2017

ANNUAL REPORT

@mail.ru group

Contents

Who we are

Mail.Ru Group Limited is a leading company in the Russian-speaking internet segment. Our products reach over 90% of Russian internet users on a monthly basis and we hold the lead in Russian desktop and mobile spaces[1]. In terms of number of users, Russia is the largest internet market in Europe[2]. While the Russian speaking market remains our major focus, we continue to seek opportunities to leverage our R&D and our technology across the widest possible user base. As such, we are launching products into the US, European and other markets.

In November 2010, Mail.Ru Group Limited shares started trading, in the form of Global Depositary Receipts (GDRs), on the London Stock Exchange after being admitted to the Official List of the UK Listing Authority.

Our products

We own Russia's leading email service and one of Russia's largest internet portals, Mail.Ru; the two largest Russian language social networks, VKontakte (VK) and Odnoklassniki (OK); and Russia's largest online games.

Our e-commerce business includes the largest food delivery company in Russia, Delivery Club, location-based marketplace Youla and a cross-border marketplace Pandao.

We also own 100% of mobile games developer Pixonic, a leading OpenStreetMap-based offline mobile maps and navigation service MAPS.ME, instant messaging services ICQ, Agent Mail.Ru and TamTam, and a controlling stake in GeekBrains, an online education platform for developers.

1 Source: Mediascope, Russia, population aged 12-64 in the cities 100k+, desktop and mobile, December 2017.

2 Source: http://www.internetlivestats.com, updated for June 30, 2017.

Mail.Ru Group in brief

Mail.Ru Group offers a variety of online communication products, entertainment and e-commerce services.

Social Networks

The two largest Russian language social networking services and communication platforms VKontakte (VK) and Odnoklassniki (OK)

Online Games

Russia's leading provider of MMO and mobile games with a portfolio of both internally-developed and licensed titles

Email, Portal & IM

The leading email service in Russia (Mail.Ru), IM services (ICQ, Agent Mail.Ru and TamTam) and media projects

Search, E-commerce and Other

#1 food delivery company in Russia (Delivery Club and ZakaZaka brands), a location-based marketplace (Youla), cross-border marketplace (Pandao), an online learning platform for developers (GeekBrains), the 3rd largest search engine in Russia, an offline mobile maps service (MAPS.ME)

How we work

OUR STRATEGY

Connect all Russian-speaking internet users, services and businesses with most convenient tools

Lead digital transformation of consumer markets

Expand globally with our games

Drive collaboration of the best engineering talent

Our people

Our main asset is our people. Each year the best of them are recognized with People of the Year Award.

Mail.Ru Group People Awards 2017 winners:

Our history

1998

Webmail service launched

1999

2000

2001

October
Mail.Ru portal launched

2002

2003

May
Mail.Ru Agent launched

2004

2005

2006

March
Odnoklassniki (OK) social network launched

September
MMO game Legend: Legacy of the Dragons launched

October
VKontakte (VK) social network launched

2007

May
My World social network launched

June
Mail.Ru in-house search technology launched

2008

May
Perfect World online game launched under license

2009

October
Allods Online game launched

2010

July
Mail.Ru Group acquired IM service ICQ

November
Mail.Ru Group completed an IPO

2011

April
Mail.Ru Group launched the All-Russian programming contest – Russian Code Cup

May
Mail.Ru Group launched Target Mail.Ru, a self-service advertising platform

November
Mail.Ru Group set up Technopark in cooperation with Bauman Moscow State Technical University (MSTU)

2012

April
MMO shooter Warface launched

2013

June
Mobile game Jungle Heat launched

July
Target Mail.Ru launched a mobile ad platform

Launch of Mail.Ru for Business, a free email service for business clients

August
Launch of cloud storage service Cloud Mail.Ru

Launch of non-profit platform Dobro Mail.Ru for charity crowdfunding

November
Launch of myMail, a free email client app

2014

January
Launch of mobile game Evolution: Battle for Utopia

February
Launch of MMORPG ArcheAge

Mail.Ru Group set up Technosphere in cooperation with Lomonosov Moscow State University (MSU)

November
Acquisition of offline mobile maps service MAPS.ME

2015

March
Launch of myTarget, an advertising platform combining all Group's properties

April
myTarget launched an affiliate advertising network

Launch of MMORPG Skyforge

July
First VK Fest, a major offline festival in Saint Petersburg

September
Launch of MMO game Armored Warfare

Mail.Ru Group set up Technotrack in cooperation with Moscow Institute of Physics and Technology (MIPT)

October
Launch of mobile location-based marketplace Youla

November
Establishment of VK University

2016

January
Launch of Big Data business unit focused on B2B services

February
Mobile game Juggernaut Wars launched

April
Launch of a business unit offering a range of services powered by the Group's DBMS Tarantool

July
OK Live streaming app released

August
Acquisition of controlling stake in GeekBrains, an educational platform for developers

OK set up an educational program Technopolis in cooperation with Peter the Great St. Petersburg Polytechnic University

October
Acquisition of global game developer Pixonic

November
Acquisition of online food delivery company Delivery Club

December
Launch of Cloud for Business, a B2B service offering solutions for cold and hot data storage and storage for teamwork

MMORPG Revelation Online launched

VK Live streaming app released

2017 key highlights

January

VK added a new Market section with a catalog of goods and services

OK Live app launched augmented reality masks

Mail.Ru email service introduced scheduled email sending

Youla was updated with a new listing algorithm and product suggestions

Launch of Hotbox, a B2B cloud service for hot data storage based on Cloud Mail.Ru

MAPS.ME rolled out smart search

February

Release of BeepCar ride-sharing service

War Robots was updated with Leagues, a new matchmaking and ranking system

Mail.Ru Group's Tarantool DBMS started supporting SQL

VK allowed viewing Microsoft Office documents online

OK and Mozilla Firefox launched a special version of the browser for OK users

March

Launch of MMORPG Revelation Online in Europe and North America

Delivery Club introduced curated restaurant selections

VK featured a new tool, calculating post views and providing additional statistics to content creators

VK launched money transfers to communities

OK launched online stores in groups

OK launched online user support in its messenger

Release of Tarantool IIoT, a distributed platform for Industrial Internet of Things

April

Mail.Ru Group entered console market for the first time with PS4 release of Skyforge

Establishment of Mail.Ru Games Ventures, an investment division with up to USD 100m of funding for gaming start-ups

