Mail.ru Group Limited

Interim Condensed
Consolidated Financial Statements

For the six months ended June 30, 2020

Contents

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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, 2020, the related 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 selected explanatory 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 22, 2020

Details of the audited entity

Name: Mail.ru Group Limited
Registered: 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-regulatory organization of auditors Association "Sodruzhestvo". Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Interim Condensed Consolidated Statement of Financial Position

As of June 30, 2020
(in millions of Russian Roubles)

	Notes	As at June 30, 2020 (unaudited)	As at December 31, 2019
ASSETS			
Non-current assets			
Investments in equity accounted associates and joint ventures		44,424	49,834
Goodwill	7	134,827	140,665
Right-of-use assets	6	11,466	4,942
Other intangible assets	7	17,950	19,526
Property and equipment	8	9,457	8,330
Financial assets at fair value through profit or loss	14	1,417	1,749
Deferred income tax assets		2,179	1,774
Long-term loans receivable	14	359	286
Advance under office lease contract		226	115
Total non-current assets		222,305	227,221
Current assets			
Trade accounts receivable	14	11,460	12,288
Prepaid income tax		298	147
Prepaid expenses and advances to suppliers		423	978
Financial assets at fair value through profit or loss	14	219	90
Loans receivable	14	133	655
Other current assets		864	1,220
Short-term time deposits		655	
Cash and cash equivalents		13,349	9,782
Assets held for sale	15	2,408	2,334
Total current assets		29,809	27,494
Total assets		252,114	254,715
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital			
Share premium		61,208	60,286
Treasury shares		(1,152)	(1,152)
Retained earnings		113,606	125,351
Foreign currency translation reserve		54	170
Total equity attributable to equity holders of the parent		173,716	184,655
Non-controlling interests		430	809
Total equity		174,146	185,464
Non-current liabilities			
Deferred income tax liabilities		1,737	2,181
Deferred revenue		2,400	1,737
Non-current lease liabilities	6, 14	7,702	1,568
Long-term interest-bearing loans and borrowings	14	16,008	19,474
Total non-current liabilities		27,847	24,960
Current liabilities			
Trade accounts payable	14	8,748	7,863
Income tax payable		422	481
VAT and other taxes payable		1,672	1,939
Deferred revenue and customer advances		13,388	10,920
Short-term portion of long-term interest-bearing loans	14	6,215	4,044
Current lease liabilities	6, 14	3,605	3,153
Other payables, accrued expenses and contingent consideration liabilities	9, 14	15,667	15,348
Liabilities directly associated with assets held for sale	15	404	543
Total current liabilities		50,121	44,291
Total liabilities		77,968	69,251
Total equity and liabilities		252,114	254,715

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2020
(in millions of Russian Roubles)

	Notes	Three months ended June 30, 2020 (unaudited)	Three months ended June 30, 2019 (unaudited)	Six months ended June 30, 2020 (unaudited)	Six months ended June 30, 2019 (unaudited)
Online advertising		8,106	8,595	16,687	16,342
MMO games		8,188	5,674	15,013	10,384
Community IVAS		4,456	3,896	8,977	7,618
Other revenue		2,337	1,502	4,032	2,841
Total revenue	4, 10	23,087	19,667	44,709	37,185
Net (loss)/gain on venture capital investments	14	(43)	314	(84)	323
Personnel expenses		(6,260)	(5,105)	(12,138)	(9,870)
Office rent and maintenance		(53)	(58)	(121)	(124)
Agent/partner fees		(6,621)	(5,761)	(12,547)	(10,728)
Marketing expenses		(4,294)	(3,391)	(8,384)	(8,547)
Server hosting expenses		(198)	(173)	(365)	(343)
Professional services		(219)	(230)	(399)	(372)
Other operating expenses		(986)	(755)	(1,722)	(1,701)
Total operating expenses		(18,631)	(15,473)	(35,676)	(31,685)
EBITDA		4,413	4,508	8,949	5,823
Depreciation and amortisation		(3,565)	(3,153)	(6,948)	(6,138)
Impairment of intangible assets	7	–	(630)	–	(630)
Share of loss of equity accounted associates and joint ventures		(2,518)	(258)	(5,341)	(551)
Finance income		85	169	204	312
Finance expenses		(630)	(324)	(1,241)	(527)
Other non-operating loss		(19)	(60)	(139)	(117)
Goodwill impairment	7	–	–	(6,430)	–
Net loss on derivative financial assets and liabilities at fair value through profit or loss	14	(541)	(206)	(330)	(316)
(Impairment)/reversal of impairment of equity accounted associates		(38)	111	(260)	111
Net gain on disposal of intangible assets		–	400	–	400
Gain on re-measurement of previously held interest in equity accounted associate	5	–	276	46	161
Net foreign exchange gain/(loss)		436	(215)	94	(934)
(Loss)/profit before income tax expense		(2,377)	618	(11,396)	(2,406)
Income tax expense	11	(380)	(321)	(493)	(750)
Net (loss)/profit		(2,757)	297	(11,889)	(3,156)
Attributable to:					
Equity holders of the parent		(2,668)	318	(11,745)	(3,151)
Non-controlling interest		(89)	(21)	(144)	(5)
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods					
Exchange differences on translation of foreign operations:					
Differences arising during the period		(247)	(26)	(116)	304
Total other comprehensive (loss)/income net of tax effect of 0		(247)	(26)	(116)	304
Total comprehensive (loss)/income, net of tax		(3,004)	271	(12,005)	(2,852)
Attributable to:					
Equity holders of the parent		(2,915)	292	(11,861)	(2,847)
Non-controlling interest		(89)	(21)	(144)	(5)
(Loss)/earnings per share, in RUR:					
Basic and diluted (loss)/earnings per share attributable to ordinary equity holders of the parent		(12)	1	(54)	(15)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020
(in millions of Russian Roubles)

