (loss)/gain	(1,330)	832
Net loss on disposal of shares in available-for-sale investments	(342)	
Share of profit of equity accounted associates	27	-
Non-recurring VAT charge	-	(250)
Other	(43)	(341)
Tax effect of the adjustments and tax on unremitted earnings	2,692	1,338
Consolidated net profit under IFRS	**11,831**	**2,987**

Analysis of H2 2016 aggregate segment results in comparison with H2 2015

	H1 2015	H2 2015	H1 2016	H2 2016	H2 YoY,%
Group aggregate segment revenue					
Online advertising	6,311	8,319	8,112	10,330	24.2%
MMO games	4,263	5,137	5,126	6,264	21.9%
Community IVAS	6,366	6,142	6,110	5,743	-6.5%
Other revenue[1]	282	407	401	664	63.1%
Total Group aggregate segment revenue	**17,222**	**20,005**	**19,750**	**23,001**	**15.0%**
Group aggregate segment EBITDA	**8,398**	**9,687**	**8,729**	**9,185**	**-5.2%**
Segment EBITDA margin	48.8%	48.4%	44.2%	39,9%	
Group aggregate net profit	**5,024**	**4,820**	**5,750**	**5,866**	**21.7%**

1 Other revenue includes Other IVAS

BUSINESS REVIEW

Most of the revenue growth in H2 2016 was concentrated in online advertising (24.2% vs H2 2015) and MMO games (21.9% vs H2 2015). The growth in online advertising was primarily driven by myTarget, particularly on mobile. The growth in MMO games was mostly driven by War Robots.

Aggregate segment EBITDA decreased by 5.2% in H2 2016 vs H2 2015 due to revenues growing slower than operating expenses (particularly Agent/partner fees, Marketing and Other operating expenses). Marketing expenses grew mostly due to aggressive promotion of War Robots, Delivery Club and Youla. Agent/partner fees increased due to a variety of factors: (a) growth in revenue collection costs mostly due to growth of mobile games revenue (mainly War Robots); (b) outsourced development and support of MMO games (mostly Armored Warfare) and certain innovative features and technologies (mostly around messengers and social networks); (c) increased pricing of SMS distribution services outside of Russia; (d) growth in our advertising network affiliates' commission as a result of the network's rapid expansion; and (e) advertising commissions paid to group administrators in VK.

Other operating expenses, excluding depreciation, amortisation and impairment almost doubled, mostly as a result of a RUR 768 million non-cash one-time non-recoverable VAT charge assessed as part of prior years' tax audits.

Aggregate net profit increased by 21.7% to RUR 5,866 million (H2 2015: RUR 4,820 million) primarily as a consequence of World of Speed impairment recognised in H2 2015 and a decrease in interest expense as a result of a full early repayment of Gazprombank loan in H1 2016, partially offset by a decrease in EBITDA and an increase in income tax expense, which grew as a result of increased profit before income tax combined with a RUR 254 million one-time income tax charge assessed as a result of prior years' tax audits .

Financial position

Liquidity and capital resources

Throughout the year our financial position improved significantly. As a result of early repayment of the Gazprombank loan we moved from a net debt position of RUR 6,530 million as at December 31, 2015 to a net cash position of RUR 5,391 million at the end of 2016.

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 2016, net cash provided by operating activities before interest and income tax decreased by 22.6% to RUR 15,107 million (2015: RUR 19,512 million), mostly driven by rent prepayments for our Moscow HQ and an increase in accounts receivable in 2016.

The ratio of net cash provided by operating activities to consolidated revenues slightly decreased to 31.5% in 2016 (2015: 36.7%), mainly as a result of factors described above and partially offset by reduced interest payments due to the early repayment of the Gazprombank loan.

Capital expenditure to acquire property and equipment and intangible assets increased by 43.2% to RUR 3,827 million, driven by a 49.8% increase in fixed asset expenditure, mostly consisting of investment in servers and infrastructure of our social networks.

The growth in intangible asset expenditures by 36.2% mostly resulted from the acquisition of music content from industry majors, but it was partially offset by a decrease in capitalised development costs related to Skyforge and Armored Warfare, which were capitalised for a portion of 2015 prior to the commercial launch of the respective titles.

Net cash used in investing activities in 2016 also included a net RUR 7,157 million paid for Delivery Club and Pixonic and RUR 9,709 million of net cash received from HeadHunter disposal (2015: net RUR 963 million paid for ICVA).

Issue of equity and loan repayment

The majority of our acquisitions have, in the past, been financed through the issue of equity. MGL did not issue any equity in 2016 or 2015 for M&A purposes. In H1 2016 we early repaid the Gazprombank loan used for partial financing of the VK acquisition in 2014.

YURY STENIN

Person of the Year
Mail.Ru People Awards

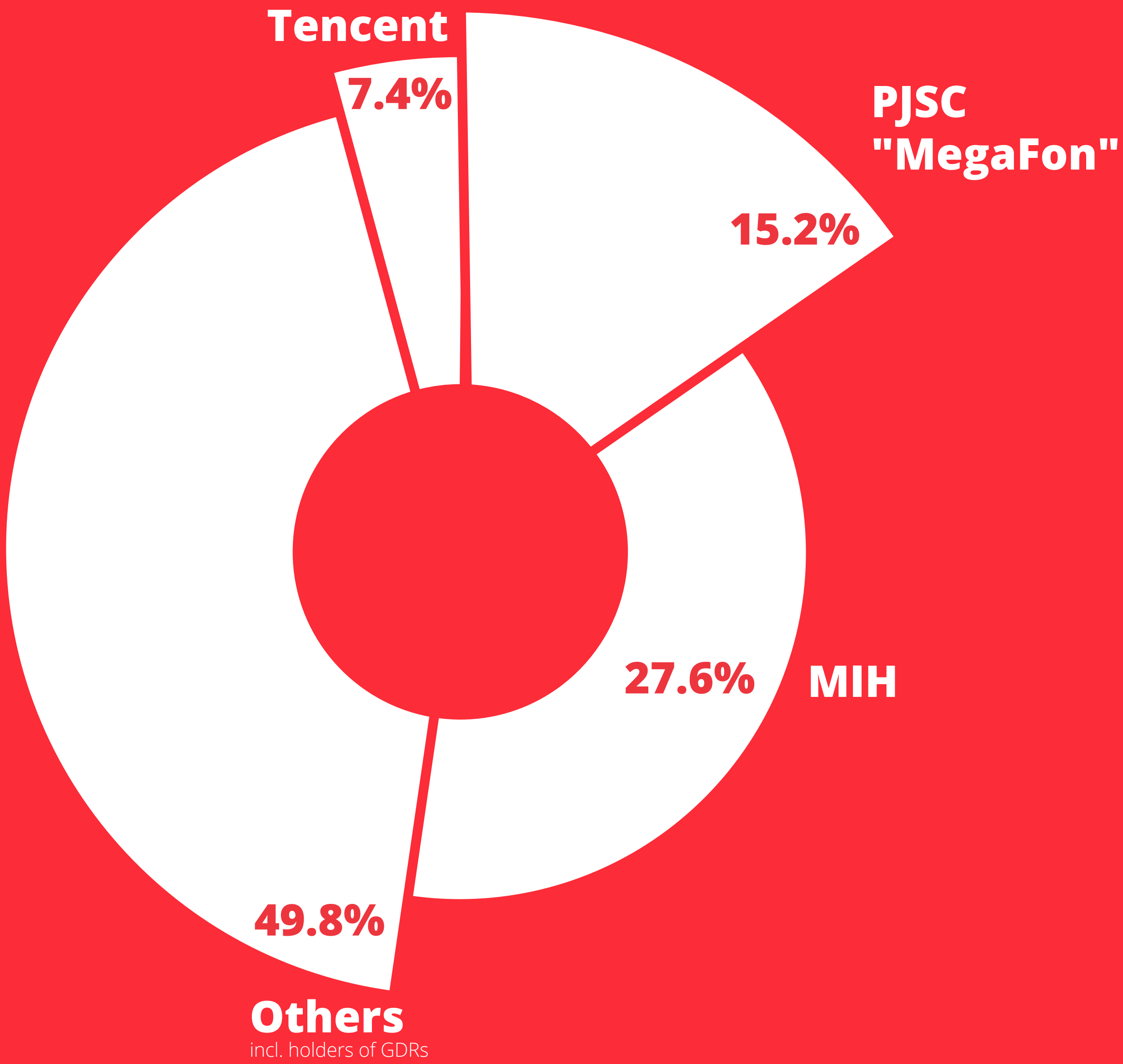

KSENIA STERNINA
Team of the Year
Mail.Ru People Awards

ANDREY SUMIN

Internal Solution of the Year
Mail.Ru People Awards

03

MANAGEMENT



SHAREHOLDERS' ECONOMIC INTEREST

Management

Board of Directors

Dmitry Grishin, age 38
Co-Founder and Chairman of the Board

Dmitry Grishin was appointed Chairman of the Board in March 2012. He co-founded Mail.Ru Group in 2005 and served as Chief Executive Officer (Russia) from November 2010 to October 2016. 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 33
Director, Chief Executive Officer (Russia)

