

Mail.Ru Group Limited

Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2019

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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

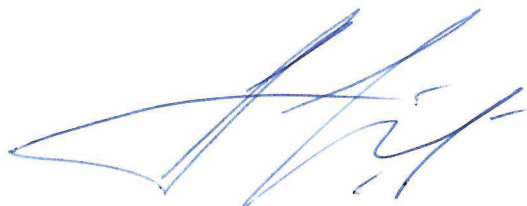
We have reviewed the accompanying interim condensed consolidated financial statements of Mail.ru Group Limited and its subsidiaries (the Group), which comprise the interim condensed consolidated statement of financial position as at March 31, 2019, the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of cash flows and interim condensed consolidated statement of changes in equity for the three-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

April 24, 2019

Details of the entity

Name: Mail.ru Group Limited
Record made in the State Register of Legal Entities on May 4, 2005.
Address: 28 Oktovriou, 365, VASHIOTIS SEAFRONT, office 402, Neapoli, 3107 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 March 31, 2019

(in millions of Russian Roubles)

| | Notes | As at March 31, 2019 (unaudited) | As at December 31, 2018 |
|---|---------------|--|----------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Investments in equity accounted associates | 5 | 1,260 | 2,816 |
| Goodwill | 5.1 | 147,059 | 140,446 |
| Right-of-use assets | 2.1 | 6,595 | – |
| Other intangible assets | 6 | 20,697 | 20,759 |
| Property and equipment | 7 | 7,191 | 7,050 |
| Financial assets at fair value through profit or loss | 14 | 2,058 | 2,015 |
| Deferred income tax assets | | 4,829 | 4,793 |
| Other non-current assets | 8 | 252 | 1,684 |
| Total non-current assets | | 189,941 | 179,563 |
| Current assets | | | |
| Trade accounts receivable | 14 | 8,402 | 9,916 |
| Prepaid expenses and advances to suppliers | | 652 | 1,123 |
| Financial assets at fair value through profit or loss | 14 | 1,169 | 1,072 |
| Other current assets | | 1,796 | 1,353 |
| Cash and cash equivalents | | 12,455 | 11,723 |
| Total current assets | | 24,474 | 25,187 |
| Assets held for sale | 15, 16 | 1,391 | 32 |
| Total assets | | 215,806 | 204,782 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Issued capital | | – | – |
| Share premium | | 58,757 | 58,482 |
| Treasury shares | | (805) | (286) |
| Retained earnings | | 103,195 | 106,685 |
| Accumulated other comprehensive income/(loss) | | 165 | (165) |
| Total equity attributable to equity holders of the parent | | 161,312 | 164,716 |
| Non-controlling interests | | 275 | 259 |
| Total equity | | 161,587 | 164,975 |
| Non-current liabilities | | | |
| Deferred income tax liabilities | | 2,362 | 2,405 |
| Deferred revenue | | 12,272 | 12,397 |
| Non-current lease liability | 2.1, 14 | 2,446 | – |
| Long-term interest-bearing loans and borrowings | 14 | 6,375 | – |
| Total non-current liabilities | | 23,455 | 14,802 |
| Current liabilities | | | |
| Trade accounts payable | 14 | 9,189 | 8,263 |
| Income tax payable | | 430 | 893 |
| VAT and other taxes payable | | 1,671 | 1,430 |
| Deferred revenue and customer advances | | 9,541 | 8,809 |
| Short-term portion of long-term interest-bearing loans | | 2,125 | – |
| Other payables, accrued expenses and contingent consideration liabilities | 2.1, 9, 14 | 6,620 | 5,610 |
| Total current liabilities | | 29,576 | 25,005 |
| Liabilities directly associated with the assets held for sale | 15, 16 | 1,188 | – |
| Total liabilities | | 54,219 | 39,807 |
| Total equity and liabilities | | 215,806 | 204,782 |

Interim Condensed Consolidated Statement of Comprehensive Income

For the three months ended March 31, 2019

(in millions of Russian Roubles)

| | Notes | Three months ended March 31, | |
|---|-------|------------------------------|---------------------|
| | | 2019 (unaudited) | 2018 (unaudited) |
| Online advertising | 10 | 7,747 | 6,557 |
| MMO games | | 4,710 | 3,753 |
| Community IVAS | 10 | 3,722 | 3,843 |
| Other revenue | | 1,339 | 941 |
| Total revenue | | 17,518 | 15,094 |
| Net gain/(loss) on venture capital investments | 14 | 9 | (39) |
| Personnel expenses | | (4,765) | (5,443) |
| Office rent and maintenance | | (66) | (598) |
| Agent/partner fees | | (4,967) | (3,533) |
| Marketing expenses | | (5,156) | (3,086) |
| Server hosting expenses | | (170) | (466) |
| Professional services | | (142) | (155) |
| Other operating expenses | | (946) | (584) |
| Total operating expenses | | (16,212) | (13,865) |
| EBITDA | | 1,315 | 1,190 |
| Depreciation and amortisation | | (2,985) | (2,385) |
| Share of loss of equity accounted associates | 5 | (293) | - |
| Finance income | | 143 | 177 |
| Finance expenses | | (203) | (15) |
| Other non-operating loss | | (57) | (33) |
| Net (loss)/gain on derivative financial assets and liabilities at fair value through profit or loss | 14 | (110) | 678 |
| Loss on re-measurement of previously held interest in equity accounted associate | 5.1 | (115) | - |
| Net foreign exchange (loss)/gain | | (719) | 170 |
| Loss before income tax expense | | (3,024) | (218) |
| Income tax expense | 11 | (430) | (473) |
| Net loss | | (3,454) | (691) |
| Attributable to: | | | |
| Equity holders of the parent | | (3,470) | (696) |
| Non-controlling interest | | 16 | 5 |
| 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 | | 330 | (68) |
| Total other comprehensive income/(loss) net of tax effect of 0 | | 330 | (68) |
| Total comprehensive loss, net of tax | | (3,124) | (759) |
| Attributable to: | | | |
| Equity holders of the parent | | (3,140) | (764) |
| Non-controlling interest | | 16 | 5 |
| Loss per share, in RUR: | | | |
| Basic loss per share attributable to ordinary equity holders of the parent | | (16) | (3) |
| Diluted loss per share attributable to ordinary equity holders of the parent | | (16) | (3) |