	Notes	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash flows from operating activities			
Loss before income tax		(11,396)	(2,406)
Adjustments to reconcile loss before income tax to cash flows:			
Depreciation and amortisation		6,948	6,138
Impairment losses on financial assets at amortized cost		507	164
Net loss on financial assets and liabilities at fair value through profit or loss	14	330	316
Goodwill impairment	7	6,430	–
Gain on remeasurement of previously held interest in equity accounted associate	5.1, 5.3	(46)	(161)
Finance income		(204)	(312)
Finance expenses		1,241	527
Share of loss of equity accounted associates and joint ventures		5,341	551
Net foreign exchange (gain)/loss		(94)	934
Cash settled and equity settled share based payments		933	803
Other non-cash items		(15)	21
Net loss/(gain) on venture capital investments	14	84	(323)
Net gain on disposal of intangible assets		–	(400)
Dividend revenue from venture capital investments		–	(8)
Impairment/(reversal of impairment) of equity accounted associates		260	(111)
Impairment of intangible assets	7	–	630
Change in operating assets and liabilities:			
Decrease in accounts receivable		1,406	240
Decrease/(increase) in prepaid expenses and advances to suppliers		648	(149)
Decrease in inventories and other assets		417	415
Decrease in accounts payable and accrued expenses		(1,385)	(1,133)
(Increase)/decrease in other non-current assets		(111)	15
Increase in deferred revenue and customer advances		2,969	2,726
Increase in financial assets at fair value through profit or loss	14	(218)	(1,730)
Operating cash flows before interest, income taxes and contingent consideration settlement		14,045	6,747
Dividends received from venture capital investments		–	7
Settlement of contingent consideration of business combinations		–	(688)
Interest received		260	251
Interest paid		(1,241)	(270)
Income tax paid		(1,598)	(2,017)
Net cash provided by operating activities		11,466	4,030
Cash flows from investing activities			
Cash paid for property and equipment		(2,762)	(2,048)
Cash paid for intangible assets		(1,459)	(1,186)
Dividends received from equity accounted associates		29	71
Loans issued		(209)	(204)
Loans collected		482	354
Cash paid for acquisitions of subsidiaries, net of cash acquired	5.5	(17)	(7,543)
Settlement of initial fair value of the contingent consideration at acquisition date		–	(1,132)
Short-term time deposits		(630)	–
Cash paid for investments in equity accounted associates and joint ventures	5.6	(257)	(989)
Net cash used in investing activities		(4,823)	(12,677)
Cash flows from financing activities			
Payment of lease liabilities		(1,852)	(1,822)
Loans received, net of bank commission		–	8,482
Loans repaid		(1,312)	–
Dividends paid by subsidiaries to non-controlling shareholders		(235)	–
Cash paid for treasury shares		–	(656)
Net cash (used in)/provided by financing activities		(3,399)	6,004
Net increase/(decrease) in cash and cash equivalents		3,244	(2,643)
Effect of exchange differences on cash balances		460	(404)
Cash and cash equivalents at the beginning of the period		9,782	11,723
Change in cash related to asset held for sale	15	(137)	(622)
Cash and cash equivalents at the end of the period		13,349	8,054

Interim Condensed Consolidated Statement of Changes in Equity

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	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)	106,665	(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	–	–	–	–	(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

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020
(in millions of Russian Roubles)

	Share capital								
	Number of shares issued and outstanding	Amount	Share premium	Treasury shares	Retained earnings	Foreign currency translation reserve	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2020	217,184,316	–	60,286	(1,152)	125,351	170	184,655	809	185,464
Loss for the period	–	–	–	–	(11,745)	–	(11,745)	(144)	(11,889)
Other comprehensive loss:							–		
Foreign currency translation	–	–	–	–	–	(116)	(116)	–	(116)
Total other comprehensive loss	–	–	–	–	–	(116)	(116)	–	(116)
Total comprehensive loss	–	–	–	–	(11,745)	(116)	(11,861)	(144)	(12,005)
Share-based payment transactions	–	–	922	–	–	–	922	–	922
Exercise of RSUs and options over the shares of the Company	831,398	–	–	–	–	–	–	–	–
Dividends by subsidiaries to non-controlling shareholders	–	–	–	–	–	–	–	(235)	(235)
Balance at June 30, 2020	218,015,714	–	61,208	(1,152)	113,606	54	173,716	430	174,146

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2020
(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, 2020 were authorised for issue by the directors of the Company on July 22, 2020.

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, online marketplaces, online-to-offline services, 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.

