

# Mail.Ru Group Limited

## Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

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## Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders of Mail.Ru Group Limited

### Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Mail.Ru Group Limited and its subsidiaries ("the Group") as of June 30, 2015 and the related interim condensed consolidated statements of profit or loss, statement of comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

August 19, 2015

Moscow, Russia

# Interim Condensed Consolidated Statement of Financial Position

As of June 30, 2015

(in millions of Russian Roubles)

	Notes	As at June 30, 2015 (unaudited)	As at December 31, 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in equity accounted associates		686	666
Goodwill		126,721	126,380
Other intangible assets	6	33,467	35,804
Property and equipment	7	3,726	3,517
Available-for-sale financial assets		1,110	809
Financial assets at fair value through profit or loss	15	1,438	1,547
Deferred income tax assets		1,095	784
Other non-current assets	8	819	751
<b>Total non-current assets</b>		<b>169,062</b>	<b>170,258</b>
<b>Current assets</b>			
Trade accounts receivable	15	2,895	3,672
Prepaid income tax		1,305	503
Prepaid expenses and advances to suppliers		842	897
Financial assets at fair value through profit or loss	15	288	70
Other current assets	9	283	304
Short-term time deposits	15	53	490
Cash and cash equivalents	15	4,924	4,585
<b>Total current assets</b>		<b>10,590</b>	<b>10,521</b>
<b>Total assets</b>		<b>179,652</b>	<b>180,779</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital		-	-
Share premium		47,164	46,644
Treasury shares		(1,293)	(1,301)
Retained earnings		99,674	97,665
Accumulated other comprehensive loss		(16)	(259)
<b>Total equity attributable to equity holders of the parent</b>		<b>145,529</b>	<b>142,749</b>
Non-controlling interests		7	16
<b>Total equity</b>		<b>145,536</b>	<b>142,765</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities		5,242	5,739
Deferred revenue		590	702
Long-term interest-bearing loans	15	13,271	16,205
Other non-current liabilities		-	96
<b>Total non-current liabilities</b>		<b>19,103</b>	<b>22,742</b>
<b>Current liabilities</b>			
Trade accounts payable	15	1,657	2,081
Income tax payable		105	169
VAT and other taxes payable		1,387	1,531
Deferred revenue and customer advances		3,636	3,525
Short-term portion of long-term interest-bearing loans	15	5,865	5,857
Other payables, provisions and accrued expenses	10	2,363	2,109
<b>Total current liabilities</b>		<b>15,013</b>	<b>15,272</b>
<b>Total liabilities</b>		<b>34,116</b>	<b>38,014</b>
<b>Total equity and liabilities</b>		<b>179,652</b>	<b>180,779</b>

# Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2015

(in millions of Russian Roubles)

	Notes	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Online advertising		6,389	4,741
MMO games		4,008	3,801
Community IVAS		6,337	4,988
Other revenue	11	1,521	1,568
<b>Total revenue</b>		<b>18,255</b>	<b>15,098</b>
Net gain on venture capital investments	15	8	11
Personnel expenses		(4,653)	(3,057)
Office rent and maintenance		(948)	(807)
Agent/partner fees		(2,427)	(1,976)
Marketing expenses		(421)	(413)
Server hosting expenses		(1,148)	(492)
Professional services		(189)	(166)
Other operating expenses		(693)	(323)
<b>Total operating expenses</b>		<b>(10,479)</b>	<b>(7,234)</b>
<b>EBITDA</b>		<b>7,784</b>	<b>7,875</b>
Depreciation and amortisation		(3,557)	(1,416)
Impairment of intangible assets	6	(59)	(352)
Share of profit of equity accounted associates		20	159
Finance income		300	279
Finance expenses		(1,243)	-
Other non-operating income		34	22
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of subsidiaries and other agreements	15	111	195
Net gain on disposal of shares in equity accounted associates		-	2,673
Net foreign exchange (losses)/gains		(411)	934
<b>Profit before income tax expense</b>		<b>2,979</b>	<b>10,369</b>
Income tax expense	12	(948)	(1,870)
<b>Net profit</b>		<b>2,031</b>	<b>8,499</b>
<b>Attributable to:</b>			
Equity holders of the parent		2,009	8,481
Non-controlling interest		22	18
<b>Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods</b>			
Exchange differences on translation of foreign operations:			
Differences arising during the period		(57)	25
Available-for-sale financial assets:			
Gains arising during the period		300	-
Income tax effect		-	-
<b>Total other comprehensive income net of tax effect of 0</b>		<b>243</b>	<b>25</b>
<b>Total comprehensive income, net of tax</b>		<b>2,274</b>	<b>8,524</b>
<b>Attributable to:</b>			
Equity holders of the parent		2,252	8,513
Non-controlling interest		22	11
<b>Earnings per share, in RUR:</b>			
Basic earnings per share attributable to ordinary equity holders of the parent		9.6	40.7
Diluted earnings per share attributable to ordinary equity holders of the parent		9.6	39.1

# Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2015

(in millions of Russian Roubles)

	Notes	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
<b>Cash flows from operating activities</b>			
Profit before income tax		2,979	10,369
Adjustments for:			
Depreciation and amortisation		3,557	1,416
Bad debt expense		74	40
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of subsidiaries and other agreements	15	(111)	(195)
Net gain on disposal of shares in equity accounted associates		-	(2,673)
Loss on disposal of property and equipment and intangible assets		1	6
Finance income		(303)	(279)
Finance expenses		1,243	-
Dividend revenue from venture capital investments	11	(51)	(72)
Share of profit of equity accounted associates		(20)	(159)
Impairment of intangible assets	6	59	352
Net foreign exchange (gains)/losses		411	(934)
Share-based payment expense		796	89
Other non-cash items		12	6
Decrease in accounts receivable		735	528
(Increase)/Decrease in prepaid expenses and advances to suppliers		75	(92)
(Increase)/Decrease in other assets		35	(39)
Decrease in accounts payable, provisions and accrued expenses		(682)	(426)
Decrease in other non-current assets		77	97
Increase in deferred revenue and customers advances		-	302
Increase in financial assets at fair value through profit or loss	15	(8)	(14)
<b>Operating cash flows before interest and income taxes</b>		<b>8,879</b>	<b>8,322</b>
Dividends received from financial investments		60	90
Interest received		294	335
Interest paid		(1,232)	-
Income tax paid		(2,643)	(2,884)
<b>Net cash provided by operating activities</b>		<b>5,358</b>	<b>5,863</b>
<b>Cash flows from investing activities:</b>			
Cash paid for investments in equity accounted associates	5	-	(12,430)
Cash paid for property and equipment		(665)	(295)
Cash paid for intangible assets		(819)	(745)
Dividends received from equity accounted associates	5	-	141
Proceeds from disposal of shares in equity accounted associates	5	-	2,944
Cash paid for acquisitions of subsidiaries, net of cash acquired	5	(963)	-
Issuance of loans		(10)	(65)
Collection of short-term and long term deposits		470	315
Acquisition of short-term and long term deposits		(33)	(131)
<b>Net cash used in investing activities</b>		<b>(2,020)</b>	<b>(10,266)</b>
<b>Cash flows from financing activities:</b>			
Cash paid for non-controlling interests in subsidiaries		-	(7)
Cash paid for treasury shares		-	(1,337)
Loan repayment		(2,963)	-
Dividends paid by subsidiaries to non-controlling shareholders		(31)	(21)
<b>Net cash used in financing activities</b>		<b>(2,994)</b>	<b>(1,365)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>344</b>	<b>(5,768)</b>
Effect of exchange differences on cash balances		(5)	983
Cash and cash equivalents at the beginning of the period		4,585	30,987
<b>Cash and cash equivalents at the end of the period</b>		<b>4,924</b>	<b>26,202</b>

## Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2014

(in millions of Russian Roubles)

