Mail.Ru Group Limited

Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

Contents

Совершенствуя бизнес, улучшаем мир

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Independent auditor's report

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

Report on Review of Interim Financial Information

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Mail.ru Group Limited and its subsidiaries (the Group), which comprise the interim condensed consolidated statement of financial position as at June 30, 2019, the interim condensed consolidated statement of comprehensive income for the three-month and six-month periods then ended, interim condensed consolidated statement of cash flows and interim condensed consolidated statement of changes in equity for the six-month period then ended and notes to the interim condensed consolidated financial statements (interim financial information). Management of Mail.ru Group Limited is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

A.A. Chizhikov
Partner
Ernst & Young LLC

July 24, 2019

Details of the entity

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

Details of the auditor

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

Interim Condensed Consolidated Statement of Financial Position

As of June 30, 2019
(in millions of Russian Roubles)

	Notes	As at June 30, 2019 (unaudited)	As at December 31, 2018
ASSETS			
Non-current assets			
Investments in equity accounted associates	5, 15	1,282	2,816
Goodwill	5, 15	138,103	140,446
Right-of-use assets	2.1	5,832	–
Other intangible assets	6	18,830	20,759
Property and equipment	7	7,488	7,050
Financial assets at fair value through profit or loss	14	2,629	2,015
Deferred income tax assets		3,420	4,793
Other non-current assets	8	266	1,684
Total non-current assets		177,850	179,563
Current assets			
Trade accounts receivable	14	9,145	9,916
Prepaid expenses and advances to suppliers		531	1,123
Financial assets at fair value through profit or loss	14	973	1,072
Other current assets		898	1,353
Cash and cash equivalents		8,054	11,723
Total current assets		19,601	25,187
Assets held for sale	15	18,289	32
Total assets		215,740	204,782
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		–	–
Share premium		59,266	58,482
Treasury shares		(921)	(286)
Retained earnings		103,514	106,685
Accumulated other comprehensive income/(loss)		139	(165)
Total equity attributable to equity holders of the parent		161,998	164,716
Non-controlling interests		634	259
Total equity		162,632	164,975
Non-current liabilities			
Deferred income tax liabilities		2,102	2,405
Deferred revenue	2.2	12,295	12,397
Non-current lease liability	2.1, 14	1,982	–
Long-term interest-bearing loans and borrowings	14	7,084	–
Total non-current liabilities		23,463	14,802
Current liabilities			
Trade accounts payable	14	6,819	8,263
Income tax payable		510	893
VAT and other taxes payable		1,529	1,430
Deferred revenue and customer advances	2.2	10,439	8,809
Short-term portion of long-term interest-bearing loans	14	1,442	–
Financial liabilities at fair value through profit or loss, current	14	32	–
Short-term lease liability	2.1, 14	3,081	–
Other payables, accrued expenses and contingent consideration liabilities	2.1, 9, 14	3,970	5,610
Total current liabilities		27,822	25,005
Liabilities directly associated with the assets held for sale	15	1,823	–
Total liabilities		53,108	39,807
Total equity and liabilities		215,740	204,782

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2019
(in millions of Russian Roubles)

	Notes	Three months ended June 30, 2019 (unaudited)	Three months ended June 30, 2018 (unaudited)	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Online advertising		8,595	7,299	16,342	13,867
MMO games		5,674	3,768	10,384	7,521
Community IVAS		3,896	3,453	7,618	7,296
Other revenue		1,502	987	2,841	1,917
Total revenue	4, 10	19,667	15,507	37,185	30,601
Net gain/(loss) on venture capital investments	14	314	16	323	(23)
Personnel expenses		(5,105)	(4,345)	(9,870)	(9,788)
Office rent and maintenance		(58)	(624)	(124)	(1,222)
Agent/partner fees		(5,761)	(4,053)	(10,728)	(7,586)
Marketing expenses		(3,391)	(3,442)	(8,547)	(6,528)
Server hosting expenses		(173)	(507)	(343)	(973)
Professional services		(230)	(130)	(372)	(285)
Other operating expenses		(755)	(699)	(1,701)	(1,283)
Total operating expenses		(15,473)	(13,800)	(31,685)	(27,665)
EBITDA		4,508	1,723	5,823	2,913
Depreciation and amortisation		(3,153)	(2,438)	(6,138)	(4,823)
Impairment of intangible assets	6	(630)	(1,698)	(630)	(1,698)
Share of loss of equity accounted associates		(258)	(132)	(551)	(132)
Finance income		169	88	312	265
Finance expenses		(324)	(1)	(527)	(16)
Other non-operating (loss)/gain		(60)	28	(117)	(5)
Net (loss)/gain on derivative financial assets and liabilities at fair value through profit or loss	14	(206)	(283)	(316)	395
Reversal of impairment of equity accounted associates		111	–	111	–
Net gain on disposal of intangible assets	8	400	–	400	–
Gain on re-measurement of previously held interest in equity accounted associates		276	–	161	–
Net foreign exchange (loss)/gain		(215)	139	(934)	309
Profit/(loss) before income tax expense		618	(2,574)	(2,406)	(2,792)
Income tax (expense)/benefit	11	(321)	28	(750)	(445)
Net profit/(loss)		297	(2,546)	(3,156)	(3,237)
Attributable to:					
Equity holders of the parent		318	(2,551)	(3,151)	(3,247)
Non-controlling interest		(21)	5	(5)	10
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods					
Exchange differences on translation of foreign operations:					
Differences arising during the period		(26)	3	304	(65)
Total other comprehensive (loss)/income net of tax effect of 0		(26)	3	304	(65)
Total comprehensive income/(loss), net of tax		271	(2,543)	(2,852)	(3,302)
Attributable to:					
Equity holders of the parent		292	(2,548)	(2,847)	(3,312)
Non-controlling interest		(21)	5	(5)	10
Earnings/(loss) per share, in RUR:					
Basic earnings/(loss) per share attributable to ordinary equity holders of the parent		1	(12)	(15)	(15)
Diluted earnings/(loss) per share attributable to ordinary equity holders of the parent		1	(12)	(15)	(15)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2019
(in millions of Russian Roubles)