Interim Condensed Consolidated Statement of Cash Flows

For the three months ended March 31, 2019

(in millions of Russian Roubles)

| Notes | Three months ended March 31, 2019 (unaudited) | Three months ended March 31, 2018 (unaudited) |
|---|---|---|
| Cash flows from operating activities | | |
| Loss before income tax | (3,024) | (218) |
| <i>Adjustments to reconcile loss before income tax to cash flows:</i> | | |
| Depreciation and amortisation | 2,985 | 2,385 |
| Impairment losses on financial assets at amortized cost | 118 | 9 |
| Net loss/(gain) on financial assets and liabilities at fair value through profit or loss | 14 | (678) |
| Loss on re-measurement of previously held interest in equity accounted associate | 5.1 | - |
| Loss on disposal of property and equipment and intangible assets | 4 | - |
| Finance income | (143) | (177) |
| Finance expenses | 203 | 15 |
| Share of loss of equity accounted associates | 293 | - |
| Net foreign exchange loss/(gain) | 719 | (170) |
| Share-based payment expense | 310 | 1,723 |
| Other non-cash items | 3 | 3 |
| Net (gain)/loss on venture capital investments | (9) | 39 |
| <i>Change in operating assets and liabilities:</i> | | |
| Decrease in accounts receivable | 1,447 | 710 |
| (Increase)/decrease in prepaid expenses and advances to suppliers | (249) | 533 |
| Increase in inventories | - | (57) |
| (Increase)/decrease in other assets | (213) | 25 |
| Decrease in accounts payable and accrued expenses | 412 | 30 |
| Decrease/(increase) in other non-current assets | 45 | (85) |
| Decrease in deferred revenue | 1,827 | 1,042 |
| Increase in financial assets at fair value through profit or loss | 14 | (312) |
| Operating cash flows before interest, income taxes and contingent consideration settlement | 4,601 | 4,817 |
| Settlement of contingent consideration of business combination | 5.2, 9, 14 | (688) |
| Interest received | 117 | 173 |
| Interest paid | (136) | (13) |
| Income tax paid | (1,303) | (944) |
| Net cash provided by operating activities | 2,591 | 4,033 |
| Cash flows from investing activities | | |
| Cash paid for property and equipment | (789) | (1,005) |
| Cash paid for intangible assets | (825) | (394) |
| Dividends received from equity accounted associates | 35 | - |
| Loans issued | (134) | (164) |
| Cash paid for acquisitions of subsidiaries, net of cash acquired | 5 | (5,314) |
| Settlement of initial fair value of the contingent consideration at acquisition date | 5.2, 9, 14 | (1,132) |
| Cash paid for investments in equity accounted associates | 5 | (482) |
| Net cash used in investing activities | (8,641) | (7,054) |
| Cash flows from financing activities | | |
| Payment of lease liabilities | (859) | - |
| Loans received, net of bank commission | 8,458 | - |
| Cash paid for treasury shares | (539) | - |
| Net cash provided by financing activities | 7,060 | - |
| Net increase/(decrease) in cash and cash equivalents | 1,010 | (3,021) |
| Effect of exchange differences on cash balances | (278) | 62 |
| Cash and cash equivalents at the beginning of the period | 11,723 | 15,371 |
| Cash and cash equivalents at the end of the period | 12,455 | 12,412 |

Interim Condensed Consolidated Statement of Changes in Equity

For the three months ended March 31, 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 | - | - | - | - | (696) | - | (696) | 5 | (691) |
| Other comprehensive loss | | | | | | | | | |
| Foreign currency translation | - | - | - | - | - | (68) | (68) | - | (68) |
| Total other comprehensive loss | - | - | - | - | - | (68) | (68) | - | (68) |
| Total comprehensive loss | - | - | - | - | (696) | (68) | (764) | 5 | (759) |
| Share-based payment transactions | | | | | | | | | |
| Exercise of RSUs and options over the shares of the Company | 1,440,844 | - | (139) | 139 | - | - | - | - | - |
| Business combination | - | - | - | - | - | - | - | 27 | 27 |
| Balance at March 31, 2018 (unaudited) | 213,865,638 | - | 53,170 | (305) | 113,980 | 60 | 166,905 | 116 | 167,021 |

Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the three months ended March 31, 2019

