Mail.ru Group Limited

Consolidated Financial Statements

For the year ended December 31, 2017

Contents

Совершенствуя бизнес,
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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of Mail.ru Group Limited and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Annual goodwill impairment analysis	
Under IFRSs, the Group is required to annually test the amount of goodwill for impairment by assessing the recoverable amounts of each cash-generating unit (CGU) or a group of CGU comprising operating segments of the Group, and comparing it with the carrying amount of relevant CGU or groups of CGU. This annual impairment test was a significant audit matter because the balance of goodwill of RUB 133,140 million as of December 31, 2017 is material to the financial statements. In addition, the management's process to assess the recoverable amounts is complex and highly judgmental and is based on assumptions, specifically cash flow projections from financial budgets approved by management. These assumptions are affected by expectations about future market or economic conditions, particularly those expectations related to Russian internet market.	Our audit procedures included, among others, examining the amounts of goodwill allocated to each operating segment, involving our specialists in the evaluation of the significant assumptions and methodologies used by the Group, in particular those relating to the forecasted revenue growth and earnings before interest, taxes, depreciation and amortization (EBITDA) and profit margins for operating segments. We also focused on the disclosures in the Group consolidated financial statements about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill. We have assessed the goodwill impairment sensitivity disclosure in Note 11 to the consolidated financial statements.
Revenue recognition	
The Group's online advertising revenues as well as revenues from other services is a complex automated process. It involves volume rebates and third party commissions that require judgment in recognizing them as expenses or a reduction in revenue. On-line games and Community IVAS (Internet value-added services) revenues involve complex and judgmental calculations of material amounts of deferred revenues related to in-game items purchased by the users inside on-line games or social networks. Selecting and applying revenue recognition policies requires management judgment, therefore, this matter was significant for our audit.	We tested application and IT-dependent manual controls over revenue recognition process. We examined and tested, on a sample basis, standard significant and non-standard revenue arrangements. We considered revenue recognition policy in respect of specific revenue streams and relevant disclosures. We tested the Group's reconciliation of the amount of revenues recognized in the accounting systems to the relevant automated IT systems. We analyzed the calculation of deferred revenue, including the assessment of the estimated life span of in-game items in online games and in social networks. We also assessed respective disclosures included in Note 4 and Note 5 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Acquisitions in business combinations - Purchase price allocation	
As disclosed in Note 6 to the consolidated financial statements, in May 2017 the Group acquired 100% of Site-Agregator LLC ("ZakaZaka") and completed the acquisition of exclusive rights for Am.ru. The Group accounted for the acquisitions in accordance with IFRS 3 *Business Combinations*. The purchase consideration was allocated to various assets and liabilities of the acquirees. Based on the materiality of the acquisitions and the significant degree of management judgment that the provisional purchase price allocation requires, we have determined this to be a key audit matter. Management prepared the provisional purchase price allocation to net assets, including customer relationships, trade names, other intangible assets and goodwill assisted by internal valuation experts.	We considered the purchase agreements, consideration paid and the Group's approach for the purchase price allocation. An important element of our audit concerned management's identification of acquired assets and assumed liabilities, including but not limited to the valuation of trade names, customer relationships and liabilities. We have analyzed the competence and relevant experience of the experts involved by management to prepare purchase price allocation. We involved our valuation specialists to analyze management's valuation methodologies and assumptions. We have analyzed the assumptions that were used by management in the preparation of forecasts and for the purchase price allocation. We assessed the related disclosures in Note 6 to the consolidated financial statements.
Share-based payments	
In November 2017, a new management compensation program was approved, and 3,435,000 Restricted Stock Units (RSUs) were granted to the top management and key employees. The accounting for stock-based compensation requires judgments applied to the determination of the fair value of the award and expected vesting terms, therefore, this matter was significant to our audit.	We analyzed the methodology, assumptions and input data in the valuation model used to determine the fair value of the award. We also assessed the disclosures in Note 24 to the consolidated financial statements.

Other information included in the Group's 2017 Annual report

Other information consists of the information included in the Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit committee are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is A.A. Chizhikov.

Alexey Chizhikov
Partner
Ernst & Young LLC

February 28, 2018

Details of the audited entity

Name: Mail.ru Group Limited
Registered: 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.

Consolidated Statement of Financial Position

As of December 31, 2017
(in millions of Russian Roubles)

	Notes	As at December 31, 2017	As at December 31, 2016
ASSETS			
Non-current assets			
Investments in equity accounted associates	10	1,013	649
Goodwill	6,11	133,140	132,309
Other intangible assets	7,6	24,915	29,894
Property and equipment	8	4,491	3,840
Financial assets at fair value through profit or loss	22	365	403
Deferred income tax assets	18	2,304	2,600
Other non-current assets	15	1,585	2,265
Total non-current assets		167,813	171,960
Current assets			
Trade accounts receivable	12	6,556	5,089
Prepaid income tax		27	49
Prepaid expenses and advances to suppliers		1,463	2,111
Financial assets at fair value through profit or loss	22	171	105
Other current assets		201	201
Cash and cash equivalents	13	15,371	5,513
Total current assets		23,789	13,068
Total assets		191,602	185,028
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	14	–	–
Share premium		51,722	51,758
Treasury shares	14	(444)	(1,290)
Retained earnings		114,676	112,415
Accumulated other comprehensive income		128	470
Total equity attributable to equity holders of the parent		166,082	163,353
Non-controlling interests		84	64
Total equity		166,166	163,417
Non-current liabilities			
Deferred income tax liabilities	18	2,495	3,265
Deferred revenue		6,736	2,710
Other non-current liabilities	22	245	748
Total non-current liabilities		9,476	6,723
Current liabilities			
Trade accounts payable	22	4,896	3,355
Income tax payable		525	389
Financial liabilities at fair value through profit or loss	22	–	195
VAT and other taxes payable		1,342	2,231
Deferred revenue and customer advances		6,295	4,893
Short-term interest-bearing loans	22	–	122
Other payables and accrued expenses	16	2,902	3,703
Total current liabilities		15,960	14,888
Total liabilities		25,436	21,611
Total equity and liabilities		191,602	185,028

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2017
(in millions of Russian Roubles)

	Notes	2017	2016
Online advertising		23,769	18,492
MMO games		12,072	8,745
Community IVAS		13,662	11,647
Other revenue		2,241	1,117
Total revenue		51,744	40,001
Other operating gain	17.1	565	–
Net loss on venture capital investments	22	(27)	(769)
Personnel expenses		(13,148)	(10,722)
Office rent and maintenance		(2,126)	(2,023)
Agent/partner fees		(11,091)	(6,512)
Marketing expenses		(8,637)	(2,429)
Server hosting expenses		(1,795)	(1,863)
Professional services		(347)	(493)
Other operating expenses	17.2	(2,165)	(1,816)
Total operating expenses		(39,309)	(25,858)
EBITDA		12,973	13,374
Depreciation and amortisation		(8,931)	(7,754)
Impairment of intangible assets	7	–	(52)
Share of profit of equity accounted associates		15	27
Finance income		511	839
Finance expenses		(15)	(732)
Other non-operating (loss)/income		(21)	39
Net loss on derivative financial assets and liabilities at fair value through profit or loss	22	(30)	(112)
Net loss on disposal of shares in available-for-sale investments		–	(342)
Impairment losses related to equity accounted associates	10	(273)	–
Net (loss)/gain on disposal of shares in subsidiaries	6	(15)	8,712
Net foreign exchange gain/(loss)		742	(1,330)
Profit before income tax expense		4,956	12,669
Income tax expense	18	(2,675)	(838)
Net profit		2,281	11,831
Attributable to:			
Equity holders of the parent		2,261	11,813
Non-controlling interest		20	18
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 year		(353)	381
Available-for-sale financial assets:			
Loss arising during the year (net of tax effect of zero)		–	(328)
Reclassification adjustments for loss included in profit or loss		–	342
Total other comprehensive income/(loss) net of tax effect of 0		(353)	395
Total comprehensive income, net of tax		1,928	12,226
Attributable to:			
Equity holders of the parent		1,908	12,208
Non-controlling interest		20	18
Earnings per share, in RUR:			
Basic earnings per share attributable to ordinary equity holders of the parent	19	10.7	56.7
Diluted earnings per share attributable to ordinary equity holders of the parent	19	10.5	54.4

Consolidated Statement of Cash Flows

For the year ended December 31, 2017
(in millions of Russian Roubles)

	Notes	2017	2016
Cash flows from operating activities:			
Profit before income tax		4,956	12,669
Adjustments to reconcile profit before income tax to cash flows:			
Depreciation and amortisation	7,8	8,931	7,754
Bad debt expense	12	27	60
Net loss on financial assets and liabilities at fair value through profit or loss	22	30	112
Net loss/(gain) on disposal of shares in subsidiaries	6	15	(8,712)
Net loss on disposal of shares in available-for-sale investments		–	342
Loss on disposal of property and equipment and intangible assets		8	–
Net loss on venture capital investments	22	27	769
Finance income		(511)	(839)
Finance expenses		15	732
Dividend revenue from venture capital investments		(9)	(36)
Share of profit of equity accounted associates		(15)	(27)
Impairment of intangible assets	7	–	52
Net foreign exchange loss/(gain)		(742)	1,330
Share-based payment expense	24.2	2,475	2,226
Impairment losses related to equity accounted associates	10	273	–
Other non-cash items		(3)	1
Working capital adjustments:			
Increase in accounts receivable		(1,437)	(1,458)
Decrease/(increase) in prepaid expenses and advances to suppliers		803	(906)
(Increase)/decrease in other assets		7	(27)
Increase in accounts payable and accrued expenses		1,248	719
Decrease/(increase) in non-current prepaid expenses and advances		597	(1,522)
Increase in deferred revenue and customers advances		5,415	1,968
Increase in financial assets at fair value through profit or loss	22	(89)	(100)
Decrease in financial liabilities at fair value through profit or loss	22	(104)	–
Operating cash flows before interest and income taxes		21,917	15,107
Dividends received from financial investments		8	34
Interest received		521	786
Interest paid		(13)	(740)
Income tax paid		(3,110)	(2,567)
Net cash provided by operating activities		19,323	12,620
Cash flows from investing activities:			
Cash paid for property and equipment		(2,627)	(2,064)
Cash paid for intangible assets		(1,755)	(1,763)
Dividends received from equity accounted associates and investments designated as available-for-sale financial assets	10	18	68
Cash paid for investments in equity accounted associates	6, 10	(640)	–
Collection/(issuance) of loans receivable		(3)	23
Proceeds from disposal of shares in available-for-sale investments		–	604
Cash paid for acquisitions of subsidiaries, net of cash acquired	6,16	(2,769)	(7,157)
Proceeds from disposal of subsidiaries, net of cash disposed	6	(43)	9,709
Collection of short-term and long term deposits		–	17
Net cash used in investing activities		(7,819)	(563)
Cash flows from financing activities:			
Loans repaid	22	(122)	(15,534)
Loans received		–	298
Loans issued		(53)	–
Cash paid for treasury shares		(1,430)	–
Dividends paid by subsidiaries to non-controlling shareholders		–	(2)
Net cash used in financing activities		(1,605)	(15,238)
Net increase/(decrease) in cash and cash equivalents		9,899	(3,181)
Effect of exchange differences on cash balances		(41)	18
Cash and cash equivalents at the beginning of the year		5,513	8,676
Cash and cash equivalents at the end of the year		15,371	5,513

