

Mail.Ru Group Limited

Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

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Independent auditor's report

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

Report on Review of Interim Financial Information

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Mail.ru Group Limited and its subsidiaries (the Group), which comprise the interim condensed consolidated statement of financial position as at June 30, 2018, the interim condensed consolidated statement of comprehensive income for the three-month and six-month periods then ended, interim condensed consolidated statement of cash flows and interim condensed consolidated statement of changes in equity for the six-month period then ended and notes to the interim condensed consolidated financial statements (interim financial information). Management of Mail.ru Group Limited is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information 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 financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.



A.A. Chizhikov
Partner
Ernst & Young LLC

July 25, 2018

Details of the entity

Name: Mail.ru Group Limited
Record made in the State Register of Legal Entities on May 4, 2005.
Address: 232 28th October Street, Office 501, 3035 Limassol, Cyprus.

Details of the auditor

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

Interim Condensed Consolidated Statement of Financial Position

As of June 30, 2018

(in millions of Russian Roubles)

	Notes	As at June 30, 2018 (unaudited)	As at December 31, 2017 (audited) Restated*
ASSETS			
Non-current assets			
Investments in equity accounted associates	5	3,049	1,013
Goodwill	5	140,865	133,038
Other intangible assets	6	22,277	25,042
Property and equipment	7	6,119	4,491
Financial assets at fair value through profit or loss	15	1,745	365
Deferred income tax assets		2,771	2,304
Other non-current assets	8	1,833	1,585
Total non-current assets		178,659	167,838
Current assets			
Trade accounts receivable	15	6,974	6,556
Prepaid income tax		51	27
Prepaid expenses and advances to suppliers		1,044	1,463
Financial assets at fair value through profit or loss	15	282	171
Other current assets	9	676	201
Cash and cash equivalents	15	8,565	15,371
Total current assets		17,592	23,789
Total assets		196,251	191,627
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		-	-
Share premium		53,808	51,722
Treasury shares		(291)	(444)
Retained earnings		111,429	114,676
Accumulated other comprehensive income		63	128
Total equity attributable to equity holders of the parent		165,009	166,082
Non-controlling interests		409	84
Total equity		165,418	166,166
Non-current liabilities			
Deferred income tax liabilities		2,496	2,520
Deferred revenue		8,760	6,736
Other non-current liabilities	15	267	245
Total non-current liabilities		11,523	9,501
Current liabilities			
Trade accounts payable	15	5,582	4,896
Income tax payable		288	525
VAT and other taxes payable		1,322	1,342
Deferred revenue and customer advances		7,307	6,295
Other payables and accrued expenses	10, 15	4,811	2,902
Total current liabilities		19,310	15,960
Total liabilities		30,833	25,461
Total equity and liabilities		196,251	191,627

* Certain amounts shown here do not correspond to the 2017 financial statements and reflect adjustments made, refer to Note 5.

Interim Condensed Consolidated Statement of Comprehensive Income

For the three and six months ended June 30, 2018
(in millions of Russian Roubles)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2018 (unaudited)	2017 (unaudited) Restated*	2018 (unaudited)	2017 (unaudited) Restated*
Online advertising	11	7,299	5,067	13,867	9,694
MMO games		3,768	2,772	7,521	5,980
Community IVAS	11	3,453	2,916	7,296	6,005
Other revenue		987	531	1,917	959
Total revenue		15,507	11,286	30,601	22,638
Other operating gain		–	565	–	565
Net gain/(loss) on venture capital investments	15	16	–	(23)	(27)
Personnel expenses		(4,345)	(2,690)	(9,788)	(5,910)
Office rent and maintenance		(624)	(536)	(1,222)	(1,048)
Agent/partner fees		(4,053)	(2,007)	(7,586)	(3,939)
Marketing expenses		(3,442)	(2,100)	(6,528)	(3,934)
Server hosting expenses		(507)	(448)	(973)	(877)
Professional services		(130)	(87)	(285)	(163)
Other operating expenses		(699)	(734)	(1,283)	(1,012)
Total operating expenses		(13,800)	(8,602)	(27,665)	(16,883)
EBITDA		1,723	3,249	2,913	6,293
Depreciation and amortisation		(2,438)	(2,246)	(4,823)	(4,360)
Impairment of intangible assets	6	(1,698)	–	(1,698)	–
Share of (loss)/profit of equity accounted associates		(132)	8	(132)	16
Finance income		88	115	265	234
Finance expenses		(1)	(3)	(16)	(15)
Other non-operating income/(loss)		28	(53)	(5)	(42)
Net gain/(loss) on derivative financial assets and liabilities at fair value through profit or loss	15	(283)	(104)	395	82
Impairment losses related to equity accounted associates		–	(245)	–	(245)
Net loss on disposal of shares in subsidiaries		–	–	–	(15)
Net foreign exchange gain		139	850	309	576
(Loss)/profit before income tax expense		(2,574)	1,571	(2,792)	2,524
Income tax (expense)/benefit	12	28	(696)	(445)	(845)
Net (loss)/profit		(2,546)	875	(3,237)	1,679
Attributable to:					
Equity holders of the parent		(2,551)	871	(3,247)	1,674
Non-controlling interest		5	4	10	5
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods					
Exchange differences on translation of foreign operations:					
Differences arising during the period		3	(384)	(65)	(236)
Total other comprehensive (loss)/income net of tax effect of 0		3	(384)	(65)	(236)
Total comprehensive (loss)/income, net of tax		(2,543)	491	(3,302)	1,443
Attributable to:					
Equity holders of the parent		(2,548)	487	(3,312)	1,438
Non-controlling interest		5	4	10	5
Earnings/(loss) per share, in RUR:					
Basic (loss)/earnings per share attributable to ordinary equity holders of the parent		(11.92)	4.13	(15.21)	7.97
Diluted (loss)/earnings per share attributable to ordinary equity holders of the parent		(12.21)	4.07	(14.98)	7.83

* Certain amounts shown here do not correspond to the interim condensed financial statements for the three and six months ended June 30, 2017 and reflect full retrospective application of IFRS 15, refer to Note 11.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2018
(in millions of Russian Roubles)