(in millions of Russian Roubles)

| | Share capital | | | | Retained earnings Restated (Note 2.1) | Accumulated other comprehensive income/(loss) (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 | Treasury shares | | | | | |
| Balance at January 1, 2019 | 215,969,922 | - | 58,482 | (286) | 106,685 | (165) | 164,716 | 259 | 164,975 |
| Impact of IFRS 16 adoption (Note 2.1) | - | - | - | - | (20) | - | (20) | - | (20) |
| Adjusted balance at January 1, 2019 | 215,969,922 | - | 58,482 | (286) | 106,665 | (165) | 164,696 | 259 | 164,955 |
| Loss for the period | - | - | - | - | (3,470) | - | (3,470) | 16 | (3,454) |
| Other comprehensive income | | | | | | | | | |
| Foreign currency translation | - | - | - | - | - | 330 | 330 | - | 330 |
| Total other comprehensive income | - | - | - | - | - | 330 | 330 | - | 330 |
| Total comprehensive loss | - | - | - | - | (3,470) | 330 | (3,140) | 16 | (3,124) |
| Share-based payment transactions | - | - | 286 | - | - | - | 286 | - | 286 |
| Exercise of RSUs and options over the shares of the Company | 888,381 | - | (20) | 20 | - | - | - | - | - |
| Acquisitions of treasury shares | (332,998) | - | - | (539) | - | - | (539) | - | (539) |
| Disposal of subsidiary | - | - | 9 | - | - | - | 9 | - | 9 |
| Balance at March 31, 2019 (unaudited) | 216,525,305 | - | 58,757 | (805) | 103,195 | 165 | 161,312 | 275 | 161,587 |

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2019

(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 three months ended March 31, 2019 were authorised for issue by the directors of the Company on April 24, 2019.

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 28 Oktovriou, 365, VASHIOTIS SEAFRONT, office 402, Neapoli, 3107 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 three months ended March 31, 2019 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, 2018 prepared in accordance with IFRS.

2.1 Application of new and amended IFRS and IFRIC

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of new standards effective as at January 1, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applied, for the first time, IFRS 16. As required by IAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted the new standard using a modified retrospective approach and utilizing certain practical expedients provided. In IFRS consolidated financial statements assets and liabilities under IFRS 16 were recognized as at January 1, 2019. The Group elected to use the recognition exemptions for lease contracts for which the underlying asset is of low value (“low-value assets”).

The effect of adoption IFRS 16 as at January 1, 2019 (increase/(decrease)) is as follows:

| Assets | |
|---|--------------|
| Right-of-use assets | 6,295 |
| Other non-current assets | (323) |
| Prepaid expenses and advances to suppliers | (525) |
| Deferred income tax assets | (7) |
| Total assets | 5,440 |
| Liabilities | |
| Other payables, provisions and accrued expenses | 2,902 |
| Non-current lease liabilities | 2,558 |
| Total liabilities | 5,460 |
| Total adjustment on equity | – |
| Retained earnings | (20) |

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)

a) Nature of the effect of adoption of IFRS 16

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for leases of low-value assets. The right-of-use assets were recognised based on the amount of the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Based on the foregoing, as at January 1, 2019:

- Right-of-use assets of **RUR 6,295** were recognised and presented separately in the statement of financial position;
- Lease liabilities are presented within Other non-current liabilities and Other payables, provisions and accrued expenses;
- Prepayments of **RUR 801** related to previous operating leases were derecognized and added to the carrying amounts of the relevant right-of-use assets;
- Accrued provision for straight-line adjustment under IAS 17 in Other payables, provisions and accrued expenses and respective deferred tax assets had been adjusted to retained earnings.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as at December 31, 2018 as follows:

| | |
|---|--------------|
| Operating lease commitments as at December 31, 2018 | 2,249 |
| Weighted average incremental borrowing rate as at January 1, 2019 | 9.6% |
| Discounted operating lease commitments as at January 1, 2019 | 2,100 |
| Add | |
| Payments in optional extension periods not recognised as at December 31, 2018 | 3,394 |
| Lease liabilities as at January 1, 2019 | 5,494 |

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

• Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are amortised on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

• Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

• Leases of low-value assets

The Group applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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)

- Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

c) Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

| | Right-of-use assets | | | Lease liability | |
|-----------------------|---------------------|-----------------------|-------|-----------------|-------|
| | Premises | Racks in data centers | Other | | |
| As at January 1, 2019 | 5,704 | 566 | 25 | 6,295 | 5,494 |
| Additions | 560 | 624 | 32 | 1,216 | 1,215 |
| Amortisation expense | (608) | (296) | (12) | (916) | – |
| Interest expense | – | – | – | – | 124 |
| Payments | – | – | – | – | (982) |
| As at March 31, 2019 | 5,656 | 894 | 45 | 6,595 | 5,851 |

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements of the Group.

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 and assets classified as held for sale 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 three months ended March 31, 2019 and the respective comparative segment financial information has been retrospectively adjusted, as applicable, to include the financial information of UMA (Note 5.1) and to exclude Pandao (Note 15).

Additionally, in order to achieve comparability, IFRS 16 adoption effect (Note 2.1) is included in segment reporting starting from January 1, 2018.

In 2019 the Group has changed the composition of the reporting segments in order to better reflect Group's strategy, the way the business is managed and units' interconnection within its eco-system. From the first quarter of 2019 the Group has identified the following reportable segments on this basis:

- Communications and Social;
- Games; and
- New initiatives.