Consolidated Statement of Changes in Equity

For the year ended December 31, 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 year	–	–	–	–	11,813	–	11,813	18	11,831
Other comprehensive income:							–		
Foreign currency translation	–	–	–	–	–	381	381	–	381
Net change in cumulative holding gains on available-for-sale investments	–	–	–	–	–	14	14	–	14
Total other comprehensive income	–	–	–	–	–	395	395	–	395
Total comprehensive income	–	–	–	–	11,813	395	12,208	18	12,226
Share-based payment transactions	–	–	2,433	–	–	–	2,433	–	2,433
Exercise of RSUs and options over the shares of the Company	507,065	–	(3)	3	–	–	–	–	–
Acquisitions of non-controllinginterests in business combinations	–	–	–	–	–	–	–	52	52
Effect of disposal of subsidiary (Note 6)	–	–	–	–	–	280	280	(19)	261
Dividends by subsidiaries to non-controlling shareholders	–	–	–	–	–	–	–	(2)	(2)
Balance at December 31, 2016	208,634,437	–	51,758	(1,290)	112,415	470	163,353	64	163,417

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017
(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, 2017	208,634,437	–	51,758	(1,290)	112,415	470	163,353	64	163,417
Profit for the year	–	–	–	–	2,261	–	2,261	20	2,281
Other comprehensive income:									
Foreign currency translation	–	–	–	–	–	(353)	(353)	–	(353)
Total other comprehensive income	–	–	–	–	–	(353)	(353)	–	(353)
Total comprehensive income	–	–	–	–	2,261	(353)	1,908	20	1,928
Share-based payment transactions	–	–	2,238	–	–	–	2,238	–	2,238
Exercise of RSUs and options over the shares of the Company	4,648,093	–	(2,274)	2,276	–	–	2	–	2
Acquisition of treasury shares (Note 14)	(857,736)	–	–	(1,430)	–	–	(1,430)	–	(1,430)
Effect of disposal of subsidiary	–	–	–	–	–	11	11	–	11
Balance at December 31, 2017	212,424,794	–	51,722	(444)	114,676	128	166,082	84	166,166

1 Corporate information and description of business

These consolidated financial statements of Mail.ru Group Limited (hereinafter "the Company") and its subsidiaries (collectively – "the Group") for the year ended December 31, 2017 were authorised for issue by the directors of the Company on February 28, 2018.

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

The Company consolidates or participates in businesses that operate in the Internet segment, including portals, social networking and communications, online marketplaces, massively multiplayer online games ("MMO games"), social and mobile games. The Group has leading positions in Russia and other CIS states where its properties are present.

Information on the Company's main subsidiaries is disclosed in Note 9.

2 Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis, except for financial assets and liabilities designated as at fair value through profit or loss, derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS").

The Group maintains its accounting records and prepares its statutory accounting reports in accordance with domestic accounting legislation and instructions for each of its subsidiaries. These consolidated financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with the standards and interpretations issued by the International Accounting Standards Board ("IASB"). IFRS adjustments include and affect such major areas as consolidation, revenue recognition, accruals, deferred taxation, fair value adjustments, business combinations, impairment, share-based payments etc.

2.2 Application of new and amended IFRS and IFRIC

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations effective as of January 1, 2017:

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. The Group has applied amendments as required. However, during the year 2017 there were no any material financial liabilities that are in the scope of the amendments.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

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.

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference. The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements Cycle – 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a jointventure or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

2.3 New accounting pronouncements

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective. Management of the Group currently assesing the impact of Standards and Interpretations not yet effective.

2 Basis of preparation (continued)

2.3 New accounting pronouncements (continued)

IFRS 9 Financial Instruments

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

The Group will adopt the new standard on the required effective date and will not restate comparative information due to the exemption in IFRS 9. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity.
The Group has assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

(a) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that is a function of the business model, in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: those measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for-sale financial assets. The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

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

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

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach mandated to trade receivables by recording lifetime expected losses. The Group will apply the general approach to the Group's amortised cost financial assets, other than trade receivables including, but not limited to, cash and cash equivalents.

Loss allowances are measured on either of the following bases:

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

Based on the assessments undertaken to the date, the Group expects an insignificant change in the loss allowance for trade receivables held at amortised cost.

The Group's cash and cash equivalents have been assigned low credit risk based on the external credit ratings of the respective banks and financial institutions. Therefore, the Group determined that no additional allowances are required at December 31, 2017 in connection with the adoption of the new impairment model under IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group will adopt the new standard on the required effective date using the full retrospective method adjusting each financial statement line item affected for the period immediately preceding the first period for which this Standard is applied.

During 2017, the Group preliminary assessed the impact of IFRS 15. In preparing to adopt IFRS 15, the Group is considering the following:

(a) Principal versus agent considerations

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

2 Basis of preparation (continued)

2.3 New accounting pronouncements (continued)

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

Under the current accounting policy the Group has concluded that it is a principal after evaluating the indicators in order to make its principal versus agent determination when from the perspective of the advertisers the Group renders these services, and hence the Group has exposure to the significant risks and rewards associated with placing advertising and accounted for these arrangements as a principal.

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

When the Group adopts IFRS 15, adjustments to the reporting periods presented before the date of initial application would decrease revenue from online advertising and Community IVAS and Agent/partner fees by RUR 1,700. The Group does not expect any effect on net profit and equity.

(b) Presentations and disclosures

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgments made: how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation; where the Group has concluded that it acts as an agent instead of a principal. In addition, as required by IFRS 15, the Disaggregation of revenue recognised from contracts with customers will be represented by revenue information disclosed for reportable segments.

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

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces 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*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 also requires to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is assessing the effect of IFRS 16 on its consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or nonmonetary liability relating to advance consideration received or paid in a foreign currency.

The interpretation is effective for annual periods beginning on or after January 1, 2018. The Group will apply the IFRIC Interpretation 22.

2 Basis of preparation (continued)

2.3 New accounting pronouncements (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available. The Group is assessing the effect of IFRIC Interpretation 23 on its consolidated financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9.

The IASB stated specifically that this clarification relates to the application of IFRS 9. As such, it would appear that this clarification does not need to be applied to the accounting for modification of liabilities under IAS 39 Financial Instruments: Recognition and Measurement. Any entities that have not applied this accounting under IAS 39 are therefore likely to have a change of accounting on transition. As there is no specific relief, this change needs to be made retrospectively.

Effective for annual periods beginning on or after January 1, 2019. The Group is assessing the effect of amendments to IFRS 9 on its consolidated financial statements.

Long-term interests in associates and joint ventures - Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 Financial Instruments 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 Board 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.

Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed. The amendments will eliminate ambiguity in the wording of the standard.

Effective for annual periods beginning on or after January 1, 2019. The Group is assessing the effect of amendments to IAS 28 on its consolidated financial statements.

3 Summary of significant accounting policies

Set out below are the principal accounting policies used to prepare these consolidated financial statements.

3.1 Principles of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2017 and for the year then ended.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

3 Summary of significant accounting policies (continued)

3.1 Principles of consolidation (continued)

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated.

If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interests;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3.2 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed and included in operating expenses.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and vested share-based payment awards of the acquiree that are replaced in the business combination.

If control is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value as at the acquisition date through profit or loss.

A contingent liability of the acquiree is recognised in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Only components of non-controlling interest constituting a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are measured at their acquisition date fair value.

The Group accounts for a change in the ownership interest of a subsidiary (without loss of control) as a transaction with owners in their capacity as owners. Therefore, such transactions do not give rise to goodwill, nor do they give rise to a gain or loss and are accounted for as an equity transaction.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

3 Summary of significant accounting policies (continued)

3.2 Business combinations and goodwill (continued)

Where goodwill forms part of a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

If the Group reorganises its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill is reallocated to the units affected. The reallocation is performed using a relative value approach similar to that used in connection with the disposal of an operation within a cash-generating unit, unless some other method better reflects the goodwill associated with the reorganised units.

3.3 Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

The Group segregates its investments in associates into two distinct categories: financial investments and investments in equity accounted associates.

3.3.1 Financial investments in associates

Financial investments, or venture capital investments, are the Group's investments in start-up Internet ventures and smaller Internet companies in Russia, Ukraine and Israel with onwership ranging from 1.5% to 50% and which gives the Group significant influence in some of these investments. They form the Group's venture capital portfolio and are monitored and managed exclusively on the basis of their fair values. The Group's involvement in the operating management of the investees is limited, and the possibility of the Group maintaining a specific financial investment in its investment portfolio in the long run is remote. Financial investments are carried in the statement of financial position at fair value even though the Group may exert significant influence over those companies. This treatment is permitted by IAS 28 *Investments in Associates and Joint Ventures*, which allows investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change. Accounting policies of the Group with respect to financial investments in associates are discussed in more detail under 3.12 below as part of the Group's accounting policies with respect to financial assets.

3.3.2 Investments in equity accounted associates

The Group participates in the operating management of its equity accounted associates and intends to stay involved in their operations from a long term perspective. Under the equity method, the investments in associates are carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Distributions received from an investee reduce the carrying amount of the investment. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of associates. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes in the investment balance and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Dividends received from equity accounted associates are shown in investing activities in the statement of cash flows.

The share of profit and other comprehensive income of equity accounted associates is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the associates and therefore is profit after tax of the associates and after non-controlling interests in the subsidiaries of the associates. The Group's share of movements in reserves is recognised in equity. However, when the Group's share of accumulated losses in a equity accounted associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

The financial statements of equity accounted associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. Determining whether the investment is impaired is based on the guidance of IAS 39 discussed under 3.12.6.

If there is objective evidence that an associate is impaired, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value in accordance with IAS 36 (as discussed under 3.14) and recognises the amount of impairment in earnings under '*Impairment losses related to equity accounted associates*'. If the recoverable amount of the impaired investment subsequently increases, the related impairment is reversed to the extent of such increase.

3 Summary of significant accounting policies (continued)

3.3 Investments in associates (continued)

Step acquisitions of significant influence in equity accounted associates previously classified as available-for-sale financial assets are accounted for using a cost-based approach whereby the investment in associate is recognised at the aggregate of (a) the historical cost of the available-for-sale investment and (b) the consideration transferred by the Group upon acquisition of significant influence. Any changes in the fair value of the available-for-sale investment are reversed through other comprehensive income upon acquisition of significant influence. Goodwill is calculated as a difference between (c) the cost of the investment so determined and (d) the Group's share in the fair value of the investee's net assets at the date significant influence is attained.

Upon acquisition of an additional stake in an existing associate where control is not obtained, the fair value of the consideration transferred for the additional stake is allocated to the acquired share of the fair value of associate's assets and liabilities, and the excess is recognised as goodwill as part of the investment in equity accounted associates.

Upon loss of significant influence over a equity accounted associate, the Group measures and recognises any remaining investment at its fair value. Any difference between (a) the carrying amount of the associate upon loss of significant influence and (b) the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

3.4 Property and equipment

3.4.1 Recognition and measurement

Property and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment. Interest costs on borrowings to finance the construction of property and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Expenditures for continuing repairs and maintenance are charged to earnings as incurred.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are recognised net under '*Other non-operating income/(expense)*' in the statement of comprehensive income.

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

3.4.2 Depreciation and useful life

Depreciation is calculated on property and equipment on a straight-line basis from the time the assets are available for use, over their estimated useful lives as follows:

	Estimated useful life (in years)
Servers and computers	2-5
Furniture	7
Office IT equipment	2-3
Leasehold improvements	Lesser of useful life or life of lease

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end. The Group classifies advances paid to equipment suppliers as assets under construction in property and equipment in the consolidated statement of financial position.