	Share capital Number of shares issued and outstanding	Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2014	208,710,192	-	46,283	(472)	35,312	65	81,188	6	81,194
Profit for the period	-	-	-	-	8,481	-	8,481	18	8,499
<i>Other comprehensive income:</i>									
Foreign currency translation	-	-	-	-	-	32	32	(7)	25
<i>Total other comprehensive income</i>	-	-	-	-	-	32	32	(7)	25
<i>Total comprehensive income</i>	-	-	-	-	8,481	32	8,513	11	8,524
Share-based payment transactions	-	-	349	-	-	-	349	-	349
Exercise of options over the shares of the Company	416,464	-	(499)	501	-	-	2	-	2
Acquisition of treasury shares	(1,012,885)	-	-	(1,337)	-	-	(1,337)	-	(1,337)
Acquisitions of non-controlling interests in existing subsidiaries	-	-	(14)	-	-	-	(14)	8	(6)
Share-based payment transactions by equity accounted associates	-	-	23	-	-	-	23	-	23
Dividends by subsidiaries to non- controlling shareholders	-	-	-	-	-	-	-	(21)	(21)
Issuance of shares and other changes in net assets of equity accounted associates	-	-	154	-	-	(2)	152	-	152
Balance at June 30, 2014	208,113,771	-	46,296	(1,308)	43,793	95	88,876	4	88,880

## Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended June 30, 2015

(in millions of Russian Roubles)

	Notes	Share capital Number of shares issued and outstanding	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		-	-	-	-	2,009	-	2,009	22	2,031
<i>Other comprehensive income:</i>										
Foreign currency translation		-	-	-	-	-	(57)	(57)	-	(57)
Net change in cumulative holding gains on available-for-sale investments		-	-	-	-	-	300	300	-	300
<i>Total other comprehensive income</i>		-	-	-	-	-	243	243	-	243
<b>Total comprehensive income</b>		-	-	-	-	2,009	243	2,252	22	2,274
Share-based payment transactions		-	-	528	-	-	-	528	-	528
Exercise of options over the shares of the Company		6,043	-	(8)	8	-	-	-	-	-
Issue of shares to be transferred to treasury shares	16	10,977,971	-	-	-	-	-	-	-	-
Transfer to treasury shares		(10,977,971)	-	-	-	-	-	-	-	-
Dividends by subsidiaries to non- controlling shareholders		-	-	-	-	-	-	-	(31)	(31)
Balance at June 30, 2015		208,122,175	-	47,164	(1,293)	99,674	(16)	145,529	7	145,536



# Notes to the Interim Condensed Consolidated Financial Statements (continued)

## 1 Corporate information and description of business

These interim condensed consolidated financial statements of Mail.Ru Group Limited (hereinafter “the Company”) and its subsidiaries (collectively – “the Group”) for the six months ended June 30, 2015 were authorised for issue by the directors of the Company on August 19, 2015.

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 registered office of the Company is at Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, BVI.

The Company consolidates or participates in businesses that operate in the Internet segment, including portals, social networking and communications, e-payment solutions, online marketplaces, massively multiplayer online games (“MMO games”), social and mobile games. The Group and its associates have leading positions in the CIS states where they are present, including Russia, Ukraine and Kazakhstan.

## 2 Basis of preparation

The interim condensed consolidated financial statements for the six months ended June 30, 2015 have been prepared in accordance with IAS 34.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at December 31, 2014 prepared in accordance with IFRS.

### 2.1 Application of new and amended IFRS and IFRIC

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2014, except for the adoption of new standards as of January 1, 2015 listed below:

#### *IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarify that:

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

The Group disclosed judgements made by management in applying the aggregation criteria in Note 4.

## 3 Seasonality of operations

Due to the seasonal nature of advertising and online games, higher revenues and operating profits are usually expected in the second half of the year than in the first six months. Higher sales during the second half of the year are mainly attributed to the fact that a large portion of advertising budgets is spent in the last quarter of the year and to the increased demand for online games due to the end of the vacation period.

## 4 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 Chief Operating Decision Maker (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 or 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.

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.

Accordingly, segment reporting for the six months ended June 30, 2014 has been retrospectively adjusted to include pro-forma consolidation of Vkontakte and ICVA (Note 5) from January 1, 2014.