The Communications and Social segment includes email, instant messaging and portal (main page and media projects). It earns substantially all revenues from display and context advertising. This segment also aggregates the Group's social network Vkontakte (VK) and two other social networks (OK and My World) 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. It also includes Search and music services (UMA). These businesses have similar nature and economic characteristics as they are represented by social networks and online communications, common type of customers for their products and services and are regulated under similar regulatory environment.

The Games segment includes online gaming services, including MMO, social and mobile games operated by the Group. 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 and (iii) in-game advertising.

The New initiatives reportable segment represents separate operating segments aggregated in one reportable segment for its similar nature of newly acquired and dynamically developing businesses. This segment primarily consists of food delivery services (Delivery Club, ZakaZaka) earning substantially all revenue from restaurant's commission, our ESforce eSports business earning substantially all revenues from sponsorship and other advertising, Youla classifieds earning substantially all revenues from advertising and listing fees, Maps.me, Geek Brains, B2B new projects including cloud as well as MRG Tech Lab initiatives along with 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 Group has changed presentation of its reporting segments retrospectively to provide corresponding basis for comparison.

The income statement items for each segment for the three months ended March 31, 2019, as presented to the CODM, are presented below:

| | Communications and Social | Games | New initiatives | Eliminations | Group |
|--------------------------|---------------------------|--------------|-----------------|--------------|---------------|
| Revenue | | | | | |
| External revenue | 11,406 | 6,761 | 1,949 | – | 20,116 |
| Intersegment revenue | – | 13 | – | (13) | – |
| Total revenue | 11,406 | 6,774 | 1,949 | (13) | 20,116 |
| Total operating expenses | 4,924 | 7,007 | 4,048 | (13) | 15,966 |
| EBITDA | 6,482 | (233) | (2,099) | – | 4,150 |
| Net profit | | | | | 1,632 |

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 March 31, 2018, as presented to the CODM, are presented below (all numbers include the effect of IFRS 16 adoption – please see Note 2.1 for details):

| | Communications and Social | Games | New initiatives | Eliminations | Group |
|--------------------------|---------------------------|--------------|-----------------|--------------|---------------|
| Revenue | | | | | |
| External revenue | 10,242 | 5,351 | 906 | – | 16,499 |
| Intersegment revenue | 55 | – | 2 | (57) | – |
| Total revenue | 10,297 | 5,351 | 908 | (57) | 16,499 |
| Total operating expenses | 4,209 | 4,272 | 2,473 | (57) | 10,897 |
| EBITDA | 6,088 | 1,079 | (1,565) | – | 5,602 |
| Net profit | | | | | 3,058 |

A reconciliation of group aggregate segment revenue, as presented to the CODM, to IFRS consolidated revenue of the Group for the three months ended March 31, 2019 and 2018 is presented below:

| | 2019 | 2018 |
|--|---------------|---------------|
| Group aggregate segment revenue, as presented to the CODM | 20,116 | 16,499 |
| <i>Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:</i> | | |
| Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale | (330) | (227) |
| Differences in timing of revenue recognition | (2,275) | (1,183) |
| Barter revenue | 7 | 5 |
| Consolidated revenue under IFRS | 17,518 | 15,094 |

A reconciliation of group aggregate segment EBITDA, as presented to the CODM, to IFRS consolidated loss before income tax expense of the Group for the three months ended March 31, 2019 and 2018 is presented below:

| | 2019 | 2018 |
|---|----------------|--------------|
| Group aggregate segment EBITDA, as presented to the CODM | 4,150 | 5,602 |
| <i>Adjustments to reconcile EBITDA as presented to the CODM to consolidated loss before income tax expenses under IFRS:</i> | | |
| Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale | (818) | (752) |
| IFRS 16 implementation | – | (840) |
| Differences in timing of revenue recognition | (1,716) | (1,083) |
| Net gain/(loss) on venture capital investments | 9 | (39) |
| Share-based payment transactions | (310) | (1,723) |
| Other | – | 25 |
| EBITDA | 1,315 | 1,190 |
| Depreciation and amortisation | (2,985) | (2,385) |
| Share of loss of equity accounted associates | (293) | – |
| Finance income | 143 | 177 |
| Finance expenses | (203) | (15) |
| Other non-operating loss | (57) | (33) |
| Net (loss)/gain on derivative financial assets and liabilities at fair value through profit or loss | (110) | 678 |
| Loss on re-measurement of previously held interest in equity accounted associate | (115) | – |
| Net foreign exchange (loss)/gain | (719) | 170 |
| Consolidated loss before income tax expense under IFRS | (3,024) | (218) |

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4 Operating segments (continued)

A reconciliation of group aggregate segment net profit, as presented to the CODM, to IFRS consolidated net loss of the Group for three months ended March 31, 2019 and 2018 is presented below:

| | 2019 | 2018 |
|--|----------------|--------------|
| Group aggregate segment net profit, as presented to the CODM | 1,632 | 3,058 |
| Adjustments to reconcile net profit as presented to the CODM to consolidated net profit/(loss) under IFRS: | | |
| Share-based payment transactions | (310) | (1,723) |
| Differences in timing of revenue recognition | (1,716) | (1,083) |
| IFRS 16 implementation | - | 125 |
| Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale | (792) | (739) |
| Amortisation of fair value adjustments to intangible assets | (779) | (1,330) |
| Net (loss)/gain on financial instruments at fair value through profit or loss | (101) | 639 |
| Loss on re-measurement of previously held interest in equity accounted associate | (115) | - |
| Net foreign exchange (loss)/gain | (719) | 170 |
| Share of loss of equity accounted associates | (293) | - |
| Other | (13) | 3 |
| Tax effect of the adjustments and tax on unremitted earnings | (248) | 189 |
| Consolidated net loss under IFRS | (3,454) | (691) |