2 Basis of preparation

The interim condensed consolidated financial statements for the six months ended June 30, 2020 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 consolidated financial statements for the year ended December 31, 2019 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, 2019, except for the adoption of new standards effective as at January 1, 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). These amendments had no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

The Conceptual Framework for Financial Reporting

The IASB issued the Conceptual Framework for Financial Reporting (the Conceptual Framework) in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework is effective for annual periods beginning on or after January 1, 2020. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. These amendments had no impact on the consolidated financial statements of the Group.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

3 Seasonality of operations

Due to the seasonal nature of advertising and online games, higher revenues and operating profits are usually expected in the second half of the year than in the first half. Historicaly 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 and joint ventures, as well as irregular non-recurring items that occur from time to time and are evaluated for adjustment as and when they occur. The tax effect of these adjustments is also excluded from management reporting.

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

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

Accordingly, segment reporting for the six months ended June 30, 2020 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 reporting period (Note 5) and 2019 financial year and to exclude the information related to disposed assets and assets held for sale reclassified during the reporting period and 2019 financial year (Note 15).

The Group has composed its operating segments in order to reflect its strategy, the way the business is managed and units' interconnection within its eco-system. 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 contains online gaming services, including MMO, social and mobile games, games streaming and platform solutions operated by the Group under the MY.GAMES brand and within the MY.GAMES ecosysytem. It earns substantially all revenues from (i) sale of virtual in-game items to users (f2p) or sale of digital copies of the games (b2p), (ii) royalties for games and gaming solutions licensed to third-party online game operators (iii) in-game advertising and (iv) revenues from streaming services and gaming platform services.

The New initiatives reportable segment represents separate operating segments aggregated in one reportable segment for its similar nature of newly acquired or newly launched and dynamically developing businesses. This segment primarily consists of Youla classifieds earning substantially all revenues from advertising and listing fees, Maps.me, EdTech, 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.

4 Operating segments (continued)

The income statement items for each segment for the six months ended June 30, 2020, as presented to the CODM, are presented below:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	24,191	18,871	4,641	–	47,703
Intersegment revenue	72	43	26	(141)	–
Total revenue	24,263	18,914	4,667	(141)	47,703
Total operating expenses	11,846	16,032	6,762	(141)	34,499
EBITDA	12,417	2,882	(2,095)	–	13,204
Net profit					5,659

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	23,100	14,428	2,227	–	39,755
Intersegment revenue	65	77	1	(143)	–
Total revenue	23,165	14,505	2,228	(143)	39,755
Total operating expenses	10,407	13,294	3,499	(143)	27,057
EBITDA	12,758	1,211	(1,271)	–	12,698
Net profit					6,026

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, 2020 and 2019 is presented below:

	2020	2019
Group aggregate segment revenue, as presented to the CODM	47,703	39,755
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	86	868
Differences in timing of revenue recognition	(3,083)	(3,517)
Barter revenue	3	71
Dividend revenue from venture capital investments	–	8
Consolidated revenue under IFRS	44,709	37,185

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, 2020 and 2019 is presented below:

	2020	2019
Group aggregate segment EBITDA, as presented to the CODM	13,204	12,698
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	(135)	(3,657)
Differences in timing of revenue recognition	(3,083)	(2,749)
Net (loss)/gain on venture capital investments	(84)	323
Share-based payment transactions	(933)	(803)
Other	(20)	11
EBITDA	8,949	5,823
Depreciation and amortisation	(6,948)	(6,138)
Impairment of intangible assets	–	(630)
Share of loss of equity accounted associates and joint ventures	(5,341)	(551)
Finance income	204	312
Finance expenses	(1,241)	(527)
Other non-operating loss	(139)	(117)
Net loss on derivative financial assets and liabilities at fair value through profit or loss	(330)	(316)
Goodwill impairment	(6,430)	–
Gain on remeasurement of previously held interest in equity accounted associate	46	161
(Impairment)/reversal of impairment of equity accounted associates and joint ventures	(260)	111
Net gain on disposal of intangible assets	–	400
Net foreign exchange gain/(loss)	94	(934)
Consolidated loss before income tax expense under IFRS	(11,396)	(2,406)

4 Operating segments (continued)

A reconciliation of group aggregate net profit, as presented to the CODM, to IFRS consolidated net loss of the Group for the six months ended June 30, 2020 and 2019 is presented below:

	2020	2019
Group aggregate segment net profit, as presented to the CODM	5,659	6,026
Adjustments to reconcile net profit as presented to the CODM to consolidated net loss under IFRS:		
Share-based payment transactions	(933)	(803)
Differences in timing of revenue recognition	(3,083)	(2,748)
Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale	(135)	(3,310)
Amortisation of fair value adjustments to intangible assets	(1,599)	(1,566)
Net (loss)/gain on financial instruments at fair value through profit or loss	(414)	7
Goodwill impairment	(6,430)	–
Gain on remeasurement of previously held interest in equity accounted associate	46	161
Net gain on disposal of intangible assets	–	400
Net foreign exchange gain/(loss)	94	(934)
Share of loss of equity accounted associates and joint ventures	(5,341)	(551)
(Impairment)/reversal of impairment of equity accounted associates and joint ventures	(260)	111
Other non-operating loss	(181)	(70)
Other	(17)	(12)
Tax effect of the adjustments	705	133
Consolidated net loss under IFRS	(11,889)	(3,156)

The income statement items for each segment for the three months ended June 30, 2020, as presented to the CODM, are presented below:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	11,706	10,992	2,675	–	25,373
Intersegment revenue	31	26	11	(68)	–
Total revenue	11,737	11,018	2,686	(68)	25,373
Total operating expenses	6,016	8,656	3,294	(68)	17,898
EBITDA	5,721	2,362	(608)	–	7,475
Net profit					3,455