3.5 Intangible assets other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

3.5.1 Software development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of comprehensive income when incurred.

3 Summary of significant accounting policies (continued)

3.5 Intangible assets other than goodwill (continued)

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Research and development costs recognised as an expense in the statement of comprehensive income during 2017 amounted to RUR 393 (2016: RUR 597).

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

3.5.2 Useful life and amortisation of intangible assets

The Group assesses whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset is regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. The Group did not have any intangible assets with an indefinite useful life in the years ended December 31, 2017 and 2016.

Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The estimated useful lives of the Group's intangible assets are as follows:

	Estimated useful life (in years)
Patents and trademarks	7-20
Capitalised software development costs	3
Domain names	10
Games	3-9
Customer base	3-15
Licenses	3-5
Purchased software	1-4

3.6 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, short-term deposits with an original maturity of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All these items are included as a component of cash and cash equivalents for the purpose of the statement of financial position and statement of cash flows.

3.7 Employee benefits

Wages and salaries paid to employees are recognised as expenses in the current period or are capitalised as part of software development costs. The Group also accrues expenses for future vacation payments.

Under provisions of Russian legislation, social contributions are made through social insurance payments calculated by the Group by the application of a 30% rate to the portion of the annual gross remuneration of each employee not exceeding RUR 876 thousand and a rate of 15% to the portion exceeding this threshold.

3.8 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

3 Summary of significant accounting policies (continued)

3.9 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from services are recognised in the period when services are rendered.

3.9.1 Online advertising

3.9.1.1 Display advertising

Promo posts in social networks, video and banner advertising space for display advertising is sold on a dynamic basis (i.e., a function of time that an advertisement lasts) or a static basis (i.e., according to the number of page views on an advertisement). The Group has standard rates for online advertisements that depend on several factors, including the specific web page on which the banner appears, the length of the contract, the season, and the format, size and position of the advertisement. Display advertising revenue is recognised as the services are provided (i.e., as per page view for dynamic banners and over the contractual term for static banners). For display advertising sold through some third party advertising agencies, revenue generally is recognised net of any portion attributable to the third parties.

3.9.1.2 Context advertising

The Group earns revenues for search context advertising through partnerships with third parties. Once a user carries out a search on certain of the Group's websites, search results and advertisement links are displayed on the webpage based on relevancy to the search topic and other known user parameters. When clicked on by the user, the advertisement links lead to sites owned by the third parties' advertising customers, for which the third party receives a fee, a portion of which it shares with the Group. Context advertising revenue is recognised as the services are provided (i.e., upon "click-through", which is when a user clicks on an advertiser's listing) on a net basis. This type of context advertising revenues is based on reports provided by third parties.

Context advertising also includes revenue from the Group's myTarget self-serve advertising technology ("target advertising"). Target advertisements are priced on either pay-per-click or pay-per-view basis. Revenue from pay-per-click advertisements is recognised upon click-through, while revenue from pay-per-view advertisements is recognised as the advertisements are viewed.

Context advertising also includes revenue related to the placement of target advertising, display advertising and advertising through integration in applications, advertising thought offers on the Group's websites and in applications, advertising via networks comprising advertising banners placement on third party websites and advertising on the Group's site communities pages. The revenue from advertising in applications, on the web pages of communities and via networks is recognised on a gross basis with costs and commissions paid to third party owners and administrators of websites, applications, platforms and communities recognised in "Agent/partner fees".

3.9.2 Internet value-added services ("IVAS")

Revenue from IVAS is derived from a variety of Internet-based services, including communication products and online games.

3.9.2.1 Revenue from MMO games

The Group operates its games mainly under the free-to-play game model. The Group derives its online game revenue from in-game virtual items representing additional functionality and features for the game players' characters purchased by game players to play the Group's MMO games and casual games. The amounts of cash or receivables from payment systems for cash from the users, net of short messaging service operators, are not recognised as revenues and are credited to deferred revenue. They are then converted by the players into in-game points. In-game points are used to purchase in-game items. Under the item-based revenue model, revenues are recognised over the life of the in-game virtual items that game players purchase or as the in-game virtual items are consumed. Deferred revenue is reduced as revenues are recognised. The estimated life span of in-game items is determined based on historical player usage patterns and playing behaviour.

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

3.9.2.2 Community IVAS

The Group derives Community IVAS revenues through certain communication products, where users pay a fee for the paid content and online services, mainly through social networking web sites and through the commission from third party developers of the various applications placed on social networking web sites, including games, based on the respective applications' revenue. The fees for such services are collected from customers using various payment channels, including bank cards, online payment systems and mobile operators and from the applications developers. The mobile network operators collect fees for such services from their customers, usually through mobile short message services ("SMS"), and pass such fees to the Group. Revenues from third party applications and developers on the Group's platforms are recognised net of commission to mobile operators and any portion attributable to the developer of the application, at the time when customer payment is due. Revenues from services including games developed by the Group and operated on third party platforms are reported gross as the services are provided net of commission to mobile operators. If the amount of revenue is measured based on third party data, such amounts of revenue are recorded based on the best available data at the date of issuance of the financial statements.

3 Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

3.9.3 Other revenue

3.9.3.1 Food delivery revenue

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

3.9.3.2 Other revenues

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

3.10 Income taxes

The Company as a Cypriot tax resident is not subject to tax on capital gains and withholding taxes. However, in some jurisdictions where the Company's subsidiaries and associates are incorporated (particularly in Russia), investment income is subject to withholding tax deducted at the source of the income. The Group presents the withholding tax separately from the gross dividend income in the statement of comprehensive income and the statement of cash flows.

The Group is also subject to taxation in Russia, the Netherlands, the United States of America and some other jurisdictions its subsidiaries operate in (see also Note 18).

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in profit or loss.

Deferred income tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.11 Share-based payment transactions

Employees (including senior executives) of the Group and its associates (each of which a "share-based payment recipient"), may receive remuneration in the form of share-based payment transactions, whereby share-based payment recipients render services as consideration for equity instruments ("equity-settled transactions") or a cash equivalent thereof ("cash-settled share-based payments").

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the share-based payment recipient as measured at the date of modification.

If the Group has a choice to settle share-based payments in cash or in equity, the entire transaction is treated either as cash-settled or as equity-settled, depending on whether or not the Group has a present obligation to settle in cash.

3.11.1 Equity-settled transactions

The cost of equity-settled transactions with share-based payment recipients for awards granted is measured by reference to the fair value of the awards at the date on which they are granted. The fair value is determined using an appropriate pricing model (Black-Scholes-Merton, binomial, Monte-Carlo or other).

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.11 Share-based payment transactions (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant share based payment recipients become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period recognised in profit or loss represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest based on estimated forfeiture rates or as actual forfeitures occur for groups of employee where we cannot make reliable estimates.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the share-based payment recipient as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the preceding paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (Note 19).

3.11.2 Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are provided in Note 24. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in *'Personnel expense'*.

3.11.3 Accounting for the change in form of settlement of share-based payments

As a result of modification of share-based payment awards from equity-settled to cash-settled the Group recognises a share-based payment expense which comprises as a minimum the following elements:

- the grant date fair value of the original equity-settled award; plus
- any incremental fair value arising from the modification of that award; plus
- any remeasurement of the liability between its fair value at modification date and the amount finally settled.

At the date of modification a liability is recognised based on the fair value of the cash-settled award as at that date and the extent to which the vesting period has expired, with a corresponding increase in equity. The total fair value of the cash-settled award is remeasured through profit or loss on an ongoing basis between the date of modification and the date of settlement.

3.12 Financial instruments

3.12.1 Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as effective hedging instruments, as appropriate.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as effective hedging instruments, as appropriate.

The Group determines the classification of its financial assets and liabilities at initial recognition. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial assets include cash and cash equivalents, short-term time deposits, trade and other receivables, available-for-sale investments in listed and non-listed equity instruments, financial investments in associates (as defined under 3.3.1), and derivative financial assets, mainly over equity instruments of the Group's investees. The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial liabilities, mainly over equity instruments of the Group's associates and subsidiaries. None of the derivative financial instruments held by the Group were designated as effective hedging instruments.

3 Summary of significant accounting policies (continued)

3.12 Financial instruments (continued)

3.12.2 Subsequent measurement

The subsequent measurement of financial instruments depends on their classification. The Group classifies its financial assets and liabilities into the categories below in accordance with IAS 39, as follows:

3.12.2.1 Financial assets and liabilities at fair value through profit or loss

The category of financial assets and liabilities at fair value through the profit or loss is further sub-divided into:

Financial assets and liabilities held for trading: This sub-category consists of all derivative financial assets and liabilities held by the Group. The Group did not designate any derivative financial assets and liabilities as hedging instruments in hedge relationships as defined by IAS 39.

Financial instruments designated as at fair value through profit or loss upon initial recognition: Financial assets and liabilities at fair value through profit and loss are carried in the statement of financial position at fair value. The changes in their fair value are recognised in the statement of comprehensive income as follows:

- The changes in the fair value of financial investments in associates and those derivative financial assets and liabilities where the underlying asset is represented by equity instruments of a financial investee, are recorded under *'Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities'* and are included in the Group's operating income; and
- The changes in the fair value of derivative financial assets where the underlying asset is represented by equity instruments of a subsidiary, as well as other derivative financial assets, are recorded under *'Net gain/(loss) on financial assets and liabilities at fair value through profit or loss over the equity of subsidiaries and other agreements'*.

3.12.2.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in the statement of comprehensive income under *'Bad debt expense'* in *'Other operating expenses'*.

Loans and receivables include the assets shown in the statement of financial position under *'Trade accounts receivable'* and *'Short-term time deposits'*. Short-term time deposits are mostly deposits with Russian banks with contractual terms less than one year.

3.12.2.3 Available-for-sale investments

Available-for-sale investments includes the Group's equity investments which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial measurement, available-for-sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is de-recognised, at which time the cumulative gain or loss is recognised in other income, or determined to be impaired, at which time the cumulative loss is recognised in the statement of comprehensive income under '*Impairment losses related to available- for-sale investments*' and removed from the available-for-sale reserve. The Group elected the trade date accounting approach for recognition and de-recognition of regular way purchases and sales of financial assets. The Group elected the weighted average formula approach for determining the cost at disposal of available-for-sale financial assets.

3.12.2.4 Loans and borrowings and other financial liabilities

After initial recognition, interest bearing loans and borrowings and other financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in '*Finance expenses*' in the statement of comprehensive income.

3.12.3 De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised where:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group de-recognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

3 Summary of significant accounting policies (continued)

3.12 Financial instruments (continued)

3.12.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.12.5 Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include: using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 22.

3.12.6 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

3.12.6.1 Financial assets carried at amortised cost

For financial assets carried at amortised cost (loans and receivables), evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss as a *'Bad debt expense'* in *'Other operating expenses'*. The allowance is estimated based on a combination of specific accounts and general ageing analysis.

Trade accounts receivable are recorded at the invoiced amount and are non-interest bearing. Credit is only granted to customers after a review of credit history. The Group maintains an allowance for doubtful accounts to reserve for the portion of receivables when collection becomes doubtful.

3.12.6.2 Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. Objective evidence of impairment of the Group's available-for-sale equity investments would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in earnings – is removed from other comprehensive income and recognised in earnings. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

3.13 Foreign currency translation

The consolidated financial statements are presented in RUR, which is the Group's presentation currency, and all values are rounded to the nearest million (RUR '000000) except per share information and unless otherwise indicated. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Group's Russian subsidiaries and associates as well as the Company itself is RUR.

