

Mail.Ru Group Limited

Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

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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, 2016 and the related interim condensed consolidated 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 17, 2016

Moscow, Russia

Interim Condensed Consolidated Statement of Financial Position

As of June 30, 2016

(in millions of Russian Roubles)

	Notes	As at June 30, 2016 (unaudited)	As at December 31, 2015
ASSETS			
Non-current assets			
Investments in equity accounted associates		662	643
Goodwill		124,866	126,721
Other intangible assets	6	28,292	30,926
Property and equipment	7	3,406	3,687
Available-for-sale financial assets	15	600	932
Financial assets at fair value through profit or loss	15	817	1,071
Deferred income tax assets		2,413	1,730
Other non-current assets	8	2,626	745
Total non-current assets		163,682	166,455
Current assets			
Trade accounts receivable	15	2,889	3,584
Prepaid income tax		95	1,041
Prepaid expenses and advances to suppliers		2,039	1,855
Financial assets at fair value through profit or loss	15	389	172
Other current assets	9	145	195
Short-term time deposits	15	1	16
Cash and cash equivalents	15	7,572	8,676
Total current assets		13,130	15,539
Total assets		176,812	181,994
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		-	-
Share premium		50,542	49,328
Treasury shares		(1,290)	(1,293)
Retained earnings		111,974	100,602
Accumulated other comprehensive loss		(170)	(205)
Total equity attributable to equity holders of the parent		161,056	148,432
Non-controlling interests		-	15
Total equity		161,056	148,447
Non-current liabilities			
Deferred income tax liabilities		3,831	4,891
Deferred revenue		1,841	1,716
Long-term interest-bearing loans	15	-	10,331
Other non-current liabilities		2	-
Total non-current liabilities		5,674	16,938
Current liabilities			
Trade accounts payable	15	2,308	2,374
Income tax payable		338	277
VAT and other taxes payable		1,727	1,878
Deferred revenue and customer advances		3,561	4,139
Short-term portion of long-term interest-bearing loans	15	-	4,875
Other payables, provisions and accrued expenses	10	2,148	3,066
Total current liabilities		10,082	16,609
Total liabilities		15,756	33,547
Total equity and liabilities		176,812	181,994

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2016

(in millions of Russian Roubles)

	Notes	2016	2015
Online advertising		8,144	6,389
MMO games		4,155	4,008
Community IVAS		5,976	6,337
Other revenue	11	639	1,521
Total revenue		18,914	18,255
Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities	15	(216)	8
Personnel expenses		(5,232)	(4,653)
Office rent and maintenance		(1,005)	(948)
Agent/partner fees		(2,741)	(2,427)
Marketing expenses		(926)	(421)
Server hosting expenses		(989)	(1,148)
Professional services		(221)	(189)
Other operating expenses		(398)	(693)
Total operating expenses		(11,512)	(10,479)
EBITDA		7,186	7,784
Depreciation and amortisation		(3,768)	(3,557)
Impairment of intangible assets	6	-	(59)
Share of profit of equity accounted associates		42	20
Finance income		563	300
Finance expenses		(718)	(1,243)
Other non-operating income		38	34
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of subsidiaries and other agreements	15	179	111
Net gain on disposal of shares in subsidiaries	5	8,712	-
Net foreign exchange losses		(617)	(411)
Profit before income tax expense		11,617	2,979
Income tax expense	12	(236)	(948)
Net profit		11,381	2,031
Attributable to:			
Equity holders of the parent		11,372	2,009
Non-controlling interest		9	22
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		83	(57)
Available-for-sale financial assets:			
Gains/(losses) arising during the period (net of tax effect of zero)		(332)	300
Total other comprehensive income/(loss) net of tax effect of 0		(249)	243
Total comprehensive income, net of tax		11,132	2,274
Attributable to:			
Equity holders of the parent		11,127	2,252
Non-controlling interest		5	22
Earnings per share, in RUR:			
Basic earnings per share attributable to ordinary equity holders of the parent		54.6	9.7
Diluted earnings per share attributable to ordinary equity holders of the parent		52.9	9.6

