Mail.Ru Group Limited

Interim Condensed
Consolidated Financial Statements

For the nine months ended September 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 September 30, 2019, the interim condensed consolidated statement of comprehensive income for the three-month and nine-month periods then ended, interim condensed consolidated statement of cash flows and interim condensed consolidated statement of changes in equity for the nine-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

October 23, 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 September 30, 2019
(in millions of Russian Roubles)

	Notes	As at September 30, 2019 (unaudited)	As at December 31, 2018
ASSETS			
Non-current assets			
Investments in equity accounted associates	5, 15	1,234	2,816
Goodwill	5, 15	138,313	140,446
Right-of-use assets	2.1	5,258	–
Other intangible assets	6	18,787	20,759
Property and equipment	7	7,893	7,050
Financial assets at fair value through profit or loss	14	3,144	2,015
Deferred income tax assets		2,012	4,793
Other non-current assets	8	319	1,684
Total non-current assets		176,960	179,563
Current assets			
Trade accounts receivable	14	10,588	9,916
Prepaid expenses and advances to suppliers		818	1,123
Financial assets at fair value through profit or loss	14	2,132	1,072
Other current assets		1,300	1,353
Cash and cash equivalents		6,820	11,723
Total current assets		21,658	25,187
Assets held for sale	15	19,314	32
Total assets		217,932	204,782
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		–	–
Share premium		59,746	58,482
Treasury shares		(1,153)	(286)
Retained earnings		113,793	106,685
Accumulated other comprehensive income/(loss)		331	(165)
Total equity attributable to equity holders of the parent		172,717	164,716
Non-controlling interests		952	259
Total equity		173,669	164,975
Non-current liabilities			
Deferred income tax liabilities		2,091	2,405
Deferred revenue	2.2	1,437	12,397
Non-current lease liability	2.1, 14	1,860	–
Long-term interest-bearing loans and borrowings	14	6,375	–
Total non-current liabilities		11,763	14,802
Current liabilities			
Trade accounts payable	14	8,890	8,263
Income tax payable		496	893
VAT and other taxes payable		1,601	1,430
Deferred revenue and customer advances	2.2	9,685	8,809
Short-term portion of long-term interest-bearing loans	14	2,142	–
Current lease liability	2.1, 14	3,029	–
Other payables, accrued expenses and contingent consideration liabilities	2.1, 9, 14	4,110	5,610
Total current liabilities		29,953	25,005
Liabilities directly associated with the assets held for sale	15	2,547	–
Total liabilities		44,263	39,807
Total equity and liabilities		217,932	204,782

Interim Condensed Consolidated Statement of Comprehensive Income

For the three and nine months ended September 30, 2019
(in millions of Russian Roubles)