Boris Dobrodeev was appointed to the Board in February 2016 and became Chief Executive Officer (Russia) in October 2016. From 2014 to 2016 Boris held positions of Mail.Ru Group's Director for Strategy & Development and VKontakte's CEO and from 2013 to 2014 he was Deputy CEO of VKontakte. 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 42
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 47
Director

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

Ivan Tavrin, age 40
Director

Ivan Tavrin was re-appointed to the Board in August 2016 (he previously served on the Board between April 2011 and June 2013). Ivan is a co-founder, shareholder and the Chairman of the Board of UTH, the largest independent commercial media holding company in Russia which owns Disney Channel (JV with The Walt Disney Company), Muz TV and U and co-owns CTC Media. He is a Chairman of CTC Media, member of the Boards of USM Holding, Metalloinvest and Kommersant publishing house. Between 2012 and 2016, Mr Tavrin served as a CEO of MegaFon, a leading telecommunication operator, taking the company public on London Stock Exchange and Moscow Exchange in 2012 and establishing MegaFon as a best-in-class mobile operator in Russia. Ivan Tavrin has extensive experience in media, telecommunications and technology industries and has been closely involved in establishing a number of successful media, telecom and Internet companies, including Regional Media Group, Media One Holding, Vyberi Radio Group, TV-3 and NetByNet Holding and has led some of the largest transactions in the market. He is a graduate of the Moscow State Institute of International Relations (MGIMO).

Charles St. Leger Searle, age 53
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 and MakeMyTrip Limited. 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 and New Zealand. Mr. Searle has more than 20 years of international corporate development experience in the telecommunications and internet industries.

Vasileios Sgourdos, age 47
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 55

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 19 years' experience in Internet, technology and video entertainment 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 64

Independent Director

Jan Buné was appointed as Independent Director and member of the Board in October 2013 and was appointed as Chairman of the Audit Committee in October 2014. He has extensive experience in public accounting and business advisory in the technology, media and telecommunications sector. He was a senior audit partner at Deloitte Netherlands until May 2013. He also serves as Commissioner at Supervisory Authority for the Media sector in the Netherlands, Member of the Supervisory Board at Citco Bank Netherlands and Chairman of the independent Risk Advisory Committee at PayU.

Sang Hun Kim, age 53

Independent Director

Sang Hun Kim was appointed to the Board in February 2011. He was CEO of South Korea's largest internet company, NAVER Corp, from April 2009 until March 2017, when he stepped down as CEO to become a senior advisor to the company. He has served as President of the Korean Internet Companies Association for 6 years and has contributed to the development of the internet industry in Korea. Sang Hun graduated from Seoul National University and received an LL.M. degree from Harvard Law School. He is admitted to both the Korean Bar Association and the New York Bar Association. He had served as a judge in the Seoul District Court and was General Counsel at LG Corp before joining NAVER Corp.

Senior management

Boris Dobrodeev, age 33

Director, Chief Executive Officer (Russia)

Boris Dobrodeev was appointed to the Board in February 2016 and became Chief Executive Officer (Russia) in October 2016. From 2014 to 2016 Boris held positions of Mail.Ru Group's Director for Strategy & Development and VKontakte's CEO and from 2013 to 2014 he was Deputy CEO of VKontakte. 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.

Dmitry Sergeev, age 41

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 law degree. He worked at several investment companies, then at Alfa-Bank. From 2002 he was COO of Regional Media Group working on consolidation of media assets (TV, radio). From 2005 to 2006 Dmitry was a corporate director at TV-3 television network. 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 (Russian TV channels U Channel, Disney Channel Russia, a JV with The Walt Disney Company, and MUZ-TV). From 2012 to 2013 Dmitry was the President of Kommersant Publishing House, a major Russian business media including print, radio and digital media assets.

Matthew Hammond, age 42

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 Nikolsky, age 44

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.

STANISLAV TUGOVIKOV

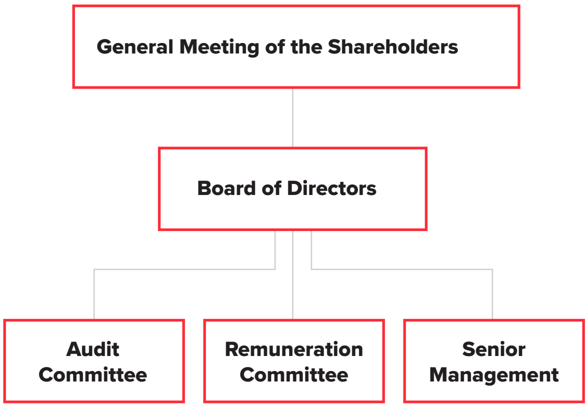
Internal Solution of the Year
Mail.Ru People Awards

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 180,363,963 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, 3,073,177 of these options remain allocated, all of which are vested. Out of 6,423,842 options, 3,274,708 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, 2,559,500 of these options remain allocated, 2,494,500 of which are vested. The options generally have a 4-year vesting schedule. Out of 4,282,561 options, 1,022,625 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, 2,351,300 RSUs are allocated, 573,050 of which are vested. 3,132,700 RSUs were exercised. The RSUs generally have a 4-year vesting schedule.

During the 2016 financial year, MGL itself did not acquire any of its own shares.

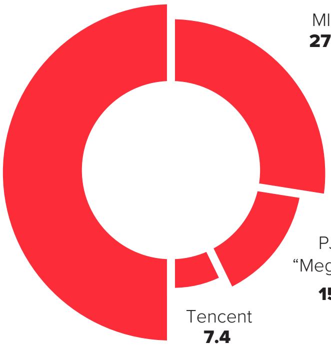
Annual General Meeting ("AGM") of shareholders

The shareholders' meeting is MGL's supreme governing body. AGMs are convened by the Board of Directors or by a 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 votes at shareholders' meetings while Ordinary Shares carry 1 vote per share.

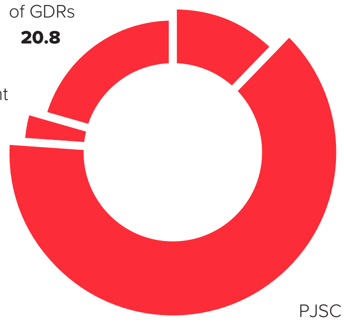
The agenda for the shareholders' meetings is determined by the

Shareholders' economic interest, %



* incl. 2 .84% economic interest held by Dmitry Grishin

Shareholders' voting interest, %



as of the date hereof

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 is 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)
- The approval of the annual budget and annual financial statements of the Company
- The declaration of any dividend
- The convening of any shareholders' meeting

MANAGEMENT

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
Ivan Tavrin	Elected Director	August 17, 2016	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
Boris Dobrodeev	Chief Executive Officer, Russia	October 2016
Dmitry Sergeev	Deputy Chief Executive Officer, Russia	October 2014
Matthew Hammond	Managing Director; Chief Financial Officer	April 2011 June 2013
Vladimir Nikolsky	Chief Operating Officer, Russia	June 2013

- 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 appointed by MGL's Board of Directors and meets on a regular basis, but not less than once every 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 audit 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 for the approval of options or RSUs to be granted under the incentive plans.

The Remuneration Committee meets on as and when appropriate basis.

Members of the Committee

Ivan Tavrin, 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 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 system of MGL, including its subsidiaries and associates and proposing recommendations as a result of those assessments
- Assessing the effectiveness of the internal control system of MGL, including its subsidiaries and associates 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 management;

- 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 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/.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Risk management

Summary

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, operational and compliance risks that the Company faces and has proper mitigation plans developed. Management defines the risk appetite – the acceptable levels of risk the Company is ready to tolerate in its operational activities, which are the maximum performance variability and loss exposures with both qualitative and quantitative statements targeting parameters or acceptable boundaries when executing the business model for creating value to the Company's stakeholders.

Further information on Risk management system can be found in the Corporate governance section on page 69.

We present below the major aspects of our financial risk management policies and objectives (see Note 23 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'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 short-term payables and accrued expenses. The main purpose of these liabilities 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.

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. Accounts receivable from the two largest customers collectively represented 17% of total trade accounts receivable of the Group as of December 31, 2016 and 18% as of December 31, 2015. No customer accounted for more than 10% of revenue in 2016 or 2015. The Company 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.

Capital management policy

For the purposes of our 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 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, as applicable.

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 Company'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 Company's equity risk arises from uncertainties about future values of the investment into unlisted securities.

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 2016, the Company recorded a loss of RUR 1,330 million (2015: a gain of RUR 832million).

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.

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.

Cyber security

Hackers and groups of hackers may create malicious software (malware) to pursue their own criminal interests. These cyber criminals create Trojan programs and computer viruses, including adware and ransomware, aimed at stealing sensitive information or otherwise harm the users and their data.