# Notes to the Interim Condensed Consolidated Financial Statements (continued)

## 4 Operating segments (continued)

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

The Group has identified its operating segments based on the types of products and services the Group offers. The Group has identified the following reportable segments on this basis:

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

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

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

The Social Networks (excluding VK) segment includes the Group's two other social networks (OK and My World) and earns revenues from (i) user payments for virtual gifts, (ii) commission from application developers based on the respective applications' revenue, and (iii) online advertising, including display and context advertising. OK and My World operating segments have been aggregated into single operating segment as they have similar economic characteristics and provide similar services to similar customers in similar markets.

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 E-Commerce, Search and Other Services reportable segment represents separate operating segments aggregated in one reportable segment for presentation purposes only and primarily consists of search engine services earning substantially all revenues from context advertising and E-commerce and online hiring / job search services and related display advertising. This segment also includes a variety of other services, which are considered insignificant by the CODM for the purposes of performance review and resource allocation.

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

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

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

The income statement items for each segment for the six months ended June 30, 2015, as presented to the CODM, are presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
<b>Revenue</b>							
External revenue	1,959	6,892	4,189	2,694	2,567	–	18,301
Intersegment revenue	15	3	–	–	165	(183)	–
<b>Total revenue</b>	<b>1,974</b>	<b>6,895</b>	<b>4,189</b>	<b>2,694</b>	<b>2,732</b>	<b>(183)</b>	<b>18,301</b>
Total operating expenses	1,304	1,866	2,822	1,419	1,943	(183)	9,171
<b>EBITDA</b>	<b>670</b>	<b>5,029</b>	<b>1,367</b>	<b>1,275</b>	<b>789</b>	<b>–</b>	<b>9,130</b>
<b>Net profit</b>							<b>5,606</b>

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

### 4 Operating segments (continued)

The income statement items for each segment for the six months ended June 30, 2014, as presented to the CODM, are presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
<b>Revenue</b>							
External revenue	2,160	5,872	4,288	2,005	2,796	–	17,121
Intersegment revenue	15	15	–	–	167	(197)	–
<b>Total revenue</b>	<b>2,175</b>	<b>5,887</b>	<b>4,288</b>	<b>2,005</b>	<b>2,963</b>	<b>(197)</b>	<b>17,121</b>
Total operating expenses	1,121	1,711	2,671	1,315	1,764	(197)	8,385
<b>EBITDA</b>	<b>1,054</b>	<b>4,176</b>	<b>1,617</b>	<b>690</b>	<b>1,199</b>	<b>–</b>	<b>8,736</b>
<b>Net profit</b>							<b>6,262</b>

A reconciliation of group aggregate segment revenue, as presented to the CODM, to IFRS consolidated revenue of the Group for the six months ended June 30, 2015 and 2014 is presented below:

	2015	2014
<b>Group aggregate segment revenue, as presented to the CODM</b>	<b>18,301</b>	<b>17,121</b>
Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:		
Effect of difference in dates of acquisition of control in subsidiaries	–	(1,978)
Differences in timing of revenue recognition	(135)	(154)
Barter revenue	38	37
Dividend revenue from venture capital investments	51	72
<b>Consolidated revenue under IFRS</b>	<b>18,255</b>	<b>15,098</b>

A reconciliation of group aggregate segment EBITDA, as presented to the CODM, to IFRS consolidated profit before income tax expense of the Group for the six months ended June 30, 2015 and 2014 is presented below:

	2015	2014
<b>Group aggregate segment EBITDA, as presented to the CODM</b>	<b>9,130</b>	<b>8,736</b>
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 of control in subsidiaries	(55)	(690)
Differences in timing of revenue recognition	(135)	(154)
Net gain on venture capital investments	8	11
Share-based payment transactions	(796)	(89)
Dividend revenue from venture capital investments	51	72
Non-recurring VAT charge	(250)	–
Other	(169)	(11)
<b>EBITDA</b>	<b>7,784</b>	<b>7,875</b>
Depreciation and amortisation	(3,557)	(1,416)
Impairment of intangible assets	(59)	(352)
Share of profit of equity accounted associates	20	159
Finance income	300	279
Finance expenses	(1,243)	–
Other non-operating income	34	22
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of subsidiaries and other agreements	111	195
Net gain on disposal of shares in associates	–	2,673
Net foreign exchange (losses)/gains	(411)	934
<b>Consolidated profit before income tax expense under IFRS</b>	<b>2,979</b>	<b>10,369</b>