	Notes	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Cash flows from operating activities			
(Loss)/profit before income tax		(2,792)	2,524
Adjustments to reconcile (loss)/profit before income tax to cash flows			
Depreciation and amortisation		4,823	4,360
Impairment losses on financial assets/(reversals of impairment losses)		8	(23)
Net gain on financial assets and liabilities at fair value through profit or loss	15	(395)	(82)
Net loss on disposal of subsidiaries		-	15
Loss on disposal of property and equipment and intangible assets		12	-
Finance income		(265)	(234)
Finance expenses		16	15
Dividend revenue from venture capital investments		(16)	(9)
Share of (profit)/loss of equity accounted associates		132	(16)
Impairment losses related to equity accounted associates		-	245
Impairment of intangible assets	6	1,698	-
Net foreign exchange gain		(309)	(576)
Share-based payment expense		2,222	1,236
Other non-cash items		(4)	26
Net loss on venture capital investments		23	27
Working Capital adjustments			
(Increase)/decrease in accounts receivable		(95)	1,040
Decrease in prepaid expenses and advances to suppliers		630	232
Increase in inventories		(71)	-
Increase in other assets		(148)	(40)
Decrease in accounts payable and accrued expenses		(13)	(739)
(Increase)/decrease in other non-current assets		(131)	480
Increase in deferred revenue		2,572	2,447
Increase in financial assets at fair value through profit or loss	15	(1,675)	(153)
Operating cash flows before interest and income taxes		6,222	10,775
Dividends received from venture capital investments		16	8
Interest received		286	228
Interest paid		(13)	(15)
Income tax paid		(1,413)	(1,996)
Net cash provided by operating activities		5,098	9,000
Cash flows from investing activities:			
Cash paid for property and equipment		(2,151)	(1,148)
Cash paid for intangible assets		(757)	(1,033)
Dividends received from equity accounted associates		19	-
Loans issued		(71)	-
Cash paid for acquisitions of subsidiaries, net of cash acquired	5	(7,502)	(2,734)
Proceeds from disposal of subsidiaries, net of cash disposed		-	(43)
Cash paid for investments in equity accounted associates	5	(1,758)	-
Issuance of loans receivable		-	(9)
Net cash used in investing activities		(12,220)	(4,967)
Cash flows from financing activities			
Loans repaid		-	(122)
Cash paid for treasury shares		-	(854)
Net cash used in financing activities		-	(976)
Net increase/(decrease) in cash and cash equivalents		(7,122)	3,057
Effect of exchange differences on cash balances		316	27
Cash and cash equivalents at the beginning of the period		15,371	5,513
Cash and cash equivalents at the end of the period		8,565	8,597

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2017

(in millions of Russian Roubles)

	Share capital			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	Share premium						
Balance at January 1, 2017 (audited)	208,634,437	-	51,758	(1,290)	112,415	470	163,353	64	163,417
Profit for the period	-	-	-	-	1,674	-	1,674	5	1,679
Other comprehensive loss									
Foreign currency translation	-	-	-	-	-	(236)	(236)	-	(236)
Total other comprehensive loss	-	-	-	-	-	(236)	(236)	-	(236)
Total comprehensive income/(loss)	-	-	-	-	1,674	(236)	1,438	5	1,443
Share-based payment transactions									
Exercise of RSUs and options over the shares of the Company	2,895,048	-	1,009	-	-	-	1,009	-	1,009
Acquisition of treasury shares	(554,753)	-	(288)	288	-	-	(854)	-	(854)
Effect of disposal of subsidiary	-	-	-	-	-	13	13	-	13
Balance at June 30, 2017 (unaudited)	210,974,732	-	52,479	(1,856)	114,089	247	164,959	69	165,028

Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended June 30, 2018

(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, 2018	212,424,794	-	51,722	(444)	114,676	128	166,082	84	166,166
Loss for the period	-	-	-	-	(3,247)	-	(3,247)	10	(3,237)
Other comprehensive loss									
Foreign currency translation	-	-	-	-	-	(65)	(65)	-	(65)
Total other comprehensive loss	-	-	-	-	-	(65)	(65)	-	(65)
Total comprehensive loss	-	-	-	-	(3,247)	(65)	(3,312)	10	(3,302)
Share-based payment transactions									
Exercise of RSUs and options over the shares of the Company	1,649,366	-	(153)	153	-	-	-	-	-
Acquisitions of non-controlling interests in business combinations (Note 5)	-	-	-	-	-	-	-	315	315
Balance at June 30, 2018 (unaudited)	214,074,160	-	53,808	(291)	111,429	63	165,009	409	165,418

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2018
(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, 2018 were authorised for issue by the directors of the Company on July 25, 2018.

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, cybersport, e-commerce, online marketplaces, massively multiplayer online games (“MMO games”), social and mobile games. The Group and its associates have leading positions in Russia and other CIS states where they are present.

2 Basis of preparation

The interim condensed consolidated financial statements for the six months ended June 30, 2018 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, 2017 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, 2017, except for the adoption of new standards as of January 1, 2018 listed below applicable to the Group:

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group’s consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment

The IASB issued amendments to IFRS 2 *Share-Based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group’s accounting policy for cash-settled share share-based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transactions with net settlement features for withholding tax obligations and did not make any modifications to the terms and conditions of its share-based payment transactions. Therefore, these amendments do not have any impact on the Group’s consolidated financial statements.

Amendments to IAS 28 Investments in Associates and Joint-Ventures – Clarification that measuring investees at fair value through profit and loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit and loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by the investment entity associate or joint venture to the investment entity associate’s or joint venture’s interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group’s consolidated financial statements

Recently adopted accounting pronouncements

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group adopted the new revenue standard as of January 1, 2018 using the full retrospective approach. See Note 11 *Revenue* for further details.

IFRS 9 replaces IAS 39 for annual periods on or after January 1, 2018. The Group has adopted the new standard retrospectively from January 1, 2018 and has not restated comparative information for 2017 with respect to financial instruments in the scope of IFRS 9. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. However, application of the new requirements has had no significant impact on the Group’s statement of financial position or equity. See Note 15 *Financial instruments* for further details.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

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 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 beginning of the earliest comparative period included in the financial statements.

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.

Accordingly, segment reporting for the three and six months ended June 30, 2018 and the respective comparative segment financial information has been retrospectively adjusted, as applicable, to include the financial information of ZakaZaka, ESforce (Note 5) and Am.ru all starting from January 1, 2017.