Mail.Ru Group and GeekBrains launched the first Russian online university for developers (GeekUniversity)

Mail.Ru Group introduced a free myTracker-based system for predictive analytics

VK revamped its music service

OK launched a partner program that allows groups to monetize content

ICQ started supporting IFTTT service

myWidget added new tools for media, chat bots and widgets for AMP

Tarantool added functionality allowing for automated replication of data from Oracle

May

Mail.Ru Group acquired ZakaZaka, the number two food delivery company in Russia; subsequently it was merged with Delivery Club

Mail.Ru Group acquired Am.ru, one of the major auto classifieds site in Russia, and subsequently merged it with Youla

Youla introduced C2C delivery and escrow online payments

OK launched TamTam messenger

OK Live app updated with newsfeed with live streams of friends

Delivery Club launched own delivery service (Delivery Express) in the Ural and Volga regions

Mail.Ru was the only Russian company listed in the global top-100 Most Innovative Growth Companies by Forbes

Launch of infra Mail.Ru, a B2B service of virtual infrastructure

June

Global launch of mobile game HAWK on Android

VK launched an open AR platform to create interactive masks

VK rolled out Streaming API allowing researchers and marketing professionals to follow public content updates using key words.

OK featured the opportunity to live stream from the web without any extra software

ICQ introduced group calls

myTarget introduced an independent assessment of ads' viewability carried out by 3rd parties such as MOAT, Inc.

myTarget and myWidget rolled out recommended articles

MAPS.ME launched a local advertising system for small businesses

July

Mail.Ru Group ranked #1 in Russia in terms of share of intellectual capital in total assets by Baker Tilly Russia

Delivery Club app was updated with new design, large-scale dishes presentation, UI improvements and rating system for restaurants

Youla was integrated into OK classifieds

OK launched a platform for group apps and added a post views counter

VK held its 3rd VK Fest, a two-day open-air festival in Saint Petersburg, and VK Cup, its annual programming competition

Mail.Ru email service added an option to pay traffic tickets directly in the email interface

myTarget launched a marketplace for third-party audience segments from data management providers (DMPs)

August

VK launched a catalog of mini-apps for communities

VK introduced Direct Games, a platform for HTML-5 games, which can be launched directly from within the VK app

VK launched VK Admin app for communities

OK launched music collections

OK Live app was updated with the Full HD live streaming feature

Youla launched a new Real Estate vertical

War Robots were updated with a new game mode Beacon Rush

Mail.Ru Group held WARFEST, an offline festival for Warface and other online shooters fans

Mail.Ru Group's B2B cloud service was integrated with 1C-Bitrix

Mail.Ru Group partnered with Moscow Institute of Physics and Technology and Contented to launch an 'edutainment' program for interface designers

September

VK released major updates of iOS and Android apps: a new design with simplified navigation, new Suggestions section and flexible notifications

VK introduced an algorithm called Prometheus, which finds potentially trending authors and promotes their content in the Suggestions section

VK offered a new tool for communities: a community can join the ad network and receive its share of promo posts' sales on community pages and in the newsfeed

Youla started featuring automobile listings from Am.ru

Mail.Ru Games Ventures invested in Panzerdog, a fast-growing mobile games developer

Cloud Mail.Ru introduced face recognition and grouping of photos by recognized faces in mobile apps

OK launched an app for Android TV

ICQ introduced an open platform for stickers

myTarget was listed among the top-30 most popular ad platforms globally for Android apps

MAPS.ME launched smart map updates, intermediate stops and fast routes

October

Launch of Pandao, the cross-border online marketplace of Chinese goods

Mail.Ru portal launched Curious, a new lifestyle-media for young women

Delivery Club launched takeaway service for Moscow restaurants

Delivery Club launched a mini-app for VK

Mail.Ru email service offered support for adaptive emails on all platforms

VK held VK Hackathon, one of the biggest competitions for developers in Russia, and first VK High Score conference for game developers

myTarget enabled advertisers to evaluate the impact of digital advertising on offline sales

MAPS.ME launched a user-generated rating system

Dobro Mail.Ru launched MAYAK, a unique service to help users find verified charities

November

Launch of Disk-O app for Windows and macOS featuring support for multiple cloud services

VK enabled sending chat invitation links and editing sent messages

OK launched paid subscriptions to movies and TV series

OK extended Like button with different animated emojis

Global launch of new mobile game Hustle Castle on iOS and Android

Release of Skyforge console version for Xbox.

myTarget added support for the CPI (cost per install) model on VK, OK and media projects of Mail.Ru Group

myTarget introduced targeting on users based on their actions in the app

December

VK, Youla, OK and Mail.Ru email apps were listed among the Best iPhone Apps 2017 by Apple App Store (Russia)

VK, VK Live, BeepCar and Pandao were listed among the Best Apps 2017 by Google Play (Russia)

VK rolled out an editor for long-reads – tools for writers and new functional layout for readers

VK allowed users to reply to a story with a story of their own

VK held its first VK Music Awards

OK added a new section with 3rd-party services and discounts

OK launched online broadcasting in Ultra HD (4K)

Mail.Ru launched AI-based smart replies to emails

Launch of Beta Mail.Ru, a unique platform to test and review new email features

Major Chernobyl update in Warface: special operation Pripyat, a new map, weapon series, etc.

MAPS.ME launched offline navigation with an intermediate stop taking into account subway and light metro

myTarget became the first platform in Russia with SDK approved by Google AdMob and DoubleClick for Publishers

Mail.Ru Group ranked No.1 mobile app publisher in Russia in terms of both downloads and consumer spend (App Annie 2017 Retrospective Report)

Financial highlights

+35%

2016	**43,285**
2017	**58,563**

Revenue, RUR mln

+30%

2016	**18,772**
2017	**24,365**

Online advertising, RUR mln

+12%

2016	**17,227**
2017	**19,293**

EBITDA, RUR mln

+53%

2016	**11,390**
2017	**17,422**

MMO revenue, RUR mln

+19%

2016	**10,909**
2017	**12,938**

Net profit, RUR mln

+18%

2016	**11,854**
2017	**13,946**

Community IVAS, RUR mln

Note: our segment reporting presented herein includes the financial information of ESforce on a pro-forma basis starting from January 1, 2016. Segment reporting principles differ from IFRS. For further details, refer to Financial Review section (page 40) and Note 5 to the financial statements (page 101).