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	11,597	7,488	1,125	–	20,210
Intersegment revenue	55	57	1	(113)	–
Total revenue	11,652	7,545	1,126	(113)	20,210
Total operating expenses	5,324	6,126	1,679	(113)	13,016
EBITDA	6,328	1,419	(553)	–	7,194
Net profit					3,193

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, 2020 and 2019 is presented below:

	2020	2019
Group aggregate segment revenue, as presented to the CODM	25,373	20,210
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	190	626
Differences in timing of revenue recognition	(2,478)	(1,242)
Barter revenue	2	65
Dividend revenue from venture capital investments	–	8
Consolidated revenue under IFRS	23,087	19,667

4 Operating segments (continued)

A reconciliation of group aggregate segment EBITDA, as presented to the CODM, to IFRS consolidated (loss)/profit before income tax expense of the Group for the three months ended June 30, 2020 and 2019 is presented below:

	2020	2019
Group aggregate segment EBITDA, as presented to the CODM	7,475	7,194
Adjustments to reconcile EBITDA as presented to the CODM to consolidated (loss)/profit before income tax expenses under IFRS:		
Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale	(32)	(1,462)
Differences in timing of revenue recognition	(2,478)	(1,033)
Net (loss)/gain on venture capital investments	(43)	314
Share-based payment transactions	(504)	(493)
Other	(5)	(12)
EBITDA	4,413	4,508
Depreciation and amortisation	(3,565)	(3,153)
Impairment of intangible assets	–	(630)
Share of loss of equity accounted associates and joint ventures	(2,518)	(258)
Finance income	85	169
Finance expenses	(630)	(324)
Other non-operating loss	(19)	(60)
Net loss on derivative financial assets and liabilities at fair value through profit or loss	(541)	(206)
Gain on re-measurement of previously held interest in equity accounted associate	–	276
(Impairment)/reversal of impairment of equity accounted associates	(38)	111
Net gain on disposal of intangible assets	–	400
Net foreign exchange gain/(loss)	436	(215)
Consolidated (loss)/profit before income tax expense under IFRS	(2,377)	618

A reconciliation of group aggregate segment net profit, as presented to the CODM, to IFRS consolidated net (loss)/profit of the Group for three months ended June 30, 2020 and 2019 is presented below:

	2020	2019
Group aggregate segment net profit, as presented to the CODM	3,455	3,193
Adjustments to reconcile net profit as presented to the CODM to consolidated net (loss)/profit under IFRS:		
Share-based payment transactions	(504)	(493)
Differences in timing of revenue recognition	(2,478)	(1,032)
Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale	(30)	(1,374)
Amortisation of fair value adjustments to intangible assets	(808)	(787)
Net (loss)/gain on financial instruments at fair value through profit or loss	(584)	108
Gain on re-measurement of previously held interest in equity accounted associate	–	276
Net gain on disposal of intangible assets	–	400
Net foreign exchange gain/(loss)	436	(215)
Share of loss of equity accounted associates and joint ventures	(2,518)	(258)
(Impairment)/reversal of impairment of equity accounted associates	(38)	111
Other non-operating loss	(61)	(13)
Other	(11)	–
Tax effect of the adjustments	384	381
Consolidated net (loss)/profit under IFRS	(2,757)	297

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 a result 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.

5 Business combinations (continued)

5.1 UMA (continued)

In February 2020 the Group finalised purchase price allocation for UMA acquisition, which resulted in no change from provisional values. The fair values of the identifiable assets and liabilities of UMA at the date of acquisition were as follows:

	Fair value
Intangible assets	693
Property and equipment	3
Deferred income tax assets	111
Trade accounts receivable	356
Prepaid expenses and advances to suppliers	169
Other current assets	26
Cash and cash equivalents	1,079
Total assets	2,437
Trade accounts payable	858
Deferred income tax liabilities	31
Income tax payable	13
Other taxes payable	100
Other payables, provisions and accrued expenses	47
Total liabilities	1,049
Total net assets	1,388
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 at the proportionate share of the identifiable net assets	14
Over	
(c) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured at final fair values	1,388
Goodwill	6,618

Goodwill is mainly attributable to development of music services, cost saving and potential synergy with the Group's business. Goodwill is allocated to Vkontante and Social Networks CGUs. 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

5.2 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. As of December 31, 2019 the Group acquired the remaining share of 49.17%.

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. As of December 31, 2019 the Group acquired the remaining share of 49%.

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 April-May 2020 the Group finalised purchase price allocation for Native Roll, Worki and Relap acquisition, which resulted in no change from provisional values.

5 Business combinations (continued)

5.2 Native Roll, Worki and Relap (continued)

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

	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	139
Loans payable	67
Deferred income tax liabilities	55
VAT and other taxes payable	13
Other payables	28
Total liabilities	302
Total net assets	345
Goodwill on the transaction was calculated as the excess of:	
(a) The consideration transferred by the Group measured at fair values:	
[1] Cash paid	2,064
[2] Contingent consideration liability	71
Consideration transferred by the Group	2,135
(b) Financial liability at fair value through profit or loss – derivative over the equity of investee (Note 14)	461
Over	
(c) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured at fair provisional values	345
Goodwill	2,251

The fair value of contingent consideration liability, based on the performance of the acquired entity, is determined using present value of future expected cash flows. The estimate is based on a discount rate of 18% with a range of outcomes from RUR 0 to RUR 253, weighted on expected probabilities.