5 Business combinations

5.1 UMA

In February 2019, the Group completed the acquisition of 100% of Salerton Investments Limited ("UMA"), an Internet and mobile music service provider in Russia, for a total cash consideration of RUR 6,391. As of March 31, 2019 as a result of the control acquisition the Group derecognized equity accounted investment in UMA. The main purpose of the acquisition is to expand the Group's presence in the market of music services.

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

| | Provisional fair value |
|--|------------------------|
| Intangible assets | 556 |
| Property and equipment | 2 |
| Deferred income tax assets | 101 |
| Trade accounts receivable | 327 |
| Prepaid expenses and advances to suppliers | 19 |
| Other current assets | 29 |
| Cash and cash equivalents | 1,077 |
| Total assets | 2,111 |
| Trade accounts payable | 539 |
| Deferred income tax liabilities | 31 |
| Income tax payable | 13 |
| Other taxes payable | 94 |
| Other payables, provisions and accrued expenses | 55 |
| Total liabilities | 732 |
| Total net assets | 1,379 |
| Goodwill on the transaction was calculated as the excess of: | |
| (a) The consideration transferred by the Group measured at fair values: | |
| [1] Cash paid | 6,391 |
| [2] The acquisition date fair value of the Group's previously held equity interest | 1,601 |
| Consideration transferred by the Group | 7,992 |
| Over | |
| (b) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3 | 1,379 |
| Goodwill | 6,613 |

Goodwill is mainly attributable to development of music services, cost saving and potential synergy with the Group's business. Goodwill is not expected to be deductible for income tax purposes.

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

Notes to the Interim Condensed Consolidated Financial Statements (continued)

5 Business combination (continued)

5.1 UMA (continued)

The cash flows on acquisition were as follows:

| | |
|--|--------------|
| Cash paid (included in cash flows from investing activities) | 6,391 |
| Cash acquired (included in cash flows from investing activities) | (1,077) |
| Net cash flow on acquisition | 5,314 |

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. Contingent liability was denominated in USD and remeasured in December 2018 to RUR 1,948 (Note 9) and paid in March 2019. The primary purpose of the acquisition of ESforce was to enhance the Group's position on the eSports market.

In January 2019 the Group finalised purchase price allocation for ESforce acquisition. The fair values of the identifiable assets and liabilities of ESforce at the date of acquisition were as follows:

| | Fair value |
|--|--------------|
| Property and equipment | 648 |
| Other intangible assets | 674 |
| Deferred income tax assets | 227 |
| Trade accounts receivable | 191 |
| Prepaid income tax | 12 |
| Prepaid expenses and advances to suppliers | 23 |
| Other current assets | 167 |
| Other non-current assets | 9 |
| Cash and cash equivalents | 207 |
| Total assets | 2,158 |
| Deferred income tax liabilities | 144 |
| Trade accounts payable | 235 |
| VAT and other taxes payable | 12 |
| Deferred revenue and customer advances | 68 |
| Provisions for tax contingencies | 128 |
| Other payables and accrued expenses | 130 |
| Total liabilities | 717 |
| Total net assets | 1,441 |
| Goodwill on the transaction was calculated as the excess of: | |
| (a) The consideration transferred by the Group measured at fair values: | |
| [1] Cash consideration | 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 over | 22 |
| (c) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3 | 1,441 |
| Goodwill | 5,372 |

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) | (207) |
| Net cash flow on acquisition | 5,523 |

Notes to the Interim Condensed Consolidated Financial Statements (continued)

5 Business combination (continued)

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 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 2.5 bln and contingent consideration, measured at fair value, of RUR 93 (based on ongoing financial KPIs in a period of 1 year. Contingent liability was remeasured in March 2019 to RUR 9 (Note 9).

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.

In April 2019 the Group finalised purchase price allocation for BitGames, 33 Slona and InShopper acquisitions, which resulted in no change from provisional values. The fair values of the identifiable assets and liabilities of BitGames, 33 Slona and InShopper at the date of acquisition were as follows:

| | Fair value |
|--|--------------|
| Other intangible assets | 1,140 |
| Loans receivable | 5 |
| Deferred income tax assets | 59 |
| Prepaid expenses and advances to suppliers | 14 |
| Trade accounts receivable | 36 |
| Other current assets | 36 |
| Cash and cash equivalents | 26 |
| Total assets | 1,316 |
| Deferred income tax liabilities | 143 |
| Trade accounts payable | 83 |
| Deferred revenue and customer advances | 473 |
| Loans payable | 33 |
| VAT and other taxes payable | 5 |
| Other payables and accrued expenses | 7 |
| Total liabilities | 744 |
| Total net assets | 572 |
| Goodwill on the transaction was calculated as the excess of: | |
| (a) The consideration transferred by the Group measured at fair values: | |
| [1] Cash paid | 2,515 |
| [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 consideration liability | 93 |
| Consideration transferred by the Group | 2,733 |
| (b) The amount of non-controlling interest measured in accordance with IFRS 3 | 247 |
| Over | |
| (c) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3 | 572 |
| Goodwill | 2,408 |

Goodwill is not expected to be deductible for income tax purposes. 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 related to BitGames and 33 Slona acquisition is allocated to Games and Youla CGUs correspondingly. Goodwill related to InShopper acquisitions is allocated to Vkontakte, Social Networks and Email and Portal CGUs.