Should those hackers aim at the Group's customer databases or online gamers' personal data, and we fail to appropriately and rapidly defend our servers, we may face serious reputational losses and material financial effects.

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, draft law on online-cinemas has been adopted in first reading by State Duma. Though it intends to limit foreign ownership by 20% in online-cinemas in Russia, we do not anticipate negative impact on our business. Our services (social networks, video search and preview, service Cinema Mail.Ru) are expected to be excluded from the regulation.

In January, 2017 law regulating online news aggregation services came into force. The law regulates 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. At the same time, news aggregation services are exempted from liability if they utilize mass media's news materials.

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.

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 Russian tax 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. 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 and effective from 2015 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 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. 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 potentially impact 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.

KARIM VALIEV

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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 69.

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 2.9%.

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, 3,073,177 of these options remain allocated, all 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, 2,559,500 of these options remain allocated, 2,494,500 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, 2,351,300 RSUs are allocated, 573,050 of which are vested. The RSUs have generally a 4-year vesting schedule.

Compensation

Directors of MGL

In 2016, the total cash remuneration of the members of the Board of Directors (each a “Director” and collectively, “Directors”) of MGL amounted to RUR 145 million. 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 2016 for holding office in Director’s capacity. During year ended December 31, 2016, Directors did not forfeit or exercise any options over Ordinary Shares of MGL in their capacity as Directors. The share-based payment expense recognized by the Company with respect to Directors’ options was a negative RUR 54 million in 2016.

Key Management of the Company

Total cash remuneration of the key management of the Company amounted to RUR 590 million in 2016 (including remuneration of Matthew Hammond as a senior manager of the Company, Boris Dobrodeev and Dmitry Grishin). In addition to the cash remuneration in 2016, key management of the Company were granted 15,000 RSUs and options to acquire 60,000 Ordinary Shares at the exercise price of US$17.50 per share. Key management of the Company (excluding Directors) did not forfeit any RSUs or options over Ordinary Shares in 2016. Key management of the Company (excluding Directors) exercised an aggregate of 292,500 RSUs and options over Ordinary shares in 2016. The corresponding share-based payment expense amounted to RUR 1,952 million in 2016.

	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	-	6,245,792	2.84%	1,750,000
Boris Dobrodeev	-	-	-	250,000
Ivan Tavrin	-	-	-	-
Matthew Hammond	-	-	-	264,240
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.

DMITRIY YUDIN

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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

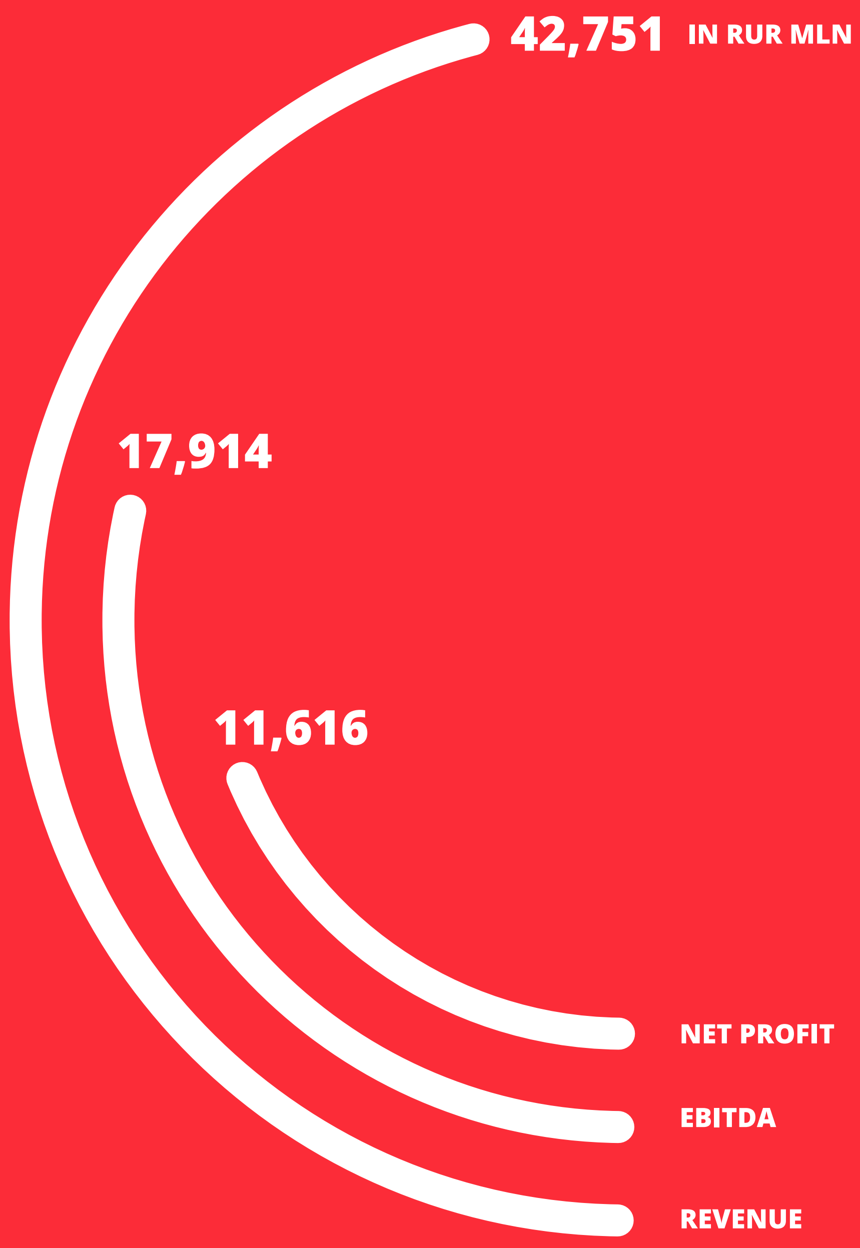
Managing Director, Chief Financial Officer

Mail.Ru Group Limited

28 April 2017

04

FINANCIAL STATEMENTS



GROUP AGGREGATE SEGMENT INFORMATION
2016

Mail.ru Group Limited

Consolidated Financial Statements

For the year ended December 31, 2016

Contents

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улучшаем мир

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Independent auditor's report

To the Shareholders and Board of Directors of Mail.ru Group Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Mail.ru Group Limited and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at December 31, 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

1. Annual goodwill impairment analysis

Under IFRSs, the Group is required to annually test the amount of goodwill for impairment by assessing the recoverable amounts of each cash-generating unit (CGU) or a group of CGU comprising operating segments of the Group, and comparing it with the carrying amount of relevant CGU or groups of CGU. This annual impairment test was significant to our audit because the balance of goodwill of RUB 132,309 million as of December 31, 2016 is material to the financial statements. In addition, the management's process to assess the recoverable amounts is complex and highly judgmental and is based on assumptions, specifically cash flow projections from financial budgets approved by management of the Group, which are affected by expectations about future market or economic conditions, particularly those in Russian internet market.

Our audit procedures included, among others, examining the amounts of goodwill allocated to each operating segment, involving our own valuation specialists in evaluation the significant assumptions and methodologies used by the Group, in particular those relating to the forecasted revenue growth and earnings before interest, taxes, depreciation and amortisation (EBITDA) and profit margins for each of the operating segments. We also focused on the disclosures in the Group consolidated financial statements about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill. We also have assessed the goodwill impairment sensitivity disclosure in Note 11 of the consolidated financial statements, which specifically explains that possible changes in the key assumptions used could give rise to an impairment of the VK goodwill (Vkontakte).

2. Capitalised software development costs (massively-multiplayer online, or MMO, games and other intangible assets)

The Group capitalises qualifying internal and outsourced labor and related costs to develop various software-related intangible assets, including MMO games, and tests them for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The total amount of additions to such intangible assets for the year ended December 31, 2016 were RUB 3,444 mln, the balance of the MMO games and other intangible assets comprised RUB 5,041 million and RUB 2,711 million, and a related impairment charge comprised RUB 52 million. This matter was significant for our audit because of significant management judgment involved. Management uses criteria that includes determining the point in time when relevant software development costs can start to get capitalised. The determination of the applicable costs and the assessment by management of recoverability and impairment, are highly judgmental areas, which ultimately affect the amount of capitalised amortised costs versus those costs to be immediately expensed or those costs which are to be impaired.

During the audit we analysed capitalised costs relating to qualifying MMO under development in 2016. Our audit procedures included, amongst others, assessment of the eligibility of the development costs for capitalisation as intangible asset under IAS 38 and we evaluated the assumptions and methodologies used by the Group to test the impairment of these intangible assets. We have also assessed the design of the controls surrounding the intangible assets capitalisation and subsequent measurement and performed substantive test of details on the capitalised development costs. We evaluated management's judgments and results from internal control procedures performed by management.