# Notes to the Interim Condensed Consolidated Financial Statements (continued)

## 4 Operating segments (continued)

A reconciliation of group aggregate segment net profit, as presented to the CODM, to IFRS consolidated net profit of the Group for the six months ended June 30, 2015 and 2014 is presented below:

	2015	2014
<b>Group aggregate segment net profit, as presented to the CODM</b>	<b>5,606</b>	<b>6,262</b>
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payment transactions	(796)	(89)
Differences in timing of revenue recognition	(135)	(154)
Effect of difference in dates of acquisition of control in subsidiaries	(30)	(207)
Amortisation of fair value adjustments to intangible assets and impairment thereof	(2,447)	(1,086)
Net gain on financial instruments at fair value through profit or loss	119	206
Net gain on disposal of shares in equity accounted associates	-	2,673
Net foreign exchange (losses)/gains	(411)	934
Share in financial results of equity accounted associates	20	159
Non-recurring VAT charge	(250)	-
Other	(172)	(6)
Tax effect of the adjustments and tax on unremitted earnings	527	(193)
<b>Consolidated net profit under IFRS</b>	<b>2,031</b>	<b>8,499</b>

## 5 Business combination

### 5.1 ICVA

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

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

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	424
Deferred tax assets	26
Other non-current assets	158
Trade accounts receivable	2
Prepaid expenses and advances to suppliers	27
Income tax prepaid	1
Other current assets	3
Cash and cash equivalents	15
<b>Total assets</b>	<b>656</b>
Deferred income tax liabilities	35
Trade accounts payable	20
VAT and other taxes payable	6
Other payables, provisions and accrued expenses	17
<b>Total liabilities</b>	<b>78</b>
<b>Total net assets</b>	<b>578</b>

# Notes to the Interim Condensed Consolidated Financial Statements (continued)

## 5 Business combination (continued)

### 5.1 ICVA (continued)

Goodwill on the transaction was calculated as the excess of:

(a) the consideration transferred by the Group measured at fair values: Cash consideration	919
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<b>Consideration transferred by the Group</b>	<b>919</b>
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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
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<b>Goodwill</b>	<b>341</b>
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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)

<b>Net cash flow on acquisition</b>	<b>963</b>
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The effects of the ICVA acquisition on the Group's revenue and net income for 6m 2015 are presented below:

	Revenue	Net profit
The Group, excluding ICVA	18,255	2,026
Contributed by ICVA	-	5
<b>The Group</b>	<b>18,255</b>	<b>2,031</b>
Effect of ICVA acquisition as if occurring on January 1, 2015 (from January 1 to May 25, 2015)	-	125
<b>The Group, as if the acquisition of ICVA occurred on January 1, 2015</b>	<b>18,255</b>	<b>2,156</b>

In September 2014 the Company acquired VK. The accounting of recognised assets, liabilities and goodwill is provisional and will be finalised in a later period once the fair value procedures are completed (upon completion of the analysis of synergy effects on segments).

## 6 Intangible assets

During the six months ended June 30, 2015, the Group capitalised software development costs and otherwise acquired intangible assets with a cost of RUR 805 (2014: RUR 764).

In the six months ended June 30, 2015, the Group recognised RUR 59 (2014: RUR 352) of impairment losses with respect to online game software. The impairment entirely belongs to the Online Games operating segment and is attributable to the underperformance of related games.

## 7 Property and equipment

During the six months ended June 30, 2015, the Group acquired property and equipment with a cost of RUR 1,090 (2014: RUR 292) including RUR 424 through a business combination (Note 5).