	Notes	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Cash flows from operating activities			
Loss before income tax		(2,406)	(2,792)
Adjustments to reconcile loss before income tax to cash flows:			
Depreciation and amortisation	6, 7	6,138	4,823
Impairment losses on financial assets at amortized cost	12	164	8
Net (gain)/loss on venture capital investments	14	(323)	23
Net loss/(gain) on financial assets and liabilities at fair value through profit or loss	14	316	(395)
Net gain on disposal of intangible assets	8	(400)	–
Gain on re-measurement of previously held interest in equity accounted associate		(161)	–
Finance income		(312)	(265)
Finance expenses		527	16
Dividend revenue from venture capital investments		(8)	(16)
Share of loss of equity accounted associates		551	132
Reversal of impairment of equity accounted associates		(111)	–
Impairment of intangible assets	6	630	1,698
Net foreign exchange loss/(gain)		934	(309)
Share-based payment expense		803	2,222
Other non-cash items		21	8
Change in operating assets and liabilities:			
Decrease/(increase) in accounts receivable		240	(95)
(Increase)/decrease in prepaid expenses and advances to suppliers		(149)	630
Decrease/(increase) in inventories and other assets		415	(219)
Decrease in accounts payable and accrued expenses		(1133)	(13)
Decrease/(increase) in non-current prepaid expenses and advances		15	(131)
Increase in deferred revenue and customer advances		2,726	2,572
Increase in financial assets at fair value through profit or loss	14	(1,730)	(1,675)
Operating cash flows before interest, income taxes and contingent consideration settlement		6,747	6,222
Dividends received from venture capital investments		7	16
Settlement of contingent consideration of business combination	5.2, 9, 14	(688)	–
Interest received		251	286
Interest paid		(270)	(13)
Income tax paid		(2,017)	(1,413)
Net cash provided by operating activities		4,030	5,098
Cash flows from investing activities			
Cash paid for property and equipment		(2,048)	(2,151)
Cash paid for intangible assets		(1,186)	(757)
Dividends received from equity accounted associates		71	19
Loans issued		(204)	(71)
Loans collected		354	–
Cash paid for acquisitions of subsidiaries, net of cash acquired	5	(7,543)	(7,502)
Settlement of initial fair value of the contingent consideration at acquisition date	5.2, 9, 14	(1,132)	(1,758)
Cash paid for investments in equity accounted associates	5	(989)	–
Net cash used in investing activities		(12,677)	(12,220)
Cash flows from financing activities			
Payment of lease liabilities		(1,822)	–
Loans received, net of bank commission		8,482	–
Cash paid for treasury shares		(656)	–
Net cash provided by financing activities		6,004	–
Net decrease in cash and cash equivalents		(2,643)	(7,122)
Effect of exchange differences on cash balances		(404)	316
Cash and cash equivalents at the beginning of the period		11,723	15,371
Cash and cash equivalents at the end of the period relating to continuing operations		8,676	8,565
Change in cash related to assets held for sale		(622)	–
Cash and cash equivalents at the end of the period		8,054	8,565

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2018
(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, 2018	212,424,794	–	51,722	(444)	114,676	128	166,082	84	166,166
Loss for the period	–	–	–	–	(3,247)	–	(3,247)	10	(3,237)
Other comprehensive loss							–		–
Foreign currency translation	–	–	–	–	–	(65)	(65)	–	(65)
Total other comprehensive loss	–	–	–	–	–	(65)	(65)	–	(65)
Total comprehensive loss	–	–	–	–	(3,247)	(65)	(3,312)	10	(3,302)
Share-based payment transactions	–	–	2,239	–	–	–	2,239	–	2,239
Exercise of RSUs and options over the shares of the Company	1,649,366	–	(153)	153	–	–	–	–	–
Acquisitions of non-controlling interests in business combinations (Note 5)	–	–	–	–	–	–	–	315	315
Balance at June 30, 2018 (unaudited)	214,074,160	–	53,808	(291)	111,429	63	165,009	409	165,418

Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended June 30, 2019
(in millions of Russian Roubles)

	Share capital								
	Number of shares issued and outstanding	Amount	Share premium	Treasury shares	Retained earnings Restated (Note 2.1)	Accumulated other comprehensive income/(loss) (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2019	215,969,922	–	58,482	(286)	106,685	(165)	164,716	259	164,975
Impact of IFRS 16 adoption (Note 2.1)	–	–	–	–	(20)	–	(20)	–	(20)
Adjusted balance at January 1, 2019	215,969,922	–	58,482	(286)	106,665	(165)	164,696	259	164,955
Loss for the period	–	–	–	–	(3,151)	–	(3,151)	(5)	(3,156)
Other comprehensive income							–		
Foreign currency translation	–	–	–	–	–	304	304	–	304
Total other comprehensive income	–	–	–	–	–	304	304	–	304
Total comprehensive (loss)/income	–	–	–	–	(3,151)	304	(2,847)	(5)	(2,852)
Share-based payment transactions	–	–	796	–	–	–	796	–	796
Exercise of RSUs and options over the shares of the Company	1,073,131	–	(21)	21	–	–	–	–	–
Acquisitions of treasury shares	(408,805)	–	–	(656)	–	–	(656)	–	(656)
Acquisitions of non-controlling interests in business combinations (Note 5)	–	–	–	–	–	–	–	380	380
Disposal of subsidiary	–	–	9	–	–	–	9	–	9
Balance at June 30, 2019 (unaudited)	216,634,248	–	59,266	(921)	103,514	139	161,998	634	162,632

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2019
(in millions of Russian Roubles)

1 Corporate information and description of business

These interim condensed consolidated financial statements of Mail.Ru Group Limited (hereinafter "the Company") and its subsidiaries (collectively – "the Group") for the six months ended June 30, 2019 were authorised for issue by the directors of the Company on July 24, 2019.

The Company was registered on May 4, 2005 in the Territory of the British Virgin Islands ("BVI"), pursuant to the International Business Companies Act (the "Act"), Cap. 291. The principal office of the Company is at 28 Oktovriou, 365, VASHIOTIS SEAFRONT, office 402, Neapoli, 3107 Limassol, Cyprus.