Management's disclosures in respect of capitalised costs within intangible assets are included in Note 7 of the consolidated financial statements.

3. Revenue recognition

The Group's online advertising revenues is a complex automated process, that involve volume rebates and 3rd party commissions that require judgment in presenting them gross or net. On-line games and Community IVAS revenues involve complex and judgmental calculations of material amounts of deferred revenues related to in-game or user account-linked items purchased by the users inside on-line games or social networks. Selecting and applying revenue recognition policies requires management judgment. This matter was significant for our audit because of the complexity of the process and significant management judgment involved.

We tested relevant significant internal controls over revenue recognition process, as well in respect of application and IT-dependent manual controls. We examined and tested on a sample basis standard as well as significant non-standard revenue arrangements. We analysed the selected arrangements and considered revenue recognition policy in respect of specific revenue streams as well as relevant disclosures. We tested the Group's reconciliation of the amount of revenues recognised in the accounting systems to the appropriate automated IT systems. We analysed the calculation of deferred revenue, including the assessment of the estimated life span of in-game and account-linked items in games and in user accounts in social networks. As well, we performed audit analytical procedures and tested of sample transactions. We also assessed respective disclosures in consolidated financial statements.

Management's disclosures are included in Note 5, 17 of the consolidated financial statements.

4. Accounting for income taxes

The Group's operations are subject to income taxes in numerous jurisdictions. Given changing tax regulations and enforcement environments in Russia and globally, current and deferred income tax amounts and tax risks are significant to our audit because the relevant calculation and risk assessment processes are complex and involve judgment. Finally, calculation of deferred taxes on undistributed earnings of subsidiaries involves complex process and significant management judgment.

We have performed audit procedures on the amounts recognised as current and deferred tax and assessed the completeness of tax provisions and contingencies. We analysed the annual income tax provision, assessed the effective tax rate, tested the deferred tax calculation, including taxation of unremitted earnings, the analysis of the recoverability of deferred tax assets. We involved our own tax specialists to assist in analysis of the tax positions and to consider the assumptions used to evaluate tax positions and risks. We assessed disclosures of the general tax regime and relevant risks and tax provisions.

Management's disclosures are included in Note 18 of the consolidated financial statements.

5. Acquisitions in business combinations – Purchase price allocation

As it is disclosed in Note 6, in October 2016 the Group obtained control over 100% of the shares in a number of entities forming Pixonic Group of companies for a total consideration of USD 30 million.

In November 2016 the Group obtained control over 100% of the shares in Delivery Club for a total consideration of USD 100 million.

Also a number of other smaller acquisitions were made in 2016. The Group accounted for the acquisitions in accordance with IFRS 3 *Business Combination*. The purchase consideration was allocated to various assets and liabilities of the acquired entities. Based on the quantitative materiality of the acquisitions and the significant degree of management judgment that the provisional purchase price allocation requires, we have evaluated this to be a key audit matter. Management prepared the provisional purchase price allocation to net assets, including customer relationships, trade names, other intangible assets and goodwill assisted by internal valuation experts.

In our audit we considered the purchase agreement, consideration paid and the Group's accounting approach for the purchase price allocation. An important element of our audit concerned management's identification of acquired assets (including but not limited to valuation of customer relationships, games) and liabilities provisions, deferred and contingent consideration. We have analysed the competence and relevant experience of the expert engaged by management. We involved our own valuation specialists to evaluate management's valuation methodologies and assumptions, using source data and market data. During the audit procedures we have analysed the assumptions that were used by management in preparation of forecasts and assumptions for the purchase price allocation. We also assessed the related disclosures in Note 6 in the consolidated financial statements.

Other information included in the Group's 2016 Annual report

Other information consists of the information included in the Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and Audit Committee for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Alexey Chizhikov.

Alexey Chizhikov
Partner
Ernst & Young LLC

April 27, 2017

Details of the audited entity
Name: Mail.ru Group Limited
Registered: May 4, 2005
Address: 232 28th October Street, Office 501, 3035 Limassol, Cyprus.

Details of the auditor
Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on December 5, 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Consolidated Statement of Financial Position

As of December 31, 2016
(in millions of Russian Roubles)

	Notes	As at December 31, 2016	As at December 31, 2015
ASSETS			
Non-current assets			
Investments in equity accounted associates	10	649	643
Goodwill	6,11	132,309	126,721
Other intangible assets	7,6	29,894	30,926
Property and equipment	8	3,840	3,687
Available-for-sale financial assets	22	–	932
Financial assets at fair value through profit or loss	22	403	1,071
Deferred income tax assets	18	2,600	1,730
Other non-current assets	15	2,265	745
Total non-current assets		171,960	166,455
Current assets			
Trade accounts receivable	12	5,089	3,584
Prepaid income tax		49	1,041
Prepaid expenses and advances to suppliers		2,111	1,855
Financial assets at fair value through profit or loss	22	105	172
Other current assets	15	201	195
Short-term time deposits	13	–	16
Cash and cash equivalents	13	5,513	8,676
Total current assets		13,068	15,539
Total assets		185,028	181,994
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	14	–	–
Share premium		51,758	49,328
Treasury shares	14	(1,290)	(1,293)
Retained earnings		112,415	100,602
Accumulated other comprehensive income/(loss)		470	(205)
Total equity attributable to equity holders of the parent		163,353	148,432
Non-controlling interests		64	15
Total equity		163,417	148,447
Non-current liabilities			
Deferred income tax liabilities	18	3,265	4,891
Deferred revenue		2,710	1,716
Long-term interest-bearing loans	22	–	10,331
Other non-current liabilities		748	–
Total non-current liabilities		6,723	16,938
Current liabilities			
Trade accounts payable	22	3,355	2,374
Income tax payable		389	277
Financial liabilities at fair value through profit or loss	22	195	–
VAT and other taxes payable		2,231	1,878
Deferred revenue and customer advances		4,893	4,139
Short-term portion of long-term interest-bearing loans	22	122	4,875
Other payables, provisions and accrued expenses	16	3,703	3,066
Total current liabilities		14,888	16,609
Total liabilities		21,611	33,547
Total equity and liabilities		185,028	181,994

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2016
(in millions of Russian Roubles)

	Notes	2016	2015
Online advertising		18,492	14,825
MMO games		8,745	7,673
Community IVAS		11,647	12,246
Other revenue	17	1,117	3,242
Total revenue		40,001	37,986
Net loss on venture capital investments	22	(769)	(387)
Personnel expenses		(10,722)	(11,026)
Office rent and maintenance		(2,023)	(2,005)
Agent/partner fees		(6,512)	(4,942)
Marketing expenses		(2,429)	(1,338)
Server hosting expenses		(1,863)	(2,233)
Professional services		(493)	(454)
Other operating expenses		(1,816)	(1,447)
Total operating expenses		(25,858)	(23,445)
EBITDA		13,374	14,154
Depreciation and amortisation	7,8	(7,754)	(7,165)
Impairment of intangible assets	7	(52)	(1,397)
Share of profit of equity accounted associates		27	–
Finance income		839	613
Finance expenses		(732)	(2,326)
Other non-operating income/(loss)		39	(11)
Net (loss)/gain on derivative financial assets and liabilities at fair value through profit or loss	22	(112)	23
Net loss on disposal of shares in available-for-sale investments		(342)	–
Net gain on disposal of shares in subsidiaries	6	8,712	–
Net foreign exchange (loss)/gain		(1,330)	832
Profit before income tax expense		12,669	4,723
Income tax expense	18	(838)	(1,736)
Net profit		11,831	2,987
Attributable to:			
Equity holders of the parent		11,813	2,937
Non-controlling interest		18	50
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations:			
Differences arising during the period		381	(78)
Available-for-sale financial assets:			
(Loss)/gain arising during the period (net of tax effect of zero)		(328)	123
Reclassification adjustments for loss included in profit or loss		342	–
Total other comprehensive income net of tax effect of 0		395	45
Total comprehensive income, net of tax		12,226	3,032
Attributable to:			
Equity holders of the parent		12,208	2,991
Non-controlling interest		18	41
Earnings per share, in RUR:			
Basic earnings per share attributable to ordinary equity holders of the parent	19	56.7	14.1
Diluted earnings per share attributable to ordinary equity holders of the parent	19	54.4	14.1

Consolidated Statement of Cash Flows

For the year ended December 31, 2016
(in millions of Russian Roubles)