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2016

(in millions of Russian Roubles)

	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Cash flows from operating activities:		
Profit before income tax	11,617	2,979
<i>Adjustments for:</i>		
Depreciation and amortisation	3,768	3,557
Bad debt expense	21	74
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of subsidiaries and other agreements	(179)	(111)
Net gain on disposal of shares in subsidiaries	(8,712)	-
(Gain)/loss on disposal of property and equipment and intangible assets	(4)	1
Finance income	(563)	(300)
Finance expenses	718	1,243
Dividend revenue from venture capital investments	(11)	(51)
Share of profit of equity accounted associates	(42)	(20)
Impairment of intangible assets	-	59
Net foreign exchange losses	617	411
Share-based payment expense	1,015	796
Other non-cash items	(64)	12
Decrease in accounts receivable	537	735
(Increase)/decrease in prepaid expenses and advances to suppliers	(383)	75
(Increase)/decrease in other assets	(7)	35
Decrease in accounts payable, provisions and accrued expenses	(676)	(685)
(Increase)/decrease in other non-current assets	(1,901)	77
Increase in deferred revenue and customers advances	526	-
(Increase)/Decrease in financial assets at fair value through profit or loss	216	(8)
Operating cash flows before interest and income taxes	6,493	8,879
Dividends received from financial investments	43	60
Interest received	523	294
Interest paid	(727)	(1,232)
Income tax paid	(884)	(2,643)
Net cash provided by operating activities	5,448	5,358
Cash flows from investing activities:		
Cash paid for property and equipment	(712)	(665)
Cash paid for intangible assets	(307)	(819)
Dividends received from equity accounted associates	23	-
Issuance of loans	19	(10)
Cash paid for acquisitions of subsidiaries, net of cash acquired	-	(963)
Proceeds from disposal of subsidiaries, net of cash disposed	9,709	-
Collection of short-term and long term deposits	15	470
Acquisition of short-term and long term deposits	-	(33)
Net cash (used in)/provided by investing activities	8,747	(2,020)
Cash flows from financing activities:		
Loan repaid	(15,299)	(2,963)
Dividends paid by subsidiaries to non-controlling shareholders	(2)	(31)
Net cash used in financing activities	(15,301)	(2,994)
Net increase/(decrease) in cash and cash equivalents	(1,106)	343
Effect of exchange differences on cash balances	2	(5)
Cash and cash equivalents at the beginning of the period	8,676	4,585
Cash and cash equivalents at the end of the period	7,572	4,923

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2015

(in millions of Russian Roubles)

	Share capital		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
	Number of shares issued and outstanding	Amount							
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
Total comprehensive income	-	-	-	-	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	-	-	-	-	-
Dividends by subsidiaries to non-controlling shareholders	-	-	-	-	-	-	-	(31)	(31)
Issue of shares to be transferred to treasury shares	10,977,971	-	-	-	-	-	-	-	-
Transfer to treasury shares	(10,977,971)	-	-	-	-	-	-	-	-
Balance at June 30, 2015	208,122,175	-	47,164	(1,293)	99,674	(16)	145,529	7	145,536

Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended June 30, 2016

(in millions of Russian Roubles)

	Share capital		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
	Number of shares issued and outstanding	Amount							
Balance at January 1, 2016	208,127,372	-	49,328	(1,293)	100,602	(205)	148,432	15	148,447
Profit for the period	-	-	-	-	11,372	-	11,372	9	11,381
<i>Other comprehensive income:</i>									
Foreign currency translation	-	-	-	-	-	87	87	(4)	83
Net change in cumulative holding gains on available-for-sale investments	-	-	-	-	-	(332)	(332)	-	(332)
<i>Total other comprehensive income</i>	-	-	-	-	-	(245)	(245)	(4)	(249)
Total comprehensive income	-	-	-	-	11,372	(245)	11,127	5	11,132
Share-based payment transactions	-	-	1,217	-	-	-	1,217	-	1,217
Exercise of options over the shares of the Company	474,732	-	(3)	3	-	-	-	-	-
Effect of disposal of subsidiary	-	-	-	-	-	280	280	(18)	262
Dividends by subsidiaries to non-controlling shareholders	-	-	-	-	-	-	-	(2)	(2)
Balance at June 30, 2016	208,602,104	-	50,542	(1,290)	111,974	(170)	161,056	-	161,056