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

2 Basis of preparation

The interim condensed consolidated financial statements for the six months ended June 30, 2019 have been prepared in accordance with IAS 34.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2018 prepared in accordance with IFRS.

2.1 Application of new and amended IFRS and IFRIC

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

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

IFRS 16 Leases

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

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

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

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

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

2 Basis of preparation (continued)

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

a) Nature of the effect of adoption of IFRS 16

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

The Group also applied the available practical expedients wherein it:

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

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

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

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

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

b) Summary of new accounting policies

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

- Right-of-use assets

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

- Lease liabilities

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

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

- Leases of low-value assets

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

2 Basis of preparation (continued)

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

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

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

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

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

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

	Right-of-use assets				
	Premises	Racks in data centers	Other	Total	Lease liability
As at January 1, 2019	5,704	566	25	6,295	5,494
Additions	758	634	32	1,424	1,424
Amortisation expense	(1,250)	(577)	(27)	(1,854)	–
Interest expense	–	–	–	–	256
Payments	–	–	–	–	(2,078)
Assets held for sale	(33)	–	–	(33)	(33)
As at June 30, 2019	5,179	623	30	5,832	5,063

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

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

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

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

2.2 Changes in estimates

In Q2 2019, 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 April 1, 2019 and resulted in an increase in revenue and a decrease in deferred revenue estimated at RUR 173.

3 Seasonality of operations

Due to the seasonal nature of advertising and online games, higher revenues and operating profits are usually expected in the second half of the year than in the first six months. Higher sales during the second half of the year are mainly attributed to the fact that a large portion of advertising budgets is spent in the last quarter of the year and to the increased demand for online games due to the end of the vacation period.

4 Operating segments

In reviewing the operational performance of the Group and allocating resources, the Chief Executive Officer of the Group, who is the Group's Chief Operating Decision Maker (CODM), reviews selected items of each segment's income statement, assuming 100% ownership in all of the Group's key operating subsidiaries, based on management reporting.

Management reporting is different from IFRS, because it does not include certain IFRS adjustments which are not analysed by the CODM in assessing the core operating performance of the business. Such adjustments affect such major areas as revenue recognition, deferred tax on unremitted earnings of subsidiaries, share-based payments, disposal or impairment of investments, business combinations, fair value adjustments, amortisation and impairment thereof, net foreign exchange gains and losses, share in financial results of associates, as well as irregular non-recurring items that occur from time to time and are evaluated for adjustment as and when they occur. The tax effect of these adjustments is also excluded from management reporting.

The financial information of the key subsidiaries acquired during the reporting period or after the reporting period but prior to the date of these consolidated financial statements is included into the segment disclosure starting from the beginning of the earliest comparative period included in the financial statements.

4 Operating segments (continued)

The financial information of subsidiaries disposed of and assets classified as held for sale prior to the date of these consolidated financial statements is excluded from the segment presentation starting from the beginning of the earliest period presented.

Accordingly, segment reporting for the six months ended June 30, 2019 and the respective comparative segment financial information has been retrospectively adjusted, as applicable, to include the financial information of new acquisitions which took place during the period (Notes 5.1 and 16) and to exclude the information related to assets held for sale reclassified during the reporting period. (Note 15).

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

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

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

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

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

The New initiatives reportable segment represents separate operating segments aggregated in one reportable segment for its similar nature of newly acquired and dynamically developing businesses. This segment primarily consists of Youla classifieds earning substantially all revenues from advertising and listing fees, Maps.me, Geek Brains, B2B new projects including cloud as well as MRG Tech Lab initiatives along with other services, which are considered insignificant by the CODM for the purposes of performance review and resource allocation.

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

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

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

The Group has changed presentation of its reporting segments retrospectively to provide corresponding basis for comparison.

The income statement items for each segment for the six months ended June 30, 2019, as presented to the CODM, are presented below:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	23,103	14,427	1,933	–	39,463
Intersegment revenue	68	77	1	(146)	–
Total revenue	23,171	14,504	1,934	(146)	39,463
Total operating expenses	10,339	13,333	3,190	(146)	26,716
EBITDA	12,832	1,171	(1,256)	–	12,747
Net profit					6,117

4 Operating segments (continued)

The income statement items for each segment for the six months ended June 30, 2018, as presented to the CODM, are presented below (all numbers include the effect of IFRS 16 adoption – please see Note 2.1 for details):

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	20,536	10,994	709	–	32,239
Intersegment revenue	93	–	1	(94)	–
Total revenue	20,629	10,994	710	(94)	32,239
Total operating expenses	8,341	9,280	2,736	(94)	20,263
EBITDA	12,288	1,714	(2,026)	–	11,976
Net profit					5,348

A reconciliation of group aggregate segment revenue, as presented to the CODM, to IFRS consolidated revenue of the Group for the six months ended June 30, 2019 and 2018 is presented below:

	2019	2018
Group aggregate segment revenue, as presented to the CODM	39,463	32,239
Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:		
Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale	1,160	1,109
Differences in timing of revenue recognition	(3,517)	(2,774)
Barter revenue	71	11
Dividend revenue from venture capital investments	8	16
Consolidated revenue under IFRS	37,185	30,601

A reconciliation of group aggregate segment EBITDA, as presented to the CODM, to IFRS consolidated loss before income tax expense of the Group for the six months ended June 30, 2019 and 2018 is presented below:

	2019	2018
Group aggregate segment EBITDA, as presented to the CODM	12,747	11,976
Adjustments to reconcile EBITDA as presented to the CODM to consolidated loss before income tax expenses under IFRS:		
Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale	(3,707)	(2,570)
IFRS 16 implementation	–	(1,730)
Differences in timing of revenue recognition	(2,749)	(2,528)
Net gain/(loss) on venture capital investments	323	(23)
Share-based payment transactions	(803)	(2,222)
Other	12	10
EBITDA	5,823	2,913
Depreciation and amortisation	(6,138)	(4,823)
Impairment of intangible assets	(630)	(1,698)
Share of loss of equity accounted associates	(551)	(132)
Finance income	312	265
Finance expenses	(527)	(16)
Other non-operating loss	(117)	(5)
Net gain/(loss) on derivative financial assets and liabilities at fair value through profit or loss	(316)	395
Gain on re-measurement of previously held interest in equity accounted associate	161	–
Reversal of impairment of equity accounted associates	111	–
Net gain on disposal of intangible assets	400	–
Net foreign exchange gain/(loss)	(934)	309
Consolidated loss before income tax expense under IFRS	(2,406)	(2,792)