	Notes	2016	2015
Cash flows from operating activities			
Profit before income tax		12,669	4,723
Adjustments for:			
Depreciation and amortisation	7,8	7,754	7,165
Bad debt expense	12	60	90
Net loss/(gain) on financial assets and liabilities at fair value through profit or loss	22	112	(23)
Net gain on disposal of shares in subsidiaries	6	(8,712)	–
Net loss on disposal of shares in available-for-sale investments		342	–
Loss on disposal of property and equipment and intangible assets		–	63
Finance income		(839)	(613)
Finance expenses		732	2,326
Dividend revenue from venture capital investments	17	(36)	(83)
Share of profit of equity accounted associates		(27)	–
Impairment of intangible assets	7	52	1,397
Net foreign exchange loss/(gain)		1,330	(832)
Share-based payment expense		2,226	2,989
Other non-cash items		1	50
(Increase)/decrease in accounts receivable		(1,458)	141
Increase in prepaid expenses and advances to suppliers		(906)	(889)
(Increase)/decrease in other assets		(27)	137
Increase in accounts payable, provisions and accrued expenses		719	711
(Increase)/decrease in other non-current assets		(1,522)	163
Increase in deferred revenue and customers advances		1,968	1,610
Decrease in financial assets at fair value through profit or loss	22	669	387
Operating cash flows before interest and income taxes		15,107	19,512
Dividends received from financial investments		34	92
Interest received		786	610
Interest paid		(740)	(2,300)
Income tax paid		(2,567)	(3,968)
Net cash provided by operating activities		12,620	13,946
Cash flows from investing activities:			
Cash paid for property and equipment		(2,064)	(1,378)
Cash paid for intangible assets		(1,763)	(1,294)
Dividends received from equity accounted associates and investments designated as available-for-sale financial assets	10	68	24
Collection/(issuance) of loans receivable		23	(17)
Proceeds from disposal of shares in available-for-sale investments		604	–
Cash paid for acquisitions of subsidiaries, net of cash acquired	6	(7,157)	(963)
Proceeds from disposal of subsidiaries, net of cash disposed	6	9,709	–
Collection of short-term and long term deposits		17	483
Acquisition of short-term and long term deposits		–	(10)
Net cash used in investing activities		(563)	(3,155)
Cash flows from financing activities:			
Loans repaid	22	(15,534)	(6,927)
Loans received		298	–
Dividends paid by subsidiaries to non-controlling shareholders		(2)	(42)
Net cash used in financing activities		(15,238)	(6,969)
Net (decrease)/increase in cash and cash equivalents		(3,181)	3,822
Effect of exchange differences on cash balances		18	269
Cash and cash equivalents at the beginning of the period		8,676	4,585
Cash and cash equivalents at the end of the period		5,513	8,676

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	24	–	–	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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016
(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, 2016		208,127,372	–	49,328	(1,293)	100,602	(205)	148,432	15	148,447
Profit for the period		–	–	–	–	11,813	–	11,813	18	11,831
Other comprehensive income:										
Foreign currency translation		–	–	–	–	–	381	381	–	381
Net change in cumulative holding gains on available-for-sale investments		–	–	–	–	–	14	14	–	14
Total other comprehensive income		–	–	–	–	–	395	395	–	395
Total comprehensive income		–	–	–	–	11,813	395	12,208	18	12,226
Share-based payment transactions	24	–	–	2,433	–	–	–	2,433	–	2,433
Exercise of options and RSUs over the shares of the Company		507,065	–	(3)	3	–	–	–	–	–
Acquisitions of non-controlling interests in business combinations								–	52	52
Effect of disposal of subsidiary	6	–	–	–	–	–	280	280	(19)	261
Dividends by subsidiaries to non-controlling shareholders		–	–	–	–	–	–	–	(2)	(2)
Balance at December 31, 2016		208,634,437	–	51,758	(1,290)	112,415	470	163,353	64	163,417

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, 2016 were authorised for issue by the directors of the Company on April 27, 2017.

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 its properties 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, 2016:

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered 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. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

2 Basis of preparation (continued)

2.2 Application of new and amended IFRS and IFRIC (continued)

IAS 34 Interim Financial Reporting

The amendment clarifies 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 interim financial report (e.g., in the management commentary or risk report). 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. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and other comprehensive income (OCI) and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not have investment entities.

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 currently assesing 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)

IAS 7 Disclosure Initiative – Amendments to IAS 7
The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. Application of the amendments will result in additional disclosures provided by the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 also requires to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2017, the Group is assessing the effect of IFRS 16 on its consolidated financial statements.

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, 2016 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.

3 Summary of significant accounting policies (continued)

3.1 Principles of consolidation (continued)

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.

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.

3 Summary of significant accounting policies (continued)

3.2 Business combinations and goodwill (continued)

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.

3.3 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.

3 Summary of significant accounting policies (continued)

3.3 Investments in associates (continued)

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.

3.4 Property and equipment

3.4.1 Recognition and measurement

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 assets under construction in 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.

3 Summary of significant accounting policies (continued)

3.5 Intangible assets other than goodwill (continued)

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 2016 amounted to RUR 597 (2015: RUR 305).

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, 2016 and 2015.

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 796 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 Summary of significant accounting policies (continued)

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.

3.9.1.2 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 Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

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.

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 Summary of significant accounting policies (continued)

3.11 Share-based payment transactions (continued)

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.

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 Summary of significant accounting policies (continued)

3.12 Financial instruments (continued)

3.12.2 Subsequent measurement

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

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

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

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

Financial instruments designated as at fair value through profit or loss upon initial recognition: 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 Summary of significant accounting policies (continued)

3.12 Financial instruments (continued)

3.12.4 Offsetting of financial instruments

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

3.12.5 Fair value of financial instruments

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

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

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.

5 Operating segments (continued)

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, (ii) user payments for virtual gifts and stickers and (iii) 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 and food delivery product earns substantially from restaurant`s commission. 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.

The income statement items for each segment for the year ended December 31, 2016, 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	4,799	14,218	11,740	8,882	3,112	–	42,751
Intersegment revenue	4	20	–	54	383	(461)	–
Total revenue	4,803	14,238	11,740	8,936	3,495	(461)	42,751
Total operating expenses	3,252	4,657	9,590	3,600	4,199	(461)	24,837
EBITDA	1,551	9,581	2,150	5,336	(704)	–	17,914
Net profit							11,616

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	14,101	9,516	6,214	2,852	–	37,227
Intersegment revenue	4	–	–	18	362	(384)	–
Total revenue	4,548	14,101	9,516	6,232	3,214	(384)	37,227
Total operating expenses	2,800	3,855	7,039	3,156	2,675	(384)	19,141
EBITDA	1,748	10,246	2,477	3,076	539	–	18,086
Net profit							9,844

Notes to Consolidated Financial Statements (continued)

5 Operating segments (continued)

A reconciliation of total revenue, as currently presented to the CODM, to IFRS consolidated revenue of the Group for the years ended December 31, 2016 and 2015 is presented below:

	2016	2015
Total revenue, as presented to the CODM	42,751	37,227
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	(1,076)	2,114
Differences in timing of revenue recognition	(1,740)	(1,515)
Barter revenue	30	77
Dividend revenue from venture capital investments	36	83
Consolidated revenue under IFRS	40,001	37,986

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, 2016 and 2015 is presented below:

	2016	2015
Group aggregate segment EBITDA, as presented to the CODM	17,914	18,086
Adjustments to reconcile EBITDA as presented to the CODM to consolidated profit before income tax expenses under IFRS:		
Effect of difference in dates of acquisition and loss of control in subsidiaries	206	1,445
Differences in timing of revenue recognition	(1,740)	(1,515)
Net loss on venture capital investments	(769)	(387)
Share-based payment transactions	(2,226)	(2,989)
Dividend revenue from venture capital investments	36	83
Non-recurring VAT charge	–	(250)
Other	(47)	(319)
EBITDA	13,374	14,154
Depreciation and amortisation	(7,754)	(7,165)
Impairment of intangible assets	(52)	(1,397)
Share of profit of equity accounted associates	27	–
Finance income	839	613
Finance expenses	(732)	(2,326)
Other non-operating income/(loss)	39	(11)
Net loss on disposal of shares in available-for-sale investments	(342)	–
Net (loss)/gain on derivative financial assets and liabilities at fair value through profit or loss	(112)	23
Net gain on disposal of shares in subsidiaries	8,712	–
Net foreign exchange (loss)/gain	(1,330)	832
Consolidated profit before income tax expense under IFRS	12,669	4,723

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, 2016 and 2015 is presented below:

	2016	2015
Total net profit, as presented to the CODM	11,616	9,844
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payment transactions	(2,226)	(2,989)
Differences in timing of revenue recognition	(1,740)	(1,515)
Effect of difference in dates of acquisition and loss of control in subsidiaries	214	1,237
Amortisation of fair value adjustments to intangible assets and impairment thereof	(4,867)	(4,804)
Net loss on financial instruments at fair value through profit or loss	(882)	(365)
Net gain on disposal of shares in subsidiaries	8,712	–
Net foreign exchange (loss)/gain	(1,330)	832
Net loss on disposal of shares in available-for-sale investments	(342)	
Share of profit of equity accounted associates	27	–
Non-recurring VAT charge	–	(250)
Other	(43)	(341)
Tax effect of the adjustments and tax on unremitted earnings	2,692	1,338
Consolidated net profit under IFRS	11,831	2,987

6 Acquisitions and disposals for 2015 and 2016

6.1 Delivery Club

In November 2016 the Group acquired a 90% of equity interest in Delivery Club LLC ("Delivery Club"), Russia's leading food delivery operator, for a cash consideration of RUR 5,714. Effectively the Group acquired 100% equity interest in Delivery Club through put and call options over the remaining 10% with equivalent terms, entered into as part of the business combination. Simultaneously, the Group signed an option agreement in respect of 10% shares of Delivery Club LLC. Under this agreement, the Group had the right to acquire (the call option) and the seller had the right to sell (the put option) 10% of shares in Delivery Club LLC for US$ 10 million (RUR 628 million based on the exchange rate as of the date of the business combination). The Group assessed that the share options were substantial at the date of business combination and economic benefits have been effectively transferred to the Company since that date. The primary purpose of the acquisition of Delivery Club was to enlarges the range of Group`s products.