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 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, (ii) user payments for virtual gifts, stickers and music subscriptions and (iii) online advertising, including display and context advertising.

The Social Networks (excluding VK) segment includes the Group's two other social networks (OK and My World) and earns revenues from (i) user payments for virtual gifts and music subscriptions, (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 a 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, food delivery services earning substantially all revenue from restaurant's commission and our ESforce eSports business earning substantially all revenues from sponsorship and other advertising. This segment also includes the Group's Youla classifieds business and Pandao cross-border marketplace, neither of which is currently earning material revenues, and 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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4 Operating segments (continued)

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, 2018, 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
Revenue							
External revenue	2,498	8,131	10,960	8,577	3,411	–	33,577
Intersegment revenue	1	3	–	23	95	(122)	–
Total revenue	2,499	8,134	10,960	8,600	3,506	(122)	33,577
Total operating expenses	1,721	3,344	9,463	3,695	7,824	(122)	25,925
EBITDA	778	4,790	1,497	4,905	(4,318)	–	7,652
Net profit							3,039

The income statement items for each segment for the six months ended June 30, 2017, as presented to the CODM, are presented below (all numbers include the effect of IFRS 15 adoption – please see Note 11 for details):

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
Revenue							
External revenue	2,336	8,075	7,882	5,261	2,466	–	26,020
Intersegment revenue	3	31	–	121	193	(348)	–
Total revenue	2,339	8,106	7,882	5,382	2,659	(348)	26,020
Total operating expenses	1,449	2,712	5,629	1,629	5,731	(348)	16,802
EBITDA	890	5,394	2,253	3,753	(3,072)	–	9,218
Net profit							6,230

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, 2018 and 2017 is presented below:

	2018	2017
Group aggregate segment revenue, as presented to the CODM	33,577	26,020
<i>Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:</i>		
Effect of difference in dates of acquisition and loss of control in subsidiaries	(227)	(549)
Differences in timing of revenue recognition	(2,774)	(2,294)
Barter revenue	9	17
Dividend revenue from venture capital investments	16	9
Difference in classification of revenue		(565)
Consolidated revenue under IFRS	30,601	22,638

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4 Operating segments (continued)

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, 2018 and 2017 is presented below:

	2018	2017
Group aggregate segment EBITDA, as presented to the CODM	7,652	9,218
<i>Adjustments to reconcile EBITDA as presented to the CODM to consolidated (loss)/profit before income tax expenses under IFRS:</i>		
Effect of difference in dates of acquisition and loss of control in subsidiaries	40	628
Differences in timing of revenue recognition	(2,528)	(2,294)
Net loss on venture capital investments	(23)	(27)
Share-based payment transactions	(2,222)	(1,236)
Other	(6)	4
EBITDA	2,913	6,293
Depreciation and amortisation	(4,823)	(4,360)
Impairment of intangible assets	(1,698)	-
Share of (loss)/profit of equity accounted associates	(132)	16
Finance income	265	234
Finance expenses	(16)	(15)
Other non-operating loss	(5)	(42)
Net gain on derivative financial assets and liabilities at fair value through profit or loss	395	82
Impairment losses related to equity accounted associates	-	(245)
Net loss on disposal of shares in subsidiaries	-	(15)
Net foreign exchange gain	309	576
Consolidated profit/(loss) before income tax expense under IFRS	(2,792)	2,524

A reconciliation of group aggregate net profit, as presented to the CODM, to IFRS consolidated net profit of the Group for six months ended June 30, 2018 and 2017 is presented below:

	2018	2017
Group aggregate segment net profit, as presented to the CODM	3,039	6,230
<i>Adjustments to reconcile net profit as presented to the CODM to consolidated net (loss)/profit under IFRS:</i>		
Share-based payment transactions	(2,222)	(1,236)
Differences in timing of revenue recognition	(2,528)	(2,294)
Effect of difference in dates of acquisition and loss of control in subsidiaries	37	582
Amortisation of fair value adjustments to intangible assets	(2,656)	(2,640)
Net gain on financial instruments at fair value through profit or loss	372	55
Net loss on disposal of shares in subsidiaries	-	(15)
Net foreign exchange gain	309	576
Share of (loss)/profit of equity accounted associates	(132)	16
Impairment losses related to equity accounted associates	-	(245)
Other	(24)	(9)
Tax effect of the adjustments, tax on unremitted earnings and non-recurring deferred tax asset reversal	568	659
Consolidated net profit/(loss) under IFRS	(3,237)	1,679

The income statement items for each segment for the three months ended June 30, 2018, 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
Revenue							
External revenue	1,305	3,867	5,627	4,352	1,926	-	17,077
Intersegment revenue	1	2	-	12	40	(55)	-
Total revenue	1,306	3,869	5,627	4,364	1,966	(55)	17,077
Total operating expenses	867	1,647	5,097	1,958	3,904	(55)	13,418
EBITDA	439	2,222	530	2,406	(1,938)	-	3,659
Net profit							633

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4 Operating segments (continued)

The income statement items for each segment for the three months ended June 30, 2017, as presented to the CODM, are presented below (all numbers include the effect of IFRS 15 adoption – please see Note 11 for details):

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
Revenue							
External revenue	1,228	3,846	3,874	2,707	1,458	–	13,113
Intersegment revenue	1	7	–	32	101	(141)	–
Total revenue	1,229	3,853	3,874	2,739	1,559	(141)	13,113
Total operating expenses	713	1,400	2,843	831	3,249	(141)	8,895
EBITDA	516	2,453	1,031	1,908	(1,690)	–	4,218
Net profit							2,681

A reconciliation of group aggregate segment revenue, as presented to the CODM, to IFRS consolidated revenue of the Group for the three months ended June 30, 2018 and 2017 is presented below:

	2018	2017
Group aggregate segment revenue, as presented to the CODM	17,077	13,113
<i>Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:</i>		
Effect of difference in dates of acquisition and loss of control in subsidiaries	–	(435)
Differences in timing of revenue recognition	(1,592)	(1,408)
Barter revenue	7	7
Dividend revenue from venture capital investments	15	9
Consolidated revenue under IFRS	15,507	11,286

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 three months ended June 30, 2018 and 2017 is presented below:

	2018	2017
Group aggregate segment EBITDA, as presented to the CODM	3,659	4,218
<i>Adjustments to reconcile EBITDA as presented to the CODM to consolidated (loss)/profit before income tax expenses under IFRS:</i>		
Effect of difference in dates of acquisition and loss of control in subsidiaries	–	378
VAT exemption pro-forma to Q1	–	367
Differences in timing of revenue recognition	(1,446)	(1,408)
Net gain on venture capital investments	16	–
Share-based payment transactions	(499)	(320)
Other	(7)	14
EBITDA	1,723	3,249
Depreciation and amortisation	(2,438)	(2,246)
Impairment of intangible assets	(1,698)	–
Share of (loss)/profit of equity accounted associates	(132)	8
Finance income	88	115
Finance expenses	(1)	(3)
Other non-operating income/(loss)	28	(53)
Net loss on derivative financial assets and liabilities at fair value through profit or loss	(283)	(104)
Impairment losses related to equity accounted associates	–	(245)
Net foreign exchange gain	139	850
Consolidated profit/(loss) before income tax expense under IFRS	(2,574)	1,571

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 three months ended June 30, 2018 and 2017 is presented below:

	2018	2017
Group aggregate segment net profit, as presented to the CODM	633	2,681
<i>Adjustments to reconcile net profit as presented to the CODM to consolidated net (loss)/profit under IFRS:</i>		
Share-based payment transactions	(499)	(320)
Differences in timing of revenue recognition and classification	(1,445)	(1,408)
Effect of difference in dates of acquisition and loss of control in subsidiaries	-	357
Amortisation of fair value adjustments to intangible assets	(1,326)	(1,322)
Net loss on financial instruments at fair value through profit or loss	(267)	(104)
VAT exemption pro-forma to Q1		296
Net foreign exchange gain	139	850
Share of (loss)/profit of equity accounted associates	(132)	8
Impairment losses related to equity accounted associates	-	(245)
Other	(28)	6
Tax effect of the adjustments, tax on unremitted earnings and non-recurring deferred tax asset reversal	379	76
Consolidated net profit/(loss) under IFRS	(2,546)	875

5 Business combinations

5.1 ZakaZaka

In May 2017, as a result of a number of transactions, the Group completed the acquisition of 100% of Site-Agregator LLC ("ZakaZaka"), the number two food delivery company in Russia, for a cash consideration of RUR 1,042. The main purpose of the acquisition was further expansion of the Group's food delivery business.

During Q2 2018 the Group finalised purchase price allocation for ZakaZaka acquisition. The fair values of the identifiable assets and liabilities of ZakaZaka at the date of acquisition were as follows:

	Fair value
Other intangible assets	197
Trade accounts receivable	18
Prepaid expenses and advances to suppliers	13
Other current assets	18
Cash and cash equivalents	24
Total assets	270
Deferred income tax liabilities	35
Trade accounts payable	5
Other payables, provisions and accrued expenses	7
Total liabilities	47
Total net assets	223

Goodwill on the transaction was calculated as the excess of:

(a) the consideration transferred by the Group measured at fair values:	
[1] cash paid	1,027
[2] the acquisition date fair value of the Group's previously held equity interest	120
Consideration transferred by the Group	1,147
Over	
(b) financial liabilities at fair value through profit or loss – derivative over the equity of investee	246
(c) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3R	223
Goodwill	678

Notes to the Interim Condensed Consolidated Financial Statements (continued)

5 Business combination (continued)

5.1 ZakaZaka (continued)

Goodwill is mainly attributable to expected synergies and cost savings with the Group's food delivery business. Goodwill is not expected to be deductible for income tax purposes. Goodwill is allocated to Delivery Club CGU.

Intangible assets mainly include trademark and customer base, and are amortised over the period of 2 to 10 years.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	1,042
Cash acquired (included in cash flows from investing activities)	(24)
Net cash flow on acquisition	1,018

The net assets recognised in the December 31, 2017 financial statements were based on a provisional assessment of their fair value. In 2018, the valuation of the brand name was updated and the acquisition date fair value of other intangible assets was RUR 197, an increase of RUR 127 over the provisional value. The 2017 comparative information was restated to reflect the adjustment to the provisional amounts. As a result, there was an increase in the deferred tax liability of RUR 25. There was also a corresponding reduction in goodwill of RUR 102, resulting in RUR 678 of total goodwill arising on the acquisition. The increased amortisation charge on the other intangible assets from the date of acquisition to December 31, 2017 was not material.

5.2 ESforce

In January 2018 the Group acquired a leading eSport group of companies operating under the ESforce brand (together "ESforce") for a cash consideration of RUR 5,659 and contingent consideration, measured at fair value, of RUR 1,132 based on ongoing financial KPIs in a period of 1 year (Note 10). The primary purpose of the acquisition of ESforce was to enhance the Group's position on the eSports market.

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

	Provisional fair value
Property and equipment	694
Other intangible assets	723
Trade accounts receivable	161
Prepaid income tax	3
Prepaid expenses and advances to suppliers	175
Other current assets	212
Cash and cash equivalents	239
Total assets	2,207
Deferred income tax liabilities	126
Trade accounts payable	165
Income tax and other taxes payable	1
VAT and other taxes payable	225
Deferred revenue and customer advances	73
Other payables and accrued expenses	267
Total liabilities	857
Total net assets	1,350
Goodwill on the transaction was calculated as the excess of:	
(a) the consideration transferred by the Group measured at fair values:	
[1] cash paid	5,659
[2] contingent consideration liability	1,132
Consideration transferred by the Group	6,791
(b) the amount of non-controlling interest in ESforce measured in accordance with IFRS 3 (proportionate share of its interest in the acquiree's identifiable net assets)	27
Over	
(c) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	1,350
Goodwill	5,468

Notes to the Interim Condensed Consolidated Financial Statements (continued)

5 Business combination (continued)

5.2 ESforce (continued)

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

Intangible assets mainly include trademark and customer base, and are amortised over the period of 2 to 5 years.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	5,730
Cash acquired (included in cash flows from investing activities)	(239)
Net cash flow on acquisition	5,491

5.3 BitGames, 33 Slona and InShopper

In April 2018 the Group acquired control in mobile games developer PBL Bitdotgames Publishing Limited ("BitGames") by increasing its share to 51% (49% in addition to 2% stake as of March 31, 2018). The primary purpose of the acquisition of BitGames was to enhance the Group's position on mobile games market.