Chairman and CEO's statement

2017 was a very strong year for Mail.Ru Group with the Group retaining its leading position in the Russian internet, both on desktop and mobile, and growing revenues by over a third. Our core communication products and social networks are the most popular on the Russian and CIS markets. Our games showed very good growth and international expansion continued across all platforms. We launched a number of new products and cross-product initiatives, actively developing into O2O e-commerce.

We closed a number of acquisitions which fit well with our strategy and our new projects continue to deliver very strong user growth. Delivery Club continues to show strong results, and Youla progress was ahead of our expectations. Pandao has grown very rapidly from its launch in November and presents us with a significant future opportunity.

Overall strategic focus

Over the last few years we have had a consistent strategic focus in both the internally developed product and in areas where we have made acquisitions. We continue to look to provide the widest offering with seamless cross-platform experience and interoperability. The trend seen over the last few years of faster mobile growth has obviously continued and our mobile audience is significantly larger than the desktop audience and continues to grow.

In 2017, Mail.Ru Group reaffirmed its position as the largest mobile destination in Russia[1]. Mobile and video remain key components of this. As both the time that users spend online and the number of devices that access the network will grow, we remain focused on communications, entertainment and O2O products. The expansion of our product offering in 2017 remained geared towards this goal.

Product review

Russian online audience continues to grow, as internet penetration reaches comparable levels to other more mature markets. By the end of 2017 the number of internet users in the country had risen to 87mln[2] with Mail.Ru Group interacting with over 91% of these users on a monthly basis and 69% on a daily basis[3]. As such there are almost no users in Russia that we do not reach. Additionally we continue to expand outside of Russia in both the CIS and other geographies. Mobile traffic continued to rise at a good rate and Mail.Ru Group is the number one destination for mobile traffic in the country[4]. With this background we continue to develop our products and see a number of opportunities both domestically and internationally.

1 Source: Mediascope, Russia, population aged 12-64 in the cities 100k+, mobile DAU, December 2017.

2 Source: GfK Omnibus, 2017, all Russia 16+.

3 Source: Mediascope, Russia, population aged 12-64 in the cities 100k+, desktop and mobile, December 2017.

4 Source: Mediascope, Russia, population aged 12-64 in the cities 100k+, mobile DAU, December 2017.

VK

2017 was another very strong year for VK with further growth in engagement. VK remains above all of its key competitors in terms of user numbers and new downloads. It also continues to significantly outperform in terms of engagement metrics on both desktop and mobile. VK completely relaunched its mobile apps, introduced a number of new tools and features and significantly updated its instruments for content creators. In FY 2017, VK revenues grew 56% Y-o-Y to RUR 13,967m. Advertising continued to be the bulk of the revenues, and as in previous years, while IVAS increased, advertising revenues grew faster than total revenues.

As in 2017 the focus in 2018 will remain on mobile advertising and we expect the ad load and pricing to continue to grow. We continue to see significant further opportunities for VK with both engagement and the ongoing improvement of the platform. We will also focus on the business eco-system and continue to develop features helping businesses and users to communicate and transact on the platform. There are already hundreds of thousands business groups on VK representing various large and small companies and private entrepreneurs, our goal is to help them grow their business while providing useful tools for our users.

VK embedded messenger also remains a core part of our ongoing strategy. The position of VK messenger is very strong and it was again confirmed as the number 1 messenger in Russia by independent third party research[5] and with 6.5bn daily messages continues to have a dominant position.

OK

The OK video platform remains one of the largest in Russia, and continues to grow in terms of both views and unique users. In 2017, the number of daily video views reached a new record of 590m, and daily video audience grew by 30%. We provided producers and viewers with several innovative features: OK was first in Europe to live stream in 4K (a La Liga match between Real Madrid and Barcelona), and OK Live app pioneered Full HD mobile streaming technology.

One of OK's key priorities in 2017 was growth of engagement and usage frequency. The team produced new convenient tools for content publishing which led to a 20% increase in OK authors over the year. Focus on retention and AI based recommendations helped increase OK's core active user base and daily visits. The share of users accessing OK six or seven consecutive days a week reached 74%.

Email

In 2017, one of the key areas of email product development was to automate the most routine tasks for users. We developed a number of solutions powered by machine learning (ML). For example, we implemented a new inbox management tool that identifies important messages and assigns them to a certain category (Orders, Finance, Registration, Travel, Tickets or Fines). We added search and filters by category for users to quickly find and view all relevant messages. In mobile apps, a Smart Reply feature was rolled out. The algorithm uses neural networks to generate and suggest short responses based on the email content. 70% of Smart Replies are sent without editing, and the aim is to further enhance relevance of the suggestions as the network is constantly learning.

Additionally, we implemented various features that create user benefits going beyond the traditional functionality. This includes payments of traffic tickets where the user fills in license and vehicle registration numbers to receive instant notifications about new traffic tickets, views details with photos from the traffic control system and pays fines — all in email. We also launched money transfers to any email address, regardless of the provider: the compose a new message page now features a Send Money function, users only need to enter the amount and their credit card details.

Games

2017 was a very strong year for our games business. Its growth was driven by a broad base with ongoing success in both established and recently released titles. For the full year games grew 53.0% to RUR 17,422m. International revenues also continued to grow and accounted for over 50% of total MMO revenues.

Warface and War Robots were our two largest games but we had very good contributions from new releases such as HAWK and Hustle Castle. We continue to enlarge and diversify our games portfolio, expand internationally and leverage our key franchises across multiple platforms. Despite a high base effect and the VAT effect no longer applying to games we would expect that FY 2018 MMO games revenues will continue to show good performance with growth expected to be broadly in line with overall Group revenue growth rates.

Content

In 2017 we continued to promote our video platforms that now have over 1.1bn average daily views in total, and we are actively developing new formats such as live streaming where VK and OK have the leading live video platforms, VK Live and OK Live respectively, on the Russian market. We started to experiment with own content, bringing together major content producers, new media content creators,

5 eMarketer (July 2017), J'son & Partners Consulting (March 2017).

bloggers and brands. We produced a number of shows and promoted new forms of digital-only content such as screen-casts and AI-powered shows. We will put further focus on our own content in 2018.