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the measurement currency rate of exchange ruling at the reporting date. All resulting differences are taken to the consolidated statement of comprehensive income and included in the determination of net profit as '*Net foreign exchange (losses)/gains*'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

As at the reporting date, the assets and liabilities of the Company and its subsidiaries with functional currencies other than the RUR are translated into the presentation currency of the Group (RUR) at the rate of exchange ruling at the reporting date and their operations are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income.

3 Summary of significant accounting policies (continued)

3.14 Impairment of non-financial assets and investments in equity accounted associates

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in earnings in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in earnings.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3.15 Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary and Class A shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which may comprise share options granted to employees of the Group.

3.16 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4 Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the reporting dates and the reported amounts of revenues and expenses during the reporting periods. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

4.1 Judgments

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the consolidated financial statements:

4.1.1 Consolidation and accounting for associates

The Company directly or indirectly owned more than 50% in certain of its investments, and owns from 20% to 50% in certain other investments. Based on its voting rights and restrictions in the respective governing documents, the Group made judgments about whether it has control or significant influence over these investments. Subsequently, these entities are either accounted for as subsidiaries (consolidated) or associates (accounted for under the equity method or as financial assets through profit or loss).

Notes to Consolidated Financial Statements (continued)

4 Significant accounting judgments, estimates and assumptions (continued)

4.1 Judgments (continued)

4.1.2 Consolidation of a structured entity

In November 2010, the Company established, as settlor, an employee benefit trust (the “Trust”) under a Trust Deed dated November 11, 2010 (“Trust Deed”), the trustee of which is Mail.ru Employee Benefit Trustees Limited (the “Trustee”). The purpose of the Trust consists in holding trust funds for present and former employees and consultants and related persons. The Trustee manages employee stock options under the 2010 Option Plan (as defined in Note 24). Starting from October 2011, the Trustee was also instructed by the Company to acquire GDRs representing shares of the Company on the stock market and transfer those GDRs to employees in settlement of the 2010 Option Plan options as the options are exercised by the employees. The Group does not hold any equity interest in the Trust; however, under the Trust Deed, the Group has the power to appoint and remove the Trustee at its sole discretion. The operations of the Trust are restricted per the Trust Deed to the activities described above and are solely used by the Group. Based on these facts and circumstances, management concluded that the Group controls the Trustee and, therefore, consolidates the Trustee in its financial statements.

4.1.3 Accounting treatment of share-based payments where the Group has a choice to settle in cash or equity

The Group has wide discretion over the manner of settlement of options issued and determines the accounting treatment of the options based on whether the Group has a present obligation to settle in cash. Specifically, any option holder granted an aggregate of 20,000 or more options was only allowed to exercise the respective portion options in the form of GDRs, while exercises by the optionees granted a smaller cumulative number of options can continue to be in GDRs or cash at the Group’s discretion. The terms of the option plan and past exercise history make it reasonable to expect cash settlement of most of the smaller option exercises, even though the Group continues to have discretion over the way of option exercise settlement. Larger than cumulative 20,000 options per person continue to be accounted for as equity awards.

4.2 Estimates and assumptions

Significant estimates and assumptions reflected in the Group’s financial statements include, but are not limited to the following:

- revenue recognition;
- fair value of financial instruments;
- useful lives of intangible assets;
- software development costs;
- impairment of goodwill and other intangible assets;
- fair value of assets and liabilities in business combinations; and
- share-based payments.

Actual results could materially differ from those estimates.

The key assumptions concerning the future events and other key sources of estimation uncertainty at the reporting date that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.2.1 Revenue recognition – in-game items life span

Deferred revenue is recognised as revenue over the estimated life span of the in-game items purchased or as the in-game items purchased with the game points are consumed. The estimated life span of in-game items is determined based on historical player usage patterns and playing behaviour. Future usage patterns may differ from the historical usage patterns on which the Group’s revenue recognition policy is based. The Group monitors the operational statistics and usage patterns of its online games and modifies the expected life span when materially different.

4.2.2 Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates and assumptions have to be made, and a degree of judgment has to be applied in establishing fair values. The judgments, estimates and assumptions include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The expected volatility in the pricing models used to measure the fair value of the derivative financial assets and liabilities is determined by reference to peer companies’ historical volatility, as the issuers of the underlying equity instruments are not public. When determining risk-free rates to be used in the pricing models, regard is given to US Treasury bonds or Russian government bonds with maturities equal to the expected terms of the respective derivative financial instruments.

Detailed information on the fair values of the Group’s financial instruments is available in Note 22.

4 Significant accounting judgments, estimates and assumptions (continued)

4.2 Estimates and assumptions (continued)

4.2.3 Useful life of intangible assets

The Group estimates remaining useful lives of its intangible assets at least once a year at the reporting date. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a significant impact on the carrying value of intangible assets and amortisation, charged to earnings. The carrying value of intangible assets is disclosed in Note 7.

4.2.4 Software development costs

Software development costs are capitalised in accordance with the accounting policy described in Note 3.5.1. Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

4.2.5 Impairment of goodwill and other intangible assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from management forecast. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the growth rate used for extrapolation purposes. The key assumptions used to

4.2.6 Fair value of assets and liabilities in business combinations

At the acquisition date the Group recognises separately the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation methods that require considerable judgment in forecasting future cash flows and developing other assumptions.

4.2.7 Share-based payments

Management estimates the fair value of equity-settled stock options at the date of grant and the fair value of cash-settled options at each reporting date using the Black-Scholes-Merton, binominal, Monte-Carlo or other option pricing models, as applicable. The option pricing models were originally developed for use in estimating the fair value of traded options, which have different characteristics than the Group's stock options granted by the Company. The models are also sensitive to changes in the subjective assumptions, which can materially affect the fair value estimate. These subjective assumptions include expected volatility, dividend yield, risk-free interest and forfeiture rates.

4.2.8 Deferred taxes on undistributed earnings

Deferred tax is recognised based on estimated dividends distributions of Company's subsidiaries taking into account limitation of cash and cash equivalents available at the reporting date.

4.2.9 Changes in estimates

In Q3 2017, the Group has made changes to certain estimates used in the calculation of deferred revenue from the Social Network Odnoklassniki. The changes resulted from new information becoming available. The changes in estimates were recorded prospectively starting from July 1, 2017 and resulted in an increase in revenue and a decrease in deferred revenue estimated at RUR 888.

In Q4 2017, the Group changed its estimates with respect to useful live of certain MMO games used in calculation of deferred revenue. The changes resulted from reassessment by management of the games' remaining useful lives based on relevant recent operational statistics. The changes in estimates were recorded prospectively starting from October 1, 2017 and resulted in a decrease in revenue and an increase in deferred revenue estimated at RUR 640.

5 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 CODM, reviews selected items of each segment's income statement, assuming 100% ownership in all of the Group's key operating subsidiaries, based on management reporting.

Management reporting is different from IFRS, because it does not include certain IFRS adjustments which are not analysed by the CODM in assessing the core operating performance of the business. Such adjustments affect such major areas as revenue recognition, deferred tax on unremitted earnings of subsidiaries, share-based payments, disposal of and impairment of investments, business combinations, fair value adjustments, amortisation and impairment thereof, net foreign exchange gains and losses, share in financial results of equity accounted 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.

5 Operating segments (continued)

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.

The Group has identified the following reportable segments based on the types of products and services offered:

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

The Email, Portal and IM segment includes email, instant messaging and portal (main page and verticals). 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.

The Online Games segment includes online gaming services, including MMO, social and mobile games. It earns substantially all revenues from (i) sale of virtual in-game items to users and (ii) royalties for games licensed to third-party online game operators.

The Search, E-commerce and Other Services segment primarily consists of search engine services earning substantially all revenues from context advertising and food delivery services earning substantially all revenue from restaurant's commission. This segment also includes a variety of other services, which are either not currently earning any material revenues considered insignificant by the CODM for the purposes of performance review and resource allocation.

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

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

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

The income statement items for each segment for the year ended December 31, 2017, as presented to the CODM, are presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	Search, e-commerce and other	Eliminations	Group
Revenue							
External revenue	5,206	16,147	17,614	13,811	4,691	–	57,469
Intersegment revenue	3	33	–	156	408	(600)	–
Total revenue	5,209	16,180	17,614	13,967	5,099	(600)	57,469
Total operating expenses	3,016	5,942	12,828	5,257	10,475	(600)	36,918
EBITDA	2,193	10,238	4,786	8,710	(5,376)	–	20,551
Net profit							14,244

5 Operating segments (continued)

The income statement items for each segment for the year ended December 31, 2016, as presented to the CODM, are presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	Search, e-commerce and other	Eliminations	Group
Revenue							
External revenue	4,797	14,219	11,526	8,883	3,326	–	42,751
Intersegment revenue	4	20	–	54	383	(461)	–
Total revenue	4,801	14,239	11,526	8,937	3,709	(461)	42,751
Total operating expenses	3,268	4,690	9,309	3,605	4,426	(461)	24,837
EBITDA	1,533	9,549	2,217	5,332	(717)	–	17,914
Net profit							11,616

A reconciliation of total revenue, as currently presented to the CODM, to IFRS consolidated revenue of the Group for the years ended December 31, 2017 and 2016 is presented below:

	2017	2016
Total revenue, as presented to the CODM	57,469	42,751
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	–	(1,076)
Differences in timing of revenue recognition	(5,181)	(1,740)
Barter revenue	12	30
Dividend revenue from venture capital investments	9	36
Difference in classification of revenue (Note 17.1)	(565)	–
Consolidated revenue under IFRS	51,744	40,001

A reconciliation of EBITDA, as currently presented to the CODM, to IFRS consolidated profit before income tax expense of the Group for the years ended December 31, 2017 and 2016 is presented below:

	2017	2016
Group aggregate segment EBITDA, as presented to the CODM	20,551	17,914
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	–	206
Differences in timing of revenue recognition	(5,070)	(1,740)
Net loss on venture capital investments	(27)	(769)
Share-based payment transactions	(2,475)	(2,226)
Dividend revenue from venture capital investments	9	36
Other	(15)	(47)
EBITDA	12,973	13,374
Depreciation and amortisation	(8,931)	(7,754)
Impairment of intangible assets	–	(52)
Share of profit of equity accounted associates	15	27
Finance income	511	839
Finance expenses	(15)	(732)
Other non-operating (loss)/income	(21)	39
Net loss on disposal of shares in available-for-sale investments	–	(342)
Impairment losses related to equity accounted associates (Note 10)	(273)	–
Net loss on derivative financial assets and liabilities at fair value through profit or loss	(30)	(112)
Net (loss)/gain on disposal of shares in subsidiaries	(15)	8,712
Net foreign exchange gain/(loss)	742	(1,330)
Consolidated profit before income tax expense under IFRS	4,956	12,669

Notes to Consolidated Financial Statements (continued)

5 Operating segments (continued)

A reconciliation of net profit, as currently presented to the CODM, to IFRS consolidated net profit of the Group for the years ended December 31, 2017 and 2016 is presented below:

	2017	2016
Total net profit, as presented to the CODM	14,244	11,616
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payment transactions	(2,475)	(2,226)
Differences in timing of revenue recognition	(5,070)	(1,740)
Effect of difference in dates of acquisition and loss of control in subsidiaries	–	214
Amortisation of fair value adjustments to intangible assets and impairment thereof	(5,344)	(4,867)
Net loss on financial instruments at fair value through profit or loss	(57)	(882)
Net (loss)/gain on disposal of shares in subsidiaries	(15)	8,712
Net foreign exchange gain/(loss)	742	(1,330)
Net loss on disposal of shares in available-for-sale investments	–	(342)
Share of profit of equity accounted associates	15	27
Impairment losses related to equity accounted associates (Note 10)	(273)	–
Other	(15)	(43)
Tax effect of the adjustments and tax on unremitted earnings	529	2,692
Consolidated net profit under IFRS	2,281	11,831

6 Acquisitions and disposals for 2016 and 2017

6.1 Delivery Club

In November 2016 the Group acquired a 90% of equity interest in Delivery Club LLC ("Delivery Club"), Russia's leading food delivery operator, for a cash consideration of RUR 5,714. Effectively the Group acquired 100% equity interest in Delivery Club through put and call options over the remaining 10% with equivalent terms, entered into as part of the business combination. Simultaneously, the Group signed an option agreement in respect of 10% shares of Delivery Club LLC. Under this agreement, the Group had the right to acquire (the call option) and the seller had the right to sell (the put option) 10% of shares in Delivery Club LLC for US$ 10 million (RUR 628 million based on the exchange rate as of the date of the business combination). The Group concluded that the share options (and related voting rights) were substantive at the date of the business combination and economic benefits associated with the ownership of the additional 10% have been effectively transferred to the Company since that date. The primary purpose of the acquisition of Delivery Club was to further enhance the Group's product offering while leveraging the Group's product development and marketing expertise and its leading position among the Russian mobile audience.