Also in April 2018 the Group completed the acquisition of the 100% in LLC "33 Slona" and LLC "Tekhnologii nedvizhimosti" (collectively, "33 Slona"), a digital real estate agency. The primary purpose of the acquisition of 33 Slona was to leverage the Group's expertise and resources by achieving substantial synergies with Youla, the Group's general online classifieds product.

In June 2018 the Group completed the acquisition of the 100% in Consult Universal Corp ("InShopper"), a cash-back technology provider. The primary purpose of the acquisition of InShopper was to leverage the Group's expertise and resources by achieving substantial synergies with Group's payment technologies and solutions.

Total cash consideration for the transactions above was RUR 2 bln and contingent consideration, measured at fair value, of RUR 593 (including RUR 93 based on ongoing financial KPIs in a period of 1 year (Note 10).

In accounting for the business combinations, the Group has provisionally determined the amounts of the acquired companies' identifiable assets and liabilities at their fair value. The acquisition accounting will be finalised upon completion of the tax planning and valuation of BitGames, 33 Slona and InShopper's assets and liabilities.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

5 Business combination (continued)

5.3 BitGames, 33 Slona and InShopper (continued)

The provisional fair values of the identifiable assets and liabilities of BitGames, 33 Slona and InShopper at the date of acquisition were as follows:

	Provisional fair value
Other intangible assets	1,153
Loans receivable	5
Deferred income tax assets	47
Prepaid expenses and advances to suppliers	14
Trade accounts receivable	36
Other current assets	32
Cash and cash equivalents	26
Total assets	1,313
Deferred income tax liabilities	143
Trade accounts payable	83
Deferred revenue and customer advances	376
Loans payable	33
VAT and other taxes payable	5
Other payables and accrued expenses	11
Total liabilities	651
Total net assets	662

Goodwill on the transaction was calculated as the excess of:

(a) the consideration transferred by the Group measured at fair values:	
[1] cash paid	2,015
[2] financial assets at fair value through profit or loss – derivative over the equity of investee	11
[3] the acquisition date fair value of the Group's previously held equity interest	114
[4] contingent and deferred consideration liability	593

Consideration transferred by the Group **2,733**

(b) the amount of non-controlling interest measured in accordance with IFRS 3 288

Over

(c) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3 662

Goodwill **2,359**

Goodwill is mainly attributable to development of new games, cost saving and potential synergy with the Group's classified business, payment solutions and other operations.

Goodwill is not expected to be deductible for income tax purposes. Goodwill related to BitGames and 33 Slona acquisition is allocated to Games and Youla CGUs correspondingly. Management is still assessing the allocation of InShopper goodwill among cash generating units.

Intangible assets mainly include social and mobile games and are amortised over the period of 2 to 5 years.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	2,037
Cash acquired (included in cash flows from investing activities)	(26)
Net cash flow on acquisition	2,011

5.4 City-Mobil

In April 2018 as a result of a number of transactions the Group acquired a 25.38% stake in taxi aggregator City-Mobil LLC ("City-Mobil") for total cash consideration of RUR 530 mln, including RUR 120 conversion of loan (Note 15). The Group concluded that it has significant influence over City-Mobil as the Group has the power to participate in the financial and operating policy decisions through its representation on City-Mobil's Board of Directors. The Group's ownership interest in City-Mobil represents an investment in an associate and accounted for under the equity method. The acquisition of investment in City-Mobil is accounted for based on provisional values, as the Group has not completed the allocation of purchase price over the fair values of City-Mobil's identifiable assets and liabilities as of the date of these financial statements.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

5 Business combination (continued)

5.5 UMA

In May 2018 the Group exercised its call option to purchase 20% of the share capital of the music library rights holder Salerton Investments Limited ("UMA") for a total cash consideration of RUR 1,363. The Group concluded that it has significant influence over UMA as it is represented on UMA's board of directors and is entitled to participate in decision making regarding its financial and operating policies. Therefore UMA will be accounted for as an associate under the equity method. The acquisition of investments in UMA is accounted for based on provisional values as the Group has not completed the allocation of purchase price over the fair values of UMA identifiable assets and liabilities as of the date of these financial statements.

6 Other intangible assets

During the six months ended June 30, 2018, the Group capitalised software development costs and otherwise acquired intangible assets with a cost of RUR 396 (2017: RUR 790). Because of a significant downward revision of the forecasted cash inflows of the game Armored Warfare in Q2 2018, the Group fully impaired the game, recording an impairment charge of RUR 1,698.

7 Property and equipment

During the six months ended June 30, 2018, the Group acquired property and equipment with a cost of RUR 2,191 (2017: RUR 1,193).

8 Other non-current assets

Other non-current assets consist of the following:

	June 30, 2018	December 31, 2017
Advance under office lease contract	363	316
Advances for royalties	1,112	1,022
Other non-current assets	358	247
Total other non-current assets	1,833	1,585

9 Other current assets

Other current assets consist of the following:

	June 30, 2018	December 31, 2017
Inventory	98	26
VAT receivable	485	146
Other current assets	93	29
Total other current assets	676	201

10 Other payables and accrued expenses

Other payables and accrued expenses consist of the following:

	June 30, 2018	December 31, 2017
Payables to personnel	1,473	1,724
Accrued vacations	976	774
Accrued professional consulting expenses	65	35
Payables under lease contract	52	121
Contingent and deferred consideration liability (Note 5)	1,847	-
Other current payables and provisions	398	248
Total other payables and accrued expenses	4,811	2,902

Notes to the Interim Condensed Consolidated Financial Statements (continued)

11 Revenue

On January 1, 2018, the Group adopted new revenue accounting standard IFRS 15. The new revenue standard superseded all current revenue recognition requirements under IFRS. The Group adopted the new standard on the required effective date using the full retrospective method and hence adjusting each financial statement line item affected for the period immediately preceding the first period for which this Standard is applied.

Adopting IFRS 15, the Group is considering the following:

(a) Principal versus agent considerations

The Group enters into arrangements where services are rendered to end-customers with an involvement of third parties. Under these arrangements, the Group provides mainly display advertising and some other services in social communities which are controlled by third parties but are operated on the Group's platforms.

Under these arrangements the Group is not considered to have control over these advertising services. At the same time social communities have full discretion in providing access to advertising space in social communities which they control and establish prices for the placing of advertisements.