4 Operating segments (continued)

A reconciliation of group aggregate segment net profit, as presented to the CODM, to IFRS consolidated net loss of the Group for six months ended June 30, 2019 and 2018 is presented below:

	2019	2018
Group aggregate segment net profit, as presented to the CODM	6,117	5,348
Adjustments to reconcile net profit as presented to the CODM to consolidated net loss under IFRS:		
Share-based payment transactions	(803)	(2,222)
Differences in timing of revenue recognition	(2,749)	(2,528)
Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale	(3,475)	(2,496)
IFRS 16 implementation	–	215
Amortisation of fair value adjustments to intangible assets	(1,566)	(2,656)
Net gain on financial instruments at fair value through profit or loss	7	373
Gain on re-measurement of previously held interest in equity accounted associates	161	–
Net gain on disposal of intangible assets	400	–
Net foreign exchange (loss)/gain	(934)	309
Share of loss of equity accounted associates	(551)	(132)
Reversal of impairment of equity accounted associates	111	–
Other	(7)	(16)
Tax effect of the adjustments and tax on unremitted earnings	133	568
Consolidated net loss under IFRS	(3,156)	(3,237)

The income statement items for each segment for the three months ended June 30, 2019, as presented to the CODM, are presented below:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	11,598	7,487	960	–	20,045
Intersegment revenue	58	57	1	(116)	–
Total revenue	11,656	7,544	961	(116)	20,045
Total operating expenses	5,349	6,125	1,467	(116)	12,825
EBITDA	6,307	1,419	(506)	–	7,220
Net profit					3,240

The income statement items for each segment for the three months ended June 30, 2018, as presented to the CODM, are presented below (all numbers include the effect of IFRS 16 adoption – please see Note 2.1 for details):

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	10,281	5,643	389	–	16,313
Intersegment revenue	39	–	–	(39)	–
Total revenue	10,320	5,643	389	(39)	16,313
Total operating expenses	4,152	5,008	1,254	(39)	10,375
EBITDA	6,168	635	(865)	–	5,938
Net profit					1,886

A reconciliation of group aggregate segment revenue, as presented to the CODM, to IFRS consolidated revenue of the Group for the three months ended June 30, 2019 and 2018 is presented below:

	2019	2018
Group aggregate segment revenue, as presented to the CODM	20,045	16,313
Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:		
Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale	795	763
Differences in timing of revenue recognition	(1,242)	(1,592)
Barter revenue	62	7
Dividend revenue from venture capital investments	7	16
Consolidated revenue under IFRS	19,667	15,507

4 Operating segments (continued)

A reconciliation of group aggregate segment EBITDA, as presented to the CODM, to IFRS consolidated profit/(loss) before income tax expense of the Group for the three months ended June 30, 2019 and 2018 is presented below:

	2019	2018
Group aggregate segment EBITDA, as presented to the CODM	7,220	5,938
Adjustments to reconcile EBITDA as presented to the CODM to consolidated profit/(loss) before income tax expenses under IFRS:		
Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale	(1,502)	(1,418)
IFRS 16 implementation	–	(882)
Differences in timing of revenue recognition	(1,032)	(1,446)
Net gain on venture capital investments	314	16
Share-based payment transactions	(492)	(499)
Other	–	14
EBITDA	4,508	1,723
Depreciation and amortisation	(3,153)	(2,438)
Impairment of intangible assets	(630)	(1,698)
Share of loss of equity accounted associates	(258)	(132)
Finance income	169	88
Finance expenses	(324)	(1)
Other non-operating gain/(loss)	(60)	28
Net loss on derivative financial assets and liabilities at fair value through profit or loss	(206)	(283)
Gain on re-measurement of previously held interest in equity accounted associate	276	–
Reversal of impairment of equity accounted associates	111	–
Net gain on disposal of intangible assets	400	–
Net foreign exchange gain/(loss)	(215)	139
Consolidated profit/(loss) before income tax expense under IFRS	618	(2,574)

A reconciliation of group aggregate segment net profit, as presented to the CODM, to IFRS consolidated net profit/(loss) of the Group for three months ended June 30, 2019 and 2018 is presented below:

	2019	2018
Group aggregate segment net profit, as presented to the CODM	3,240	1,886
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit/(loss) under IFRS:		
Share-based payment transactions	(492)	(499)
Differences in timing of revenue recognition	(1,032)	(1,445)
Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale	(1,413)	(1,374)
IFRS 16 implementation	–	112
Amortisation of fair value adjustments to intangible assets	(787)	(1,326)
Net gain/(loss) on financial instruments at fair value through profit or loss	108	(267)
Gain on re-measurement of previously held interest in equity accounted associate	276	–
Net gain on disposal of intangible assets	400	–
Net foreign exchange (loss)/gain	(215)	139
Share of loss of equity accounted associates	(258)	(132)
Reversal of impairment of equity accounted associates	111	–
Other	(22)	(19)
Tax effect of the adjustments and tax on unremitted earnings	381	379
Consolidated net profit/(loss) under IFRS	297	(2,546)

5 Business combinations

5.1 UMA

In February 2019, the Group completed the acquisition of 100% of Salerton Investments Limited ("UMA"), an Internet and mobile music service provider in Russia, for a total cash consideration of RUR 6,391. As of June 30, 2019, as a result of the control acquisition the Group derecognized equity accounted investment in UMA. The main purpose of the acquisition is to expand the Group's presence in the market of music services.