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

Notes to the Interim Condensed Consolidated Financial Statements (continued)

5 Business combination (continued)

5.3 BitGames, 33 Slona and InShopper (continued)

The cash flows on acquisition were as follows:

| | |
|--|--------------|
| Cash paid (included in cash flows from investing activities) | 2,534 |
| Cash acquired (included in cash flows from investing activities) | (26) |
| Net cash flow on acquisition | 2,508 |

5.4 Citymobil

In April 2018 as a result of a number of transactions the Group acquired a 25.38% stake in taxi aggregator City-Mobil LLC ("Citymobil") for a total cash consideration of RUR 530 mln, including RUR 120 conversion of loan. In 2019 the Group participated in a new funding round and contributed additionally RUR 469. As a result of series of transactions Group's share in Citymobil diluted to 22.54%. In Q1 2019 the Group's share in Citymobil financial results was RUR 279 loss.

The Group concluded that it has significant influence over Citymobil as the Group has the power to participate in the financial and operating policy decisions through its representation on Citymobil's Board of Directors. The Group's ownership interest in Citymobil represents an investment in an associate and is accounted for under the equity method. The acquisition of investment in Citymobil is accounted for based on provisional values, as the Group has not completed the allocation of purchase price over the fair values of Citymobil's identifiable assets and liabilities as of the date of these financial statements.

6 Other intangible assets

During the three months ended March 31, 2019, the Group capitalised software development costs and otherwise acquired intangible assets with a cost of RUR 901 (2018: RUR 200).

7 Property and equipment

During the three months ended March 31, 2019, the Group acquired property and equipment with a cost of RUR 875 (2018: RUR 1,090).

8 Other non-current assets

Other non-current assets consist of the following:

| | March 31, 2019 | December 31, 2018 |
|---------------------------------------|----------------|-------------------|
| Long-term loans given | 149 | 66 |
| Advances for royalties (Note 15) | - | 1,176 |
| Other non-current assets | 103 | 442 |
| Total other non-current assets | 252 | 1,684 |

9 Other payables and accrued expenses

Other payables and accrued expenses consist of the following:

| | March 31, 2019 | December 31, 2018 |
|--|----------------|-------------------|
| Payables to personnel | 1,598 | 2,140 |
| Accrued vacations | 1,236 | 1,046 |
| Accrued professional consulting expenses | 38 | 41 |
| Current lease liability | 3,405 | 49 |
| Contingent consideration liability (Note 5.2) | 9 | 1,997 |
| Other current payables and provisions | 334 | 337 |
| Total other payables and accrued expenses | 6,620 | 5,610 |

Notes to the Interim Condensed Consolidated Financial Statements (continued)

10 Revenue

Contract balances comprise trade receivables presented as a separate line item in the statement of financial position and contract liabilities. Contract liabilities comprise deferred revenue and customer advances presented as separate line items in the statement of financial position.

As required for condensed interim financial statements for disaggregation of revenue from contracts with customers for the three months ended March 31, 2019, based on the Group's segment reporting (Note 4) is presented below:

| | Communications and Social | Games | New initiatives | Eliminations | Group |
|---|---------------------------|--------------|-----------------|--------------|---------------|
| Revenue | | | | | |
| External revenue | 11,406 | 6,761 | 1,949 | – | 20,116 |
| Intersegment revenue | – | 13 | – | (13) | – |
| Total revenue | 11,406 | 6,774 | 1,949 | (13) | 20,116 |
| Services transferred at a point in time | 8,955 | 647 | 1,808 | (13) | 11,397 |
| Services transferred over time | 2,451 | 6,127 | 141 | – | 8,719 |

Disaggregation of revenue from contracts with customers for the three months ended March 31, 2018 for, based on the Group's segment reporting (Note 4) is presented below:

| | Communications and Social | Games | New initiatives | Eliminations | Group |
|---|---------------------------|--------------|-----------------|--------------|---------------|
| Revenue | | | | | |
| External revenue | 10,242 | 5,351 | 906 | – | 16,499 |
| Intersegment revenue | 55 | – | 2 | (57) | – |
| Total revenue | 10,297 | 5,351 | 908 | (57) | 16,499 |
| Services transferred at a point in time | 7,962 | 195 | 822 | (57) | 8,922 |
| Services transferred over time | 2,335 | 5,156 | 86 | – | 7,577 |

11 Income tax

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

| | Three months ended March 31, | |
|---------------------------------|------------------------------|------------|
| | 2019 | 2018 |
| Current income tax expense | 624 | 602 |
| Deferred income tax benefit | (194) | (129) |
| Total income tax expense | 430 | 473 |

The reconciliation between income tax expense and the product of accounting profit multiplied by domestic rates applicable to individual Group entities for the three months ended March 31, 2019 and 2018 is as follows:

| | Three months ended March 31, | |
|---|------------------------------|--------------|
| | 2019 | 2018 |
| Loss before income tax expense | (3,024) | (218) |
| Tax at domestic rates applicable to individual group entities | 283 | (179) |
| Non-deductible expenses | (177) | (237) |
| Non-taxable foreign exchange and other gains | 57 | 44 |
| Effect of changes in tax rates | (393) | – |
| Adjustments in respect of current income tax of previous year | (59) | (46) |
| Tax accruals and penalties | (49) | – |
| Unrecognised deferred tax assets | (83) | (33) |
| Other | (9) | (22) |
| Total income tax expense | (430) | (473) |

12 Commitments, contingencies and operating risks

12.1 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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

12 Commitments, contingencies and operating risks (continued)

12.2 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.