Youla

Since its launch, just over 2 years ago, our location-based marketplace Youla has seen consistent and strong user growth. This has continued in 2017 with a new high of 24m monthly active users and 5m daily active users on all platforms. The app was ranked No. 5 in Russia in terms of downloads in the App Store and Google Play combined (App Annie 2017 Retrospective Report). With the integration of Am.ru and the launch of our real estate offering on both desktop and mobile, we continue to expand the reach of Youla. We always considered that a user base above 20m would represent a strong base to start monetization. As such, during Q4 2017 we started monetization experiments with promoted listings and then expanded this to advertising and other related payments. In December we announced that Youla had already reached a peak of RUR 2m daily revenue. We are pleased to announce that since then monetization has had further positive dynamics. During 2018 we plan to further increase monetization.

Delivery Club

During 2017 Delivery Club continued to show very strong growth in all operating metrics and completed the integration of ZakaZaka. In Q4 2017 the average monthly orders for the combined Delivery Club business grew 65% Y-o-Y on a pro-forma basis to 862,000 orders, and the number of restaurants reached 7,000. In December 2017 order numbers were around 1m. We continue to make a number of improvements to the product to make it both easier for the user to order, and easier for the restaurants to manage and process orders.

Based on the current trend lines we anticipate that Delivery Club FY 2018 revenues will continue to experience very strong growth.

Pandao

Pandao had its full launch at the beginning of November and since then has made very significant progress and in Q4 had over 500,000 orders. By the end of February 2018 we have had over 8.5m downloads and in February had 5.5m monthly active users. With 1.2m orders in January 2018, and a peak daily order number of 370,000 in February we are very pleased with its initial progress. SKUs also continue to see strong growth.

The launch, and subsequent progress, has exceeded our expectations and we see that there is very strong demand from both suppliers and users. As such we see a very significant opportunity for Pandao and hence have increased, and brought forward, our investments into this area. We will therefore be putting significant resources behind Pandao through 2018 as we materially further expand marketing, content and distribution.

Advertising

In FY 2017 advertising revenue demonstrated strong performance growing 28.9% Y-o-Y to RUR 23,766m (including ESforce on a pro-forma basis advertising revenue would have grown 29.8% Y-o-Y to RUR 24,365m). Over the last 2 years we have seen a number of beneficial trends and have also made a number of significant changes to our product. This was reflected in the results with revenues driven by growing user engagement, improved advertising technologies and sales execution. While we continued to invest in our new businesses and allocate part of our inventory to promote these new products, this obviously had a limiting effect on inventory available for sale. Even taking this into account, our advertising revenue continued to grow ahead of the market.

Search revenues through the year remained under some pressure. However this was more than compensated for by continued strong growth in targeted advertising across the social networks and in mobile.

As in previous periods, the fastest growing advertising revenues remained promo posts across the social networks. Our native in-feed video formats are getting increasingly adopted by both reach and performance oriented advertisers. In terms of overall customer budgets we continue to see advertising budgets shift to online from all other mediums and in online towards mobile and social networks in particular. Traditional offline brands are allocating growing parts of their media spend to mobile, especially to social. This trend accelerated in 2017 and we expect it to continue in 2018.

2017 financial performance

Strong FY 2017 results

For the FY 2017, revenues grew 34.4% Y-o-Y to RUR 57,469m and EBITDA 14.7% Y-o-Y to RUR 20,551m (including ESforce on a pro-forma basis revenues would have grown 35.3% Y-o-Y to RUR 58,563m and EBITDA 12.0% Y-o-Y to RUR 19,293m). As we have stated previously, 2017 was a year of sizeable investment for us as we put significant resources behind a number of our new projects, especially our O2O initiatives. In 2017, these new projects did not contribute to EBITDA.

Strong balance sheet

Through 2017 the cash generating capacity of our business remained unchanged and cash conversion was as expected. As a result net cash at the end of FY 2017 was RUR 15.4bn. This is prior to the closing the acquisition of ESforce which was announced in January 2018 and closed in March 2018.

Corporate and thanks

Acquisition of Am.ru, ZakaZaka and ESforce

In May 2017, we announced the acquisition of Am.ru and ZakaZaka and in January 2018 of ESforce. Am.ru is one of the leading auto classifieds portals, which has subsequently successfully been integrated into Youla. We will continue to focus on further vertical opportunities in the future.

ZakaZaka was the number 2 food delivery company which has subsequently been integrated into Delivery Club to consolidate our position as the number one player in this market. At the time of acquisition ZakaZaka had around 2,600 connected restaurants and 126,000 monthly orders. It has seen significant further growth since then.

Finally in January 2018 we announced the acquisition of ESforce, one of the largest eSports company globally. The eSports market continues to see very fast growth and Superdata estimates that in 2018 the global market will be around USD 1.24bn with around 300m users. ESforce is one of the largest eSports companies in the world, and is the largest in Russia and eastern Europe. The company has, over the last few years, built a full ecosystem where it occupies a leading position in almost all of the industry segments.

We are very pleased with the acquisitions we have made over the last 12 months and the progress they have made. All of them fit well with the core strategy and mobile assets of the Group and present significant opportunities for the future. The significant volume growth of the combined Delivery Club and ZakaZaka and its integration with Mail.Ru Group's social properties as well as leveraging the companies gaming distribution in War Robots are good examples of the network effects we continue to look for. With a strong balance sheet and unchanged cash generating capabilities, we will continue to examine further similar-sized acquisition opportunities in the future.

Introduction of IFRS 15 accounting standard

Starting from the beginning of 2018, and along with all other companies using IFRS, we will be applying the new IFRS 15 standard. IFRS 15 introduces a different revenue recognition model that, as applies to the Company, results in a more conservative treatment of certain contracts where third-party agents are involved. In order to allow for like-for-like comparison we have also given FY 2017 results on both the previously used IAS 18 and new IFRS 15 standards. Given the more conservative treatment of IFRS 15 under this standard our FY 2017 revenue would have been RUR 55,768m (including ESforce RUR 56,874m); FY 2017 EBITDA would have been RUR 20,551m (including ESforce RUR 19,293m). For total clarity, we will be applying IFRS 15 to both the management accounts and the IFRS statements going forward, and forward looking guidance will be given on this basis.

Our people and culture

In every annual report we have said, and it is worth re-iterating, that our main asset is our people and the technology-driven culture which they create. Our unique culture remains one of the guiding principles for us and our future success is very dependent on our ability to attract, retain and motivate the best engineers.