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

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

	Provisional fair value
Property and equipment (Note 8)	6
Other intangible assets (Note 7)	1,040
Deferred income tax assets (Note 18)	70
Trade accounts receivable	81
Financial assets at fair value through profit or loss (Note 22)	28
Prepaid income tax	1
Other current assets	17
Cash and cash equivalents	41
Total assets	1,284
Deferred income tax liabilities	208
Trade accounts payable	27
Financial liabilities at fair value through profit or loss (Note 22)	238
Income tax payable	23
Other payables, provisions and accrued expenses	46
Total liabilities	542
Total net assets	742

Goodwill on the transaction was calculated as the excess of:	
(a) the consideration transferred by the Group measured at fair values:	
[1] Cash paid	5,714
[2] Deferred consideration liability (Note 16)	628
Consideration transferred by the Group	6,342
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	742
Goodwill	5,600

Goodwill is mainly attributable to the potential of Delivery Club to further enhance its leadership position in the Russian food delivery market, as well as the prospects of potential synergies with the Group's other operations. Goodwill is not expected to be deductible for income tax purposes.

Intangible assets mainly include Delivery Club`s trademark, restaurants relationship and customer base and are amortised over the period of 7 to 10 years.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	5,710
Cash acquired (included in cash flows from investing activities)	(41)
Net cash flow on acquisition	5,669

6.2 Pixonic

In October 2016 the Group acquired Pixonic, a mobile games developer through the acquisition of a 100% of equity interest in several legal entites (together "Pixonic") for a cash consideration of RUR 1,251 and contingent consideration of RUR 625 (USD 10 million) based on ongoing revenue KPIs. The primary purpose of the acquisition of Pixonic was to enhance the Group's position on mobile games market.

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

6 Acquisitions and disposals for 2015 and 2016 (continued)

6.2 Pixonic (continued)

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

	Provisional fair value
Property and equipment (Note 8)	13
Other intangible assets (Note 7)	1,221
Deferred income tax assets (Note 18)	332
Trade accounts receivable	131
Prepaid income tax	1
Other current assets	38
Cash and cash equivalents	34
Total assets:	1,770
Deferred revenue	776
Deferred income tax liabilities (Note 18)	520
Trade accounts payable	135
Income tax payable	1
Interest-bearing loans	54
Total liabilities:	1,486
Total net assets	284

Goodwill on the transaction was calculated as the excess of:	
(a) the consideration transferred by the Group measured at fair values:	
[1] Cash paid	1,251
[2] Contingent consideration liability (Note 16)	625
Consideration transferred by the Group	1,876
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	284
Goodwill	1,592

Goodwill is mainly attributable to the potential of Pixonic to develop new games, as well as the prospects of potential synergies with the Group's other operations. Goodwill is not expected to be deductible for income tax purposes.

Intangible assets mainly include mobile games and are amortised over the period of 4 years.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	1,212
Cash acquired (included in cash flows from investing activities)	(34)
Net cash flow on acquisition	1,178

The effects of the Delivery Club and Pixonic acquisition on the Group's revenue and net income for 2016 are presented below:

	Revenue	Net profit
The Group, excluding entities acquired in 2016	39,411	12,220
Contributed by:	590	(389)
Delivery Club	130	(148)
Pixonic	460	(241)
The Group	40,001	11,831
Effect of business combinations as if occuring on January 1, 2016:	1,084	(210)
Delivery Club	491	40
Pixonic	593	(250)
The Group, as if the acquisition of Delivery occurred on January 1, 2016	41,085	11,621

6 Acquisitions and disposals for 2015 and 2016 (continued)

6.3 ICVA

In May 2015, the Group acquired an operator of a data center through the acquisition of a 100% of equity interest in 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.

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 income tax assets (Note 18)	26
Other non-current assets	158
Trade accounts receivable	2
Prepaid expenses and advances to suppliers	27
Prepaid ncome tax	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

6 Acquisitions and disposals for 2015 and 2016 (continued)

6.4 Headhunter

In February 2016 the Group sold it`s 100% equity interest of HeadHunter for a cash consideration of RUR 10,130. As of the date of disposal the net assets of HeadHunter attributable to the Group were RUR 1,138, including goodwill of RUR 1,855 and cash and cash equivalents of RUR 421. Disposed liabilities of HeadHunter mostly included Deferred revenue and customer advances. In addition, currency translation reserve attributable to HeadHunter in the amount of RUR 280 was reclassified to profit or loss. As a result of the disposal the Group recognised a gain in the amount of RUR 8,712 recorded under "Net gain from disposal of subsidiaries" in the statement of comprehensive income.

7 Intangible assets

	Goodwill	Trademark	Customer base	Game software and software development costs	Other software, licenses and other	Total
Cost						
At January 1, 2015	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
Additions	–	1	–	1,097	2,346	3,444
Disposals	–	(5)	–	(16)	(18)	(39)
Additions due to acquisition of subsidiaries (Note 6)	7,443	778	313	1,221	64	9,819
Disposal due to disposal of subsidiaries (Note 6)	(1,855)	(138)	(65)	29	(478)	(2,507)
Translation adjustment	–	2	–	(986)	(143)	(1,127)
At December 31, 2016	132,309	14,554	22,013	11,943	4,757	185,576
Accumulated amortisation and impairment						
At January 1, 2015	–	(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)
Charge for the year	–	(1,433)	(2,928)	(965)	(606)	(5,932)
Disposals	–	–	–	11	15	26
Disposal due to disposal of subsidiaries (Note 6)	–	85	37	(8)	424	538
Impairment	–	–	–	(52)	–	(52)
Translation adjustment	–	(2)	–	331	57	386
At December 31, 2016	–	(5,552)	(8,873)	(6,902)	(2,046)	(23,373)
Net book value						
At January 1, 2015	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
At December 31, 2016	132,309	9,002	13,140	5,041	2,711	162,203

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 (2016: 52). The impairment entirely belongs to the Online Games operating segment.

7 Intangible assets (continued)

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, 2016. 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 value in use 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, 2016 was 18.9% (2015: 18.6%).

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, 2015	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
Additions	–	–	–	1,964	–	1,964
Transfers	1,793	6	3	(1,870)	68	–
Disposals	(203)	(1)	(14)	(18)	(1)	(237)
Additions due to acquisition of subsidiaries (Note 6)	2	–	6	9	75	92
Disposal due to disposal of subsidiaries (Note 6)	(94)	(13)	(34)	(2)	(14)	(157)
Translation adjustment	(74)	(1)	(14)	5	(12)	(96)
At December 31, 2016	7,878	514	227	538	749	9,906
Accumulated depreciation and impairment						
At January 1, 2015	(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)
Charge for the year	(1,605)	(38)	(29)	–	(150)	(1,822)
Disposals	203	1	14	–	1	219
Disposal due to disposal of subsidiaries (Note 6)	65	12	32	–	9	118
Translation adjustment	58	1	8	–	5	72
At December 31, 2016	(5,350)	(214)	(138)	–	(364)	(6,066)
Net book value						
At January 1, 2015	2,399	388	136	539	55	3,517
At December 31, 2015	2,383	333	117	450	404	3,687
At December 31, 2016	2,528	300	89	538	385	3,840

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, 2016 and 2015 are listed below:

Subsidiary	Main activity	Ownership,%*	
		December 31, 2016	December 31, 2015
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) (merged with Odnoklassniki LLC and Mail.Ru Games LLC in 2016)	Online portal services, development and support of online games, social network	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%
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	n/a	100.0%
Headhunter LLC (Ukraine)	Online recruiting services	n/a	51.0%
Headhunter.KZ LLC (Kazakhstan)	Online recruiting services	n/a	66.0%
CV Keskus OU (Estonia)	Online recruiting services	n/a	100.0%
Headhunter FSU Limited (Cyprus)	Holding company	n/a	100.0%
100 Rabot Tut LLC (Belarus)	Online recruiting services	n/a	50.0%
OU Forticom (Estonia)	Holding company	n/a	100.0%
Mail.Ru Group LLC (renamed from Internet company Mail.Ru LLC)	Holding company	100.0%	100.0%
Odnoklassniki Ltd (UK)	Holding company	100.0%	100.0%
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)	Hosting services	100.0%	100.0%
Pixonic LLC (USA)	Online games operation	100.0%	n/a
MD Games LLC (Russia)	Reserch and development of online products	100.0%	n/a
Pixonic Games Ltd (Cyprus)	Holding company	100.0%	n/a
Delivery Cub LLC (Russia)	Food delivery	100.0%	n/a
FoodDelivery Holding 7 Sarl (Luxembourg)	Holding company	100.0%	n/a

* 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, 2016 and 2015 comprised the following:

Associate	Main activity	Voting shares		Carrying value	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
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%	584	563
Nikita Management Limited (BVI)	Holds 100% in OOO Fun Factory (Russia) engaged in online gaming services	50%	50%	65	80
Total				649	643

10 Investments in equity accounted associates (continued)

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, 2016.