Previously the Group concluded that it is a principal after evaluating the indicators in order to make its principal versus agent determination when from the perspective of the advertisers the Group renders these services, and hence the Group has exposure to the significant risks (including credit risk) and rewards associated with placing advertisements and accounted for these arrangements as a principal.

IFRS 15 requires the Group to assess whether it controls a specified good or service before it is transferred to the customer. The Group has determined that it does not control advertising services before these services are transferred to end customers, as the Group does not control the social communities where these advertisements are placed, and hence, is an agent rather than a principal in these contracts.

The effect of IFRS 15 adoption on the comparative period ended June 30, 2017 is presented below. The adoption of IFRS 15 did not have any impact on the statement of financial position and retained earnings:

Description	As restated	IFRS 15 adoption effect	As reported prior to the adoption of IFRS 15
Online advertising	9,694	585	10,279
Community IVAS	6,005	272	6,277
Total Revenue effect	n/a	857	n/a
Agent/Partner fees	(3,939)	(857)	(4,796)
EBITDA effect	n/a	-	n/a

(b) Presentations and disclosures

The presentation and disclosure requirements in IFRS 15 are more detailed than under previous standard. As required for condensed interim financial statements for disaggregation of revenue from contracts with customers for the six months ended June 30, 2018, based on the Group's segment reporting (Note 4) is presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
Revenue							
External revenue	2,498	8,131	10,960	8,577	3,411	-	33,577
Intersegment revenue	1	3	-	23	95	(122)	-
Total revenue	2,499	8,134	10,960	8,600	3,506	(122)	33,577
Services transferred at a point in time	2,445	5,159	444	7,661	3,470	(122)	19,057
Services transferred over time	54	2,975	10,516	939	36	-	14,520

Disaggregation of revenue from contracts with customers for the six months ended June 30, 2017 for, based on the Group's segment reporting (Note 4) is presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
Revenue							
External revenue	2,336	8,075	7,882	5,261	2,466	-	26,020
Intersegment revenue	3	31	-	121	193	(348)	-
Total revenue	2,339	8,106	7,882	5,382	2,659	(348)	26,020
Services transferred at a point in time	2,281	4,557	38	4,992	2,631	(348)	14,151
Services transferred over time	58	3,549	7,844	390	28	-	11,869

Notes to the Interim Condensed Consolidated Financial Statements (continued)

11 Revenue (continued)

(b) Presentations and disclosures (continued)

Disaggregation of revenue from contracts with customers for the three months ended June 30, 2018, based on the Group's segment reporting (Note 4) is presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
Revenue							
External revenue	1,305	3,867	5,627	4,352	1,926	–	17,077
Intersegment revenue	1	2	–	12	40	(55)	–
Total revenue	1,306	3,869	5,627	4,364	1,966	(55)	17,077
Services transferred at a point in time	1,279	2,580	255	3,910	1,948	(55)	9,917
Services transferred over time	27	1,289	5,372	454	18	–	7,160

Disaggregation of revenue from contracts with customers for the three months ended June 30, 2017 for, based on the Group's segment reporting (Note 4) is presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
Revenue							
External revenue	1,228	3,846	3,874	2,707	1,458	–	13,113
Intersegment revenue	1	7	–	32	101	(141)	–
Total revenue	1,229	3,853	3,874	2,739	1,559	(141)	13,113
Services transferred at a point in time	1,201	2,222	20	2,584	1,544	(141)	7,430
Services transferred over time	28	1,631	3,854	155	15	–	5,683

Revenue recognition accounting policy

The Group generates revenue primarily from online advertising, MMO games and Community IVAS.

Contract assets are comprised of trade receivables as a separate line item in the statement of financial position. Contract liabilities are comprised of deferred revenue and customer advances presented as separate line items in the statement of financial position.

Online advertising

Online advertising consists primarily of display advertising and context advertising.

Display advertising revenue is recognised as the services are provided (i.e., as per page view for dynamic banners and over the contractual term for static banners). For display advertising sold through some third party advertising agencies, revenue generally is recognised net of any portion attributable to the third parties.

The Group earns revenues for search context advertising through partnerships with third parties. Context advertising revenue is recognised as the services are provided (i.e., upon "click-through", which is when a user clicks on an advertiser's listing) on a net basis.

Context advertising also includes revenue from the Group's myTarget self-serve advertising technology ("target advertising"). Revenue from pay-per-click advertisements is recognised upon click-through, while revenue from pay-per-view advertisements is recognised as the advertisements are viewed. Context advertising also includes revenue related to the placement of target advertising, display advertising and advertising through integration in applications, advertising thought offers on the Group's websites and in applications, advertising via networks comprising advertising banners placement on third party websites and advertising on the pages of communities within the Group's social networks. The revenue from advertising in applications, on the web pages of communities and via networks is recognised on a gross basis with costs and commissions paid to third party owners and administrators of websites, applications, platforms and communities recognised in "Agent/partner fees".

Certain customers may receive cash-based incentives or credits, which are accounted for as variable consideration. The Group estimates these amounts based on the expected amount to be provided to customers and reduce revenues recognised.

MMO Games

The Group derives its online game revenue from in-game virtual items representing additional functionality and features for the game players' characters purchased by game players to play the Group's MMO games and casual games. The amounts of cash or receivables from payment systems for cash from the users, net of related short messaging service operator commissions, are not recognised as revenues and are credited to deferred revenue.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

11 Revenue (continued)

MMO Games (continued)

Under the item-based revenue model, revenues are recognised over the life of the in-game virtual items that game players purchase or as the in-game virtual items are consumed. The estimated life span of in-game items is determined based on historical player usage patterns and playing behaviour.

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

Community IVAS

The Group derives Community IVAS revenues through certain communication products, where users pay a fee for the paid content and online services, mainly through social networking web sites and through the commission from third party developers of the various applications placed on social networking web sites. The fees for such services are collected from customers using various payment channels, including bank cards, online payment systems and mobile operators and from the applications developers. The mobile network operators collect fees for such services from their customers, usually through mobile short message services ("SMS"), and pass such fees to the Group. Revenues from third party applications and developers on the Group's platforms are recognised net of commission to mobile operators and any portion attributable to the developer of the application, at the time when customer payment is due.