	Notes	Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Online advertising		8,925	7,716	25,267	21,583
MMO games		18,714	4,311	29,098	11,832
Community IVAS		3,949	3,016	11,567	10,312
Other revenue		1,996	1,274	4,837	3,191
Total revenue	4, 10	33,584	16,317	70,769	46,918
Net gain/(loss) on venture capital investments	14	71	–	394	(23)
Personnel expenses		(5,204)	(4,500)	(15,074)	(14,288)
Office rent and maintenance		(53)	(618)	(177)	(1,840)
Agent/partner fees		(6,457)	(3,916)	(17,185)	(11,502)
Marketing expenses		(4,658)	(3,988)	(13,205)	(10,516)
Server hosting expenses		(189)	(502)	(532)	(1,475)
Professional services		(186)	(130)	(558)	(415)
Other operating expenses		(854)	(784)	(2,555)	(2,067)
Total operating expenses		(17,601)	(14,438)	(49,286)	(42,103)
EBITDA		16,054	1,879	21,877	4,792
Depreciation and amortisation		(3,367)	(2,431)	(9,505)	(7,254)
Impairment of intangible assets	6	–	(23)	(630)	(1,721)
Share of loss of equity accounted associates		(29)	(224)	(580)	(356)
Finance income		154	116	466	381
Finance expenses		(337)	–	(864)	(16)
Other non-operating (loss)/gain		(15)	24	(132)	19
Net (loss)/gain on derivative financial assets and liabilities at fair value through profit or loss	14	(244)	185	(560)	580
(Impairment)/reversal of impairment of equity accounted associates		(51)	–	60	–
Net (loss)/gain on disposal of intangible assets	8	–	(40)	400	(40)
Gain on re-measurement of previously held interest in equity accounted associates		163	–	324	
Net foreign exchange (loss)/gain		(214)	297	(1,148)	606
Profit/(loss) before income tax expense		12,114	(217)	9,708	(3,009)
Income tax expense	11	(1,628)	(45)	(2,378)	(490)
Net profit/(loss)		10,486	(262)	7,330	(3,499)
Attributable to:					
Equity holders of the parent		10,279	(277)	7,128	(3,524)
Non-controlling interest		207	15	202	25
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		192	(138)	496	(203)
Total other comprehensive income/(loss) net of tax effect of 0		192	(138)	496	(203)
Total comprehensive income/(loss), net of tax		10,678	(400)	7,826	(3,702)
Attributable to:					
Equity holders of the parent		10,471	(415)	7,624	(3,727)
Non-controlling interest		207	15	202	25
Earnings/(loss) per share, in RUR:					
Basic earnings/(loss) per share attributable to ordinary equity holders of the parent		47	(1)	33	(17)
Diluted earnings/(loss) per share attributable to ordinary equity holders of the parent		46	(1)	32	(17)

Interim Condensed Consolidated Statement of Cash Flows

For the nine months ended September 30, 2019
(in millions of Russian Roubles)

	Notes	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Cash flows from operating activities			
Profit/(loss) before income tax		9,708	(3,009)
Adjustments to reconcile profit/(loss) before income tax to cash flows:			
Depreciation and amortisation	7, 8	9,505	7,254
Impairment losses on financial assets at amortized cost		165	47
Net (gain)/loss on venture capital investments	14	(394)	23
Net loss/(gain) on financial assets and liabilities at fair value through profit or loss	14	560	(580)
Net loss on disposal of subsidiaries		–	40
Net (gain)/loss on disposal of intangible assets	8	(400)	39
Gain on re-measurement of previously held interest in equity accounted associate		(324)	–
Finance income		(466)	(381)
Finance expenses		864	16
Dividend revenue from venture capital investments		(8)	(20)
Share of loss of equity accounted associates		580	356
Reversal of impairment of equity accounted associates		(60)	–
Impairment of intangible assets	6	630	1,721
Net foreign exchange loss/(gain)		1,148	(606)
Share-based payment expense		1,177	2,884
Other non-cash items		(14)	45
Change in operating assets and liabilities:			
Increase in accounts receivable		(1,402)	(527)
(Increase)/decrease in prepaid expenses and advances to suppliers		(333)	468
Decrease/(increase) in inventories and other assets		164	(249)
Increase in accounts payable and accrued expenses		1,731	1,307
Decrease/(increase) in non-current prepaid expenses and advances		67	(149)
Increase/(decrease) in deferred revenue and customer advances		(8,872)	4,055
Increase in financial assets at fair value through profit or loss	14	(2,906)	(2,337)
Operating cash flows before interest, income taxes and contingent consideration settlement		11,120	10,397
Dividends received from venture capital investments		7	20
Settlement of contingent consideration of business combination	5.2, 9, 14	(688)	–
Interest received		415	402
Interest paid		(864)	(13)
Income tax paid		(2,972)	(2,152)
Net cash provided by operating activities		7,018	8,654
Cash flows from investing activities			
Cash paid for property and equipment		(3,360)	(3,264)
Cash paid for intangible assets		(2,181)	(1,244)
Dividends received from equity accounted associates		71	40
Loans issued		(246)	(70)
Loans collected		482	–
Cash paid for acquisitions of subsidiaries, net of cash acquired	5	(7,900)	(8,031)
Settlement of initial fair value of the contingent consideration at acquisition date	5.2, 9, 14	(1,132)	–
Proceeds from disposal of subsidiaries, net of cash disposed		–	(20)
Cash paid for investments in equity accounted associates	5	(1,242)	(1,766)
Net cash provided by investing activities		(15,508)	(14,355)
Cash flows from financing activities			
Payment of lease liabilities		(2,657)	–
Loans received, net of bank commission		8,474	–
Cash paid for treasury shares		(896)	–
Net cash used in financing activities		4,921	–
Net decrease in cash and cash equivalents		(3,569)	(5,701)
Effect of exchange differences on cash balances		(328)	409
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		7,826	10,079
Change in cash related to asset held for sale		(1,006)	–
Cash and cash equivalents at the end of the period		6,820	10,079