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2016

(in millions of Russian Roubles)

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, 2016 were authorised for issue by the directors of the Company on August 17, 2016.

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

The Company consolidates or participates in businesses that operate in the Internet segment, including portals, social networking and communications, 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, 2016 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 for the year ended December 31, 2015 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, 2015, except for the adoption of new standards as of January 1, 2016 listed below:

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.

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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

2 Basis of preparation (continued)

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

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.

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.

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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4 Operating segments (continued)

Accordingly, segment reporting for the six months ended June 30, 2015 has been retrospectively adjusted to exclude financial information of HeadHunter (Note 5.1) from January 1, 2015.

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
- 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 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 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 Search, E-Commerce 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. 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, 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	2,136	7,149	4,599	3,797	1,153	-	18,834
Intersegment revenue	2	7	-	13	193	(215)	-
Total revenue	2,138	7,156	4,599	3,810	1,346	(215)	18,834
Total operating expenses	1,542	2,229	3,755	1,697	1,135	(215)	10,143
EBITDA	596	4,927	844	2,113	211	-	8,691
Net profit							5,737

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, 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	1,973	6,904	4,189	2,703	1,113	-	16,882
Intersegment revenue	1	3	-	-	165	(169)	-
Total revenue	1,974	6,907	4,189	2,703	1,278	(169)	16,882
Total operating expenses	1,270	1,885	2,839	1,424	1,212	(169)	8,461
EBITDA	704	5,022	1,350	1,279	66	-	8,421
Net profit							5,034

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, 2016 and 2015 is presented below:

	2016	2015
Total revenue, as presented to the CODM	18,834	16,882
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	530	1,419
Differences in timing of revenue recognition	(491)	(135)
Barter revenue	28	38
Dividend revenue from venture capital investments	13	51
Consolidated revenue under IFRS	18,914	18,255

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, 2016 and 2015 is presented below:

	2016	2015
Group aggregate segment EBITDA, as presented to the CODM	8,691	8,421
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	250	655
Differences in timing of revenue recognition	(491)	(135)
Net loss on venture capital investments	(216)	8
Share-based payment transactions	(1,015)	(796)
Dividend revenue from venture capital investments	13	51
Non-recurring VAT charge	-	(250)
Other	(46)	(170)
EBITDA	7,186	7,784
Depreciation and amortisation	(3,768)	(3,557)
Impairment of intangible assets	-	(59)
Share of profit of equity accounted associates	42	20
Finance income	563	300
Finance expenses	(718)	(1,243)
Other non-operating income	38	34
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of subsidiaries and other agreements	179	111
Net gain on disposal of shares in subsidiaries	8,712	-
Net foreign exchange losses	(617)	(411)
Consolidated profit before income tax expense under IFRS	11,617	2,979

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4 Operating segments (continued)

A reconciliation of group aggregate net profit, as presented to the CODM, to IFRS consolidated net profit of the Group for the six months ended June 30, 2016 and 2015 is presented below:

	2016	2015
Total net profit, as presented to the CODM	5,737	5,034
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payment transactions	(1,015)	(796)
Differences in timing of revenue recognition	(491)	(135)
Effect of difference in dates of acquisition and loss of control in subsidiaries	219	542
Amortisation of fair value adjustments to intangible assets and impairment thereof	(2,424)	(2,447)
Net gain/(loss) on financial instruments at fair value through profit or loss	(37)	119
Net gain on disposal of shares in subsidiaries	8,712	-
Net foreign exchange losses	(617)	(411)
Share of profit of equity accounted associates	42	20
Non-recurring VAT charge	-	(250)
Other	(44)	(172)
Tax effect of the adjustments and tax on unremitted earnings	1,299	527
Consolidated net profit under IFRS	11,381	2,031

5 Business combination

5.1 Headhunter

In February 2016 the Group sold 100% 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 1,296, including goodwill of RUR 1,855 and cash and cash equivalents of RUR 430. 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.