In accounting for the business combination, the Group has determined the amounts of Delivery Club`s identifiable assets and liabilities.

During 2017 the Group finalised purchase price allocation for Delivery Club acquisition, which resulted in no change from provisional values:

	Fair value
Property and equipment (Note 8)	6
Other intangible assets (Note 7)	1,040
Deferred income tax assets (Note 18)	70
Trade accounts receivable	81
Financial assets at fair value through profit or loss (Note 22)	28
Prepaid income tax	1
Other current assets	17
Cash and cash equivalents	41
Total assets	1,284
Deferred income tax liabilities	208
Trade accounts payable	27
Financial liabilities at fair value through profit or loss (Note 22)	238
Income tax payable	23
Other payables and accrued expenses	46
Total liabilities	542
Total net assets	742
Goodwill on the transaction was calculated as the excess of:	
(a) the consideration transferred by the Group measured at fair values:	
[1] Cash consideration	5,714
[2] Deferred consideration liability (Note 16)	628
Consideration transferred by the Group	6,342
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	742
Goodwill	5,600

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals for 2016 and 2017 (continued)

6.1 Delivery Club (continued)

Goodwill is mainly attributable to the potential of Delivery Club to further enhance its leadership position in the Russian food delivery 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 Delivery Club's trademark, restaurants relationship and customer base and are amortised over the period of 7 to 10 years.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	5,710
Cash acquired (included in cash flows from investing activities)	(41)
Net cash flow on acquisition	5,669

6.2 Pixonic

In October 2016 the Group acquired Pixonic, a mobile games developer through the acquisition of a 100% of equity interest in several legal entites (together "Pixonic") for a cash consideration of RUR 1,251 and contingent consideration of RUR 625 (USD 10 million) based on ongoing revenue KPIs. The primary purpose of the acquisition of Pixonic was to enhance the Group's position on mobile games market.

During 2017 the Group finalised purchase price allocation for Pixonic acquisition, which resulted in no change from provisional values:

	Fair value
Property and equipment (Note 8)	13
Other intangible assets (Note 7)	1,221
Deferred income tax assets (Note 18)	332
Trade accounts receivable	131
Prepaid income tax	1
Other current assets	38
Cash and cash equivalents	34
Total assets	1,770
Deferred revenue	776
Deferred income tax liabilities (Note 18)	520
Trade accounts payable	135
Income tax payable	1
Interest-bearing loans	54
Total liabilities	1,486
Total net assets	284

Goodwill on the transaction was calculated as the excess of:	
(a) the consideration transferred by the Group measured at fair values:	
[1] Cash consideration	1,251
[2] Contingent consideration liability (Note 16)	625
Consideration transferred by the Group	1,876
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	284
Goodwill	1,592

Goodwill is mainly attributable to the potential of Pixonic to develop new games, 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 mobile games and are amortised over the period of 4 years.

6 Acquisitions and disposals for 2016 and 2017 (continued)

6.2 Pixonic (continued)

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	1,212
Cash acquired (included in cash flows from investing activities)	(34)
Net cash flow on acquisition	1,178

The effects of the Delivery Club and Pixonic acquisition on the Group's revenue and net income for 2016 are presented below:

	Revenue	Net profit
The Group, excluding entities acquired in 2016	39,411	12,220
Contributed by:	590	(389)
Delivery Club	130	(148)
Pixonic	460	(241)
The Group	40,001	11,831
Effect of business combinations as if occuring on January 1, 2016:	1,084	(210)
Delivery Club	491	40
Pixonic	593	(250)
The Group, as if the acquisition of Delivery occurred on January 1, 2016	41,085	11,621

6.3 Headhunter

In February 2016 the Group sold it's 100% equity interest 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 recognised a gain in the amount of RUR 8,712 recorded under "Net gain from disposal of subsidiaries" in the statement of comprehensive income.

6.4 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.

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 (Note 7)	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 and accrued expenses	7
Total liabilities	22
Total net assets	121

6 Acquisitions and disposals for 2016 and 2017 (continued)

6.4 ZakaZaka (continued)

Goodwill on the transaction was calculated as the excess of:

(a) the consideration transferred by the Group measured at fair values:	
[1] Cash consideration	1,027
[2] the acquisition date fair value of the Group's previously held equity interest (Note 22.2)	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 (Note 22.2)	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 (Delivery Club CGU). Goodwill is not expected to be deductible for income tax purposes.

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

6.5 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 presence in the auto classifieds and leverage the Group's expertise and resources by achieving substantial synergies with Youla, the Group's general 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 (Note 11). 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.

6.5 Inplat

In the third quarter 2017 the Group acquired investments in certain associates for total cash consideration of RUR 640, including acquisition of 17.76% equity stake in Inplat Holding Limited ("Inplat"), an operator of electronic online payment system, for cash consideration of RUR 561. The Group' s ownership interest in Inplat represents an investment in an associate and accounted for it under the equity method. The Group concluded that it has significant influence over Inplat as the Group has a power to participate in the financial and operating policy decisions through its representation in Inplat's Board of Directors. The acquisition of investments in Inplat was accounted for based on provisional values as the Group has not completed allocation of purchase price over the fair values of Inplat's identifiable assets and liabilities as of the date of authorisation of issue of the financial statements.

7 Intangible assets

	Goodwill	Trademark	Customer base	Game software and software development costs	Other software, licenses and other	Total
Cost						
At January 1, 2016	126,721	13,916	21,765	10,598	2,986	175,986
Additions	–	1	–	1,097	2,346	3,444
Disposals	–	(5)	–	(16)	(18)	(39)
Additions due to acquisition of subsidiaries (Note 6)	7,443	778	313	1,221	64	9,819
Disposal due to disposal of subsidiaries (Note 6)	(1,855)	(138)	(65)	29	(478)	(2,507)
Translation adjustment	–	2	–	(986)	(143)	(1,127)
At December 31, 2016	132,309	14,554	22,013	11,943	4,757	185,576
Additions	–	3	–	1,016	299	1,318
Disposals	–	–	–	–	(8)	(8)
Additions due to acquisition of subsidiaries (Note 6)	831	160	50	–	210	1,251
Disposal due to disposal of subsidiaries (Note 6)	–	–	–	–	–	–
Translation adjustment	–	–	–	340	34	374
At December 31, 2017	133,140	14,717	22,063	13,299	5,292	188,511
Accumulated amortisation and impairment						
At January 1, 2016	–	(4,202)	(5,982)	(6,219)	(1,936)	(18,339)
Charge for the year	–	(1,433)	(2,928)	(965)	(606)	(5,932)
Disposals	–	–	–	11	15	26
Disposal due to disposal of subsidiaries (Note 6)	–	85	37	(8)	424	538
Impairment	–	–	–	(52)	–	(52)
Translation adjustment	–	(2)	–	331	57	386
At December 31, 2016	–	(5,552)	(8,873)	(6,902)	(2,046)	(23,373)
Charge for the year	–	(1,512)	(2,973)	(1,256)	(1,197)	(6,938)
Disposals	–	–	–	–	–	–
Disposal due to disposal of subsidiaries (Note 6)	–	–	–	–	–	–
Impairment	–	–	–	–	–	–
Translation adjustment	–	–	–	(124)	(21)	(145)
At December 31, 2017	–	(7,064)	(11,846)	(8,282)	(3,264)	(30,456)
Net book value						
At January 1, 2016	126,721	9,714	15,783	4,379	1,050	157,647
At December 31, 2016	132,309	9,002	13,140	5,041	2,711	162,203
At December 31, 2017	133,140	7,653	10,217	5,017	2,028	158,055

Game software and development costs consist of internally and externally developed and acquired software for online games in use and in process of development.

Games represent separable CGUs and the analysis of impairment was performed at the level of each game, where either impairment was previously recognised or current operating performance was below the original forecasts. The analysis included the comparison of the value in use determined based on discounted future cash flows to the carrying amount. The value in use calculation uses cash flow projections from financial budgets approved by senior management covering a period limited to the useful life of the respective game, ranging from 6 to 8 years.

Determining value in use requires the exercise of significant judgment, including judgment about appropriate discount rates, remaining useful life, the amount and timing of expected future cash flows. The cash flows employed in the DCF analysis are based on the Group's most recent budget and, for years beyond the budget, the Group's estimates, which are based on assumed growth rates. The discount rates used in the DCF analysis are intended to reflect the risks inherent in the future cash flows of the respective cash generating units. The pre-tax discount rates used in the DCF models as of December 31, 2017 was 19.1% (2016: 18.9%).

The calculation of value in use is most sensitive to the following assumptions:

- Russian online entertainment market growth rates;
- The Group's market share;
- Games operating performance and net profit margins;
- Discount rates.