Interim Condensed Consolidated Statement of Changes in Equity

For the nine months ended September 30, 2018
(in millions of Russian Roubles)

	Share capital: Number of shares issued and outstanding	Share capital: Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2018	212,424,794	–	51,722	(444)	114,676	128	166,082	84	166,166
Loss for the period	–	–	–	–	(3,524)	–	(3,524)	25	(3,499)
Other comprehensive loss									–
Foreign currency translation	–	–	–	–	–	(203)	(203)	–	(203)
Total other comprehensive loss	–	–	–	–	–	(203)	(203)	–	(203)
Total comprehensive loss	–	–	–	–	(3,524)	(203)	(3,727)	25	(3,702)
Share-based payment transactions	–	–	2,961	–	–	–	2,961	–	2,961
Exercise of RSUs and options over the shares of the Company	1,652,542	–	(158)	158	–	–	–	–	–
Acquisitions of non-controlling interests in business combinations (Note 5)	–	–	–	–	–	–	–	310	310
Balance at September 30, 2018 (unaudited)	214,077,336	–	54,525	(286)	111,152	(75)	165,316	419	165,735

Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the nine months ended September 30, 2019
(in millions of Russian Roubles)

	Share capital								
	Number of shares issued and outstanding	Amount	Share premium	Treasury shares	Retained earnings	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
Income for the period	–	–	–	–	7,128	–	7,128	202	7,330
Other comprehensive income									
Foreign currency translation	–	–	–	–	–	496	496	–	496
Total other comprehensive income	–	–	–	–	–	496	496	–	496
Total comprehensive income	–	–	–	–	7,128	496	7,624	202	7,826
Share-based payment transactions	–	–	1,284	–	–	–	1,284	–	1,284
Exercise of RSUs and options over the shares of the Company	1,657,281	–	(29)	29	–	–	–	–	–
Acquisitions of treasury shares	(572,437)	–	–	(896)	–	–	(896)	–	(896)
Acquisitions of non-controlling interests in business combinations (Note 5)	–	–	–	–	–	–	–	491	491
Disposal of subsidiary	–	–	9	–	–	–	9	–	9
Balance at September 30, 2019 (unaudited)	217,054,766	–	59,746	(1,153)	113,793	331	172,717	952	173,669

Notes to the Interim Condensed Consolidated Financial Statements

For the nine months ended September 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 nine months ended September 30, 2019 were authorised for issue by the directors of the Company on October 23, 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 nine months ended September 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	
Current lease liability	2,902
Non-current lease liabilities	2,558
Total liabilities	5,460
Retained earnings	(20)

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.

2 Basis of preparation (continued)

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

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 Non-current lease liability and Current lease liability;
- 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 Current lease liability 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 current leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

- 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).