Thanks and Appreciation

For the last few years we have chosen to close this section with an acknowledgement to a number of key groups. With the success that we saw in 2017 there is no change to that. First off, our employees. Since the start of the Group our success is down to the dedication, commitment and passion that they show every day. Our employees are highly skilled and continue to show great loyalty to the Group. Retention remains unchanged, and we believe that this is mainly a function of our continued focus on a tech heavy culture. The Board is again happy to extend our thanks to them and to recognize their contribution.

Secondly, on behalf of the Board we want to thank our shareholders. They continue to believe in, encourage and support us. 2017 saw a number of long planned strategic initiatives begin to show very strong results. The year also showed consistent and above expectation financial results. 2018 has started well and we believe that we are well placed to build on the success of the last year. We continue to see many exciting opportunities for the business and as such we approach 2018 with a high degree of optimism and confidence in both the near and long term success of the Group.

Dmitry Grishin
Co-founder and Chairman of the Board

Boris Dobrodeev
Chief Executive Officer (Russia)

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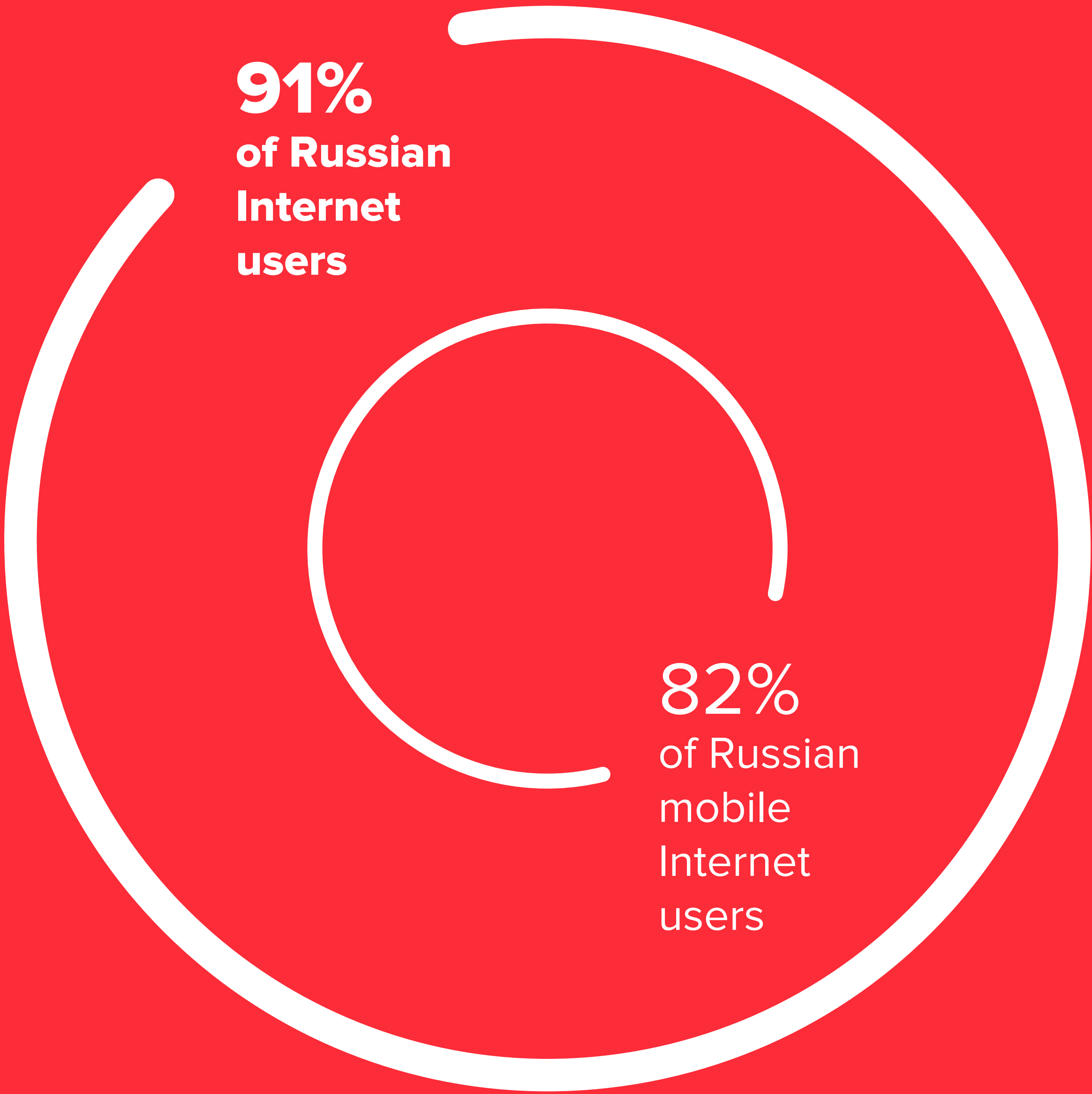
OPERATING REVIEW



MAIL.RU GROUP MONTHLY REACH
Mediascope, Russia, cities 100k+, age 12-64, Dec 2017

Operating review

Liubov Shokina
Person of the Year
Mail.Ru People Awards

Our services attract millions of users each day. Whether they are using email, instant messaging (IM), our social networks or our games, we aim to increase time they spend on our sites and mobile applications by continuously offering new features and services.

Social Networks

We operate the two largest Russian language social networks – VKontakte (VK) and Odnoklassniki (OK). They enable users to find connect and communicate with friends, families and colleagues. Our products include newsfeed, messaging services, status updates, photos, videos, stories and other features. Users can play games together, send each other online gifts, recommend websites and keep track of events, such as birthdays. We frequently add new products and services to maintain and increase users' engagement.

VK

VK brings millions of people together and continues to be the most popular communication platform in Russia and the CIS. VK's mission is to connect people via simple and convenient communication tools. In 2017, VK revamped its music service, relaunched its mobile apps, introduced new instruments for businesses, provided authors and publishers with new tools to create and distribute content.

In 2017, VK had a monthly audience of 97m users. According to the data from Mediascope's September research, VK is the leading service on mobile devices, being used by 73% of the Runet's mobile audience on a monthly basis; VK also leads in the Russian internet in terms of daily users, both on mobile devices and on all platforms combined. Users spend on average 28 minutes a day using VK on mobile devices and 33 minutes on desktop computers[1], which is more than on any other social network.