Other revenue

Other revenues primarily consist of food delivery, e-learning, non-advertising b2b big data services, database software implementation and support services, listing fees and dividends from venture investments.

Food delivery revenue consists substantially from restaurant's commission for respective services rendered by the Group. Commission is charged for each order delivered to final customers of restaurant who pay upon delivery of food. Revenue from delivery services is recognised when a customer's order is completed.

For revenue recognition the Group evaluates whether it is the principal (i.e., report revenues on a gross basis) or agent (i.e., report revenues on a net basis). The Group is the principal, when it controls the goods or services before transferring to our customers. Control is evidenced by the Group's sole ability to monetise the advertising inventory before it is transferred to customers, and is further supported by the Group being primarily responsible to the Group's customers and having a level of discretion in establishing pricing.

The Group's contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenues to each performance obligation based on its relative standalone selling price. Generally standalone selling prices are determined based on the prices charged to customers or using expected cost plus margin.

12 Income tax

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Current income tax expense	539	461	1,142	1,364
Deferred income tax expense/(benefit)	(567)	235	(697)	(519)
Total income tax expense/(benefit)	(28)	696	445	845

The reconciliation between income tax expense and the product of accounting profit multiplied by domestic rates applicable to individual Group entities for the three and six months ended June 30, 2018 and 2017 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
(Loss)/profit before income tax benefit/(expense)	(2,574)	1,571	(2,792)	2,524
Tax at domestic rates applicable to individual group entities	542	(164)	364	(226)
Non-deductible expenses	(203)	(29)	(440)	(192)
Non-taxable foreign exchange and other gains	139	(4)	183	15
Deferred tax assets reversal	-	(507)	-	(507)
Adjustments in respect of current income tax of previous year	-	-	(46)	-
Unrecognised deferred tax assets	(515)	-	(548)	-
Tax on unremitted earnings	(6)	(2)	(10)	-
Other	71	10	52	65
Total income tax benefit/(expense)	28	(696)	(445)	(845)

Notes to the Interim Condensed Consolidated Financial Statements (continued)

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.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

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.

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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

13 Commitments, contingencies and operating risks (continued)

13.8 Regulation

The Internet and its associated technologies are subject to government regulation. Substantial part of Group's business is subject to Russian laws. 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. Non-compliance with the applicable regulations could lead to penalties or blocking of non-compliant services.

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 still 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.

In January, 2017 law regulating online news aggregation services came into force. The law regulates activities of providers of news aggregation services, requiring registering with a governmental authority if daily audience of aggregation services is more than one million users and imposing on news aggregation services obligations similar to those of registered mass media. At the same time, news aggregation services are exempted from liability if they utilize mass media's news materials.

Further, in 2017 new laws have been adopted in Russia. Law on online online-cinemas has entered into force on June 1, 2017, the law does not affect Group's properties and does not regulate videos in social networks. Law on identification of messengers' users has been adopted and will come into force from January 1, 2018, the Group plans to comply with the law without additional material costs. Law on "mirrors" of blocked websites entered into force on October 1, 2017 setting forth a simplified procedures for blocking restricted websites. Law on anonymizers entered into force on November 1, 2017, but does not affect Group's properties or services. Starting October 1, 2017 search engines in Russia are obligated to filter pirate websites (included in the black list) in search results, and starting November 1, 2017 search engines are obligated to filter all restricted websites (included in the black list) in search results.

The Group is also subject to other various specific Russian laws, such as so called Anti-Piracy Law, Anti-extremism Law, Black List Law etc. The Group complies with the existing and new laws in all material respect.

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 were entered into with related parties during the six months ended June 30, 2018 and June 30, 2017 as well as balances with related parties as of June 30, 2018 and December 31, 2017, excluding directors and key management of the Group (see below).

	Three months ended June 30		Six months ended June 30		Amounts owed by related parties	Amounts owed to related parties
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties		
2018						
Equity accounted associates	168	63	196	67	169	509
Other entities	64	2	141	7	80	15
2017						
Equity accounted associates	28	–	58	–	75	3
Other entities	–	–	–	1	31	2

All related party transactions were made in accordance with contractual terms and conditions agreed between the parties.

In January 2018, the Group acquired the ESforce business from Anton Cherepennikov and from Highland Falls Investment. Vladimir Streshinskiy abstained from voting as an interested director. An independent committee of the board was formed to oversee the acquisition process and to advise non-interested directors. The committee received third party assessments from independent advisors. The transaction was approved by all non-interested and independent directors. For details please refer to Note 5.2.

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 67 for the six months ended June 30, 2018 (2017: RUR 61). No options over the shares of the Company were granted to Directors for the six months ended June 30, 2018 (2017: nil). During the six months ended June 30, 2018, Directors did not forfeit any RSUs or options (2017: nil), and exercised 2,500 RSUs over shares of the Company (2017: 2,200,000). Additionally in Q1 2017 1,100,000 RSUs held by Directors of the Company were accelerated. The corresponding share-based payment expense was RUR 7 for the six months ended June 30, 2018 (2017: RUR 715).

14.2 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 258 for the six months ended June 30, 2018 (2017: RUR 286). In the six months ended June 30, 2018, key executive employees of the Group (excluding Directors) were granted 200,000 RSUs out of 2017 RSU Plan (2017: 50,000 RSUs). During the six months ended June 30, 2018, key management of the Group (excluding Directors) did not forfeit any RSUs or options (2017: nil) and exercised 1,226,250 RSUs and options (2017: 344,125). The corresponding share-based payment expense amounted to RUR 2,194 for the six months ended June 30, 2018 (2017: RUR 229).

14.3 The ultimate controlling party

USM Holdings Ltd. ("USM") is the ultimate controlling party of the Group.

15 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

The Group adopted the new standard on the required effective date and did not restate comparative information due to the exemption in IFRS 9.

There has been no significant impact on the Group statement of financial position and equity as a result of IFRS 9 adoption. The Group has assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

(a) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that is a function of the business model, in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: those measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for-sale financial assets.

Trade receivables and part of Loans are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

The financial investments in associates, or venture capital investments, are not intended to be held as long term investments. The changes in fair values of these investments are recognised in profit or loss in the period of the change and the Group did not apply the option to present fair value changes in other comprehensive income, and, therefore, the application of IFRS 9 did not have a significant impact.

