Mail.Ru Group Limited

Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

Contents

Совершенствуя бизнес, улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

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, 2017, 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 the Group 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

August 9, 2017

Details of the audited 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, 2017
(in millions of Russian Roubles)

	Notes	As at June 30, 2017 (unaudited)	As at December 31, 2016 (audited)
ASSETS			
Non-current assets			
Investments in equity accounted associates		420	649
Goodwill		133,239	132,309
Other intangible assets	6	27,848	29,894
Property and equipment	7	4,085	3,840
Financial assets at fair value through profit or loss	15	310	403
Deferred income tax assets		2,818	2,600
Other non-current assets	8	1,664	2,265
Total non-current assets		170,384	171,960
Current assets			
Trade accounts receivable	15	4,109	5,089
Prepaid income tax		532	49
Prepaid expenses and advances to suppliers		1,984	2,111
Financial assets at fair value through profit or loss	15	298	105
Other current assets	9	268	201
Cash and cash equivalents	15	8,597	5,513
Total current assets		15,788	13,068
Total assets		186,172	185,028
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		–	–
Share premium		52,479	51,758
Treasury shares		(1,856)	(1,290)
Retained earnings		114,089	112,415
Accumulated other comprehensive income		247	470
Total equity attributable to equity holders of the parent		164,959	163,353
Non-controlling interests		69	64
Total equity		165,028	163,417
Non-current liabilities			
Deferred income tax liabilities		2,914	3,265
Deferred revenue		3,860	2,710
Other non-current liabilities	15	345	748
Total non-current liabilities		7,119	6,723
Current liabilities			
Trade accounts payable	15	3,682	3,355
Income tax payable		240	389
Financial liabilities at fair value through profit or loss	15	–	195
VAT and other taxes payable		1,582	2,231
Deferred revenue and customer advances		6,203	4,893
Short-term interest-bearing loans	15	–	122
Other payables and accrued expenses	10	2,318	3,703
Total current liabilities		14,025	14,888
Total liabilities		21,144	21,611
Total equity and liabilities		186,172	185,028

Interim Condensed Consolidated Statement of Comprehensive Income

For the three and six months ended June 30, 2017
(in millions of Russian Roubles)

	Notes	Three months ended June 30, 2017 (unaudited)	Three months ended June 30, 2016 (unaudited)	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Online advertising		5,402	4,197	10,279	8,144
MMO games		2,772	2,065	5,980	4,155
Community IVAS		3,030	2,643	6,277	5,976
Other revenue	11.1	531	77	959	639
Total revenue		11,735	8,982	23,495	18,914
Other operating gain	11.2	565	–	565	–
Net loss on venture capital investments	15	–	(105)	(27)	(216)
Personnel expenses		(2,690)	(2,387)	(5,910)	(5,232)
Office rent and maintenance		(536)	(493)	(1,048)	(1,005)
Agent/partner fees		(2,456)	(1,330)	(4,796)	(2,741)
Marketing expenses		(2,100)	(324)	(3,934)	(926)
Server hosting expenses		(448)	(472)	(877)	(989)
Professional services		(87)	(116)	(163)	(221)
Other operating expenses	11.3	(734)	(148)	(1,012)	(398)
Total operating expenses		(9,051)	(5,270)	(17,740)	(11,512)
EBITDA		3,249	3,607	6,293	7,186
Depreciation and amortisation		(2,246)	(1,872)	(4,360)	(3,768)
Share of profit of equity accounted associates		8	7	16	42
Finance income		115	371	234	563
Finance expenses		(3)	(291)	(15)	(718)
Other non-operating (loss)/income		(53)	–	(42)	38
Net (loss)/gain on derivative financial assets and liabilities at fair value through profit or loss	15	(104)	(189)	82	179
Impairment losses related to equity accounted associates		(245)	–	(245)	–
Net (loss)/gain on disposal of shares in subsidiaries	5.1	–	–	(15)	8,712
Net foreign exchange gain/(loss)		850	(469)	576	(617)
Profit before income tax expense		1,571	1,164	2,524	11,617
Income tax expense	12	(696)	(47)	(845)	(236)
Net profit		875	1,117	1,679	11,381
Attributable to:					
Equity holders of the parent		871	1,114	1,674	11,372
Non-controlling interest		4	3	5	9
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		(384)	133	(236)	83
Available-for-sale financial assets:					
Loss arising during the period (net of tax effect of zero)		–	(98)	–	(332)
Total other comprehensive (loss)/income net of tax effect of 0		(384)	35	(236)	(249)
Total comprehensive income, net of tax		491	1,152	1,443	11,132
Attributable to:					
Equity holders of the parent		487	1,151	1,438	11,127
Non-controlling interest		4	1	5	5
Earnings per share, in RUR:					
Basic earnings per share attributable to ordinary equity holders of the parent		4.13	5.34	7.97	54.6
Diluted earnings per share attributable to ordinary equity holders of the parent		4.07	4.68	7.83	52.9