In 2016 the Group received dividends from Mamba in the amount of RUR 23 (2015: 23).

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, 2016 and 2015:

	Email, Portal and IM	Social Networks	Online Games	Search	E-commerce and Other	Vkontakte	Pixonic	DeliveryClub	Total
Cost at January 1, 2015	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
Disposal	–	–	–	–	(1,855)	–	–	–	(1,855)
Additions	–	–	–	–	251	–	1,592	5,600	7,443
Cost at December 31, 2016	8,192	18,474	1,952	2,496	312	93,691	1,592	5,600	132,309

The recoverable amount of goodwill has been determined based on value in use calculations as of December 31, 2016 and 2015.

Value in use

At December 31, 2016, value in use was determined using cash flow projections from financial budgets and forecasts approved by senior management covering a seven to nine-year periods. The nine-year period was taken as the basis because the Group expects that the growth rates of the Russian Internet market will exceed the terminal growth rates in the four-year period following the first five years of forecast. 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, 2016 are presented below:

	Email, Portal and IM	Social Networks	Online Games	Search	Vkontakte
Terminal growth rate	5.00%	5.00%	5.00%	5.00%	5.00%
Pre-tax discount rate	17.1%	18.3%	17.9%	17.3%	17.2%

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 23% of carrying amount in the Vkontakte CGU as of December 31, 2016.

Reasonably possible changes in any key assumptions would not result in impairment of goodwill of any other CGU. No impairment of goodwill was recognised in 2016 and 2015.

12 Trade accounts receivable

As of December 31, 2016 and 2015 trade receivables comprised the following:

	December 31, 2016	December 31, 2015
Trade accounts receivable, gross	5,487	4,045
Provision for impairment of trade receivables	(398)	(461)
Total trade receivables, net	5,089	3,584

12 Trade accounts receivable (continued)

The accounts receivable increased primarily due to growth of online advertising revenue and new acqusitions in 2016.

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

Balance as of January 1, 2015	(389)
Charge for the year	(90)
Accounts receivable written off	18
Balance as of December 31, 2015	(461)
Charge for the year	(60)
Accounts receivable written off	123
Balance as of December 31, 2016	(398)

Trade receivables not impaired as of December 31, 2016 and 2015 are presented below:

		Ageing of receivables (days)			
	Total	<90	90-180	180-360	>360
As of December 31, 2016					
Trade accounts receivable	5,089	4,965	120	–	4
As of December 31, 2015					
Trade accounts receivable	3,584	3,488	92	2	2

The accounts receivable balances as of December 31, 2016 and 2015 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, 2016 and 2015.

13 Cash and cash equivalents and short-term deposits

As of December 31, 2016 and 2015 cash and cash equivalents consisted of the following:

	Currency	December 31, 2016	December 31, 2015
Current accounts and cash on hand:	USD	398	945
	RUR	598	1,772
	EUR	325	622
	Other	64	36
Total current accounts and cash on hand		1,385	3,375
Deposit accounts with an original maturity of three months or less:	USD	630	48
	RUR	3,498	5,248
	Other	–	5
Total deposit accounts with an original maturity of three months or less		4,128	5,301
Total cash and cash equivalents		5,513	8,676
Short-term deposit accounts with an original maturity of over three months	RUR	–	16
Total short-term deposits		–	16
Total cash and cash equivalents and short-term deposits		5,513	8,692

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, 2016, 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 974,332 shares of the Company were held in treasury by the Group as of December 31, 2016.

14 Share capital (continued)

14.1 Charter capital and share issues (continued)

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.

As of December 31, 2016 and 2015 all issued shares were fully paid.

Rights attached to the share classes as of December 31, 2016 and 2015

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.

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, 2016 and 2015, 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.

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, 2016	December 31, 2015
Advance under office lease contract	1,075	565
Advances for royalties	1,012	–
Other non-current assets	178	180
Total other non-current assets	2,265	745

The following table represents other current assets:

	December 31, 2016	December 31, 2015
Inventory	27	26
VAT receivable	111	85
Interest receivable	12	10
Other current assets	51	74
Total other current assets	201	195

16 Other payables, provisions and accrued expenses

Other payables, provisions and accrued expenses consist of:

	December 31, 2016	December 31, 2015
Payables to personnel	1,260	1,830
Accrued vacations	611	606
Accrued professional consulting expenses	101	35
Interest payable	–	101
Payables under lease contract	156	154
Other current payables and provisions (Note 6)	1,575	340
Total other payables, provisions and accrued expenses	3,703	3,066

17 Other revenues

	2016	2015
Online recruitment services	471	2,814
Listing fees	69	95
Dividend revenue from venture capital investments	36	83
Food delivery	130	0
Other	411	250
Total other revenue	1,117	3,242

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% 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, 2016 and 2015 is as follows:

	2016	2015
Profit before income tax expense	12,669	4,723
Tax at domestic rates applicable to individual group entities	(1,421)	(1,867)
Non-taxable gain from disposal of subsidiary	1,027	–
Effect of changes in tax rates	668	–
Tax on unremitted earnings	342	(136)
Non-taxable foreign exchange and other gains	82	746
Non-deductible expenses	(970)	(434)
Tax accruals and penalties	(409)	(129)
Adjustments in respect of current income tax of previous year	(105)	72
Unrecognised deferred tax assets	(52)	–
Tax on dividends	–	(19)
Utilisation of previously unrecognised tax loss	–	31
Total income tax expense	(838)	(1,736)

The majority of our taxable profits as well as income tax expenses in 2016 and 2015 are generated in Russia. Pre-tax gains and losses in other jurisdictions in 2016 mostly relate to subsidiaries 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, 2016 and 2015 are summarised below:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	December 31, 2016	December 31, 2015	2016	2015
Deferred tax liabilities arising from:				
Intangible assets book basis in excess of tax basis	(4,607)	(5,241)	1,373	909
Basis of investment in associate in excess of tax basis	(135)	(135)	–	–
Unremitted earnings of subsidiaries	(14)	(482)	342	(136)
Other	(130)	(148)	17	58
Total deferred tax liabilities	(4,886)	(6,006)	1,732	831
Deferred tax assets arising from:				
Tax credit carryforwards	817	328	593	255
Deferred compensation and accrued employee benefits	265	273	11	84
Accrued expenses	183	142	46	73
Revenue recognition	2,562	1,716	480	361
Unrealised intercompany profit	142	162	16	99
Other	252	224	13	101
Total deferred tax assets	4,221	2,845	1,159	973
Net deferred tax assets/(liabilities)	(665)	(3,161)	2,891	1,804

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised, aggregate to RUR 64,647 (2015: RUR 52,239).

Changes in net deferred tax liability from January 1, 2015 to December 31, 2016 were as follows:

	2016	2015
Total deferred income tax liability, net at January 1	(3,161)	(4,955)
Translation reserve	(135)	(1)
Effect of disposal of subsidiary	88	–
Deferred tax benefit	2,891	1,804
Effect of acquisition of subsidiaries (Note 6)	(348)	(9)
Total deferred income tax liability, net at December 31	(665)	(3,161)

	2016	2015
Current income tax expense	3,729	3,540
Deferred income tax benefit	(2,891)	(1,804)
Total income tax expense	838	1,736

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.

	2016	2015
Net profit attributable to equity holders of the Company	11,813	2,937
Weighted average number of ordinary and class A shares in issued and outstanding	208,498,446	208,120,764
Basic EPS (RUB per share)	56.7	14.1

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:

	2016	2015
Net profit attributable to equity holders of the Company	11,813	2,937
Adjustment for the gains from cash setlled options	(319)	0
Adjusted net profit attributable to equity holders of the Company	11,494	2,937
Weighted average number of ordinary and class A shares in issued and outstanding	208,498,446	208,120,764
Effect of equity-settled share based payments of the Company	2,968,693	481,280
Total diluted weighted average number of shares	211,467,139	208,602,044
Diluted EPS (RUB per share)	54.4	14.1

20 Commitments, contingencies and operating risks

20.1 Operating environment of the Group

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 has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital 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)

20.3 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.