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

### 8 Other non-current assets

Other non-current assets consist of the following:

	June 30, 2015	December 31, 2014
Advance under office lease contract	651	730
Other non-current assets	168	21
<b>Total other non-current assets</b>	<b>819</b>	<b>751</b>

### 9 Other current assets

Other current assets consist of the following:

	June 30, 2015	December 31, 2014
Inventory	49	46
VAT receivable	150	155
Interest receivable	12	16
Other current assets	72	87
<b>Total other current assets</b>	<b>283</b>	<b>304</b>

### 10 Other payables, provisions and accrued expenses

Other payables, provisions and accrued expenses consist of the following:

	June 30, 2015	December 31, 2014
Payables to personnel	1,344	923
Accrued vacations	603	561
Accrued professional consulting expenses	35	42
Interest payable	121	147
Payables under lease contract	157	117
Other current payables and provisions	103	319
<b>Total other payables, provisions and accrued expenses</b>	<b>2,363</b>	<b>2,109</b>

### 11 Other revenue

Other revenue consists of the following:

	Six months ended June 30	
	2015	2014
Online recruitment services	1,334	1,376
Listing fees	50	45
Dividend revenue from venture capital investments	51	72
Other	86	75
<b>Total other revenue</b>	<b>1,521</b>	<b>1,568</b>

### 12 Income tax

The major components of income tax expense in the interim consolidated statement of comprehensive income are as follows:

	Six months ended June 30	
	2015	2014
Current income tax expense	1,775	1,915
Deferred income tax benefit	(827)	(45)
<b>Total income tax expense</b>	<b>948</b>	<b>1,870</b>

# Notes to the Interim Condensed Consolidated Financial Statements (continued)

## 12 Income tax (continued)

The reconciliation between income tax expense and the product of accounting profit multiplied by BVI's domestic tax rate for the six months ended June 30, 2015 and 2014 is as follows:

	Six months ended June 30	
	2015	2014
Profit before income tax expense	2,979	10,369
BVI statutory income tax rate at 0%		
Foreign tax rate differential	(962)	(1,412)
Tax on unremitted earnings	(48)	(381)
Non-deductible expenses	(84)	(41)
Non-taxable gain	155	-
Tax on dividends	(12)	(39)
Other	10	(21)
(Utilisation)/recognition of previously unrecognised tax losses	(8)	38
Adjustments in respect of current income tax of previous year	1	(14)
<b>Total income tax expense</b>	<b>(948)</b>	<b>(1,870)</b>

## 13 Commitments, contingencies and operating risks

### 13.1 Operating environment of the Group

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

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

### 13.2 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.

### 13.3 Legal proceedings

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which have 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 impact on the Group's financial position or operating results.

### 13.4 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 the Group'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 Group's IVAS – including games – 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.

# Notes to the Interim Condensed Consolidated Financial Statements (continued)

## 13 Commitments, contingencies and operating risks (continued)

### 13.5 Private information

To become registered on websites 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 litigations from its users. Management believes it takes all necessary steps to reduce the related risk to an acceptable level.

### 13.6 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, which could have a material effect on its business, results of operations and financial condition. The Group 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 Group to significant losses in the future, which currently cannot be reliably estimated.

### 13.7 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 services 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.

### 13.8 Regulation

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

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

Law No. 97-FZ came into force on August 1, 2014 ("Law on Bloggers"). This law introduces requirements for the sites and/or services that enable users to publish and share information to, amongst others, notify the authorities about the commencement of such activities, store the data on receipt, transfer, processing of the users' information in the Russian Federation for the period of 6 months, share the information on users' actions with the authorized governmental body upon a relevant request, and be in line with certain technical requirements set by authorities. Access to web-sites not-complying with the requirements could be blocked. In addition, owners of websites and internet pages with more than 3,000 daily users are required to be identified, registered with a special register and comply with certain requirements in respect of the materials published on websites and internet pages under their control.

The Group complies with the new laws and none of the Group's Russian properties have been blocked up to date, and no blockings have materially affected the Group's consolidated financial statements.

### 13.9 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.

### 13.10 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.



## Notes to the Interim Condensed Consolidated Financial Statements (continued)

### 14 Balances and transactions with related parties

The following table provides the total amount of transactions which have been entered into with related parties during the six month periods ending June 30, 2015 and June 30, 2014 as well as balances with related parties as of June 30, 2015 and December 31, 2014, excluding directors and key management of the Group (see below). 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
<b>2015</b>				
Equity accounted associates	69	40	52	7
Other entities	–	9	–	2
<b>2014</b>				
Equity accounted associates	92	70	127	5
Other entities	–	15	–	3

#### 14.1 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 41 for the six months ended June 30, 2015 (2014: RUR 24). No options over the shares of the Company were granted to Directors for the six months ended June 30, 2015 (2014: nil). During the six months ended June 30, 2015, Directors did not forfeit any options (2014: nil) and did not exercise any options over shares of the Company (2014: nil). The corresponding share-based payment expense was RUR 70 for the six months ended June 30, 2015 (2014: a gain RUR 73).