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2017
(in millions of Russian Roubles)

	Notes	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Cash flows from operating activities			
Profit before income tax		2,524	11,617
Adjustments to reconcile profit before income tax to net cash flows:			
Depreciation and amortisation		4,360	3,768
Bad debt (reversal)/expense		(23)	21
Net gain on financial assets and liabilities at fair value through profit or loss	15	(82)	(179)
Net loss/(gain) on disposal of shares in subsidiaries	5.1	15	(8,712)
Gain on disposal of property and equipment and intangible assets		–	(4)
Finance income		(234)	(563)
Finance expenses		15	718
Dividend revenue from venture capital investments	11.1	(9)	(11)
Share of profit of equity accounted associates		(16)	(42)
Impairment losses related to equity accounted associates		245	–
Net foreign exchange (gain)/loss		(576)	617
Share-based payment expense		1,236	1,015
Other non-cash items		26	(64)
Working Capital adjustments:			
Decrease in accounts receivable		1,040	537
Decrease/(increase) in prepaid expenses and advances to suppliers		232	(383)
Increase in other assets		(40)	(7)
Decrease in accounts payable and accrued expenses		(739)	(676)
Decrease/(increase) in non-current prepaid expenses and advances		480	(1,901)
Increase in deferred revenue and customers advances		2,447	526
(Increase)/decrease in financial assets at fair value through profit or loss	15	(126)	216
Operating cash flows before dividends received, interest and income taxes		10,775	6,493
Dividends received from financial investments		8	43
Interest received		228	523
Interest paid		(15)	(727)
Income tax paid		(1,996)	(884)
Net cash provided by operating activities		9,000	5,448
Cash flows from investing activities:			
Cash paid for property and equipment		(1,148)	(712)
Cash paid for intangible assets		(1,033)	(307)
Dividends received from equity accounted associates		–	23
Collection of loans receivable		–	19
Cash paid for acquisitions of subsidiaries, net of cash acquired	5, 10	(2,734)	–
Proceeds from disposal of subsidiaries, net of cash disposed	5.1	(43)	9,709
Collection of short-term and long-term deposits		–	15
Issuance of loans receivable		(9)	–
Net cash (used in) / provided by investing activities		(4,967)	8,747
Cash flows from financing activities:			
Loans repaid		(122)	(15,299)
Cash paid for treasury shares		(854)	–
Dividends paid by subsidiaries to non-controlling shareholders		–	(2)
Net cash used in financing activities		(976)	(15,301)
Net increase/(decrease) in cash and cash equivalents		3,057	(1,106)
Effect of exchange differences on cash balances		27	2
Cash and cash equivalents at the beginning of the period		5,513	8,676
Cash and cash equivalents at the end of the period		8,597	7,572

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2016
(in millions of Russian Roubles)