1 Source: Mediascope, Russia, population aged 12-64 in the cities 100k+, September 2017.

VK Live, the live stream social service from VK, topped the charts of the most popular apps of the Year in Russia. The main VK app was the most downloaded free app for the iPad and one of the most popular apps on the App Store. In April, Mediascope announced that VK ranked first in terms of mobile audience session length.

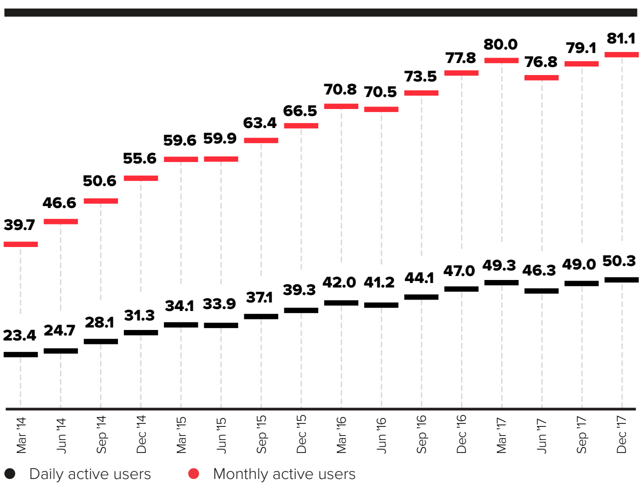
VK Messenger embedded into the main social networking service has an active monthly audience of 82m users. Every day, 6.5bn messages are delivered. In 2017, VK introduced many new features including sent messages editing, chat invitation links, and pinned messages in chats. According to eMarketer data, Russian users prefer VK Messenger to any other mobile messaging service.

At the 2017 VK Media Day in autumn, VK introduced completely new iOS and Android versions of the VK app with a new design, improved navigation and Suggestions section.

Suggestions feed is a new service for mobile devices, recommending interesting content based on a user's personal preferences. One of its features is Prometheus, an algorithm that finds and awards talented authors. Authors marked by the Prometheus flame sign get promoted in Suggestions attracting views, likes, comments and new followers. Authors can keep receiving this support as long as they keep generating popular content. Over the first four months, the daily active audience of the section reached 35% of VK's entire mobile audience. The number of daily post views in Suggestions now exceeds 1bn and continues to grow.

VK developed artificial intelligence (AI) software to protect authors of unique content. Original content is shown in Suggestions and given preference in the feed. Smart feed continued to improve algorithms (VK allows users to choose between chronologic and algorithmic newsfeeds). Over the year, the number of newsfeed views increased 30%, and every day more than 9bn post views are generated.

VK, mobile users, worldwide, mln*



Source: internal data

*Mobile users include users who accessed the project solely via mobile applications or mobile versions of the website as well as users who accessed the project from both mobile and desktop devices.

The two largest Russian language social networking services and communication platforms VKontakte (VK) and Odnoklassniki (OK)

In 2017, VK implemented AMP technology to allow websites to load faster on mobile devices. The new long read editor was also launched to provide a convenient tool for creating mobile-friendly articles.

In April, VK launched a revamped music service with a new design; official albums, complete with covers; the ability to create and share playlists; personal suggestions based on a user's added tracks and track history. VK Music can be used free with ads as well as through a monthly subscription which disables ads, allows for unlimited music streaming on mobile devices and playlist caching in the BOOM app for offline listening.

New capabilities have strengthened VK as the leader among music services in Russia. Exclusive premieres of albums and singles are presented on a daily basis, from both aspiring musicians and world-famous artists. At the end of the year, VK organized the first VK Music Awards where most popular performers of 2017 were

1,000,000,000

avarage daily post views in Suggestions feed on VK

Denis Anikin
Release of the Year
Mail.Ru People Awards

named based on VK users' preferences. The live broadcast of the ceremony was filmed in 9:16 format, a so-called "screen-reality" mode from the host's smartphone, adapted to mobile devices. The ceremony generated 16m views. In summer, VK Fest, a two-day open-air festival in Saint Petersburg, was held for the third time. More than 85,000 visitors attended the event with speakers, bloggers and more than 40 bands and artists presenting and performing within 20 different festival zones.

The number of daily video views on VK in 2017 doubled and exceeded 550m. In autumn, several communities joined together to launch the world's first ever online reality 24/7 show, which was streamed on VK. This project's videos, including live streams and daily digests, received over 219m views from 33m unique users.

The Stories feature, launched in December 2016, is used by 45% of the mobile audience. VK added interactive masks to Stories. Masks are pictures or animations which are overlaid on a user's face in real time. VK also launched an open platform that allows everybody to create and add their own masks. In 2017, the social network introduced a feature that allows users to reply to a Story with Story of their own. With many innovations made to Stories, they experienced steady growth in terms of the user engagement. In December, they were viewed more than 3.6bn times.

VK showed a twofold increase in stickers' sales. In addition to its own characters, the social network started to cooperate with world's most iconic franchises to offer users their beloved characters in sticker packs. In this same year, VK launched animated sticker packs.

With most of the Russian businesses, large and small, being present on the platform, VK builds a business ecosystem, providing tools to transact with users and promote their products and services. New ad formats, such as Carousel and Rewarded Video were introduced, the market platform, a catalog of native integrations were launched. Communities gained the ability to receive money transfers and turn on the Online status when interacting with clients. Commenting in profiles and other communities on behalf of managed groups and public pages was implemented. Community categories were updated. Retargeting received additional abilities, which allows to create audiences in a more flexible manner.

In 2017, the number of advertisers in the feed grew 150%, premium VK advertisers by 87% and the number of special projects increased 113%. New opportunities for monetization significantly increased content creators' income. In December, communities earned a total of RUB 250m using VK tools, which is twice as much as they had made over the same period in 2016.

Community managers gained access to a catalog of approved mini-apps, which widen a community's possibilities. The apps are created by third-party developers on an open platform and perform different functions. For example, these apps can allow users to purchase tickets, make appointments, collect donations, conduct tests and surveys on VK. The new apps also support widgets which can be customized and displayed on the community page with up-to-date information, such as game scores or a price list.

The VK Admin mobile app was developed for community managers. It provides a convenient way to communicate with clients and followers, manage groups and public pages, track statistics and plan ad campaigns, all from a smartphone. Community messages also became available in the VK Messenger app for Windows, macOS and Linux. Users sent 5.2bn messages to VK groups and public pages in 2017: nine times as many as in 2016.