5.2 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 the 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	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
Total assets	656
Deferred income tax liabilities	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

Notes to the Interim Condensed Consolidated Financial Statements (continued)

5 Business combination (continued)

5.2 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
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	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 6m 2015 are presented below:

	Revenue	Net profit
The Group, excluding ICVA	18,255	2,026
Contributed by ICVA	–	5
The Group	18,255	2,031
Effect of the 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	18,255	2,156

6 Intangible assets

During the six months ended June 30, 2016, the Group capitalised software development costs and otherwise acquired intangible assets with a cost of RUR 760 (2015: RUR 805).

7 Property and equipment

During the six months ended June 30, 2016, the Group acquired property and equipment with a cost of RUR 707 (2015: RUR 1,090).

8 Other non-current assets

Other non-current assets consist of the following:

	June 30, 2016	December 31, 2015
Advance under office lease contract	1,973	565
Advances for royalties	488	–
Other non-current assets	165	180
Total other non-current assets	2,626	745

Notes to the Interim Condensed Consolidated Financial Statements (continued)

9 Other current assets

Other current assets consist of the following:

	June 30, 2016	December 31, 2015
Inventory	24	26
VAT receivable	73	85
Interest receivable	14	10
Other current assets	34	74
Total other current assets	145	195

10 Other payables, provisions and accrued expenses

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

	June 30, 2016	December 31, 2015
Payables to personnel	1,072	1,830
Accrued vacations	686	606
Accrued professional consulting expenses	15	35
Interest payable	-	101
Payables under lease contract	154	154
Other current payables and provisions	221	340
Total other payables, provisions and accrued expenses	2,148	3,066

11 Other revenue

Other revenue consists of the following:

	Six months ended June 30	
	2016	2015
Online recruitment services	473	1,334
Listing fees	38	50
Dividend revenue from venture capital investments	11	51
Other	117	86
Total other revenue	639	1,521

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	
	2016	2015
Current income tax expense	1,944	1,775
Deferred income tax benefit	(1,708)	(827)
Total income tax expense	236	948

The reconciliation between income tax expense and the product of accounting profit multiplied by domestic rates applicable to individual Group entities for the six months ended June 30, 2016 and 2015 is as follows:

	Six months ended June 30	
	2016	2015
Profit before income tax expense	11,617	2,979
Tax at domestic rates applicable to individual group entities	(1,342)	(962)
Non-taxable gain from disposal of subsidiary	1,015	-
Non-deductible expenses	(502)	(84)
Tax on unremitted earnings	345	(48)
Effect of changes in tax rates	301	-
Other non-taxable gain	13	156
Other	(65)	(10)
Total income tax expense	(236)	(948)

Notes to the Interim Condensed Consolidated Financial Statements (continued)

12 Income tax (continued)

In 2016 the Group continued to bring its legal structure in line with the operating structure. As a result of this process, in 2016 the Group reversed approximately RUR 345 million of deferred taxes accrued in prior years. Starting 2016 certain Group subsidiaries apply some income tax exemptions and related deferred tax assets and liabilities were calculated using applicable tax rates.

13 Commitments, contingencies and operating risks

13.1 Operating environment of the Group

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

In 2016, the Russian economy continued to be negatively impacted by 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.

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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

13 Commitments, contingencies and operating risks (continued)

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.

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 entered 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 cancelled. The user may file a claim with the court if the operator refuses to remove the link.

The Group complies with the new laws and none of the Group's properties have been blocked up to date.

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.