	Share capital								
	Number of shares issued and outstanding	Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2016	208,127,372	–	49,328	(1,293)	100,602	(205)	148,432	15	148,447
Profit for the period	–	–	–	–	11,372	–	11,372	9	11,381
Other comprehensive income:									
Foreign currency translation	–	–	–	–	–	87	87	(4)	83
Net change in cumulative holding gains on available-for-sale investments	–	–	–	–	–	(332)	(332)	–	(332)
Total other comprehensive income	–	–	–	–	–	(245)	(245)	(4)	(249)
Total comprehensive income	–	–	–	–	11,372	(245)	11,127	5	11,132
Share-based payment transactions	–	–	1,217	–	–	–	1,217	–	1,217
Exercise of RSUs and options over the shares of the Company	474,732	–	(3)	3	–	–	–	–	–
Effect of disposal of subsidiary	–	–	–	–	–	280	280	(18)	262
Dividends by subsidiaries to non-controlling shareholders	–	–	–	–	–	–	–	(2)	(2)
Balance at June 30, 2016 (unaudited)	208,602,104	–	50,542	(1,290)	111,974	(170)	161,056	–	161,056

Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended June 30, 2017
(in millions of Russian Roubles)

	Share capital: Number of shares issued and outstanding	Share capital: Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2017	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 income:									
Foreign currency translation	–	–	–	–	–	(236)	(236)	–	(236)
Total other comprehensive income	–	–	–	–	–	(236)	(236)	–	(236)
Total comprehensive income	–	–	–	–	1,674	(236)	1,438	5	1,443
Share-based payment transactions	–	–	1,009	–	–	–	1,009	–	1,009
Exercise of RSUs and options over the shares of the Company	2,895,048	–	(288)	288	–	–	–	–	–
Acquisition of treasury shares	(554,753)	–	–	(854)	–	–	(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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2017
(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, 2017 were authorised for issue by the directors of the Company on August 9, 2017.

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

The Company consolidates or participates in businesses that operate in the Internet segment, including portals, social networking and communications, e-payment solutions, 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, 2017 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, 2016 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, 2016, except for the adoption of new standards as of January 1, 2017 listed below applicable to the Group:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its condensed interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ending December 31, 2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

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

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The Group has applied the amendments retrospectively. However, their application has had no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

IFRS 9 and 15 are effective for annual periods beginning on or after January 1, 2018 and IFRS 16 on or after January 1, 2019. The Group is currently assessing the impact of mentioned standards and plans to adopt the new standards on the required effective date.

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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4 Operating segments (continued)

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 months and six months ended June 30, 2017 and the respective comparative segment financial information has been retrospectively adjusted, as applicable, to include the financial information of Pixonic, Delivery Club, ZakaZaka and Am.ru and exclude the financial information of HeadHunter (Note 5.1) all starting from January 1, 2016.

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 and stickers and (iii) online advertising, including display and context advertising.

The Social Networks (excluding VK) segment includes the Group's two other social networks (OK and My World) and earns revenues from (i) user payments for virtual gifts, (ii) commission from application developers based on the respective applications' revenue, and (iii) online advertising, including display and context advertising. 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 and e-commerce services (including O2O). This segment also includes a variety of other services, which are considered insignificant by the CODM for the purposes of performance review and resource allocation.

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

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

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

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4 Operating segments (continued)

The income statement items for each segment for the six months ended June 30, 2017, 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	2,337	8,076	8,180	5,845	1,890	–	26,328
Intersegment revenue	3	31	–	121	193	(348)	–
Total revenue	2,340	8,107	8,180	5,966	2,083	(348)	26,328
Total operating expenses	1,442	2,697	5,974	2,214	4,503	(348)	16,482
EBITDA	898	5,410	2,206	3,752	(2,420)	–	9,846
Net profit							6,812

The income statement items for each segment for the six months ended June 30, 2016, as presented to the CODM, are presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
Revenue							
External revenue	2,137	7,153	5,218	3,800	1,442	–	19,750
Intersegment revenue	2	7	–	13	193	(215)	–
Total revenue	2,139	7,160	5,218	3,813	1,635	(215)	19,750
Total operating expenses	1,543	2,229	4,340	1,697	1,427	(215)	11,021
EBITDA	596	4,931	878	2,116	208	–	8,729
Net profit							5,750

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, 2017 and 2016 is presented below:

	2017	2016
Total revenue, as presented to the CODM	26,328	19,750
Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:		
Effect of difference in dates of acquisition and loss of control in subsidiaries	–	(386)
Differences in timing of revenue recognition	(2,294)	(491)
Barter revenue	17	28
Dividend revenue from venture capital investments	9	13
Difference in classification of revenue (Note 11.2)	(565)	–
Consolidated revenue under IFRS	23,495	18,914

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, 2017 and 2016 is presented below:

	2017	2016
Group aggregate segment EBITDA, as presented to the CODM	9,846	8,729
Adjustments to reconcile EBITDA as presented to the CODM to consolidated profit before income tax expenses under IFRS:		
Effect of difference in dates of acquisition and loss of control in subsidiaries	–	223
Differences in timing of revenue recognition	(2,294)	(491)
Net loss on venture capital investments	(27)	(216)
Share-based payment transactions	(1,236)	(1,015)
Other	4	(44)
EBITDA	6,293	7,186
Depreciation and amortisation	(4,360)	(3,768)
Share of profit of equity accounted associates	16	42
Finance income	234	563
Finance expenses	(15)	(718)
Other non-operating (loss)/income	(42)	38
Net gain on derivative financial assets and liabilities at fair value through profit or loss	82	179
Impairment losses related to equity accounted associates	(245)	–
Net (loss)/gain on disposal of shares in subsidiaries	(15)	8,712
Net foreign exchange gain/(loss)	576	(617)
Consolidated profit before income tax expense under IFRS	2,524	11,617

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 six months ended June 30, 2017 and 2016 is presented below:

	2017	2016
Total net profit, as presented to the CODM	6,812	5,750
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payment transactions	(1,236)	(1,015)
Differences in timing of revenue recognition	(2,294)	(491)
Effect of difference in dates of acquisition and loss of control in subsidiaries	–	207
Amortisation of fair value adjustments to intangible assets and impairment thereof	(2,640)	(2,424)
Net gain/(loss) on financial instruments at fair value through profit or loss	55	(37)
Net (loss)/gain on disposal of shares in subsidiaries	(15)	8,712
Net foreign exchange gain/(loss)	576	(617)
Share of profit of equity accounted associates	16	42
Impairment losses related to equity accounted associates	(245)	–
Other	(9)	(45)
Tax effect of the adjustments, tax on unremitted earnings and non-recurring deferred tax asset reversal	659	1,299
Consolidated net profit under IFRS	1,679	11,381

The income statement items for each segment for the three months ended June 30, 2017, 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	1,229	3,846	4,001	3,041	1,010	–	13,127
Intersegment revenue	1	7	–	33	101	(142)	–
Total revenue	1,230	3,853	4,001	3,074	1,111	(142)	13,127
Total operating expenses	711	1,394	2,991	1,165	2,413	(142)	8,532
EBITDA	519	2,459	1,010	1,909	(1,302)	–	4,595
Net profit							3,038

The income statement items for each segment for the three months ended June 30, 2016, 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	1,130	3,274	2,544	1,928	717	–	9,593
Intersegment revenue	2	2	–	4	99	(107)	–
Total revenue	1,132	3,276	2,544	1,932	816	(107)	9,593
Total operating expenses	742	1,075	2,005	852	710	(107)	5,277
EBITDA	390	2,201	539	1,080	106	–	4,316
Net profit							2,975

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, 2017 and 2016 is presented below:

	2017	2016
Total revenue, as presented to the CODM	13,127	9,593
Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:		
Effect of difference in dates of acquisition and loss of control in subsidiaries	–	(484)
Differences in timing of revenue recognition	(1,408)	(155)
Barter revenue	7	15
Dividend revenue from venture capital investments	9	13
Consolidated revenue under IFRS	11,735	8,982

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 three months ended June 30, 2017 and 2016 is presented below:

	2017	2016
Group aggregate segment EBITDA, as presented to the CODM	4,595	4,316
Adjustments to reconcile EBITDA as presented to the CODM to consolidated profit before income tax expenses under IFRS:		
Effect of difference in dates of acquisition and loss of control in subsidiaries	–	(21)
VAT exemption pro-forma to Q1	367	–
Differences in timing of revenue recognition	(1,408)	(155)
Net loss on venture capital investments	–	(105)
Share-based payment transactions	(320)	(443)
Other	15	15
EBITDA	3,249	3,607
Depreciation and amortisation	(2,246)	(1,872)
Share of profit of equity accounted associates	8	7
Finance income	115	371
Finance expenses	(3)	(291)
Other non-operating loss	(53)	–
Net loss on derivative financial assets and liabilities at fair value through profit or loss	(104)	(189)
Impairment losses related to equity accounted associates	(245)	–
Net foreign exchange gain/(loss)	850	(469)
Consolidated profit before income tax expense under IFRS	1,571	1,164

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, 2017 and 2016 is presented below:

	2017	2016
Total net profit, as presented to the CODM	3,038	2,975
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payment transactions	(320)	(443)
Differences in timing of revenue recognition	(1,408)	(155)
Effect of difference in dates of acquisition and loss of control in subsidiaries	–	(8)
Amortisation of fair value adjustments to intangible assets and impairment thereof	(1,322)	(1,209)
Net loss on financial instruments at fair value through profit or loss	(104)	(294)
Net foreign exchange gain/(loss)	850	(469)
VAT exemption pro-forma to Q1	296	–
Share of profit of equity accounted associates	8	7
Impairment losses related to equity accounted associates	(245)	–
Other	6	(6)
Tax effect of the adjustments, tax on unremitted earnings and non-recurring deferred tax asset reversal	76	719
Consolidated net profit under IFRS	875	1,117

5 Business combination

5.1 HeadHunter

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

5.2 ZakaZaka

In May 2017 as a result of a number of transactions the Group completed the acquisition of the 100% of Site-Agregator LLC ("ZakaZaka"), the number two food delivery company in Russia, for a cash consideration of RUR 1,042 (90.09% in addition to 9.91% stake as of March 31, 2017). The main purpose of the acquisition was further expansion of the Group's food delivery business.

5 Business combination (continued)

5.2 ZakaZaka (continued)

In accounting for the business combination, the Group has provisionally determined the amounts of ZakaZaka's identifiable assets and liabilities. The acquisition accounting will be finalised upon completion of the tax planning and valuation of ZakaZaka's assets and liabilities. The provisional fair values of the identifiable assets and liabilities of ZakaZaka at the date of acquisition were as follows:

	Provisional fair value
Other intangible assets	70
Trade accounts receivable	18
Prepaid expenses and advances to suppliers	13
Other current assets	18
Cash and cash equivalents	24
Total assets	143
Deferred income tax liabilities	10
Trade accounts payable	5
Other payables, provisions and accrued expenses	7
Total liabilities	22
Total net assets	121

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	121
Goodwill	780

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. Management is still assessing the allocation of goodwill among cash generating units.

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

5.3 Am.ru

In May 2017 the Group completed the acquisition of exclusive rights for Am.ru, one of the largest Russian auto classifieds websites, from Rambler&Co for cash consideration of RUR 542. The primary purpose of the acquisition of Am.ru was to establish the Group's solid presence in the auto classifieds and leverage the Group's expertise and resources by achieving substantial synergies with Youla, the Group`s online classifieds product.

In accounting for the business combination, the Group has provisionally determined the amounts of Am.ru's net identifiable assets at RUR 392, mainly consisting of software and brand amortisable over 4-10 years and as a result determined the amount of goodwill at RUR 150. The acquisition accounting will be finalised upon completion of the tax planning and valuation of Am.ru's assets and liabilities. Goodwill is mainly attributable to expected synergies with the Group's classifieds business and is not expected to be deductible for income tax purposes. Management is still assessing the allocation of goodwill among cash generating units.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

6 Other Intangible assets

During the six months ended June 30, 2017, the Group capitalized software development costs and otherwise acquired intangible assets with a cost of RUR 790 (2016: RUR 760).