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.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	2,064
Cash acquired (included in cash flows from investing activities)	(86)
Net cash flow on acquisition	1,978

5.3 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 September 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 285. The primary purpose of the acquisition of Panzerdog was to enhance the Group's position on mobile games market.

In May 2020 the Group finalised purchase price allocation for Panzerdog acquisition, which resulted in no change from provisional values.

5 Business combinations (continued)

5.3 Panzerdog (continued)

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

	Fair value
Intangible assets	654
Property and equipment	2
Trade accounts receivable	87
Other current assets	31
Cash and cash equivalents	89
Total assets	863
Deferred revenue	168
Deferred income tax liabilities	131
Trade accounts payable	215
Total liabilities	514
Total net assets	349

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 measured at the proportionate share of the identifiable net assets	141
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	349
Goodwill	625

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.

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

5.4 Swag Masha

On July 8, 2019 the Group acquired control over mobile games developer LLC "Swag Masha" ("Swag Masha") by increasing its share to 51% (16% in addition to 35% stake as of March 31, 2019) for a total cash consideration of RUR 79. The primary purpose of the acquisition of Swag Masha was to enhance the Group's position on mobile games market.

In July 2020 the Group finalised purchase price allocation for Swag Masha acquisition, which resulted in no change from provisional values.

5 Business combinations (continued)

5.4 Swag Masha (continued)

The fair values of the identifiable assets and liabilities of Swag Masha as at the date of acquisition were as follows:

	Fair value
Intangible assets	273
Property and equipment	1
Trade accounts receivable	68
Other current assets	1
Cash and cash equivalents	33
Total assets	376
Trade accounts payable	140
Other payables, provisions and accrued expenses	1
Total liabilities	141
Total net assets	235

Goodwill on the transaction was calculated as the excess of:	
(a) The consideration transferred by the Group measured at fair values:	
[1] Cash paid	79
[2] The acquisition date fair value of the Group's previously held equity interest	170
Consideration transferred by the Group	249
(b) The amount of non-controlling interest in Swag Masha measured at the proportionate share of the identifiable net assets	115
Over	
(c) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured at fair provisional values	235
Goodwill	129

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.

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)	79
Cash acquired (included in cash flows from investing activities)	(33)
Net cash flow on acquisition	46

5.5 InGame

In March 2020 the Group acquired control over mobile games developer BeIngame Limited ("InGame") by increasing its share to 100% (75% in addition to 25% stake as of December 31, 2019) for a total cash consideration of RUR 309 (at the exchange rate as of the acquisition date) and settlement of pre-existing relationship in the amount of RUR 858 that represents fair value of Group's trade receivables due from InGame (that approximates its carrying value). As of March 31, 2020, as a result of the control acquisition the Group derecognized the equity accounted investment in InGame with a gain from remeasurement of previously held interest in equity accounted associates of RUR 46. The primary purpose of the acquisition of InGame was to enhance the Group's position on the mobile games market.

5 Business combinations (continued)

5.5 InGame (continued)

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

	Provisional fair value
Intangible assets	373
Trade accounts receivable	74
Other current assets	87
Cash and cash equivalents	292
Total assets	826
Deferred revenue	120
Deferred tax liabilities	32
Total liabilities	152
Total net assets	674
Goodwill on the transaction was calculated as the excess of:	
(a) The consideration transferred by the Group measured at fair values:	
[1] Cash paid	309
[2] The acquisition date fair value of the Group's previously held equity interest	99
[3] Effective settlement of trade payables to the Group	858
Consideration transferred by the Group	1,266
Over	
(b) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured at fair provisional values	674
Goodwill	592

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 and is allocated to Games CGU.

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)	309
Cash acquired (included in cash flows from investing activities)	(292)
Net cash flow on acquisition	17

5.6 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 a RUR 120 conversion of aloan. 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 a RUR 549 loss. In December 2019 Citymobil was transferred to O2O JV as a part of the Group investment.

6 Lease contracts

In the first quarter of 2020 the lease contract for Moscow headquarter premises was modified including lease payments and lease terms that were extended from 2021 to 2026. This modification resulted in the increase in right-of-use assets and lease liabilities by RUR 6,933.

7 Goodwill and other intangible assets

During the six months ended June 30, 2020, the Group capitalised software development costs and otherwise acquired intangible assets with a cost of RUR 1,180 (2019: RUR 1,117). 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 Goodwill and other intangible assets (continued)

Given the current challenging market environment caused by the global recession and effect of COVID-19, with ongoing lockdowns and pressures around the advertising market as well as the related uncertainty in particular, the Group concluded that these circumstances might significantly and adversely affect the advertising market in Russia and accordingly, the Group revised its advertising revenue projections downward. Additionally, a pre-tax discount rate of 14.5% for Email, Portal and IM CGU and 15.1% for Search CGU (December, 31 2019: 16.8% and 16.1% respectively) was applied. All other significant assumptions remained consistent with those disclosed in the annual financial statements for the year ended December 31, 2019. As a result of this analysis in Q1 2020 management recognized an impairment charge of RUR 2,496 against goodwill related to the Search CGU and RUR 3,934 against goodwill related to the Email, Portal and IM CGU.

8 Property and equipment

During the six months ended June 30, 2020, the Group acquired property and equipment with a cost of RUR 2,802 (2019: RUR 2,222).