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, 2016 and June 30, 2015 as well as balances with related parties as of June 30, 2016 and December 31, 2015, 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
2016				
Equity accounted associates	67	16	76	4
Other entities	1	7	-	1
2015				
Equity accounted associates	69	40	52	7
Other entities	-	9	-	2

Notes to the Interim Condensed Consolidated Financial Statements (continued)

14 Balances and transactions with related parties (continued)

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 71 for the six months ended June 30, 2016 (2015: RUR 41). No options over the shares of the Company were granted to Directors for the six months ended June 30, 2016 (2015: nil). During the six months ended June 30, 2016, Directors did not forfeit any options (2015: nil) and did not exercise any options over shares of the Company (2015: nil). The corresponding share-based payment expense was a negative RUR 55 for the six months ended June 30, 2016 (2015: a positive RUR 70).

14.2 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 290 for the six months ended June 30, 2016 (2015: RUR 273). In the six months ended June 30, 2016, key executive employees of the Group (excluding Directors) were not granted any RSUs or options over shares of the Company (2015: nil). During the six months ended June 30, 2016, key management of the Group (excluding Directors) did not forfeit any RSUs or options (2015: 83,250 options) and exercised 273,500 RSUs (2015: nil). The corresponding share-based payment expense amounted to RUR 977 for the six months ended June 30, 2016 (2015: RUR 30).

14.3 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.

15 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of June 30, 2016 and December 31, 2015 and are presented by category of financial instruments in the table below:

	Category*	June 30, 2016	December 31, 2015
Financial assets			
Financial investments in associates	FAFVPL	747	963
Financial derivatives under lease and hosting contracts	FAFVPL	459	280
Available-for-sale equity investment	AFSFA	600	932
Long-term deposits	LR	–	2
Trade accounts receivable	LR	2,889	3,584
Loans and interest receivable	LR	25	70
Short-term time deposits	LR	1	16
Cash and cash equivalents	LR	7,572	8,676
Total financial assets		12,293	14,523
<i>Current</i>		10,876	12,505
<i>Non-current</i>		1,417	2,018
Total derivative financial assets			
		459	280
<i>Current</i>		390	173
<i>Non-current</i>		69	107
Financial liabilities			
Long-term interest-bearing loans and related interest payable	FLAC	–	15,307
Trade accounts payable	FLAC	2,308	2,374
Total financial liabilities		2,308	17,681
<i>Current</i>		2,308	7,350
<i>Non-current</i>		–	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.

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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

15 Financial instruments (continued)

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, 2016 and December 31, 2015 the Group held the following financial instruments measured at fair value:

	June 30, 2016	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
<i>Financial investments in associates</i>	747	–	–	747
<i>Financial derivatives under lease and hosting contracts</i>	459	–	–	459
Total financial assets at fair value through profit or loss	1,206	–	–	1,206
Available-for-sale equity investment	600	600	–	–
Total financial assets measured at fair value	1,806	600	–	1,206

	December 31, 2015	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
<i>Financial investments in associates</i>	963	–	–	963
<i>Financial derivatives under lease and hosting contracts</i>	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, 2016 is reconciled to the balance of those measurements as of June 30, 2016 as follows:

	Balance as of January 1, 2016	Gains/(losses) recognized in profit and loss	Balance as of June 30, 2016
Financial assets measured at fair value			
Financial assets at fair value through profit or loss:			
<i>Financial investments in associates</i>	963	(216)	747
<i>Financial derivatives under lease and hosting contracts</i>	280	179	459
Total financial assets at fair value through profit or loss	1,243	(37)	1,206

15.2 Risk assessment

The Group's financial instruments exposed to the equity price risk primarily relate to the Group's financial investments in associates. 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	June 30, 2016	December 31, 2015
DCF method	Earnings stream	10.0%	31	52
DCF method	Discount rate	5.0%	67	101

15.3 Loan repayment

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

Notes to the Interim Condensed Consolidated Financial Statements (continued)

16 Events after the reporting period

16.1 Anti-terror laws

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.