2 Basis of preparation (continued)

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

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	1,103	725	43	1,871	2,119
Amortisation expense	(1,939)	(862)	(40)	(2,841)	–
Interest expense	–	–	–	–	398
Payments	–	–	–	–	(3,055)
Assets held for sale	(67)	–	–	(67)	(67)
As at September 30, 2019	4,801	429	28	5,258	4,889

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 Q3 2019, the Group changed its estimates with respect to the life span of the in-game virtual items purchased by game players. The changes resulted from the fact that the Group accumulated sufficient data related to the patterns of how the in-game items are consumed by paying game players. As a result the Company refined its estimate of the period of satisfaction of the performance obligation in relation to virtual in-game items. The changes in estimates were recorded prospectively starting from Q3 2019 and resulted in an increase in revenue and a decrease in deferred revenue estimated at RUR 13,037.

3 Seasonality of operations

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

4 Operating segments

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

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

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

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

Accordingly, segment reporting for the nine months ended September 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 and 16) and to exclude the information related to assets held for sale reclassified during the reporting period (Note 15).

4 Operating segments (continued)

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 nine months ended September 30, 2019, as presented to the CODM, are presented below:

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	35,495	22,093	3,278	–	60,866
Intersegment revenue	126	97	8	(231)	–
Total revenue	35,621	22,190	3,286	(231)	60,866
Total operating expenses	16,144	19,784	5,216	(231)	40,913
EBITDA	19,477	2,406	(1,930)	–	19,953
Net profit					9,983

4 Operating segments (continued)

The income statement items for each segment for the nine months ended September 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	30,935	17,156	1,269	–	49,360
Intersegment revenue	154	2	1	(157)	–
Total revenue	31,089	17,158	1,270	(157)	49,360
Total operating expenses	13,007	14,928	4,184	(157)	31,962
EBITDA	18,082	2,230	(2,914)	–	17,398
Net profit					8,201

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

	2019	2018
Group aggregate segment revenue, as presented to the CODM	60,866	49,360
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	2,123	1,810
Differences in timing of revenue recognition	7,599	(4,349)
Barter revenue	173	76
Dividend revenue from venture capital investments	8	21
Consolidated revenue under IFRS	70,769	46,918

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

	2019	2018
Group aggregate segment EBITDA, as presented to the CODM	19,953	17,398
Adjustments to reconcile EBITDA as presented to the CODM to consolidated income/(loss) before income tax expenses under IFRS:		
Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale	(6,296)	(3,139)
IFRS 16 implementation	–	(2,628)
Differences in timing of revenue recognition	8,975	(3,961)
Net gain/(loss) on venture capital investments	394	(23)
Share-based payment transactions	(1,177)	(2,884)
Other	28	29
EBITDA	21,877	4,792
Depreciation and amortisation	(9,505)	(7,254)
Impairment of intangible assets	(630)	(1,721)
Share of loss of equity accounted associates	(580)	(356)
Finance income	466	381
Finance expenses	(864)	(16)
Other non-operating (loss)/gain	(132)	19
Net (loss)/gain on derivative financial assets and liabilities at fair value through profit or loss	(560)	580
Gain on re-measurement of previously held interest in equity accounted associate	324	–
Reversal of impairment of equity accounted associates	60	–
Net gain/(loss) on disposal of intangible assets	400	(40)
Net foreign exchange (loss)/gain	(1,148)	606
Consolidated income/(loss) before income tax expense under IFRS	9,708	(3,009)

4 Operating segments (continued)

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

	2019	2018
Group aggregate segment net profit, as presented to the CODM	9,983	8,201
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit/(loss) under IFRS:		
Share-based payment transactions	(1,177)	(2,884)
Differences in timing of revenue recognition	8,975	(3,961)
Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale	(5,513)	(3,110)
IFRS 16 implementation	–	326
Amortisation of fair value adjustments to intangible assets	(2,404)	(3,952)
Net gain on financial instruments at fair value through profit or loss	(166)	558
Gain on re-measurement of previously held interest in equity accounted associates	324	–
Net gain/(loss) on disposal of intangible assets	400	(40)
Net foreign exchange (loss)/gain	(1,148)	606
Share of loss of equity accounted associates	(580)	(356)
Reversal of impairment of equity accounted associates	60	–
Other non-operating (loss)/gain	(132)	19
Other	8	(19)
Tax effect of the adjustments and tax on unremitted earnings	(1,300)	1,113
Consolidated net profit/(loss) under IFRS	7,330	(3,499)