7 Property and equipment

During the six months ended June 30, 2017, the Group acquired property and equipment with a cost of RUR 1,193 (2016: RUR 707).

8 Other non-current assets

Other non-current assets consist of the following:

	June 30, 2017	December 31, 2016
Advance under office lease contract	374	1,075
Advances for royalties	1,097	1,012
Other non-current assets	193	178
Total other non-current assets	1,664	2,265

9 Other current assets

Other current assets consist of the following:

	June 30, 2017	December 31, 2016
Inventory	28	27
VAT receivable	188	111
Other current assets	52	63
Total other current assets	268	201

10 Other payables and accrued expenses

Other payables and accrued expenses consist of the following:

	June 30, 2017	December 31, 2016
Payables to personnel	1,244	1,260
Accrued vacations	736	611
Accrued professional consulting expenses	30	101
Payables under lease contract	–	156
Other current payables	308	1,575
Total other payables and accrued expenses	2,318	3,703

The decrease in “Other current payables” was mostly due to the repayment of RUR 1,174 in 2017 representing deferred consideration related to acquisitions of Pixonic and Delivery Club made in 2016.

11 Other revenue, other operating gain and other operating expenses

11.1 Other revenue

Other revenue consists of the following:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Online recruitment services	–	2	–	473
Listing fees	4	18	8	38
Dividend revenue from venture capital investments	9	11	9	11
Food delivery	349	–	623	–
Other	169	46	319	117
Total other revenue	531	77	959	639

Notes to the Interim Condensed Consolidated Financial Statements (continued)

11 Other revenue, other operating gain and other operating expenses (continued)

11.2 Other operating gain

In June 2017 the Group received confirmation from Russian tax authorities that a significant part of the Russian Community IVAS revenues are eligible for exemption from VAT starting from January 1, 2017. As a result the Group recognised the portion of the VAT exemption related to Community IVAS revenues earned in Q1 2017 as "Other operating gain".

11.3 Other operating expenses

The increase in "Other operating expenses" was mostly due to input VAT write-off as a result of VAT exemption related to part of Russian MMO Games and Community IVAS (Note 11.2) and requirements of Russian tax rules.

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,	
	2017	2016	2017	2016
Current income tax expense	461	1,053	1,364	1,944
Deferred income tax expense/(benefit)	235	(1,006)	(519)	(1,708)
Total income tax expense	696	47	845	236

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, 2017 and 2016 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Profit before income tax expense	1,571	1,164	2,524	11,617
Tax at domestic rates applicable to individual group entities	(164)	(54)	(226)	(1,342)
Non-taxable gain from disposal of subsidiary	–	–	–	1,015
Tax on unremitted earnings	(2)	(2)	–	345
Non-taxable foreign exchange and other gains	(4)	6	15	–
Deferred tax assets reversal	(507)	–	(507)	–
Non-deductible expenses	(29)	(266)	(192)	(502)
Effect of changes in tax rates	–	301	–	301
Other	10	(32)	65	(53)
Total income tax expense	(696)	(47)	(845)	(236)

The Group continued to bring its legal structure in line with the operating structure. As a result of this process, in Q1 2016 the Group reversed approximately RUR 345 of deferred taxes related to unremitted earnings and in Q2 2017 booked a reversal of RUR 507 related to a tax loss carry forward. Starting 2016 certain Group subsidiaries apply some income tax exemptions and related deferred tax assets and liabilities were calculated using applicable tax rates.

13 Commitments, contingencies and operating risks

13.1 Operating environment of the Group

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

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)

13 Commitments, contingencies and operating risks (continued)

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.

13.8 Regulation

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

The Group complies with the laws in all material aspects.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

13 Commitments, contingencies and operating risks (continued)

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 three month and the six month periods, all ending June 30, 2017 and June 30, 2016 as well as balances with related parties as of June 30, 2017 and December 31, 2016, excluding directors and key management of the Group (see below).