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.

On July 7, 2016 the President of the Russian Federation signed a package of "Anti-terror laws". The package requires organisers of the dissemination of information including subsidiaries of the Group: 1) to store data on receipt, transfer, processing of the users' information in the Russian Federation for the period of 1 year excluding content (effective from July 20, 2016); 2) to store data on receipt, transfer, processing of the users' information in the Russian Federation for the period of up to 6 months as the Russian Government shall determine including content (effective from July 1, 2018); 3) to provide competent authorities with decryption means if encryption is used or supported by the organiser of the dissemination of information (effective from July 20, 2016). The details of implementation of the package are currently under discussion. The Group will estimate the potential effects of the laws when the Russian Government determines how to store data on communications with content.

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 Commitments, contingencies and operating risks (continued)

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:

	2016	2015
	Minimum lease payments	Minimum lease payments
Less than 1 year	17	2,558
From 2 to 5 years	1,868	1,885
More than 5 years	–	–
Total	1,885	4,443

The Group mainly leases office premises. In 2016 operating lease expense in the consolidated statement of comprehensive income amounted to RUR 1,795 (2015 – RUR 1,786). 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, 2016 or according to each respective 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
2016				
Equity accounted associates	134	14	64	2
Other entities	1	13	–	2
2015				
Equity accouned associates	137	–	52	5
Other entities	–	17	–	2

21.1 The ultimate controlling party

USM Holdings Ltd. is 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 145 for the year ended December 31, 2016 (2015: RUR 94). No options over the shares of the Company were granted to Directors in 2016 or 2015. During the year ended December 31, 2016, Directors did not forfeit any options (2015: nil) and did not exercise any options (2015: nil). The corresponding share-based payment expense was a negative RUR 54 for the year ended December 31, 2016 (2015: a positive RUR 82).

21.3 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 590 for the year ended December 31, 2016 (2015: 511). 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). During the year ended December 31, 2016, key management of the Group (excluding Directors) did not forfeit any options (2015: 83,250) and exercised options over 292,500 shares of the Company (2015: nil). The corresponding share-based payment expense amounted to RUR 1,952 for year ended December 31, 2016 (2015: 1,682).

22 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of December 31, 2016 and December 31, 2015 and are presented by category of financial instruments in the table below:

	Category*	December 31, 2016	December 31, 2015
Financial assets			
Financial investments in associates	FAFVPL	322	963
Financial derivatives under lease and hosting contracts	FAFVPL	164	280
Derivative financial assets over the equity of investee	FAFVPL	22	–
Available-for-sale equity investment	AFSFA	–	932
Long-term deposits	LR	–	2
Trade accounts receivable	LR	5,089	3,584
Loans and interest receivable	LR	31	70
Short-term time deposits	LR	–	16
Cash and cash equivalents	LR	5,513	8,676
Total financial assets		11,141	14,523
Current		10,725	12,505
Non-current		416	2,018
Total derivative financial assets		186	280
Current		105	173
Non-current		81	107
Financial liabilities			
Long-term and short-term interest-bearing loans and related interest payable	FLAC	122	15,307
Financial liabilities at fair value through profit or loss - derivative over the equity of investee	FLFVPL	234	–
Long-term and short-term trade accounts payable	FLAC	4,064	2,374
Total financial liabilities		4,420	17,681
Current		3,672	7,350
Non-current		748	10,331

* 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.

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 are summarised in the table below:

	Economic shareholding*	Carrying amount
	December 31, 2015	December 31, 2015
Investment in Qiwi	1.31%	932
Total		932

* 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. In 2016 the Group fully sold shares in Qiwi.

22 Financial instruments (continued)

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, 2016 and 2015 the Group held the following financial instruments measured at fair value:

	December 31, 2016	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	322	–	–	322
Financial derivatives under lease and hosting contracts	164	–	–	164
Derivative financial assets over the equity of investee	22	–	–	22
Total financial assets at fair value through profit or loss	508	–	–	508
Total financial assets measured at fair value	508	–	–	508
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss:				
Derivative over the equity of investee	(234)	-	-	(234)
Total financial liabilities measured at fair value	(234)	-	-	(234)

	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

The balance of Level 3 measurements as of January 1, 2015 is reconciled to the balance of those measurements as of December 31, 2016 as follows:

	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	–

22 Financial instruments (continued)

22.3 Fair value hierarchy (continued)

	Balance as of January 1, 2016	Gains/(losses) recognized in profit and loss	Purchases	Sales	Acquired through business combination (Note 6)	Balance as of December 31, 2016
Financial assets measured at fair value						
Financial assets at fair value through profit or loss:						
Financial investments in associates	963	(769)	114	(14)	28	322
Derivative financial assets over the equity of investee	–	–	–	–	22	22
Financial derivatives under lease and hosting contracts	280	(116)	–	–	–	164
Total financial assets at fair value through profit or loss	1,243	(885)	114	(14)	50	508
Financial liabilities at fair value through profit or loss - derivative over the equity of investee	–	4	–	–	(238)	(234)
Total financial liabilities measured at fair value	–	4	–	–	(238)	(234)

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. 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. In June 2016 the Group fully repaid the outstanding balance of the loan facility. With the early repayment of the loan all related covenants were removed with immediate effect.

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 22.4). 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.

23 Financial risk management objectives and policies (continued)

23.3 Credit risk (continued)

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 17% of total trade accounts receivable of the Group as of December 31, 2016 and 18% as of December 31, 2015. No customer accounted for more than 10% of revenue in 2016 or 2015.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, 2016	Decembler 31, 2015
DCF method	Earrnings stream	10.0%	22	52
DCF method	Discount rate	5.0%	46	101
Recent cash transaction	Price	5.0%	4	16

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
2016	`+20%	(382)
	`-20%	382
2015	`+30%	184
	`-30%	(184)

	Change in EUR rate	Effect on profit before tax
2016	`+20%	(2)
	`-20%	2
2015	`+17%	66
	`-17%	(66)

24 Share-based payments

24.1 Share-based payment arrangements of the Company

24.1.1 Option plans

During 2016 and 2015, 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.

24.1.2 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 2016 and 2015:

	Number of options/RSU	WAEP
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
Granted during the year	239,000	4.39
Exercised during the year	537,575	1.08
Cancelled during the year	33,750	0.00
Forfeited during the year	10,250	8.54
Outstanding as of December 31, 2016	**10,563,127**	**10.08**
Exercisable as of December 31, 2016	7,730,377	13.60
Available for grant as of December 31, 2016	6,384,864	2.12

The weighted-average share price was USD 23.36 for options exercised in 2015 and USD 20.25 for options exercised in 2016.

The range of exercise prices for options and RSUs outstanding as of December 31, 2016 and 2015 presented in the table below:

Exercise price	December 31, 2016	December 31, 2015
-	4,853,425	5,218,000
17.5	2,612,250	2,589,000
19.6	3,097,452	3,098,702

24 Share-based payments (continued)

24.1 Share-based payment arrangements of the Company (continued)

24.1.3 Valuations of share-based payments

The valuations of all equity-settled options granted during 2016 and 2015 are summarised in the table below:

Option plan/Grant date	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
2015 RSU Plan/ 2015	5,218,000	0%	56%	1.69-1.97%	N/A	16.75-22.65	5,951	1,141	Binomial
2010 Option Plan/ 2016	60,000	0%	54%	1.23%	N/A	16.75	28	474	Binomial
2015 RSU Plan/ 2016	179,000	0%	53-54%	1.21-1.23%	N/A	16.75-18.00	177	990	Binomial

The valuations of all cash-settled options as of December 31, 2016 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
935,737	0%	53%	2.08%	N/A	18.35	459	491	Binomial

The forfeiture rate used in all valuation models in 2016 is 4.3%. 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 2,223 in share-based payment expenses in the year ended December 31, 2016 (2015: RUR 2,989), including RUR 2,433 (2015: 2,702) 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 MegaFon

In February 2017 MegaFon PJSC closed acquisition of 11.5 million Class A shares and 21.9 million ordinary shares, representing an approximately 15.2% economic and 63.8% voting stake in Mail.Ru Group Limited from subsidiaries of USM Holdings.

25.2 RSU execution by Chairman

In March 2017 Dmitry Grishin (a Chairman of the Board of Directors) assigned to Denholma Limited, 2,200,000 Restricted Stock Units and Denholma Limited acquired 2,200,000 GDRs through the exercise of rights under the Company's RSU Plan. The provisional effect of vesting acceleration on the 2017 earnings is an expense estimated at RUR 525.

Cautionary statements

Forward-looking statements

The Mail.Ru Group Limited Annual Report and Accounts for 2016 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, a reference to MGL means Mail.ru Group Limited, which together with its subsidiaries is referred to as “we”, the “Company” or “Mail.Ru Group”. Any reference to a position of Boris Dobrodeev 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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