12.3 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.

12.4 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.

12.5 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.

12.6 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.

12.7 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.

12.8 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 January 1, 2019 the Russian law on aggregators of goods and services came into force. Such law introduced obligations of aggregators to disclose certain information on the goods and services and on the seller of goods and the provider of services. The law determined liability of aggregators for causing damages to a buyer of goods or services by providing false information to the buyer. On March 18, 2019 new law came into force banning publishing "fake news" and information showing "disrespect" to government bodies in mass media and internet. On March 22, 2019 the Russian Parliament has adopted a draft law aimed at increasing Russian "sovereignty" over Russian internet. The draft law seeks to create national system of routing web traffic and proposes building a national domain name system to allow the internet to continue functioning even if Russia is cut off from foreign infrastructure.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

12 Commitments, contingencies and operating risks (continued)

12.8 Regulation (continued)

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.

12.9 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.

12.10 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.

13 Balances and transactions with related parties

The following table provides the total amount of transactions which were entered into with related parties during the three months ended March 31, 2019 and March 31, 2018 as well as balances with related parties as of March 31, 2019 and December 31, 2018, excluding directors and key management of the Group (see below).

| | Three months ended 31, | | Amounts owed by related parties | Amounts owed to related parties |
|-----------------------------|--------------------------|--------------------------------|---------------------------------|---------------------------------|
| | Sales to related parties | Purchases from related parties | | |
| 2019 | | | | |
| Equity accounted associates | 462 | 265 | 681 | 5 |
| Other entities | 220 | 19 | 332 | 29 |
| 2018 | | | | |
| Equity accounted associates | 28 | 4 | 305 | 136 |
| Other entities | 77 | 5 | 833 | 7 |

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.

13.1 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 27 for the three months ended March 31, 2019 (2018: RUR 28). No options over the shares of the Company were granted to Directors for the three months ended March 31, 2019 (2018: nil). During the three months ended March 31, 2019, Directors did not forfeit any RSUs or options (2018: nil), and exercised 2,500 RSUs over shares of the Company (2018: 2,500). The corresponding share-based payment expense was a negative RUR 2 for the three months ended March 31, 2019 (2018: RUR 60).

13.2 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 141 for the three months ended March 31, 2019 (2018: RUR 129). In the three months ended March 31, 2019, no RSUs or options were granted to key executive employees of the Group (excluding Directors) (2018: nil RSUs). During the three months ended March 31, 2019, key management of the Group (excluding Directors) did not forfeit any RSUs or options (2018: nil) and exercised 602,500 RSUs and options (2018: 1,046,250). The corresponding share-based payment expense amounted to RUR 1 for three months ended March 31, 2019 (2018: RUR 1,555).

13.3 The ultimate controlling party

Starting October 18, 2018, the Group does not have an ultimate controlling party.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

14 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of March 31, 2019 and December 31, 2018 and are presented by category of financial instruments in the table below:

| | Category* | March 31, 2019 | December 31, 2018 |
|---|-----------|----------------|-------------------|
| Financial assets through profit and loss | | | |
| <i>Non-current</i> | | | |
| Financial investments in venture capital investees | FAFVPL | 363 | 256 |
| Derivative financial assets over the equity of investee | FAFVPL | 101 | 92 |
| Convertible loans | FAFVPL | 1,192 | 1,167 |
| Financial derivative under lease contract | FAFVPL | 402 | 500 |
| <i>Current</i> | | | |
| Derivative financial assets over the equity of investee | FAFVPL | 3 | 2 |
| Convertible loans | FAFVPL | 1,166 | 1,070 |
| Financial assets at amortised cost | | | |
| Trade accounts receivable | FAAC | 8,402 | 9,916 |
| Loans and interest receivable | FAAC | 196 | 114 |
| Cash and cash equivalents | FAAC | 12,455 | 11,723 |
| Total financial assets | | 24,280 | 24,840 |
| Financial liabilities through profit and loss | | | |
| <i>Current</i> | | | |
| Contingent consideration liability (Note 5.2, Note 9) | FLFVPL | 9 | 1,997 |
| Financial liabilities at amortised cost | | | |
| <i>Current</i> | | | |
| Trade accounts payable, other payables and accrued expenses | FLAC | 15,800 | 11,876 |
| Short-term portion of long-term interest-bearing loans | FLAC | 2,125 | – |
| <i>Non-current</i> | | | |
| Long-term interest-bearing loans | FLAC | 6,375 | – |
| Other payables | FLAC | 2,446 | – |
| Total financial liabilities | | 26,755 | 13,873 |

* 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.