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

	Provisional fair value
Intangible assets	597
Property and equipment	2
Deferred income tax assets	102
Trade accounts receivable	356
Prepaid expenses and advances to suppliers	19
Other current assets	26
Cash and cash equivalents	1,079
Total assets	2,181
Trade accounts payable	567
Deferred income tax liabilities	31
Income tax payable	13
Other taxes payable	100
Other payables, provisions and accrued expenses	54
Total liabilities	765
Total net assets	1,416

Goodwill on the transaction was calculated as the excess of:

(a) The consideration transferred by the Group measured at fair values:	
[1] Cash paid	6,391
[2] The acquisition date fair value of the Group's previously held equity interest	1,601
Consideration transferred by the Group	7,992
(b) The amount of non-controlling interest in UMA measured in accordance with IFRS 3	14
Over	
(c) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	1,416
Goodwill	6,590

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

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

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	6,391
Cash acquired (included in cash flows from investing activities)	(1,079)
Net cash flow on acquisition	5,312

5 Business combination (continued)

5.2 ESforce

In January 2018 the Group acquired a leading eSport group of companies operating under the ESforce brand (together "ESforce") for a cash consideration of RUR 5,659 and contingent consideration, measured at fair value, of RUR 1,132 based on ongoing financial KPIs in a period of 1 year. Contingent liability was denominated in USD and remeasured in December 2018 to RUR 1,948 (Note 9) and paid in March 2019. The primary purpose of the acquisition of ESforce was to enhance the Group's position on the eSports market.

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

	Fair value
Property and equipment	648
Other intangible assets	674
Deferred income tax assets	227
Trade accounts receivable	191
Prepaid income tax	12
Prepaid expenses and advances to suppliers	23
Other current assets	167
Other non-current assets	9
Cash and cash equivalents	207
Total assets	2,158
Deferred income tax liabilities	144
Trade accounts payable	235
VAT and other taxes payable	12
Deferred revenue and customer advances	68
Provisions for tax contingencies	128
Other payables and accrued expenses	130
Total liabilities	717
Total net assets	1,441

Goodwill on the transaction was calculated as the excess of:	
(a) The consideration transferred by the Group measured at fair values:	
[1] Cash consideration	5,659
[2] Contingent consideration liability (Note 9)	1,132
Consideration transferred by the Group	6,791
(b) The amount of non-controlling interest in ESforce measured in accordance with IFRS 3	22
over	
(c) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	1,441
Goodwill	5,372

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

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

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	5,730
Cash acquired (included in cash flows from investing activities)	(207)
Net cash flow on acquisition	5,523

In July 2019 the Group announced the creation of a partnership around ESforce eSports business. As at June 30, 2019, the Group classified ESforce as assets held for sale (Note 15).

5 Business combination (continued)

5.3 BitGames, 33 Slona and InShopper

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

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

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

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

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

	Fair value
Other intangible assets	1,140
Loans receivable	5
Deferred income tax assets	59
Prepaid expenses and advances to suppliers	14
Trade accounts receivable	36
Other current assets	36
Cash and cash equivalents	26
Total assets	1,316
Deferred income tax liabilities	143
Trade accounts payable	83
Deferred revenue and customer advances	473
Loans payable	33
VAT and other taxes payable	5
Other payables and accrued expenses	10
Total liabilities	747
Total net assets	569
Goodwill on the transaction was calculated as the excess of:	
(a) The consideration transferred by the Group measured at fair values:	
[1] Cash paid	2,515
[2] Financial assets at fair value through profit or loss – derivative over the equity of investee	11
[3] The acquisition date fair value of the Group's previously held equity interest	114
[4] Contingent consideration liability (Note 9)	93
Consideration transferred by the Group	2,733
(b) The amount of non-controlling interest measured in accordance with IFRS 3	247
Over	
(c) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	569
Goodwill	2,411

Goodwill is not expected to be deductible for income tax purposes. Goodwill is mainly attributable to development of new games, cost saving and potential synergy with the Group's classified business, payment solutions and other operations.

Goodwill related to BitGames and 33 Slona acquisition is allocated to Games and Youla CGUs correspondingly. Goodwill related to InShopper acquisitions is allocated to Vkontakte, Social Networks and Email and Portal CGUs.

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

5 Business combination (continued)

5.3 BitGames, 33 Slona and InShopper (continued)

The cash flows on acquisition were as follows:

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

5.4 Citymobil

In April 2018 as a result of a number of transactions the Group acquired a 25.38% stake in taxi aggregator City-Mobil LLC ("Citymobil") for a total cash consideration of RUR 530, including RUR 120 conversion of loan. In 2019 the Group participated in new funding rounds and contributed additionally RUR 590. As a result of a series of transactions the Group's share in Citymobil decreased to 22.69%. In 6m 2019 the Group's share in Citymobil's financial results was RUR 549 loss.

The Group concluded that it has significant influence over Citymobil as the Group has the power to participate in the financial and operating policy decisions through its representation on Citymobil's Board of Directors. The Group's ownership interest in Citymobil represents an investment in an associate and is accounted for under the equity method. As of April 2019, the Group finalized purchase price allocation of Citymobil.

In July 2019 the BoD of the Group approved the signing of term sheet assuming investment into a new O2O-focused company. As at June 30, 2019 the Group classified equity investment in CityMobil as asset held for sale (Note 15).

5.5 Panzerdog

In May 2019 the Group acquired control in mobile games developer Panzerdog OY ("Panzerdog") by increasing its share to 59.45% (39.45% in addition to 20% stake as of March 31, 2019) for total cash consideration of RUR 626. As of June 30, 2019, as a result of the control acquisition the Group derecognized equity accounted investment in Panzerdog with the gain from remeasurement of previously held interest in equity accounted associates of RUR 276. The primary purpose of the acquisition of Panzerdog was to enhance the Group's position on mobile games market.