Derivative instruments and part of Loans which had not been irrevocably elected, at initial recognition or transition, as assets at fair value through other comprehensive income, are recognised by the Group at fair value through profit and loss. The same way the Group recognises debt instruments whose cash flow characteristics fail the "solely payments of principal and interest" criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

(b) Impairment

IFRS 9 requires the Group to measure and record expected credit losses on all of its debt securities, loans and trade receivables on either of the following bases:

- 12-month basis – these are expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date; or
- Lifetime basis – these are expected credit losses that result from all possible default events over the expected life of a financial instrument.

The Group applies the simplified approach mandated to trade receivables by recording lifetime expected losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

15 Financial instruments (continued)

(b) Impairment (continued)

Based on the assessments the Group made no significant changes to the loss allowance for trade receivables held at amortised cost.

The Group applies the general approach to the Group's amortised cost financial assets, other than trade receivables including, but not limited to, cash and cash equivalents.

The Group's cash and cash equivalents have been assigned low credit risk based on the external credit ratings of the respective banks and financial institutions. Therefore, the Group determined that no significant additional allowances are required at June 30, 2018 in connection with the adoption of the new impairment model under IFRS 9.

The carrying amounts of the Group's financial instruments approximated their fair values as of June 30, 2018 and December 31, 2017 and are presented by category of financial instruments in the table below:

	Category*	June 30, 2018	December 31, 2017
Financial assets through profit and loss			
Non-current			
Financial investments in venture capital investees	FAFVPL	170	264
Derivative financial assets over the equity of investee	FAFVPL	79	101
Convertible loans	FAFVPL	1,214	-
Financial derivatives under lease contract	FAFVPL	282	-
Current			
Derivative financial assets over the equity of investee	FAFVPL	3	21
Convertible loans	FAFVPL	279	-
Financial derivatives under lease and hosting contracts	FAFVPL	-	150
Financial assets at amortised cost			
Trade accounts receivable	FAAC	6,974	6,556
Loans and interest receivable	FAAC	158	77
Cash and cash equivalents	FAAC	8,565	15,371
Total financial assets		17,724	22,540
Financial liabilities at amortised cost			
Current			
Trade accounts payable, other payables and accrued expenses	FLAC	10,393	7,798
Non-current			
Other payables	FLAC	267	245
Total financial liabilities		10,660	8,043

* Financial instruments used by the Group are included in one of the following categories:

- FAFVPL – financial assets at fair value through profit or loss;
- FAAC – financial assets at amortised cost;
- FLFVPL – financial liabilities at fair value through profit or loss; or
- FLAC – financial liabilities at amortised cost

15.1 Financial assets at fair value through profit or loss

15.1.1 Classification of financial assets at fair value through profit or loss

The group classifies the following financial assets at fair value through profit or loss:

- Equity investments which are not held for trading, and for which the group has made an irrevocable election at initial recognition to recognise changes in fair value through profit or loss rather than through other comprehensive income;
- Debt investments that do not qualify for measurement at either amortised cost or at fair value through other comprehensive income;
- Derivative financial assets as the contractual cash flows are not solely principal and interest.

15.1.2 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).

Notes to the Interim Condensed Consolidated Financial Statements (continued)

15 Financial instruments (continued)

15.1 Financial assets at fair value through profit or loss (continued)

As at June 30, 2018 and December 31, 2017 the Group held the following financial instruments measured at fair value:

	June 30, 2018	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in venture capital investees	170	-	-	170
Convertible loans	1,493	-	-	1,493
Financial derivatives under lease and hosting contracts	282	-	-	282
Derivative financial assets over the equity of investee	82	-	-	82
Total financial assets at fair value through profit or loss	2,027	-	-	2,027
	December 31, 2017	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in venture capital investees	264	-	-	264
Financial derivatives under lease and hosting contracts	150	-	-	150
Derivative financial assets over the equity of investee	122	-	-	122
Total financial assets measured at fair value	536	-	-	536

The balance of Level 3 measurements as of January 1, 2018 is reconciled to the balance of those measurements as of June 30, 2018 as follows:

	Balance as of January 1, 2018	Gains/(losses) recognized in profit and loss	Purchases	Acquisition of control in investee	Acquisition of significant influence in investee	Balance as of June 30, 2018
Financial assets measured at fair value						
Financial assets at fair value through profit or loss:						
Financial investments in venture capital investees	264	(23)	34	(105)	-	170
Derivative financial assets over the equity of investee	122	263	3	(11)	(295)	82
Convertible loans	-	-	1,638	-	(145)	1,493
Financial derivatives under lease and hosting contracts	150	132	-	-	-	282
Total financial assets at fair value through profit or loss	536	372*	1,675	(116)	(440)	2,027

* The Group recognized RUR 283 loss on derivative financial assets and liabilities at fair value through profit or loss for three months ended June 30, 2018

The balance of Level 3 measurements as of January 1, 2017 is reconciled to the balance of those measurements as of June 30, 2017 as follows:

	Balance as of January 1, 2017	Gains/(losses) recognized in profit and loss	Purchases/Settlement	Acquisition of control in investees	Balance as of June 30, 2017
Financial assets measured at fair value					
Financial assets at fair value through profit or loss:					
Financial investments in venture capital investees	322	(27)	49	(120)	224
Derivative financial assets over the equity of investee	22	21	-	-	43
Financial derivatives under lease and hosting contracts	164	177	-	-	341
Total financial assets at fair value through profit or loss	508	171	49	(120)	608
Financial liability measured at fair value					
Financial liabilities at fair value through profit or loss – derivative over the equity of subsidiary	(234)	(56)	44	246	-
Financial liabilities at fair value through profit or loss – derivative over other agreements	-	(60)	60	-	-
Total financial liabilities measured at fair value	(234)	(116)*	104	246	-

* The Group recognized RUR 104 loss on derivative financial assets and liabilities at fair value through profit or loss for three months ended June 30, 2017

Notes to the Interim Condensed Consolidated Financial Statements (continued)

15 Financial instruments (continued)

15.2 Financial assets at amortised cost

The Group classifies the following financial assets at amortised cost:

- The asset is held within a business model with the objective of collecting the contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding;
- Trade receivables;
- Cash and cash equivalents.

16 Events after the reporting period

There were no events after the reporting period to be separately reported.