8 Property and equipment

	Servers and computers	Leasehold improvements	Furniture, office equipment and motor vehicles	Assets under construction	Other property and equipment	Total
Cost						
At January 1, 2016	6,454	523	280	450	633	8,340
Additions	–	–	–	1,964	–	1,964
Transfers	1,793	6	3	(1,870)	68	–
Disposals	(203)	(1)	(14)	(18)	(1)	(237)
Additions due to acquisition of subsidiaries (Note 6)	2	–	6	9	75	92
Disposal due to disposal of subsidiaries (Note 6)	(94)	(13)	(34)	(2)	(14)	(157)
Translation adjustment	(74)	(1)	(14)	5	(12)	(96)
At December 31, 2016	7,878	514	227	538	749	9,906
Additions	–	–	–	2,654	–	2,654
Transfers	2,439	1	16	(2,520)	64	–
Disposals	(174)	–	(3)	–	(11)	(188)
Additions due to acquisition of subsidiaries (Note 6)	–	–	–	–	–	–
Disposal due to disposal of subsidiaries (Note 6)	–	–	(1)	–	–	(1)
Translation adjustment	81	1	24	(90)	(4)	12
At December 31, 2017	10,224	516	263	582	798	12,383
Accumulated depreciation and impairment						
At January 1, 2016	(4,071)	(190)	(163)	–	(229)	(4,653)
Charge for the year	(1,605)	(38)	(29)	–	(150)	(1,822)
Disposals	203	1	14	–	1	219
Disposal due to disposal of subsidiaries (Note 6)	65	12	32	–	9	118
Translation adjustment	58	1	8	–	5	72
At December 31, 2016	(5,350)	(214)	(138)	–	(364)	(6,066)
Charge for the year	(1,785)	(60)	(27)	–	(121)	(1,993)
Disposals	174	–	3	–	11	188
Disposal due to disposal of subsidiaries (Note 6)	–	–	1	–	–	1
Translation adjustment	(19)	–	(3)	–	–	(22)
At December 31, 2017	(6,980)	(274)	(164)	–	(474)	(7,892)
Net book value						
At January 1, 2016	2,383	333	117	450	404	3,687
At December 31, 2016	2,528	300	89	538	385	3,840
At December 31, 2017	3,244	242	99	582	324	4,491

9 Consolidated subsidiaries

These consolidated financial statements include the assets, liabilities and financial results of the Company and its subsidiaries, whose main activity is providing Russian-language Internet services. The significant subsidiaries as at December 31, 2017 and 2016 are listed below:

Subsidiary	Main activity	Ownership, %* December 31, 2017	Ownership, %* December 31, 2016
Mail Coöperatief UA (Netherlands)	Holding entity	100.0%	100.0%
MRGroup Investments Limited (Cyprus)	Holding entity	100.0%	100.0%
Mail.Ru, LLC (Russia)	Online portal services, development and support of online games, social network	100.0%	100.0%
NBCO Money.Mail.Ru, LLC (Russia)	Internet payment system	100.0%	100.0%
Mail.Ru Development LLC	Reserch and development of online products	100.0%	100.0%
MGL My.com Limited (BVI) (renamed from Benstar limited)	Support of online games	100.0%	100.0%
Mail.Ru Group LLC (renamed from Internet company Mail.Ru LLC)	Holding company	100.0%	100.0%
SIA Forticom (Latvia)	Development and support of social network	100.0%	100.0%
Data Center M100 LLC (Russia)	Hosting services	100.0%	100.0%
My.com B.V. (Netherlands)	Support of online games and portal services	100.0%	100.0%
Mail.ru Internet Holdings B.V. (Netherlands)	Holding company	100.0%	100.0%
Mail.ru Aggregates B.V. (Netherlands)	Holding company	100.0%	100.0%
Mail.ru Holdings B.V. (Netherlands)	Holding company	100.0%	100.0%
MY.COM US, Inc. (USA)	Support of online games and portal services	100.0%	100.0%
VK.COM Holdings ltd (Cyprus)	Holding company	100.0%	100.0%
Vkontakte LLC (Russia)	Social network	100.0%	100.0%
ICVA LLC (Russia)	Hosting services	100.0%	100.0%
Pixonic LLC (USA)	Online games operation	100.0%	100.0%
MD Games LLC (Russia)	Reserch and development of online products	100.0%	100.0%
Pixonic Games Ltd (Cyprus)	Online games operation	100.0%	100.0%
Delivery Club LLC (Russia)	Food delivery	100.0%	100.0%

* The ownership percentages above represent the Company's effective indirect ownership in each subsidiary. There are no differences between economic and voting rigths which the Group holds in subsidiaries.

10 Investments in equity accounted associates

The Group has investments in associates operating popular Internet websites and providing various services over the Internet.

Investments in equity accounted associates at December 31, 2017 and 2016 comprised the following:

Associate	Main activity	Voting shares December 31, 2017	Voting shares December 31, 2016	Carrying value December 31, 2017	Carrying value December 31, 2016
Haslop Company Limited (Cyprus) and Russian subsidiaries (collectively, "Mamba")	Provides content for www.love.mail.ru, a vertical of the www.mail.ru portal operated by a subsidiary of Mail.Ru Internet NV	31.19%	31.19%	308	584
Inplat Holdings Limited (Cyprus)	Operation of electronic online payment systems	17.76%	0%	561	–
Other	Development and operation of online games	n/a	n/a	144	65
Total				1,013	649

The above entities have the same reporting date as the Company. None of the entities were listed on a public exchange as of December 31, 2017.

In 2017 the Group received dividends from Mamba in the amount of RUR 18 (2016: 21). In 2017 the Group recorded impairment of RUR 273 with respect to investments in Mamba. The impairment of Mamba was not allocated to any of the Group's reportable segments, as the financial information related to Mamba is not reviewed by the Group's CODM. No impairment was recorded in 2016.

Movement in investments in equity accounted associates for the years ended December 31, 2017 and 2016 is presented below:

	2017	2016
Investments in equity accounted associates at January 1	649	643
Cash paid for investments in equity accounted associates	640	–
Impairment losses related to equity accounted associates	(273)	–
Share of profit of equity accounted associates	15	27
Dividends received from equity accounted associates	(18)	(21)
Investments in equity accounted associates at December 31	1,013	649

11 Impairment testing of goodwill

The table below shows movements in goodwill per groups of CGUs, corresponding to the Group`s operating segments for each of the years ended December 31, 2017 and 2016:

	Email, Portal and IM	Social Networks	Online Games	Search	E-commerce and Other	Vkontakte	Pixonic	DeliveryClub	Total
Cost at January 1, 2016	8,192	18,474	1,952	2,496	1,916	93,691	–	–	126,721
Additions (Note 6)	–	–	–	–	251	–	1,592	5,600	7,443
Disposal (Note 6)	–	–	–	–	(1,855)	–	–	–	(1,855)
Cost at December 31, 2016	8,192	18,474	1,952	2,496	312	93,691	1,592	5,600	132,309
Additions (Note 6)	–	–	–	–	150	–	–	681	831
Cost at December 31, 2017	8,192	18,474	1,952	2,496	462	93,691	1,592	6,281	133,140

The recoverable amount of goodwill has been determined based on value in use calculations as of December 31, 2017 and 2016.

Value in use

At December 31, 2017, value in use was determined using cash flow projections from financial budgets and forecasts approved by senior management covering a seven to nine-year periods. The nine-year period was taken as the basis because the Group expects that the growth rates of the Russian Internet market will exceed the terminal growth rates in the four-year period following the first five years of forecast. The Group used the cash flow projections based on financial forecasts over a period longer than five years as it is confident that these projections are reliable and accurate.

The major assumptions used in the DCF models at December 31, 2016 are presented below:

	Email, Portal and IM	Social Networks	Online Games	Search	Vkontakte
Terminal growth rate	5.00%	5.00%	5.00%	5.00%	5.00%
Pre-tax discount rate	17.1%	18.3%	17.9%	17.3%	17.2%

The major assumptions used in the DCF models at December 31, 2017 are presented below:

	Email, Portal and IM	Social Networks	Online Games	Search	Vkontakte	Pixonic	DeliveryClub
Terminal growth rate	5.00%	5.00%	5.00%	2.00%	5.00%	n/a	4.11%
Pre-tax discount rate	16.6%	19.5%	17.2%	17.5%	17.3%	24.3%	19.4%

Determining value in use requires the exercise of significant judgment, including judgment about appropriate discount rates, terminal growth rates, the amount and timing of expected future cash flows. The cash flows employed in the DCF analysis are based on the Group's most recent budget and, for years beyond the budget, the Group's estimates, which are based on assumed growth rates. The discount rates used in the DCF analysis are intended to reflect the risks inherent in the future cash flows of the respective cash generating units.

The calculation of value in use is most sensitive to the following assumptions:

- Revenue Compound annual growth rates ("CAGR");
- EBITDA margins;
- Growth rates used to extrapolate cash flows beyond the budget period including terminal growth rate in last year of projections; and
- Discount rates.

A decrease of 14% in the Delivery Club EBITDA margin would result in an impairment of 17% of the carrying amount of the goodwill included in the Delivery Club CGU as of December 31, 2017.

Reasonably possible changes in any key assumptions would not result in impairment of goodwill of any other CGU. No impairment of goodwill was recognised in 2017 and 2016.

12 Trade accounts receivable

As of December 31, 2017 and 2016 trade receivables comprised the following:

	December 31, 2017	December 31, 2016
Trade accounts receivable, gross	6,856	5,487
Provision for impairment of trade receivables	(300)	(398)
Total trade receivables, net	6,556	5,089

The accounts receivable increased primarily due to growth of online advertising and MMO games revenue.

12 Trade accounts receivable (continued)

The movements in provision for impairment of trade receivables were as follows:

Balance as of January 1, 2016	(461)
Charge for the year	(60)
Accounts receivable written off	123
Balance as of December 31, 2016	(398)
Charge for the year	(27)
Accounts receivable written off	125
Balance as of December 31, 2017	(300)

Trade receivables not impaired as of December 31, 2017 and 2016 are presented below:

		Ageing of receivables (days)		
	Total	<90	90-180	>180
As of December 31, 2017				
Trade accounts receivable	6,556	6,542	14	–
As of December 31, 2016				
Trade accounts receivable	5,089	4,965	124	–

The accounts receivable balances as of December 31, 2017 and 2016 mainly represented amounts due from online electronic payment systems and advertising customers.

The trade receivables are settled in RUR on a 40-90 days basis. There is no requirement for collateral to receive credit.

Management considers that the carrying amount of the receivable balances approximated their fair value as of December 31, 2017 and 2016.

13 Cash and cash equivalents and short-term deposits

As of December 31, 2017 and 2016 cash and cash equivalents consisted of the following:

	Currency	December 31, 2017	December 31, 2016
Current accounts and cash on hand:	USD	371	398
	RUR	4,702	598
	EUR	1,203	325
	Other	49	64
Total current accounts and cash on hand		6,325	1,385
Deposit accounts with an original maturity of three months or less:	USD	1,273	630
	RUR	7,773	3,498
	Other	–	–
Total deposit accounts with an original maturity of three months or less		9,046	4,128
Total cash and cash equivalents		15,371	5,513

14 Share capital

14.1 Charter capital and share issues

The charter capital of the Company consisted of 208,582,082 ordinary shares and 11,500,100 Class A shares with USD 0.000005 par value each as of December 31, 2017, while the number of authorised shares of the Company as of the same date consisted of 10,000,000,000 ordinary shares and 10,000,000,000 Class A shares. GDRs representing 259,000 shares of the Company were held in treasury by the Group as of December 31, 2017.

The charter capital of the Company consisted of 208,582,082 ordinary shares and 11,500,100 Class A shares with USD 0.000005 par value each as of December 31, 2016, while the number of authorised shares of the Company as of the same date consisted of 10,000,000,000 ordinary shares and 10,000,000,000 Class A shares. GDRs representing 974,332 shares of the Company were held in treasury by the Group as of December 31, 2016.

As of December 31, 2017 and 2016 all issued shares were fully paid.

14 Share capital (continued)

14.1 Charter capital and share issues (continued)

Rights attached to the share classes as of December 31, 2017 and 2016

The Class A shares and the ordinary shares rank pari passu in all respects, but constitute separate classes of shares, i.e. each and every ordinary share and Class A share has the following rights:

(i) the right to an equal share in any dividend or other distribution paid by the Company to the holders of the shares, pari passu with all other Class A shares and ordinary shares; and, for the avoidance of doubt, any dividend or other distribution may only be declared and paid by the Company to the holders of the Class A shares and the ordinary shares together, and not to the holders of one of those classes of shares only;

(ii) the right to an equal share in the distribution of the surplus assets of the Company pari passu with all other ordinary shares and Class A shares upon the winding up of the Company.

Each Class A share has the right to twenty five votes and each ordinary share has the right to one vote at a meeting of members of the Company or on any resolution of members of the Company.