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

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	12,386	7,666	1,346	–	21,398
Intersegment revenue	61	20	6	(87)	–
Total revenue	12,447	7,686	1,352	(87)	21,398
Total operating expenses	5,813	6,459	2,006	(87)	14,191
EBITDA	6,634	1,227	(654)	–	7,207
Net profit					3,906

The income statement items for each segment for the three months ended September 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	10,393	6,161	557	–	17,111
Intersegment revenue	49	2	–	(51)	–
Total revenue	10,442	6,163	557	(51)	17,111
Total operating expenses	4,647	5,649	1,449	(51)	11,694
EBITDA	5,795	514	(892)	–	5,417
Net profit					2,845

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

	2019	2018
Group aggregate segment revenue, as presented to the CODM	21,398	17,111
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	968	710
Differences in timing of revenue recognition	11,116	(1,573)
Barter revenue	102	65
Dividend revenue from venture capital investments	–	4
Consolidated revenue under IFRS	33,584	16,317

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 September 30, 2019 and 2018 is presented below:

	2019	2018
Group aggregate segment EBITDA, as presented to the CODM	7,207	5,417
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	(2,589)	(563)
IFRS 16 implementation	–	(898)
Differences in timing of revenue recognition	11,722	(1,433)
Net gain on venture capital investments	71	16
Share-based payment transactions	(374)	(662)
Other	17	2
EBITDA	16,054	1,879
Depreciation and amortisation	(3,367)	(2,431)
Impairment of intangible assets	–	(23)
Share of loss of equity accounted associates	(29)	(224)
Finance income	154	116
Finance expenses	(337)	–
Other non-operating (loss)/gain	(15)	24
Net (loss)/gain on derivative financial assets and liabilities at fair value through profit or loss	(244)	185
Gain on re-measurement of previously held interest in equity accounted associate	163	–
Impairment of equity accounted associates	(51)	–
Net loss on disposal of intangible assets	–	(40)
Net foreign exchange (loss)/gain	(214)	297
Consolidated profit/(loss) before income tax expense under IFRS	12,114	(217)

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 September 30, 2019 and 2018 is presented below:

	2019	2018
Group aggregate segment net profit, as presented to the CODM	3,906	2,845
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit/(loss) under IFRS:		
Share-based payment transactions	(374)	(662)
Differences in timing of revenue recognition	11,722	(1,433)
Effect of difference in dates of acquisition, loss of control in subsidiaries and assets held for sale	(2,188)	(614)
IFRS 16 implementation	–	112
Amortisation of fair value adjustments to intangible assets	(838)	(1,296)
Net gainon financial instruments at fair value through profit or loss	(173)	185
Gain on re-measurement of previously held interest in equity accounted associate	163	–
Net loss on disposal of intangible assets	–	(40)
Net foreign exchange (loss)/gain	(214)	297
Share of loss of equity accounted associates	(29)	(224)
Impairment of equity accounted associates	(51)	–
Other non-operating gain/(loss)	(15)	24
Other	10	(2)
Tax effect of the adjustments and tax on unremitted earnings	(1,433)	546
Consolidated net profit/(loss) under IFRS	10,486	(262)

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 September 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	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 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	1,388
Goodwill	6,618

Goodwill is mainly attributable to development of music services, cost saving and potential synergy with the Group's business. Goodwill is 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 September 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 679. As a result of a series of transactions the Group's share in Citymobil decreased to 22.78%. In 9m 2019 the Group's share in Citymobil's financial results was a RUR 548 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 Board of Directors of the Company approved the signing of a term sheet assuming investment into a new O2O-focused company. As at September 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 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.