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

	Provisional fair value
Intangible assets	896
Property and equipment	2
Trade accounts receivable	87
Other current assets	8
Cash and cash equivalents	89
Total assets	1,082
Deferred revenue	36
Deferred income tax liabilities	175
Trade accounts payable	215
Total liabilities	426
Total net assets	656

Goodwill on the transaction was calculated as the excess of:	
(a) The consideration transferred by the Group measured at fair values:	
[1] Cash paid	626
[2] The acquisition date fair value of the Group's previously held equity interest	317
Consideration transferred by the Group	943
(b) The amount of non-controlling interest in Panzerdog measured in accordance with IFRS 3	266
over	
(c) Financial assets at fair value through profit or loss – derivative over the equity of investee (Note 14)	110
(d) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	656
Goodwill	443

Goodwill is mainly attributable to development of new games and potential synergy with the Group's business. Goodwill is not expected to be deductible for income tax purposes.

5 Business combination (continued)

5.5 Panzerdog (continued)

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

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	630
Cash acquired (included in cash flows from investing activities)	(89)
Net cash flow on acquisition	541

5.6 Native Roll, Worki and Relap

In April 2019 the Group acquired 50.83% in Native Media LLC ("Native Roll") – a video ad platform. The primary purpose of the acquisition of Native Roll was to enhance the Group's position on advertising solutions market.

In May 2019 the Group acquired 51% in LLC "Iconjob" ("Worki"), a job search platform. The primary purpose of the acquisition of Worki was to leverage the Group's expertise and resources by achieving substantial synergies with Youla, the Group's general online classifieds product.

Also, In May 2019 the Group acquired 100% in Surfingbird LLC ("Relap"), a recommendatory platform. The primary purpose of the acquisition of Relap was to leverage the Group's expertise and resources by achieving substantial synergies with Pulse, the Group's recommendation technologies and solutions.

Total cash consideration for the transactions above was RUR 2.1 bln.

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

Provisional fair values of the identifiable assets and liabilities of Native Roll, Worki and Relap as at the date of acquisition were as follows:

	Provisional fair value
Intangible assets	335
Property and equipment	4
Trade accounts receivable	200
Other current assets	22
Cash and cash equivalents	86
Total assets	647
Trade accounts payable	110
Loans payable	67
Deferred income tax liabilities	55
VAT and other taxes payable	18
Other payables	36
Total liabilities	286
Total net assets	361

Goodwill on the transaction was calculated as the excess of:	
(a) The consideration transferred by the Group measured at fair values:	
[1] Cash paid	1,776
[1] Liability for the acquisition of subsidiary (Note 9)	288
Consideration transferred by the Group	2,064
(b) Financial liability at fair value through profit or loss – derivative over the equity of investee (Note 14)	33
(c) The amount of non-controlling interest measured in accordance with IFRS 3	84
over	
(d) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	361
(e) Financial assets at fair value through profit or loss - derivative over the equity of investee (Note 14)	17
Goodwill	1,803

Goodwill is not expected to be deductible for income tax purposes. Goodwill is mainly attributable to enhancement the Group's position on advertising and online recruitment markets and potential synergies with the Group's businesses.

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

5 Business combination (continued)

5.6 Native Roll, Worki and Relap (continued)

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	1,776
Cash acquired (included in cash flows from investing activities)	(86)
Net cash flow on acquisition	1,690

6 Other intangible assets

During the six months ended June 30, 2019, the Group capitalised software development costs and otherwise acquired intangible assets with a cost of RUR 1,117 (2018: RUR 396). Because of the significant downward revision of the forecasted cash inflows of the game Skyforge in Q2 2019, the Group fully impaired the game, recording an impairment charge of RUR 630. The impairment entirely belongs to the Games operating segment.

7 Property and equipment

During the six months ended June 30, 2019, the Group acquired property and equipment with a cost of RUR 2,222 (2018: RUR 2,191).

8 Other non-current assets

Other non-current assets consist of the following:

	June 30, 2019	December 31, 2018
Long-term loans given	153	110
Advances for royalties	–	1,176
Other non-current assets	113	398
Total other non-current assets	266	1,684

In a number of non-cash transactions, the Group disposed certain MMO games titles including advances for royalty of RUR 1,176 and obtained equity investment in Modern Pick with carrying value of RUR 551. The Group recognised gain of RUR 400 as a result of these transactions.

9 Other payables, accrued expenses and contingent consideration liabilities

Other payables and accrued expenses consist of the following:

	June 30, 2019	December 31, 2018
Payables to personnel	1,942	2,140
Accrued vacations	1,267	1,046
Accrued professional consulting expenses	12	41
Contingent consideration liability	–	1,997
Other current payables	749	386
Total other payables, accrued expenses and contingent consideration liabilities	3,970	5,610

The decrease in “Contingent consideration liability” was mostly due to repayment of RUR 1,997 in 2019 representing contingent consideration related to the acquisitions of ESforce and BitGames made in 2018 (Note 5.2, 5.3).

10 Revenue

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

Notes to the Interim Condensed Consolidated Financial Statements (continued)

10 Revenue (continued)

Below is presented the disaggregation of revenue from contracts with customers based on the Group's segment reporting (Note 4) for the six months ended June 30, 2019 as required for condensed interim financial statements:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	23,103	14,427	1,933	–	39,463
Intersegment revenue	68	77	1	(146)	–
Total revenue	23,171	14,504	1,934	(146)	39,463
Services transferred at a point in time	18,457	1,778	1,634	(146)	21,723
Services transferred over time	4,714	12,726	300	–	17,740

Disaggregation of revenue from contracts with customers based on the Group's segment reporting (Note 4) for the six months ended June 30, 2018 as required for condensed interim financial statements:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	20,536	10,994	709	–	32,239
Intersegment revenue	93	–	1	(94)	–
Total revenue	20,629	10,994	710	(94)	32,239
Services transferred at a point in time	16,451	707	526	(94)	17,590
Services transferred over time	4,178	10,287	184	–	14,649

Disaggregation of revenue from contracts with customers based on the Group's segment reporting (Note 4) for the three months ended June 30, 2019 as required for condensed interim financial statements:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	11,598	7,487	960	–	20,045
Intersegment revenue	58	57	1	(116)	–
Total revenue	11,656	7,544	961	(116)	20,045
Services transferred at a point in time	9,395	1,083	802	(116)	11,164
Services transferred over time	2,261	6,461	159	–	8,881