9 Other payables and accrued expenses

Other payables and accrued expenses consist of the following:

	June 30, 2020	December 31, 2019
Payables to personnel	1,830	2,482
Accrued vacations	1,894	1,314
Accrued professional consulting expenses	60	71
Contingent consideration liabilities	5,500	5,472
Deferred consideration on formation of joint ventures	5,738	5,076
Other current payables	645	933
Total other payables and accrued expenses	15,667	15,348

Contingent consideration liabilities include RUB 4.6 bln payable measured at fair value to the O2O joint venture. This amount depends on the achievement of a number of KPIs by contributed businesses in 2020.This amount reflects management best estimates of the performance of those contributed businesses in light of current ecomomic conditions and specifically, considering the impact of coronavirus pandemic outbreak. Changes in the key assumptions included in the KPI's calculation may decrease the fair value of the contingent consideration by RUB 2.3 bln.

10 Revenue

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

As required by IFRS 15 disaggregation of revenue from contracts with customers for the six months ended June 30, 2020, based on the Group's segment reporting (Note 4), is presented below:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	24,191	18,871	4,641	–	47,703
Intersegment revenue	72	43	26	(141)	–
Total revenue	24,263	18,914	4,667	(141)	47,703
Services transferred at a point in time	18,742	3,079	2,776	(141)	24,456
Services transferred over time	5,521	15,835	1,891	–	23,247

Disaggregation of revenue from contracts with customers for the six months ended June 30, 2019, based on the Group's segment reporting (Note 4) is presented below:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	23,100	14,428	2,227	–	39,755
Intersegment revenue	65	77	1	(143)	–
Total revenue	23,165	14,505	2,228	(143)	39,755
Services transferred at a point in time	18,451	1,828	1,645	(143)	21,781
Services transferred over time	4,714	12,677	583	–	17,974

10 Revenue (continued)

Disaggregation of revenue from contracts with customers for the three months ended June 30, 2020, based on the Group's segment reporting (Note 4), is presented below:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	11,706	10,992	2,675	–	25,373
Intersegment revenue	31	26	11	(68)	–
Total revenue	11,737	11,018	2,686	(68)	25,373
Services transferred at a point in time	9,058	1,706	1,532	(68)	12,228
Services transferred over time	2,679	9,312	1,154	–	13,145

Disaggregation of revenue from contracts with customers for the three months ended June 30, 2019, based on the Group's segment reporting (Note 4) is presented below:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	11,597	7,488	1,125	–	20,210
Intersegment revenue	55	57	1	(113)	–
Total revenue	11,652	7,545	1,126	(113)	20,210
Services transferred at a point in time	9,392	970	809	(113)	11,058
Services transferred over time	2,260	6,575	317	–	9,152

11 Income tax

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Current income tax expense	770	937	1,388	1,561
Deferred income tax benefit	(390)	(616)	(895)	(811)
Total income tax expense	380	321	493	750

The reconciliation between tax expense and the product of accounting profit multiplied by domestic rates applicable to individual Group entities for the six months ended June 30, 2020 and 2019 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
(Loss)/profit before income tax expense	(2,377)	618	(11,396)	(2,406)
Tax at domestic rates applicable to individual Group entities	142	(237)	2,043	237
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non-deductible expenses	(4)	(82)	(365)	(259)
Non-taxable foreign exchange and other gains	66	29	455	86
Adjustments in respect of current income tax of previous period	(48)	(44)	(84)	(103)
Effect of changes in tax rates	–	–	–	(393)
Tax accruals and penalties	3	8	3	(41)
Unrecognised deferred tax assets	(17)	93	(166)	(123)
Share of results of equity associates and joint ventures	(503)	(50)	(1,068)	(109)
Goodwill impairment	–	–	(1,286)	–
Other	(19)	(38)	(25)	(45)
Total income tax expense	(380)	(321)	(493)	(750)

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.

Starting from 2014 the Russian economy has been negatively impacted by 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.

First identified in December 2019, the COVID-19 or coronavirus pandemic outbreak has impacted the global macroeconomic environment and caused coupled with certain other factors the volatility in the oil market and devaluation of the Russian Rouble. The Group has assessed the impact of the coronavirus pandemic outbreak and concluded that the lockdown restrictions have positively affected the demand for the online services and users activity. The significant adverse effect on the advertising market has resulted in a decrease of the advertising revenue and the goodwill impairment of RUR 6.4 bln (Note 7) in the quarter ended March 31, 2020. Other than the goodwill impairment in Q1 2020 the impact has been limited on the financial position of the Group by the date of this report.

Given the expected local economy decline by 4-6%+ in 2020 compared to 2019, the business of the Group may be materially affected if the Group is not able to respond to the situation promptly. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances of the global pandemic, however, the full impact of the COVID-19 outbreak continues to evolve subsequent to the quarter ended June 30, 2020 and its consequences are still hard to predict.

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.

Management estimates that possible exposure in relation to the aforementioned risks, as well as other profits tax and non-profits tax risks (e.g. imposition of additional VAT liabilities), that are more than remote, but for which no liability is required to be recognized under IFRS, could be few times as high as income tax payable and VAT and other taxes payable reflected in the statement of financial position at that date. This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability.

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 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.

12.4 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.

12.5 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.

12.6 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.

12 Commitments, contingencies and operating risks (continued)

12.7 Regulation

The Internet and its associated technologies are subject to government regulation. Substantial part of Group's business is subject to Russian laws.