	Three months ending June 30		Six months ending June 30			
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
2017						
Equity accounted associates	28	–	58	–	35	1
Other entities	–	–	–	1	–	1
2016						
Equity accounted associates	36	1	67	16	64	2
Other entities	–	3	1	7	–	2

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

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 61 for the six months ended June 30, 2017 (2016: RUR 71). No options over the shares of the Company were granted to Directors for the six months ended June 30, 2017 (2016: nil). During the six months ended June 30, 2017, Directors did not forfeit any options (2016: nil), exercised an aggregate of 2,200,000 RSUs and options over shares of the Company (2016: nil). This includes 1,100,000 RSUs held by Directors of the Company accelerated in 2017. The corresponding share-based payment expense was RUR 715 for the six months ended June 30, 2017 (2016: a negative RUR 55).

14.2 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 286 for the six months ended June 30, 2017 (2016: RUR 290). In the six months ended June 30, 2017, key executive employees of the Group (excluding Directors) were granted 50,000 RSUs over shares of the Company (2016: nil). During the six months ended June 30, 2017, key management of the Group (excluding Directors) did not forfeit any RSUs or options (2016: nil) and exercised 344,125 RSUs and options (2016: 273,500). The corresponding share-based payment expense amounted to RUR 229 for the six months ended June 30, 2017 (2016: RUR 977).

14.3 The ultimate controlling party

USM Holdings Ltd. ("USM") is the ultimate controlling party of the Group through USM's subsidiary MegaFon Public Joint Stock Company, which became the controlling shareholder of the Group in February 2017.

15 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of June 30, 2017 and December 31, 2016 and are presented by category of financial instruments in the table below:

	Category*	June 30, 2017	December 31, 2016
Financial assets			
Financial investments in equity	FAFVPL	224	322
Financial derivatives under lease and hosting contracts	FAFVPL	341	164
Derivative financial assets over the equity of investee	FAFVPL	43	22
Trade accounts receivable	LR	4,109	5,089
Loans and interest receivable	LR	61	31
Cash and cash equivalents	LR	8,597	5,513
Total financial assets		13,375	11,141
Current		13,038	10,725
Non-current		337	416
Total derivative financial assets		363	186
Current		278	105
Non-current		85	81
Financial liabilities			
Short-term interest-bearing loans	FLAC	–	122
Financial liabilities at fair value through profit or loss – derivative over the equity of investee	FLFVPL	–	234
Short and long term trade accounts payable	FLAC	4,027	4,064
Total financial liabilities		4,027	4,420
Current		3,682	3,672
Non-current		345	748

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

- FAFVPL – financial assets at fair value through profit or loss;
- LR – loans and receivables;
- FLFVPL – financial liabilities at fair value through profit or loss; or
- FLAC – financial liabilities at amortised cost.

Fair value of cash and cash equivalents, short-term accounts receivable, other current assets, trade accounts payable approximate their carrying amounts largely due to the short-term maturities of these instruments.

15.1 Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Interim Condensed Consolidated Financial Statements (continued)

15 Financial instruments (continued)

15.1 Fair value hierarchy (continued)

As at June 30, 2017 and December 31, 2016 the Group held the following financial instruments measured at fair value:

	June 30, 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 equity	224	–	–	224
Financial derivatives under lease and hosting contracts	341	–	–	341
Derivative financial assets over the equity of subsidiary	43	–	–	43
Total financial assets at fair value through profit or loss	608	–	–	608
Total financial assets measured at fair value	608	–	–	608

	December 31, 2016	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in equity	322	–	–	322
Financial derivatives under lease and hosting contracts	164	–	–	164
Derivative financial assets over the equity of subsidiary	22	–	–	22
Total financial assets at fair value through profit or loss	508	–	–	508
Total financial assets measured at fair value	508	–	–	508
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – derivative over the equity of investee	(234)	–	–	(234)
Total financial liabilities measured at fair value	(234)	–	–	(234)

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 equity	*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 liabilities at fair value through profit or loss – derivative over the equity of investee	*(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 balance of Level 3 measurements as of January 1, 2016 is reconciled to the balance of those measurements as of June 30, 2016 as follows:

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

16 Events after the reporting period

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