Disaggregation of revenue from contracts with customers based on the Group's segment reporting (Note 4) for the three months ended June 30, 2018 as required for condensed interim financial statements:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	10,281	5,643	389	–	16,313
Intersegment revenue	39	–	–	(39)	–
Total revenue	10,320	5,643	389	(39)	16,313
Services transferred at a point in time	8,363	394	291	(39)	9,009
Services transferred over time	1,957	5,249	98	–	7,304

11 Income tax

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Current income tax expense	937	540	1,561	1,142
Deferred income tax benefit	(616)	(568)	(811)	(697)
Total income tax expense/(benefit)	321	(28)	750	445

11 Income tax (continued)

The reconciliation between income tax expense and the product of accounting profit multiplied by domestic rates applicable to individual Group entities for the three and six months ended June 30, 2019 and 2018 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Profit/(loss) before income tax expense	618	(2,574)	(2,406)	(2,792)
Tax at domestic rates applicable to individual group entities	(237)	542	237	364
Non-deductible expenses	(82)	(203)	(259)	(440)
Non-taxable foreign exchange and other gains	29	139	86	183
Adjustments in respect of current income tax of previous year	(44)	–	(103)	–
Effect of changes in tax rates	–	–	(393)	–
Tax accruals and penalties	8	–	(41)	(46)
Unrecognised deferred tax assets	43	(515)	(232)	(548)
Other	(38)	65	(45)	42
Total income tax (expense)/benefit	(321)	28	(750)	(445)

12 Commitments, contingencies and operating risks

12.1 Operating environment of the Group

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

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

12.2 Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group's management believes that its interpretation of the relevant legislation is appropriate and is in accordance with the current industry practice and that the Group's tax, currency and customs positions will be sustained. However, the interpretations of the relevant authorities could differ and the effect of additional taxes, fines and penalties on these consolidated financial statements, if the authorities were successful in enforcing their different interpretations, could be significant.

12.3 Legal proceedings

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which have had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all current and potential legal matters will not have a material impact on the Group's financial position or operating results.

12.4 Competition

The development by domestic and large international internet companies of Russian language versions of the services competing with the services the Group provides could decrease the Group's user base and make it less attractive to advertisers.

Increased competition could result in a reduction in the number of users who buy the Group's IVAS – including games – which, in turn, would result in lower revenue and net income. Similarly, the Group may be required to spend additional resources to promote or improve its services in order to compete effectively, which could require additional capital or adversely affect the Group's profitability.

12.5 Private information

To become registered on websites operated by the Group, users have to input their personal data, which is then protected by the Group from access by third parties. Should such data become available to third parties as a result of hackers' attacks, the Group may become a party to litigations from its users. Management believes it takes all necessary steps to reduce the related risk to an acceptable level.

12 Commitments, contingencies and operating risks (continued)

12.6 Intellectual property rights

The Group may be subject to infringement claims from third parties in the future resulting from the technology and intellectual property used in the provision and marketing of its services. If the Group is found liable for infringement, it may be required to pay significant damages, and if it is unable to license or develop non-infringing technology on a timely basis, it may be unable to continue offering the affected services without risk of liability. Similarly, third parties may obtain and use the Group's intellectual property without authorisation. The validity, application, enforceability and scope of protection of intellectual property rights for many Internet-related activities are uncertain and still evolving, which may make it more difficult for the Group to protect its intellectual property, which could have a material effect on its business, results of operations and financial condition. The Group and its associates have been subject to such proceedings in the past. Although none of them was individually significant, similar potential claims may potentially subject the Group to significant losses in the future, which currently cannot be reliably estimated.

12.7 Development

A failure to innovate, to provide popular products and services or to react quickly to changes in the market could affect the popularity of the Group's services and, in turn, could affect advertising revenue. An inability to develop products and services which are compatible with new mobile devices could result in a failure to capture a significant share of an increasingly important market.

12.8 Regulation

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

On January 1, 2019 the Russian law on aggregators of goods and services came into force. Such law introduced obligations of aggregators to disclose certain information on the goods and services and on the seller of goods and the provider of services. The law determined liability of aggregators for causing damages to a buyer of goods or services by providing false information to the buyer. On March 18, 2019 new law came into force banning publishing "fake news" and information showing "disrespect" to government bodies in mass media and internet. In March 2019 a law aimed at increasing Russian "sovereignty" over Russian internet has been adopted with effective date November 1, 2019 and certain provisions to come into force on January 1, 2021. The law seeks to create national system of routing web traffic and proposes building a national domain name system to allow the internet to continue functioning even if Russia is cut off from foreign infrastructure.

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

12.9 Personnel

As competition in Russia's internet industry increases, the Group's business and operations could be adversely affected by difficulties in hiring, motivating and retaining highly-skilled people. Competition for senior managers is high. One or more could join a competitor, or set-up a competing company, with the result that operations and profitability could be affected by a loss of strategic direction, users, know-how and additional staff.

12.10 Infrastructure and capacity

If the infrastructure in Russia were not able to support increased demand, the Group's services could be interrupted or the Group's systems damaged. A limited availability of third-party providers of network and server capacity could limit the Group's ability to offer certain services or to expand. Network or power failures could result in the loss of data and in a reduction in the number of users, which could have a material effect on the Group's business, results of operations and financial condition.

13 Balances and transactions with related parties

The following table provides the total amount of transactions which were entered into with related parties during the six months ended June 30, 2019 and June 30, 2018 as well as balances with related parties as of June 30, 2019 and December 31, 2018, excluding directors and key management of the Group (see below).

	Three months ending June 30		Six months ending June 30			
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
2019						
Equity accounted associates	207	11	669	174	733	346
Other entities	21	478	241	497	289	45
2018						
Equity accounted associates	168	63	196	67	305	136
Other entities	64	2	141	7	833	7

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

13 Balances and transactions with related parties (continued)

13.1 Directors of the Company

Total cash remuneration of the members of the Board of Directors (each a "Director" and collectively, "Directors") of the Company amounted to RUR 54 for the six months ended June 30, 2019 (2018: RUR 67). No options over the shares of the Company were granted to Directors for the six months ended June 30, 2019 (2018: nil). During the six months ended June 30, 2019, Directors did not forfeit any RSUs or options (2018: nil), and exercised 2,500 RSUs over shares of the Company (2018: 2,500). The corresponding share-based payment expense was RUR 3 for six months ended June 30, 2019 (2018: RUR 7).