For additional details on the options over the shares of the Company outstanding as of December 31, 2017 and 2016, refer to Note 24.

14.2 GDR buying programme

Starting 2011, the Trustee commenced a GDR buying programme in order to cover a part of the employee and director options. Under the GDR buying programme, the Trustee acquires GDRs representing shares of the Company and will subsequently transfer the GDRs to the respective option holders upon the exercise of the options. The Trustee intends to hold the GDRs to be used over the next four years.

During 2017 the Trustee acquired a total of 857,736 GDRs on the market for an aggregate consideration of RUR 1,430. The Group accounts for GDRs repurchased as treasury shares.

14.3 Restricted stock

In February 2015, the Board of Directors of the Company approved a new long-term incentive plan based around restricted stock units (RSU) equivalent to up to 5% of total shares outstanding. In June 2015 the Company issued the shares that were transferred to be held as treasury shares. The transaction was recognised at nominal amount.

15 Other assets

The table below represents other non-current assets:

	December 31, 2017	December 31, 2016
Advance under office lease contract	316	1,075
Advances for royalties	1,022	1,012
Other non-current assets	247	178
Total other non-current assets	1,585	2,265

16 Other payables and accrued expenses

Other payables and accrued expenses consist of:

	December 31, 2017	December 31, 2016
Payables to personnel	1,724	1,260
Accrued vacations	774	611
Accrued professional consulting expenses	35	101
Payables under lease contract	121	156
Other current payables (Note 6)	248	1,575
Total other payables and accrued expenses	2,902	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 the acquisitions of Pixonic and Delivery Club made in 2016.

Notes to Consolidated Financial Statements (continued)

17 Other operating gain and other operating expenses

17.1 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".

17.2 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 17.1) and requirements of Russian tax rules.

18 Income tax

The business activity of the Group and its associates is subject to taxation in multiple jurisdictions, including:

The Russian Federation

The Group's subsidiaries and associates incorporated in the Russian Federation are subject to corporate income tax at the standard rate of 20% applied to their taxable income. Withholding tax of 15% is applied to any dividends paid out of Russia, reduced to as low as 5% for some countries (including Cyprus), with which Russia has double-tax treaties.

Cyprus

The Company and the Group's subsidiaries and associates incorporated or tax residents in Cyprus are subject to a 12.5% corporate income tax applied to their worldwide income. Capital gains derived from sale of securities are tax exempt (except for capital gains realised in connection with sale of shares in companies deriving their value or the greater part of their value from immovable property located in Cyprus). Dividend income is also tax exempt.

British Virgin Islands

The Company and its subsidiaries and associates incorporated in the British Virgin Islands are exempt from all taxes under the respective laws, unless they become tax residents in other jurisdictions.

United States of America

The Group's subsidiaries incorporated in the USA are subject to federal corporate income tax at standard rates of up to 35% applied to their taxable income.

The Netherlands

The Group's subsidiaries incorporated in the Netherlands are subject to corporate income tax at a standard rate of 25% applied to their taxable income. Dividend income and capital gains received by the Dutch subsidiaries are exempt from the corporate income (participation exemption).

The reconciliation between tax expense and the product of accounting profit multiplied by domestic rates applicable to individual Group entities for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Profit before income tax expense	4,956	12,669
Tax at domestic rates applicable to individual group entities	(925)	(1,421)
Non-taxable gain from disposal of subsidiary	–	1,027
Effect of changes in tax rates and jurisdictions	(820)	668
Tax on unremitted earnings	12	342
Non-deductible expenses	(335)	(970)
Tax accruals and penalties	–	(409)
Write-down of deferred tax assets	(543)	(52)
Other	(64)	(23)
Total income tax expense	(2,675)	(838)

The majority of our taxable profits as well as income tax expenses in 2017 and 2016 are generated in Russia. Pre-tax gains and losses in other jurisdictions in 2017 mostly relate to share based payment expenses, fair value revaluation, foreign exchange gains and losses, and other similar items which are generally non-taxable in those jurisdictions. These items affect pre-tax profit, but do not have an influence on income tax expense, which has an effect on the blended tax rate.

Notes to Consolidated Financial Statements (continued)

18 Income tax (continued)

Deferred income tax assets and liabilities as of December 31, 2017 and 2016 are summarised below:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	December 31, 2017	December 31, 2016	2017	2016
Deferred tax liabilities arising from:				
Intangible assets book basis in excess of tax basis	(3,494)	(4,607)	1,123	1,373
Basis of investment in associate in excess of tax basis	(80)	(135)	55	–
Unremitted earnings of subsidiaries	(3)	(14)	12	342
Other	(308)	(130)	(175)	17
Deferred tax liabilities netting	1,390	1,621		
Total deferred tax liabilities	(2,495)	(3,265)		
Deferred tax assets arising from:				
Tax credit carryforwards	736	817	(217)	593
Deferred compensation and accrued employee benefits	378	265	113	11
Accrued expenses	263	183	80	46
Revenue recognition	2,007	2,562	(539)	480
Unrealised intercompany profit	161	142	17	16
Other	149	252	(127)	13
Deferred tax assets netting	(1,390)	(1,621)		
Deferred tax benefit			342	2,891
Total deferred tax assets	2,304	2,600		
Net deferred tax liabilities	(191)	(665)		

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised, aggregate to RUR 75,984 (2016: RUR 64,647).

Changes in net deferred tax liability from January 1, 2016 to December 31, 2017 were as follows:

	2017	2016
Total deferred income tax liability, net at January 1	(665)	(3,161)
Translation reserve	(4)	(135)
Effect of disposal of subsidiary	–	88
Deferred tax benefit	342	2,891
Effect of acquisition of subsidiaries (Note 6)	136	(348)
Total deferred income tax liability, net at December 31	(191)	(665)

	2017	2016
Current income tax expense	3,017	3,729
Deferred income tax benefit	(342)	(2,891)
Total income tax expense	2,675	838

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 wrote-down RUR 507 of deferred tax assets 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.

19 EPS

19.1 Basic EPS

Basic EPS amounts are calculated by dividing earnings for the year attributable to equity holders of the parent by the weighted average number of ordinary and Class A shares outstanding during the year.

	2017	2016
Net profit attributable to equity holders of the Company	2,261	11,813
Weighted average number of ordinary and class A shares in issued and outstanding	211,548,999	208,498,446
Basic EPS (RUB per share)	10.7	56.7

Notes to Consolidated Financial Statements (continued)

19 EPS (continued)

19.2 Diluted EPS

Diluted EPS is calculated by adjusting the weighted average number of ordinary and Class A shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and RSUs granted by the Company (collectively forming the denominator for computing the diluted EPS).

For share options and RSUs, a calculation is done to determine the number of shares that would have been issued assuming the exercise of the share options and RSUs. The above number is added to the denominator as an issue of ordinary shares for no consideration. Net profit attributable to equity holders of the parent (numerator) is adjusted for the charge that would arise if equity settlement took place.

The calculation of diluted EPS is summarised in the table below:

	2017	2016
Net profit attributable to equity holders of the Company	2,261	11,813
Adjustment for the gains from cash setlled option	–	(319)
Adjusted net profit attributable to equity holders of the Company	2,261	11,494
Weighted average number of ordinary and class A shares in issued and outstanding	211,548,999	208,498,446
Effect of equity-settled share based payments of the Company	3,379,979	2,968,693
Total diluted weighted average number of shares	214,928,978	211,467,139
Diluted EPS (RUB per share)	10.5	54.4

20 Commitments, contingencies and operating risks

20.1 Operating environment of the Group

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 Rouble interest rates remained high. 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.

20.2 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.

20.3 Legal proceedings

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

20.4 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 Group's user base and make it less attractive to advertisers.

Increased competition could also result in a reduction in the number of users who buy the Group's Community IVAS 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.

20 Commitments, contingencies and operating risks (continued)

20.5 Private information

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

20.6 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 and could have a material effect on its business, results of operations and financial condition. The Group has been subject to such proceedings. Although none of them was individually significant, similar potential claims may subject the Group to significant losses in the future, which currently cannot be reliably estimated.

20.7 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 sites and, in turn, could affect the Group's revenue. An inability to develop competitive 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.

20.8 Regulation

The Internet and its associated technologies are subject to government regulation. Substantial part of Group's business is subject to Russian laws. New laws and regulations, or new interpretations of existing laws and regulations, could require the Group to invest in restructuring certain services or could lead to a reduction in their take-up by users, with a resulting effect on revenue and profitability. Non-compliance with the applicable regulations could lead to penalties or blocking of non-compliant services.

On July 7, 2016 the President of the Russian Federation signed a package of "Anti-terror laws". The package requires organisers of the dissemination of information including subsidiaries of the Group: 1) to store data on receipt, transfer, processing of the users' information in the Russian Federation for the period of 1 year excluding content (effective from July 20, 2016); 2) to store data on receipt, transfer, processing of the users' information in the Russian Federation for the period of up to 6 months as the Russian Government shall determine including content (effective from July 1, 2018); 3) to provide competent authorities with decryption means if encryption is used or supported by the organiser of the dissemination of information (effective from July 20, 2016). The details of implementation of the package are still under discussion. The Group will estimate the potential effects of the laws when the Russian Government determines how to store data on communications with content.

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

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

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

20.9 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.

20.10 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.

20 Commitments, contingencies and operating risks (continued)

20.11 Operating lease commitments – the Group as a lessee

The table below summarises minimum lease payments under non-cancellable operating lease contracts where the Group is a lessee:

	2017 Minimum lease payments	2016 Minimum lease payments
Due in less than 1 year	1,399	17
Due between 2 to 5 years	469	1,868
Due in more than 5 years	–	–
Total	1,868	1,885

The Group mainly leases office premises. In 2017 operating lease expense in the consolidated statement of comprehensive income amounted to RUR 1,861 (2016 – RUR 1,795). The minimum lease payments denominated in currency other than RUR are calculated based on exchange rate of Central Bank of Russia as of December 31, 2017 or according to each respective agreement.

21 Balances and transactions with related parties

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year, excluding Directors and key management of the Group (see Notes 21.2 and 21.3). All related party transactions were made in accordance with contractual terms and conditions agreed between the parties.

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
2017				
Equity accounted associates	119	–	75	3
Other entities	243	27	31	2
2016				
Equity accouned associates	134	14	64	2
Other entities	1	13	–	2

21.1 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.

21.2 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 130 for the year ended December 31, 2017 (2016: RUR 145) was accrued. In 2017 20,000 RSUs out of 2017 RSU Plan were granted to Directors (2016: nil). During the year ended December 31, 2017, Directors did not forfeit any options (2016: nil) and exercised 3,986,032 options (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 728 for the year ended December 31, 2017 (2016: a negative RUR 54).

21.3 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 517 for the year ended December 31, 2017 (2016: 590) was accrued. In addition to the cash remuneration for the year ended December 31, 2017, key executive employees of the Group were granted 3,335,000 RSUs out of 2017 RSU Plan (Note 24). During the year ended December 31, 2017, key management of the Group (excluding Directors) did not forfeit any options (2016: nil) and exercised 1,465,865 RSU's and options over shares of the Company (2016: 292,500). The corresponding share-based payment expense amounted to RUR 998 for year ended December 31, 2017 (2016: 1,952).