New amendments to the Federal Law *On Information, Information Technologies and the Protection of Information* have been adopted in Q2 2020 to clarify the procedure for restricting access to the information disseminated in breach of copyright or related rights provisions. In accordance with the applicable law, Internet (mobile) applications in breach of copyright and related rights provisions can be blocked following a court order. The procedure for blocking such applications is similar to the site access restriction process. The new regulations will come into force on 1 October, 2020.

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 a 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. Non-compliance with the applicable regulations could lead to penalties or blocking of non-compliant services. The Group complies with the existing and new laws in all material respect.

12.8 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.

12.9 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.

12.10 Fund commitment

In April 2020 the Group entered into the venture capital fund MVOF L.P. as a limited partner. The purpose of the Fund is to carry on the business of investing and, in particular, of identifying, negotiating, making, monitoring the progress of and realising, exchanging or distributing investments. Main investment areas and geographic focus are the sectors of consumer internet, foodtech, edutech, fintech, AI and modern software, and any other sectors which are generally complementary to such identified sectors in developed markets outside Russia. The Group has right to the share in the financial results of the Fund investments in the proportion of its participation.

The Group does not control or exercise significant influence over the Fund according to IFRS criteria as the Group does not manage relevant activities of the Fund. Investments in the Fund are accounted for as financial assets at fair value through profit or loss. As at June 30, 2020 the total capital commitment of the Group was RUR 10,492. Capital contributions to the Fund will be made quarterly based on the capital call notices. Anticipated lifetime of the Fund is 10 years.

13 Balances and transactions with related parties

The following table provides the total amount of transactions, which have been entered into with related parties during the six months ended June 30, 2020 and June 30, 2019 as well as balances with related parties as of June 30, 2020 and December 31, 2019, excluding Directors and key management of the Group. All related party transactions were made in accordance with contractual terms and conditions agreed between the parties.

	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
2020						
Equity accounted associates	40	3	137	6	38	2
Joint ventures	971	–	1,625	–	1,301	11,160
Entities with significant influence over the Group and other entities	85	44	188	105	99	15,028
2019						
Equity accounted associates	207	11	669	174	795	202
Joint ventures	–	–	–	–	1,040	10,651
Entities with significant influence over the Group and other entities	21	478	241	497	629	15,050

Entities with significant influence over the Group and other entities line include Sberbank and MegaFon and their respective subsidiaries.

13 Balances and transactions with related parties (continued)

13.1 The ultimate controlling party

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

13.2 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 54 for the six months ended June 30, 2020 (2019: RUR 54). No options over the shares of the Company were granted to Directors for the six months ended June 30, 2020 (2019: nil). During the six months ended June 30, 2020, Directors did not forfeit any RSUs or options (2019: nil), and no RSUs exercised over shares of the Company (2019: 2,500). The corresponding share-based payment expense was RUR 3 for the six months ended June 30, 2020 (2019: RUR 3).

13.3 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 420 for the six months ended June 30, 2020 (2019: RUR 282). In the six months ended June 30, 2020, no RSUs or options were granted to key executive employees of the Group (excluding Directors) (2019: 1,180,000 RSUs). During the six months ended June 30, 2020, key management of the Group (excluding Directors) did not forfeit any RSUs or options (2019: nil) and exercised 480,000 RSUs and options (2019: 602,500). The corresponding share-based payment expense amounted to RUR 348 for six months ended June 30, 2020 (2019: RUR 182).

14 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of June 30, 2020 and December 31, 2019 and are presented by category of financial instruments in the table below:

	Category*	June 30, 2020	December 31, 2019
Financial assets at fair value through profit and loss			
Non-current			
Financial investments in venture capital investees	FAFVPL	371	673
Derivative financial assets over the equity of investee	FAFVPL	–	110
Convertible loans	FAFVPL	552	452
Financial derivative under lease contract	FAFVPL	494	514
Current			
Derivative financial assets over the equity of investee	FAFVPL	3	3
Convertible loans	FAFVPL	216	87
Financial assets at amortised cost			
Trade accounts receivable	FAAC	11,460	12,288
Loans and interest receivable	FAAC	492	941
Short-term time deposits	FAAC	655	–
Cash and cash equivalents	FAAC	13,349	9,782
Total financial assets		27,592	24,850
Financial liabilities at fair value through profit and loss			
Current			
Contingent consideration liabilities	FLFVPL	5,500	5,472
Financial liabilities at amortised cost			
Current			
Trade accounts payable	FLAC	8,748	7,863
Other payables and accrued expenses	FLAC	10,167	9,876
Short-term portion of long-term interest-bearing loans	FLAC	6,215	4,044
Short-term lease liabilities	FLAC	3,605	3,153
Non-current			
Long-term interest-bearing loans and borrowings	FLAC	16,008	19,474
Non-current lease liabilities	FLAC	7,702	1,568
Total financial liabilities		57,945	51,450

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

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

14 Financial instruments (continued)

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.

14.1 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.

14.2 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).

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no changes in the Group's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the period.