13.2 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 282 for the six months ended June 30, 2019 (2018: RUR 268). In the six months ended June 30, 2019, 1,180,000 RSUs were granted to key executive employees of the Group (excluding Directors) (2018: 200,000 RSUs). During the six months ended June 30, 2019, key management of the Group (excluding Directors) did not forfeit any RSUs or options (2018: nil) and exercised 602,500 RSUs and options (2018: 1,226,250). The corresponding share-based payment expense amounted to RUR 182 for six months ended June 30, 2019 (2018: RUR 2,194).

13.3 The ultimate controlling party

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

14 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of June 30, 2019 and December 31, 2018 and are presented by category of financial instruments in the table below:

	Category*	June 30, 2019	December 31, 2018
Financial assets through profit and loss			
Non-current			
Financial investments in venture capital investees	FAFVPL	1,215	256
Derivative financial assets over the equity of investee	FAFVPL	228	92
Convertible loans	FAFVPL	830	1,167
Financial derivative under lease contract	FAFVPL	356	500
Current			
Derivative financial assets over the equity of investee	FAFVPL	3	2
Convertible loans	FAFVPL	970	1,070
Financial assets at amortised cost			
Trade accounts receivable	FAAC	9,145	9,916
Loans and interest receivable	FAAC	272	114
Cash and cash equivalents	FAAC	8,054	11,723
Total financial assets		21,073	24,840
Financial liabilities through profit and loss			
Current			
Contingent consideration liability	FLFVPL	–	1,997
Derivative financial liabilities over the equity of investees, current	FLFVPL	32	–
Financial liabilities at amortised cost			
Current			
Trade accounts payable, other payables and accrued expenses	FLAC	10,789	11,876
Short-term portion of long-term interest-bearing loans	FLAC	1,442	–
Short-term lease liability	FLAC	3,081	–
Non-current			
Long-term interest-bearing loans	FLAC	7,084	–
Other payables	FLAC	1,982	–
Total financial liabilities		24,410	13,873

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

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

14 Financial instruments (continued)

14.1 Fair value hierarchy

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

As at June 30, 2019 and December 31, 2018 the Group held the following financial instruments measured at fair value:

	June 30, 2019	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in venture capital investees	1,215	–	–	1,215
Convertible loans	1,800			1,800
Financial derivatives under lease and hosting contracts	356	–	–	356
Derivative financial assets over the equity of subsidiary	231	–	–	231
Total financial assets at fair value through profit or loss	3,602	–	–	3,602
Total financial assets measured at fair value	3,602	–	–	3,602
Financial liabilities measured at fair value				
Derivative financial liabilities over the equity of investees, current	32	–	–	32
Total financial liabilities measured at fair value	32	–	–	32

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

The balance of Level 3 measurements as of January 1, 2019 is reconciled to the balance of those measurements as of June 30, 2019 as follows:

	Balance as of January 1, 2019	Gains/(losses) recognised in profit and loss	Foreign exchange gains/(losses)	Purchases/ settlement	Convertible loan execution and settlement	Assets held for sale	Balance as of June 30, 2019
Financial assets measured at fair value							
Financial assets at fair value through profit or loss:							
Financial investments in venture capital investees	256	323	(8)	673	101	(130)	1,215
Derivative financial assets over the equity of investee	94	10	–	127	–	–	231
Convertible loans	2,237	(227)	–	1,570	(452)	(1,328)	1,800
Financial derivatives under lease and hosting contracts	500	(144)	–	–	–	–	356
Total financial assets at fair value through profit or loss	3,087	(38)	(8)	2,370	(351)	(1,458)	3,602
Financial liability measured at fair value							
Financial liabilities at fair value through profit or loss – *contingent consideration liability*	(1,997)	45	132	1,853	–	–	33
Total financial liabilities measured at fair value	(1,997)	45	132	1,853	–	–	33

14 Financial instruments (continued)

14.1 Fair value hierarchy (continued)

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

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

14.2 Financial assets at amortised cost

The Group classifies the following financial assets at amortised cost:

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

14.3 Interest-bearing loan

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

15 Assets and liabilities held for sale

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

Mail.Ru Group will contribute its Pandao e-commerce business, cash and distribution product integrations in exchange for a 15% stake in a newly established joint venture.

On June 5, 2019 the Group with Alibaba Group, MegaFon and RDIF announced signing of definitive documents for Joint Venture in Russia and the CIS. The completion is expected by the end of Q3 2019. As at June 30, 2019, the Group classified Pandao as assets held for sale.

On July 16, 2019 the Group announced the creation of a partnership around ESforce eSports business with Modern Pick, which will allow the Group and Modern Pick to build a well-diversified eSports business, with presence in Russia/CIS as well as Europe, with access to a broader games portfolio and expertise in AAA+ games development, eSports teams, broadcasting, video production, streaming, tournament organization and venues, combined with an extensive set of media and global brand partnerships.

The BoD of the Group approved signing of the partnership agreement. As at June 30, 2019, the Group classified ESforce as assets held for sale (Note 5.2).

On July 24, 2019 the BoD of the Group approved the signing of term sheet between the Company and Sberbank, which assumes investment into a new O2O-focused company around Delivery Club ("DC") and Citymobil ("CM"). As at June 30, 2019 the Group classified Delivery Club, equity investment in Citymobil and certain other equity investments and convertible loans of RUR 2,061 and related options as assets held for sale (Notes 5.4, 14.1).

Net assets of Delivery Club attributable to the Group were RUR 8,210, including goodwill of RUR 6,179, deferred tax assets and intangible assets. Disposed liabilities of Delivery Club mostly included trade accounts payable and other payables.

16 Events after the reporting period

On July 8, 2019 the Group acquired control in mobile games developer LLC "Swag Masha" by increasing its share to 51% (16% in addition to 35% stake as of March 31, 2019). The primary purpose of the acquisition of Swag Masha was to enhance the Group's position on mobile games market.