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

	Provisional fair value
Intangible assets	877
Property and equipment	2
Trade accounts receivable	87
Other current assets	4
Cash and cash equivalents	89
Total assets	1,059
Deferred revenue	36
Deferred income tax liabilities	175
Trade accounts payable	216
Total liabilities	427
Total net assets	632

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	256
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	632
Goodwill	457

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 bn.

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	155
Loans payable	67
Deferred income tax liability	55
VAT and other taxes payable	18
Other payables	36
Total liabilities	331
Total net assets	316

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
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	74
Over	
(d) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	316
(e) Financial assets at fair value through profit or loss – derivative over the equity of investee (Note 14)	17
Goodwill	1,838

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

5.7 Swag Masha

On July 8, 2019 the Group acquired 51% in 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.

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

	Provisional fair value
Intangible assets	273
Property and equipment	1
Trade accounts receivable	67
Other current assets	1
Cash and cash equivalents	33
Total assets	375
Trade accounts payable	140
Other payables, provisions and accrued expenses	7
Total liabilities	147
Total net assets	228

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 SwagMasha measured in accordance with IFRS 3	112
Over	
(c) The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	228
Goodwill	133

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

6 Other intangible assets

During the nine months ended September 30, 2019, the Group capitalised software development costs and otherwise acquired intangible assets with a cost of RUR 2,427 (2018: RUR 1,054). 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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

7 Property and equipment

During the nine months ended September 30, 2019, the Group acquired property and equipment with a cost of RUR 3,497 (2018: RUR 3,392).

8 Other non-current assets

Other non-current assets consist of the following:

	September 30, 2019	December 31, 2018
Long-term loans receivable	205	110
Advances for royalties	–	1,176
Other non-current assets	114	398
Total other non-current assets	319	1,684

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

	September 30, 2019	December 31, 2018
Payables to personnel	2,254	2,140
Accrued vacations	1,232	1,046
Accrued professional consulting expenses	38	41
Contingent consideration liability	–	1,997
Other current payables	586	386
Total other payables, accrued expenses and contingent consideration liabilities	4,110	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 (Notes 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.

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

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	35,495	22,093	3,278	–	60,866
Intersegment revenue	126	97	8	(231)	–
Total revenue	35,621	22,190	3,286	(231)	60,866
Services transferred at a point in time	28,641	3,181	2,715	(231)	34,306
Services transferred over time	6,980	19,009	571	–	26,560

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

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	30,935	17,156	1,269	–	49,360
Intersegment revenue	154	2	1	(157)	–
Total revenue	31,089	17,158	1,270	(157)	49,360
Services transferred at a point in time	25,096	1,364	949	(157)	27,252
Services transferred over time	5,993	15,794	321	–	22,108

10 Revenue (continued)

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

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	12,386	7,666	1,346	–	21,398
Intersegment revenue	61	20	6	(87)	–
Total revenue	12,447	7,686	1,352	(87)	21,398
Services transferred at a point in time	10,181	1,347	1,081	(87)	12,522
Services transferred over time	2,266	6,339	271	–	8,876

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

	Communications and Social	Games	New initiatives	Eliminations	Group
Revenue					
External revenue	10,393	6,161	557	–	17,110
Intersegment revenue	49	2	–	(51)	–
Total revenue	10,442	6,163	557	(51)	17,110
Services transferred at a point in time	8,628	589	420	(51)	9,586
Services transferred over time	1,814	5,574	137	–	7,525

11 Income tax

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Current income tax expense	706	539	2,267	1,681
Deferred income tax expense/(benefit)	922	(494)	111	(1,191)
Total income tax expense	1,628	45	2,378	490