In 2017, VK held its annual programming competition, the VK Cup. 2,736 teams registered for the event with the prize pool of RUB 2.5m. VK held its traditional Hackathon, one of the biggest competitions in Russia for developers. In autumn, VK relaunched Start Fellows, an initiative to support technological entrepreneurship, and first VK High Score, a conference for game developers. VK also introduced Direct Games, a platform for HTML-5 games which can be launched directly from within the VK mobile app. VK also arranged VK For Good, a charity auction for digital-promotion services where non-profit organizations would receive digital promotion free of charge. As a result, 30 different advertising agencies have already distributed a total of 972 hours to help 7 charity funds with the digital promotion.

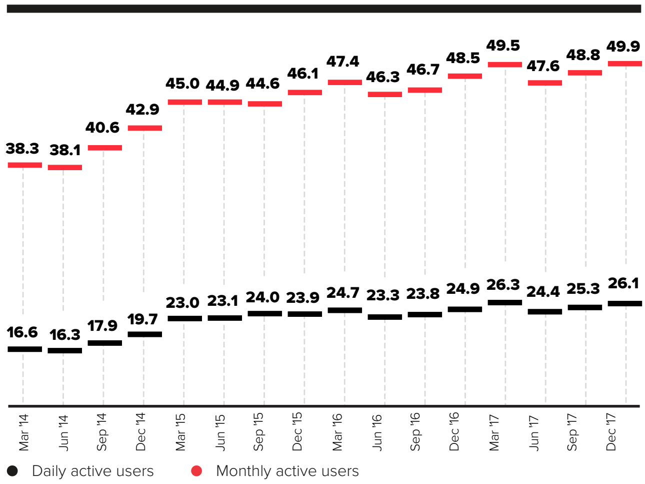
OK

OK is one of the leading social networks in Russia and the CIS that allows millions of users to share emotions, chat, post and interact with content. In 2017 OK consolidated its leadership as a video platform, added new ways for users and businesses to interact, provided users with the ability to react in varied ways to content using an expanded list of emotions and supported all major advertising formats that are currently in demand on the ad market.

In 2017 OK's monthly audience reached 71 million. The social network's mobile audience has been actively growing. OK's daily mobile audience in Russia demonstrated 11% growth, and the mobile only audience showed even more significant growth — the monthly audience of people who only access OK via their smartphones grew by 17% last year.

OK's main priority is to give users the ability to chat and exchange heartfelt emotions. It is for this reason that OK remains the leading platform in terms of the user engagement, and in 2017 the social network's frequency of use increased due to, among other things, the implementation of new technologies in its recommendation system. Using an AI-based retention mechanism, OK increased its

OK, mobile users, worldwide, mln*



Source: internal data

*Mobile users include users who accessed the project solely via mobile applications or mobile versions of the website as well as users who accessed the project from both mobile and desktop devices.

590,000,000

avearge daily video views on OK

core active users and daily visits. The portion of users who visit the social network six or seven days in a row over the course of a week grew to 74% last year.

OK's video format continues to retain the leading position among Russian social networks in terms of content views, and last year it made several audience- and technology-based breakthroughs. OK demonstrated growth in terms of views as well as unique video audience. Among other things, OK broke its own record for video views on social networks and achieved 590 millions views per day. The video platform's unique audience also continues to grow — the number of users who watch videos on the social network increased by 30% last year. Content creators and viewers also gained access to a series of innovations that provided them with new opportunities. OK started to regularly broadcast major sport events, and the first online 4K broadcast in Europe also took place on OK: a Spanish La Liga match between Real and Barcelona. OK Live, the social network's streaming application, was home to the world's first Full HD mobile streaming technology.

In November 2017 OK launched a new monetization model for video content: a separate storefront with premiers of movies and TV shows appeared on the social network. Users with paid subscriptions can now access professional video content, including new shows and movies.

Live streams became one of the fastest growing types of content on OK. User streams from individuals users as well as groups get over 70 million views per day, and most from the OK Live app. OK now also allows users to stream from a web browser without any additional extension or software. All of this allowed OK to triple its number of streams during the last year.

In 2017 OK actively invested resources in the creation of an effective platform for creators of unique content and their engagement with users, which led the number of content creators to increase by 20%. OK now has several programs for supporting talented content creators. Thanks in part to this new partner program, groups on the social network are now able to fully focus on content creation, which has had a positive effect on the quality of said content. The partner program has allowed groups to receive income from advertising on OK in proportion to the quality and penetration of their content among OK users. Thanks to this, groups have started to post more varied content, and they have gained penetration and feedback

Marina Pliashkova
Mentor of the Year
Mail.Ru People Awards

from users as a result. OK has also launched a new platform for posting longreads and articles containing various elements (text, photos, videos, etc.) that has already shown positive results in its first month: feedback on posts containing longreads grew by a factor of five.

In 2017 OK took further steps in building a full ecosystem for interaction between businesses and users. A special storefront for partner services has appeared on the social network that allows users to purchase various goods and services. They can buy movie and concert tickets, pay providers of communication services and educational courses, and add funds to their public transportation cards. These services are provided by partners based on a revenue-sharing model and receive additional promotion in the social network's news feed in the form of special offers and discounts. This allows businesses to fully interact with their customers while providing convenient services within the social network's interface.

New tools for groups have allowed brands to more effectively engage their subscribers and create full-fledged communities within the social network. Using the new application platform, groups now have access to additional services such as ordering tickets, announcing services, posting surveys, and sending out notifications. In addition, owners of groups can now create storefronts with goods and services, longreads, and chatbots for automating communication with subscribers. All of this has made it possible to increase overall subscriber engagement with content and the quantity of user feedback on posts.

Advertising remains an important tool for businesses to interact with customers. The social network has managed to increase the effectiveness of publications thanks to new technologies and formats without increasing the user's advertising load. Over the last year several new advertising formats for various business segments have appeared on the social network, and the largest Russian and foreign brands are already using them. These new tools allow businesses to more precisely configure advertising campaigns on OK and evaluate the results they obtain. Among other things, advertisers now have access to Canvas, a full-screen ad builder, Lead Ads, a format for gathering service leads, and new possibilities in performance marketing. As a result, the social network's revenue from display ad placements increased by 36% in 2017.

A significant portion of the social network's revenue is IVAS. In 2017 OK began shifting from a transaction- to subscription-based model of paid services. The social network now features subscriptions for paid services using the new VIP status, which unlocks additional options for users.