#### 14.2 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 273 for the six months ended June 30, 2015 (2014: RUR 205). In the six months ended June 30, 2015, key executive employees of the Group (excluding Directors) were not granted any options over shares of the Company (2014: nil). During the six months ended June 30, 2015, key management of the Group (excluding Directors) forfeited 83,250 options (2014: 7,500) and did not exercise any options (2014: 572,738). The corresponding share-based payment expense amounted to RUR 30 for the six months ended June 30, 2015 (2014: RUR 270).

#### 14.3 The ultimate controlling party

Starting from June 7, 2013, the Group was ultimately controlled by Mr Alisher Usmanov. The Group did not have an ultimate controlling party prior to that date. In August 2014, Mr Alisher Usmanov lost control over the Group as a result of a decrease in voting power in USM Holdings Ltd. ("USM") to 48%. From this date, USM has been the ultimate controlling party of the Group through ownership in New Media and Technology Investment L.P and Ardoe Finance Limited, the shareholders of the Group.

### 15 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of June 30, 2015 and December 31, 2014 and are presented by category of financial instruments in the table below:

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

### 15 Financial instruments (continued)

	Category*	June 30, 2015	December 31, 2014
<b>Financial assets</b>			
Financial investments in associates	FAFVPL	1,358	1,350
Financial derivatives under lease and hosting contracts	FAFVPL	368	267
Available-for-sale equity investment	AFSFA	1,110	809
Long-term deposits	LR	1	1
Trade accounts receivable	LR	2,895	3,672
Loans and interest receivable	LR	56	61
Short-term time deposits	LR	53	490
Cash and cash equivalents	LR	4,924	4,585
<b>Total financial assets</b>		<b>10,765</b>	<b>11,235</b>
Current		8,216	8,871
Non-current		2,549	2,364
<b>Total derivative financial assets</b>		<b>367</b>	<b>267</b>
Current		288	70
Non-current		79	197
<b>Financial liabilities</b>			
Long-term interest-bearing loans and related interest payable	FLAC	19,257	22,209
Other non-current liabilities	FLFVPL	-	10
Trade accounts payable	FLAC	1,657	2,081
<b>Total financial liabilities</b>		<b>20,914</b>	<b>24,300</b>
Current		7,643	8,085
Non-current		13,271	16,215

\* 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.

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.

#### 15.1 Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments based on the observability of the inputs used in measuring fair value:

- 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 June 30, 2015 and December 31, 2014 the Group held the following financial instruments measured at fair value:

	June 30, 2015	Level 1	Level 2	Level 3
<b>Financial assets measured at fair value</b>				
Financial assets at fair value through profit or loss:				
<i>Financial investments in associates</i>	1,358	-	-	1,358
<i>Financial derivatives under lease and hosting contracts</i>	367	-	-	367
<b>Total financial assets at fair value through profit or loss</b>	<b>1,725</b>	<b>-</b>	<b>-</b>	<b>1,725</b>
Available-for-sale equity investment	1,110	1,110	-	-
<b>Total financial assets measured at fair value</b>	<b>2,835</b>	<b>1,110</b>	<b>-</b>	<b>1,725</b>

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

### 15 Financial instruments (continued)

#### 15.1 Fair value hierarchy (continued)

	December 31, 2014	Level 1	Level 2	Level 3
<b>Financial assets measured at fair value</b>				
Financial assets at fair value through profit or loss:				
<i>Financial investments in associates</i>	1,350	–	–	1,350
<i>Financial derivatives under lease and hosting contracts</i>	267	–	–	267
<b>Total financial assets at fair value through profit or loss</b>	<b>1,617</b>	<b>–</b>	<b>–</b>	<b>1,617</b>
Available-for-sale equity investment	809	809	–	–
<b>Total financial assets measured at fair value</b>	<b>2,426</b>	<b>809</b>	<b>–</b>	<b>1,617</b>
<b>Financial liabilities measured at fair value</b>				
Financial liabilities at fair value through profit or loss - derivative and other financial liabilities over the equity of investees	(10)	–	–	(10)
<b>Total financial liabilities measured at fair value</b>	<b>2,416</b>	<b>809</b>	<b>–</b>	<b>1,607</b>