14.1 Fair value hierarchy

- The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Interim Condensed Consolidated Financial Statements (continued)

14 Financial instruments (continued)

14.1 Fair value hierarchy (continued)

As at March 31, 2019 and December 31, 2018 the Group held the following financial instruments measured at fair value:

| | March 31, 2019 | 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 venture capital investees</i> | 363 | – | – | 363 |
| <i>Convertible loans</i> | 2,358 | – | – | 2,358 |
| <i>Financial derivative under lease contracts</i> | 402 | – | – | 402 |
| <i>Derivative financial assets over the equity of investee</i> | 104 | – | – | 104 |
| Total financial assets at fair value through profit or loss | 3,227 | – | – | 3,227 |
| Total financial assets measured at fair value | 3,227 | – | – | 3,227 |
| Financial liabilities measured at fair value | | | | |
| Contingent consideration liability (Note 9) | 9 | – | – | 9 |
| Total financial assets at fair value through profit or loss | 9 | – | – | 9 |

| | December 31, 2018 | 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 venture capital investees</i> | 256 | – | – | 256 |
| <i>Convertible loans</i> | 2,237 | – | – | 2,237 |
| <i>Financial derivative under lease contracts</i> | 500 | – | – | 500 |
| <i>Derivative financial assets over the equity of investee</i> | 94 | – | – | 94 |
| Total financial assets at fair value through profit or loss | 3,087 | – | – | 3,087 |
| Total financial assets measured at fair value | 3,087 | – | – | 3,087 |
| Financial liabilities measured at fair value | | | | |
| Contingent consideration liability | 1,997 | – | – | 1,997 |
| Total financial assets at fair value through profit or loss | 1,997 | – | – | 1,997 |

The balance of Level 3 measurements as of January 1, 2019 is reconciled to the balance of those measurements as of March 31, 2019 as follows:

| | Balance as of January 1, 2019 | Gains/(losses) recognized in profit and loss | Foreign exchange gains | Purchases/ settlement | Acquisition of control in investee | Balance as of March 31, 2019 |
|---|----------------------------------|--|---------------------------|--------------------------|---------------------------------------|---------------------------------|
| Financial assets measured at fair value | | | | | | |
| Financial assets at fair value through profit or loss: | | | | | | |
| <i>Financial investments in venture capital investees</i> | 256 | 9 | – | 148 | (50) | 363 |
| <i>Derivative financial assets over the equity of investee</i> | 94 | 10 | – | – | – | 104 |
| <i>Convertible loans</i> | 2,237 | (58) | – | 204 | (25) | 2,358 |
| <i>Financial derivative under lease contracts</i> | 500 | (98) | – | – | – | 402 |
| Total financial assets at fair value through profit or loss | 3,087 | (137) | – | 352 | (75) | 3,227 |
| Financial liability measured at fair value | | | | | | |
| Financial liabilities at fair value through profit or loss – contingent consideration liability | (1,997) | 36 | 132 | 1,820 | – | (9) |
| Total financial liabilities measured at fair value | (1,997) | 36 | 132 | 1,820 | – | (9) |

Notes to the Interim Condensed Consolidated Financial Statements (continued)

14 Financial instruments (continued)

14.1 Fair value hierarchy (continued)

The balance of Level 3 measurements as of January 1, 2018 is reconciled to the balance of those measurements as of March 31, 2018 as follows:

| | Balance as of January 1, 2018 | Gains/(losses) recognized in profit and loss | Purchases | Balance as of March 31, 2018 |
|--|----------------------------------|---|------------|---------------------------------|
| Financial assets measured at fair value | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| <i>Financial investments in venture capital investees</i> | 264 | (39) | 25 | 250 |
| <i>Derivative financial assets over the equity of investee</i> | 122 | 240 | – | 362 |
| <i>Convertible loans</i> | – | – | 287 | 287 |
| <i>Financial derivative under lease and hosting contracts</i> | 150 | 438 | – | 588 |
| Total financial assets at fair value through profit or loss | 536 | 639 | 312 | 1,487 |

14.2 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.

14.3 Interest-bearing loan

In March 2019 for funding increasing M&A activity the Group raised a loan with a 9.0% fixed rate in the total amount of RUR 8,458 (net of a loan origination fee of RUR 42) with a maturity date of March 13, 2023. The loan agreement contains restrictive financial and non-financial covenants that the Group as the borrower is obliged to fulfill. Restrictive covenants include maintaining certain financial ratios.

15 Assets and liabilities held for sale

On September 11, 2018, the Group announced a new strategic partnership with Alibaba Group, PJSC “MegaFon”, The Russian Direct Investment Fund (RDIF) to integrate Russia’s key consumer internet and e-commerce platforms and launch a leading social commerce joint venture in Russia and the CIS. Under the partnership, the parties will form a new joint venture by leveraging on the existing businesses of AliExpress Russia.

Mail.Ru Group will contribute its Pandao e-commerce business, cash and distribution product integrations in exchange for a 15% stake in a newly established joint venture. The transaction is expected to be completed within 12 months from the reporting date. At March 31, 2019, the Group classified Pandao as assets held for sale.

16 Events after the reporting period

As of March 31, 2019 certain assets (comprised of advances for royalties and deferred taxes) and liabilities (comprised of deferred revenues) in amount of RUR 1,356 and RUR 1,189 were classified as held for sale in the consolidated statement of financial position as Board of Directors approved a sale transaction in Q1 2019. Subsequently, on April 1, 2019 the Group completed the sale.