Notes to Consolidated Financial Statements (continued)

22 Financial instruments

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

	Category*	December 31, 2017	December 31, 2016
Financial assets			
Financial investments in associates	FAFVPL	264	322
Financial derivatives under lease and hosting contracts	FAFVPL	150	164
Derivative financial assets over the equity of investee	FAFVPL	122	22
Trade accounts receivable	LR	6,556	5,089
Loans and interest receivable	LR	77	31
Cash and cash equivalents	LR	15,371	5,513
Total financial assets		22,540	11,141
Current		22,110	10,725
Non-current		430	416
Total derivative financial assets		272	186
Current		172	105
Non-current		100	81
Financial liabilities			
Long-term and short-term interest-bearing loans and related interest payable	FLAC	–	122
Financial liabilities at fair value through profit or loss - derivative over the equity of investee	FLFVPL	–	234
Trade accounts payable, other payables and accrued expenses	FLAC	8,043	7,767
Total financial liabilities		8,043	8,123
Current		7,798	7,375
Non-current		245	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;
- AFSFA – available-for-sale financial assets;
- LR – loans and receivables;
- FLFVPL – financial liabilities at fair value through profit or loss; or
- FLAC – financial liabilities at amortised cost.

None of the Group's financial investees are public companies and none of the Group's financial instruments are traded in active markets. Accordingly, fair values of the Group's financial assets and liabilities at fair value through profit or loss are determined using valuation techniques, including discounted cash flow models, comparison to similar instruments for which observable market prices exist, option pricing models and other relevant valuation models. Such valuation techniques require management to make certain assumptions about model inputs, including credit risk and volatility.

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

22.1 Financial assets classified as loans and receivables

Detailed information on short-term receivables, cash and cash equivalents and short-term time deposits is available in Notes 12 and 13.

22.2 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 Consolidated Financial Statements (continued)

22 Financial instruments (continued)

22.2 Fair value hierarchy (continued)

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

	December 31, 2017	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in associates	264	–	–	264
Financial derivatives under lease and hosting contracts	150	–	–	150
Derivative financial assets over the equity of subsidiary	122	–	–	122
Total financial assets at fair value through profit or loss	536	–	–	536

	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 associates	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
Financial liabilities at fair value through profit or loss – *derivative over the equity of investee*	(234)	–	–	(234)
Total financial assets measured at fair value	(234)	–	–	(234)

The balance of Level 3 measurements as of January 1, 2016 is reconciled to the balance of those measurements as of December 31, 2017 as follows:

	Balance as of January 1, 2016	Gains/(losses) recognized in profit and loss	Purchases	Sales	Acquired through business combination (Note 6)	Balance as of December 31, 2016
Financial assets measured at fair value						
Financial assets at fair value through profit or loss:						
Financial investments in associates	963	(769)	114	(14)	28	322
Derivative financial assets over the equity of investee	–	–	–	–	22	22
Financial derivatives under lease and hosting contracts	280	(116)	–	–	–	164
Total financial assets at fair value through profit or loss	1,243	(885)	114	(14)	50	508
Financial liabilities at fair value through profit or loss – *derivative over the equity of investee*	–	4	–	–	(238)	(234)
Total financial liabilities measured at fair value	–	4	–	–	(238)	(234)

	Balance as of January 1, 2017	Gains/(losses) recognized in profit and loss	Purchases	Acquired through business bombination (Note 6)	Balance as of December 31, 2017
Financial assets measured at fair value					
Financial assets at fair value through profit or loss:					
Financial investments in associates	322	(27)	89	(120)	264
Derivative financial assets over the equity of investee	22	100	–	0	122
Financial derivatives under lease and hosting contracts	164	(14)	–	–	150
Total financial assets at fair value through profit or loss	508	59	89	(120)	536
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	–

23 Financial risk management objectives and policies

23.1 Introduction

The Group's principal financial liabilities, other than derivatives, mainly comprise an interest-bearing bank loan and trade accounts payable. The main purposes of these financial liabilities are to finance the Group's operations and, in the case of the loan, a business acquisition. The Group has short-term receivables, short-term time deposits, cash and cash equivalents and other current financial assets that arise directly from the Group's operations. The Group believes that the interest rate risk which related to fluctuation of market interest rate has been largely mitigated through the use of a fixed interest rate on the loan, applicable for the entire period of the loan.

The Group also has a venture capital investment portfolio consisting of equity investments in Internet start-ups and smaller Internet companies and derivative contracts over the equity of the Group's venture capital investees.

The Group's senior management is responsible for identifying and controlling risks. These activities are supervised by the Board of Directors, the Group's governing body that is ultimately responsible for the Group's overall approach to risk management. The Board of Directors is developing risk management policies covering the following major aspects: identification and analysis of the risks the Group faces, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management procedures and systems are contemplated to be reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

The Group's Audit Committee has been established to oversee, inter alia, how management monitors compliance with the Group's risk management practices and procedures when these are approved by the Board of Directors.

23.2 Liquidity and financial resources

The Group monitors its risk of a shortage of funds using a liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of operating cash flows, bank overdrafts, bank loans. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Other financial liabilities of the Group are mostly represented by trade payables with maturity less than one year.

23.3 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

Financial assets, which potentially subject the Company and its subsidiaries and associates to credit risk, consist principally of cash and cash equivalents, short-term time deposits and short-term receivables. The total of these account balances represents the Group's maximum exposure to credit risk.

The Group places its cash and cash equivalents with highly rated financial institutions, which are considered at the time of deposit to have minimal risk of default. The Group does not require collateral or other security to support the financial instruments subject to credit risk. Accounts receivable from the two largest customers collectively represented 21% of total trade accounts receivable of the Group as of December 31, 2017 and 17% as of December 31, 2016. No customer accounted for more than 10% of revenue in 2017 or 2016.The Group provides credit payment terms to its customers in accordance with market practices and based on thorough review of the customer's profile and creditworthiness. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss beyond the allowance already recorded.

23.4 Capital management policy

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value. The Group manages its capital structure and makes adjustments in light of changes in economic conditions.

23.5 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The market risks the Group is exposed to comprise two types of risk: currency risk (Note 23.6) and equity risk. The Group's financial instruments affected by market risk include payables, cash and cash equivalents, short-term time deposits, available-for-sale investments, financial investments in associates and derivative financial instruments. The Group's equity risk arise from uncertainties about future values of the investment into unlisted securities.

23 Financial risk management objectives and policies (continued)

23.6 Foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in USD exchange rate, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	(Negative)/Positive effect on profit before tax
2017	`+10%	(187)
	`-10%	187
2016	`+20%	(382)
	`-20%	382

24 Share-based payments

24.1 Share-based payment arrangements of the Company

24.1.1 Option plans

During 2017 and 2016, the Company had the following outstanding option plans:

	2010 Option Plan	2015 RSU Plan	2017 RSU Plan
Adoption date	November 2010	February 2015	November 2017
Type of shares	Ordinary shares	Ordinary shares	Ordinary shares
Number of options or RSU reserved	10,706,403	5,795,500	5,202,471
Exercise price	Granted: • prior December 31, 2011 – USD 19.60 • since December 31, 2011 – USD 17.50	Nil	Nil
Exercise basis	Prior to November 2011 – net share basis only Since November 2011 – net share basis or cash at the Group's discretion	Shares or cash at the Group's discretion	Shares or cash at the Group's discretion
Expiration date	December 2022	December 2022	December 2022
Vesting period	Generally 4 years	Generally 4 years	Generally 4 years
Other major terms	• The options are not transferrable; • All other terms of the options under the 2010 Option Plan are to be determined by the Company's Board of Directors or Remuneration Committee.	• The options are not transferrable; • All other terms of the options under the 2015 RSU Plan are to be determined by the Company's Board of Directors or Remuneration Committee.	• The options are not transferrable; • Performance conditions • Immediate vesting due to change of ultimate controlling party. • All other terms of the options under the 2017 RSU Plan are to be determined by the Company's Board of Directors or Remuneration Committee.

24 Share-based payments (continued)

24.1 Share-based payment arrangements of the Company (continued)

24.1.2 Changes in outstanding options

The table below summarises the the number and weighted average exercise prices (WAEP) of and movements in share options and RSUs in 2017 and 2016:

	Number of options/RSU	WAEP
Outstanding as of December 31, 2015	**10,905,702**	**9.72**
Exercisable as of December 31, 2015	6,872,952	15.11
Available for grant as of December 31, 2015	6,579,864	2.20
Granted during the year	239,000	4.39
Exercised during the year	537,575	1.08
Cancelled during the year	33,750	0.00
Forfeited during the year	10,250	8.54
Outstanding as of December 31, 2016	**10,563,127**	**10.08**
Exercisable as of December 31, 2016	7,730,377	13.60
Available for grant as of December 31, 2016	6,384,864	2.12
Granted during the year	4,029,000	0.56
Exercised during the year	7,350,613	10.79
Cancelled during the year	0	n/a
Forfeited during the year	38,000	5.93
Outstanding as of December 31, 2017	**7,203,514**	**4.05**
Exercisable as of December 31, 2017	2,464,597	10.50
Available for grant as of December 31, 2017	2,393,864	4.79

The weighted-average share price was USD 27.30 for options and RSUs exercised in 2017 and USD 20.25 for options and RSUs exercised in 2016.

The range of exercise prices for options and RSUs outstanding as of December 31, 2017 and 2016 presented in the table below:

Exercise price	December 31, 2017	December 31, 2016
–	5,649,550	4,853,425
17.5	600,500	2,612,250
19.6	953,464	3,097,452

24.1.3 Valuations of share-based payments

The valuations of all equity-settled options and RSUs granted during 2016 and 2017 are summarised in the table below:

Option plan/Grant date	Number of options	Dividend yield %	Volatility, %	Risk-free interest rate, %	Expected term, years	Share price (USD)	Fair value, total (million RUR)	Fair value per option (RUR)	Valuation method
2010 Option Plan/ 2016	60,000	0%	54%	1.23%	N/A	16.75	28	474	Binomial
2015 RSU Plan / 2016	179,000	0%	53%-54%	1.21-1.23%	N/A	16.75-18.00	177	990	Binomial
2010 Option Plan/ 2017	130,000	0%	49.4%	1.98%	N/A	26.35	106	812	Binomial
2015 RSU Plan / 2017	464,000	0%	40.9-52.3%	1.81-2.28%	N/A	21.24-33.00	684	1,474	Binomial
2017 RSU Plan / 2017	3,435,000	0%	41.1%	2.17%	N/A	29.30	5,907	1,720	Binomial

The valuations of all cash-settled options as of December 31, 2017 are summarised in the table below:

Number of options	Dividend yield %	Volatility, %	Risk-free interest rate, %	Expected term, years	Share price (USD)	Fair value, total (million RUR)	Fair value per option (RUR)	Valuation method
590 064	0%	41%	2.22%	N/A	28.90	482	816	Binomial

The forfeiture rate used in all valuation models in 2017 is 0.5-3.3%. It is based on historical data and current expectations and is not necessarily indicative of forfeiture patterns that may occur.

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options/RSUs is indicative of future trends, which may not necessarily be the actual outcome.

24 Share-based payments (continued)

24.2 Share-based payment expense

The Group recognised RUR 2,475 in share-based payment expenses in the year ended December 31, 2017 (2016: RUR 2,226), including RUR 2,238 (2016: 2,433) related to equity-settled share-based payments. The expense was included under *"Personnel expenses"* in the consolidated statement of comprehensive income.

25 Events after the reporting period

In 2018 the Group signed an agreement for acquision of a 100% interest in ESForce Holding Limited ("ESForce") for a cash consideration of US$ 100 million less any outstanding debt, and contingent consideration based on performance KPIs at the end of 2018. The contingent consideration is expected of US$ 20 million.