The balance of Level 3 measurements as of January 1, 2015 is reconciled to the balance of those measurements as of June 30, 2015 as follows:

	Balance as of January 1, 2015	Gains recognized in profit and loss	Balance as of June 30, 2015
<b>Financial assets measured at fair value</b>			
Financial assets at fair value through profit or loss:			
<i>Financial investments in associates</i>	1,350	8	1,358
<i>Financial derivatives under lease and hosting contracts</i>	267	101	368
<b>Total financial assets at fair value through profit or loss</b>	<b>1,617</b>	<b>109</b>	<b>1,726</b>
<b>Financial liability measured at fair value</b>			
Financial liabilities at fair value through profit or loss - derivative over the equity of subsidiary	(10)	10	(0)
<b>Total financial liabilities measured at fair value</b>	<b>(10)</b>	<b>10</b>	<b>(0)</b>

#### 15.2 Valuation techniques

Financial investments in associates are the Group's investments in various smaller Internet businesses that form the Group's venture capital portfolio and are managed exclusively on the basis of their fair values, even though the Group has significant influence over the respective investees.

The fair values of financial investments in associates either were determined using discounted cash flow ("DCF") models or based on recent cash transactions, depending on which valuation technique produced more reliable results. The DCF models use cash flow projections from financial budgets approved by senior management covering a six-year period. The main assumptions used in the DCF models as of June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015	December 31, 2014
Terminal growth rate	3.0-5.0%	3.0-5.0%
Discount rates	23-30%	23-30%

#### 15.3 Risk assessment

The Group's investments in equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's financial instruments exposed to the equity price risk primarily relate to the Group's financial investments in associates and available-for-sale equity investments. The Group's derivative financial instruments are also subject to equity price risk, inasmuch as the underlying assets represent equity instruments of the Group's investees.

The inherently high equity price risk of the Group's venture capital investments and associated derivative financial instruments is mitigated by the Group through a highly selective approach to venture capital investments, regular reviews of the fair values of existing and potential investees by a team of highly qualified venture capital investment professionals and maintaining the composition of the venture capital portfolio that includes a large number of investments in ventures operating in different segments of the Internet industry. Additionally, the overall impact of venture capital activities on the Group's operations is mitigated by a limited size of the venture capital investment portfolio in relation to the aggregate operations of the Group.

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

### 15 Financial instruments (continued)

#### 15.3 Risk assessment (continued)

At the reporting date, the Group's exposure to unlisted equity securities at fair value through profit or loss and derivative financial instruments was equal to the carrying amounts of the respective financial instruments as of the reporting date. A 10% decrease in the overall earnings stream of the valuations performed for the Group's unlisted investments could have a negative impact of approximately RUR 64 (2014: RUR 13) on the Group's pre-tax income. A 500 basis point increase in the discount rate used in the valuation models could result in a negative impact of RUR 128 (2014: RUR 15) on the Group's pre-tax income. A 5% increase in significant unobservable inputs used in recent cash transaction models for valuations of some unlisted Group's investments could have a positive impact of approximately RUR 13 (2014: RUR 49) on the Group's pre-tax income. The effect of a 100 basis point increase in risk-free rate on the Group's pre-tax income is not significant in all periods presented in these interim condensed consolidated financial statements.

### 16 New long-term incentive plan

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. The RSUs have a 4-year period vesting and the programme will expire at the end of 2022. No RSU were granted to employees or to Directors of the Group in the six months ended June 30, 2015.

In June 2015 the Company issued shares that were transferred to the treasury shares. The transaction was recognised at nominal amount.

### 17 Events after the reporting period

#### 17.1 New "right to be forgotten" law

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.