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 nine months ended September 30, 2019 and 2018 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Profit/(loss) before income tax expense	12,092	(218)	9,708	(3,009)
Tax at domestic rates applicable to individual group entities	(1,706)	55	(1,469)	419
Non-deductible expenses	(95)	(323)	(354)	(763)
Non-taxable foreign exchange and other gains	229	185	315	368
Adjustments in respect of current income tax of previous year	14	–	(89)	–
Effect of changes in tax rates	–	–	(393)	–
Tax accruals and penalties	(4)	–	(45)	(46)
Unrecognised deferred tax assets	(90)	15	(322)	(533)
Other	24	23	(21)	65
Total income tax (expense)/benefit	(1,628)	(45)	(2,378)	(490)

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 Commitments, contingencies and operating risks (continued)

12.2 Taxation

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

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

12.3 Legal proceedings

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

12.4 Competition

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

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

12.5 Private information

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

12.6 Intellectual property rights

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

12.7 Development

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

12.8 Regulation

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

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.

12 Commitments, contingencies and operating risks (continued)

12.8 Regulation (continued)

The Group is also subject to other various specific Russian laws, such as so called Anti-Piracy Law, Anti-extremism Law, Black List Law etc. 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.

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.

On July 26, 2019 a draft law introducing amendments to the Federal Law on Information, Information Technologies and Protection of Information has been proposed. This Draft Law provides for restrictions in relation to foreign shareholding in excess of 20% in certain internet/information resources in Russia. Any information resource which allows its owners to collect data of users located in Russia may be recognised as a so-called "significant information resource" (SIR) upon the decision of the Government Commission (Roskomnadzor).

On July 23, 2019 a draft law introducing amendments to the Federal Law *On Information, Information Technologies and Protection of Information* has been proposed. This draft law provides for requirements and restrictions for operators of email services which are similar to the operators of instant messaging services (introduced by amendments to the Federal Law *On Information, Information Technologies and Protection of Information* which came into force January 1, 2018). The draft law proposes to block users who transfers messages containing information violating the legislation of the Russian Federation.

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 nine months ended September 30, 2019 and September 30, 2018 as well as balances with related parties as of September 30, 2019 and December 31, 2018, excluding directors and key management of the Group (see below).

	Three months ending September 30		Nine months ending September 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	660	22	1,329	196	1,117	231
Other entities	333	332	574	829	537	57
2018						
Equity accounted associates	475	247	671	314	305	136
Other entities	210	–	339	1	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 81 for the nine months ended September 30, 2019 (2018: RUR 110). No options over the shares of the Company were granted to Directors for the nine months ended September 30, 2019 (2018: nil). During the nine months ended September 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 a negative RUR 44 for nine months ended September 30, 2019 (2018: RUR (11)).

13.2 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 423 for the nine months ended September 30, 2019 (2018: RUR 387). In the nine months ended September 30, 2019, 1,180,000 RSUs were granted to key executive employees of the Group (excluding Directors) (2018: 200,000 RSUs). During the nine months ended September 30, 2019, key management of the Group (excluding Directors) did not forfeit any RSUs or options (2018: nil) and exercised 1,148,750 RSUs and options (2018: 1,226,250). The corresponding share-based payment expense amounted to RUR 348 for nine months ended September 30, 2019 (2018: RUR 2,798).

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 September 30, 2019 and December 31, 2018 and are presented by category of financial instruments in the table below:

	Category*	September 30, 2019	December 31, 2018
Financial assets through profit and loss			
Non-current			
Financial investments in venture capital investees	FAFVPL	1,342	256
Derivative financial assets over the equity of investee	FAFVPL	211	92
Convertible loans	FAFVPL	1,029	1,167
Financial derivative under lease contract	FAFVPL	562	500
Current			
Derivative financial assets over the equity of investee	FAFVPL	3	2
Convertible loans	FAFVPL	2,129	1,070
Financial assets at amortised cost			
Trade accounts receivable	FAAC	10,588	9,916
Loans and interest receivable	FAAC	458	114
Cash and cash equivalents	FAAC	6,820	11,723
Total financial assets		23,142	24,840
Financial liabilities through profit and loss			
Current			
Contingent consideration liability	FLFVPL	–	1,997
Financial liabilities at amortised cost			
Current			
Trade accounts payable, other payables and accrued expenses	FLAC	13,000	11,876
Short-term portion of long-term interest-bearing loans	FLAC	2,142	–
Current lease liability	FLAC	3,029	–
Non-current			
Long-term interest-bearing loans	FLAC	6,375	–
Other payables	FLAC	1,860	–
Total financial liabilities		26,406	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 September 30, 2019 and December 31, 2018 the Group held the following financial instruments measured at fair value:

	September 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	1,342	–	–	1,342
Convertible loans	3,158			3,158
Financial derivatives under lease and hosting contracts	562	–	–	562
Derivative financial assets over the equity of investee	214	–	–	214
Total financial assets at fair value through profit or loss	5,276	–	–	5,276
Total financial assets measured at fair value	5,276	–	–	5,276
Financial liabilities measured at fair value				
Derivative financial liabilities over the equity of investees, current	–	–	–	–
Total financial liabilities measured at fair value	–	–	–	–

	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 September 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	Recognition of deposit	Assets held for sale	Balance as of September 30, 2019
Financial assets measured at fair value								
Financial assets at fair value through profit or loss:								
Financial investments in venture capital investees	256	394	(20)	729	101	–	(118)	1,342
Derivative financial assets over the equity of investee	94	(7)	–	127	–	–	–	214
Convertible loans	2,237	(404)	–	2,622	(583)	–	(714)	3,158
Financial derivatives under lease contracts	500	(194)	–	–	–	256	–	562
Total financial assets at fair value through profit or loss	3,087	(211)	(20)	3,478	(482)	256	(832)	5,276
Financial liability measured at fair value								
Financial liabilities at fair value through profit or loss – *contingent consideration liability*	(1,997)	45	132	1,820	–	–	–	–
Total financial liabilities measured at fair value	(1,997)	45	132	1,820	–	–	–	–

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 September 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 September 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)	44	(105)	–	180
Derivative financial assets over the equity of investee	122	263	3	(11)	(295)	82
Convertible loans	–	–	2,290	–	(144)	2,146
Financial derivatives under lease and hosting contracts	150	317	–	–	–	467
Total financial assets at fair value through profit or loss	536	557	2,337	(116)	(439)	2,875

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. As of September 30, 2019 all restrictive covenants are met.

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 are forming a new joint venture by leveraging on the existing businesses of AliExpress Russia.

Mail.Ru Group contributes 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 occurred on October 9, 2019. As at September 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 Board of Directors of the Company approved signing of the partnership agreement. As at September 30, 2019, the Group classified ESforce as assets held for sale (Note 5.2).

On July 24, 2019 the Board of Directors of the Company 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 September 30, 2019 the Group classified Delivery Club, equity investment in CM and certain other equity investments and convertible loans of RUR 1,666 and related options as assets held for sale (Notes 5.4, 14.1).

Net assets of Delivery Club attributable to the Group were RUR 8,635, including goodwill of RUR 6,179, deferred tax assets and intangible assets. Liabilities of Delivery Club directly associated with the assets held for sale mostly included trade accounts payable and other payables.

16 Events after the reporting period

On October 9, 2019, Alibaba Group, MegaFon, Mail.ru Group and RDIF announced the closing of the Aliexpress Russia Joint Venture deal. The Group has contributed its Pandao e-commerce business and cash investments of $182 million (with $100 million contribution at closing and the rest of the amount will be contributed within the next 12 months) in exchange for a 15.0% stake in the JV.

For these purposes on October 7, 2019 the Group acquired from Sberbank RUR 6,500 loan under 7.5% and on October 8, 2019 Raiffeisenbank issued a standby letter of credit for $82 million under 0.5% fee.

The Group concluded that it has significant influence over JV as the Group has a power to participate in the financial and operating policy decisions through its representation in JV's Board of Directors so it will be accounted for under the equity method.