As at June 30, 2020 and December 31, 2019 the Group held the following financial instruments measured at fair value through profit or loss:

	June 30, 2020	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss				
Financial investments in venture capital investees	371	–	–	371
Convertible loans	768	–	–	768
Financial derivative under lease contract	494	–	–	494
Derivative financial assets over the equity of investee	3	–	–	3
Total financial assets measured at fair value through profit or loss	1,636	–	–	1,636
Financial liabilities measured at fair value through profit or loss				
Contingent consideration liabilities	5,500	–	–	5,500
Total financial liabilities measured at fair value through profit or loss	5,500	–	–	5,500

	December 31, 2019	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss				
Financial investments in venture capital investees	673	–	–	673
Convertible loans	539	–	–	539
Financial derivative under lease contract	514	–	–	514
Derivative financial assets over the equity of investee	113	–	–	113
Total financial assets measured at fair value through profit or loss	1,839	–	–	1,839
Financial liabilities measured at fair value through profit or loss				
Contingent consideration liabilities	5,472	–	–	5,472
Total financial liabilities measured at fair value through profit or loss	5,472	–	–	5,472

14 Financial instruments (continued)

14.2 Fair value hierarchy (continued)

The balance of Level 3 measurements as of January 1, 2020 is reconciled to the balance of those measurements as of June 30, 2020 as follows:

	Balance as of January 1, 2020	Gains/(losses) recognized in profit and loss	Purchases/ settlement	Other	Balance as of June 30, 2020
Financial assets measured at fair value through profit or loss					
Financial investments in venture capital investees	673	(84)	(218)	–	371
Derivative financial assets over the equity of investee	113	(251)	141	–	3
Convertible loans	539	(66)	295	–	768
Financial assets and derivatives under lease contracts	514	15	–	(35)	494
Total financial assets at fair value through profit or loss	1,839	(386)	218	(35)	1,636
Financial liability measured at fair value through profit or loss					
Contingent consideration liabilities	(5,472)	(28)	–	–	(5,500)
Total financial liabilities measured at fair value through profit or loss	(5,472)	(28)	–	–	(5,500)

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) recognized in profit and loss	Foreign exchange gains/(losses)	Purchases/ settlement	Acqusition of control in investees	Acquisition of significant influence in investee	Balance as of June 30, 2019
Financial assets measured 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 through profit or loss							
Contingent consideration liabilities	(1,997)	45	132	1,853	–	–	33
Total financial liabilities measured at fair value through profit or loss	(1,997)	45	132	1,853	–	–	33

14.3 Interest-bearing loans

In 2019 the Group raised several loans in the total amount of RUR 23,500 (net of loan origination fees of RUR 117) for funding M&A activities. All loans are unsecured. The loan agreements contain restrictive financial and non-financial covenants that the Group as the borrower is obliged to fulfil. Restrictive covenants include maintaining certain financial ratios. As of June 30, 2020 all restrictive covenants are met.

The table below represents the major loans as of June 30, 2020:

	Original currency	Interest rate	Maturity date	Outstanding carrying amount as of June 30, 2020	Outstanding carrying amount as of December 31, 2019
Sberbank RUR 6.5 bln loan	RUR	7.5%	October 6, 2023	6,504	6,500
Sberbank RUR 8.5 bln loan	RUR	7.0%	December 7, 2023	8,504	8,500
Raiffeisen bank loan	RUR	7.2%	June 6, 2023	7,215	8,500

15 Assets and liabilities held for sale

In June 2019 the Group decided to create a partnership around ESforce eSports business. As of June 30, 2019 the Group reclassified assets related to ESforce in the amount of RUR 6,920 as assets held for sale and liabilities directly associated with assets held for sale in the amount of RUR 0.6 billion.

In December 2019, the Group remeasured the fair value of ESforce, classified as assets held for sale, from RUR 6.3 billion to RUR 1.8 billion and, therefore, recognized a remeasurement loss in the amount of RUR 4.5 billion for 2019 primarily related to goodwill.

As at June 30, 2020, the Group keeps the intention to create a partnership around ESforce and is in discussion with the potential partners.

15 Assets and liabilities held for sale (continued)

As at June 30, 2020, the Group classified assets related to ESforce (eSports business) in the amount of RUR 2,408 as assets held for sale and liabilities directly associated with assets held for sale in the amount of RUR 404 as the Group plans to recover its carrying value through a sale transaction or contribution to a joint venture.

The major classes of assets and liabilities of Esforce classified as held for sale As at June 30, 2020 and December 31, 2019 are as follows:

	As at June 30, 2020	As at December 31, 2019
Intangible assets	1,103	1,065
Property, plant and equipment	377	382
Deferred tax assets	367	304
Trade accounts receivable	236	370
Cash	180	43
Other assets	145	170
Assets held for sale	2,408	2,334
Trade accounts payable	88	167
VAT and other taxes payable	117	147
Deferred tax liabilities	105	105
Other payables	94	124
Liabilities directly associated with assets held for sale	404	543
Net assets directly associated with disposal group	2,004	1,791

16 Events after the reporting period

The local economy is expected to decline by 4-6%+ in 2020 compared to 2019 with a range of outcomes for the advertising market as a result of the coronavirus outbreak. However the Group expects to reach or exceed its advertising revenue milestone provided ahead of the pandemic during the recovery period. The full impact of the COVID-19 outbreak continues to evolve subsequent to the quarter ended June 30, 2020 and its consequences are still uncertain. The Group will continue to monitor the situation on the coronavirus pandemic outbreak and react immediately to mitigate any significant impacts on the operations and financial position of the Group.

On July 2, 2020 the Group announced that its Global Depositary Receipts (GDRs) had started trading on the Moscow Exchange.