In 2018 OK will continue to work on engaging users with new content and services within the social network. OK is going to have its own TV series and shows, exclusive professional streams, integration with popular services, and new tools for effectively promoting small, medium, and large businesses. In addition, the team will continue to experiment with OK's development as an e-commerce platform.

Email, Portal & IM

Email

Mail.Ru is the largest email service in the Russian-speaking internet, delivering approximately 600m messages daily and having data storage capacity of over 34 petabytes.

In 2017, various features that create added user value going beyond traditional functionality were implemented. This includes for example payments of traffic tickets via email. Users can fill in license and vehicle registration numbers to receive instant notifications about new traffic tickets, view details with photos from the traffic control system and pay fines — all in email.

Mail.Ru also launched money transfers to any email address, regardless of the provider: the compose a new message page now features a Send Money function, users only need to enter the amount and their credit card details.

One of the key product ideas is to automate as many routine tasks as possible. Mail.Ru developed a number of solutions powered by machine learning (ML). New inbox management tool that identifies important messages and assigns them to a certain category (Orders, Finance, Registration, Travel, Tickets or Fines) was implemented. Also search and filters by category for users to quickly find and view all relevant messages were added.

The team significantly improved the Unsubscribe option with ML-based detection of newsletters and other bulk emails. Such messages are now categorized as Newsletters and our users can unsubscribe from them even if the sender did not include this option.

Additionally, Mail.Ru made adding new contacts easier with the technology which pulls relevant details from the sender's signature and suggests using them.

Alongside with automation, the team introduced a number of updates aimed at enhancing the overall user experience, such as a warning popup when someone tries to respond to a no-reply message and bundling of e-commerce order notifications.

Security remains one of our top priorities. Mail.Ru is actively promoting a two-factor authentication to increase the level of security.

The major source of ideas is the feedback from users. The team launched a Beta community and platform for testing new email

features, discussing them with other early adopters, sharing ideas and making comments.

myMail and Mail.Ru email apps

In line with the strategy to take automation to a whole new level, a Smart Reply feature was rolled out. The algorithm uses neural networks to generate and suggest short responses based on the email content. 70% of Smart Replies are sent without editing, and the team aims to further enhance relevance of the suggestions as the network is constantly learning. Moreover, users of Mail.Ru email apps can now schedule their emails to be sent on the specific date and time.

Being fully committed to taking care about every aspect of email usage, the team reinvented the logic behind the process of sending large files: the files exceeding the max size limit are automatically uploaded to the cloud, and the corresponding link is added to the message.

Email apps fully support latest iOS 11 and Android O so that users can benefit from all the recent updates released by iOS and Android.

By the end of 2017, the combined audience of Mail.Ru email apps reached 6.8m DAU and 19m MAU. Total number of mobile DAU, including apps and web, accounted for about 60% of the daily audience.

Boris Kaptelov
Person of the Year
Mail.Ru People Awards

Cloud Mail.Ru

In 2017, Cloud Mail.Ru introduced Disk-O, a new service providing unified access to multiple cloud storages. Disk-O desktop app displays each cloud in a file manager as a virtual drive; users can open and edit files directly from the cloud without taking up local space. Currently Disk-O supports Cloud Mail.Ru, Yandex.Disk, Dropbox and Google Drive. The team also released Clouder, a browser extension for saving images and videos from any website to popular cloud storages (Cloud Mail.Ru, Dropbox, Google Drive, etc.).

Cloud Mail.Ru mobile apps now support face recognition: all faces in photos are recognized and grouped which significantly simplifies search and picture sorting. This feature became possible due to an internally developed computer vision technology based on machine learning. The new technology recognizes faces with 99% accuracy; more than 23,000 objects and scenes in pictures can be identified.

In addition, Cloud Mail.Ru mobile apps were updated with a separate section for important documents (scans or photos of passport, driver's license, etc.) and memory optimization (removing photos from device's memory if they are already uploaded to the cloud). Mobile apps also received a new security feature: if a PIN or fingerprint sign-in fails, photo and location of a person trying to access the app is automatically uploaded to the cloud.

Web version of Cloud Mail.Ru was updated with file search and file modification history.

The leading email service in Russia (Mail.Ru), IM services (ICQ, Agent Mail.Ru and TamTam) and media projects

Instant messengers

ICQ is a popular messenger service, which is convenient and easy to use; in 2016, ICQ celebrated its 20th birthday.

Over the year, the team was gradually improving user interface and messaging functionality of ICQ: 'swipe to reply' feature, simple read receipts, mentions in a group chat, quick actions with multiple messages, preview of shared links and pinning important contacts to the top of the contact list. A new library for sending files provides stable operation even when connection is poor which is especially useful for mobile devices.

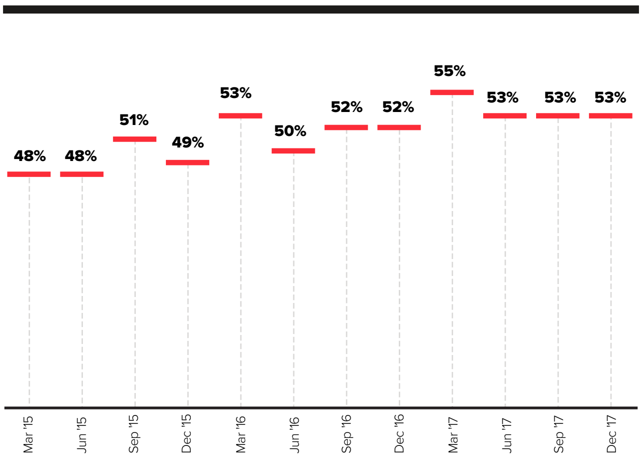
Launch of a new UGC platform for stickers in September 2017 marked an important milestone for ICQ. This platform allows users to create their own stickers and share them with their friends. Currently stickers created by our users account for a third of all stickers sent.

Introduction of group audio and video calls created new opportunities for communication. This feature allows for up to five users in a group call and works seamlessly across desktop and mobile platforms.

Media projects

Our Media projects with MAU of 73m include 9 thematic content verticals, 8 editorial teams and a successful B2B product for the media industry. Media projects include News Mail.Ru, Lady Mail.Ru, Cinema Mail.Ru, Hi-Tech Mail.Ru, Kids Mail.Ru, Auto Mail.Ru, Health Mail.Ru and Realty Mail.Ru. The majority of media projects hold

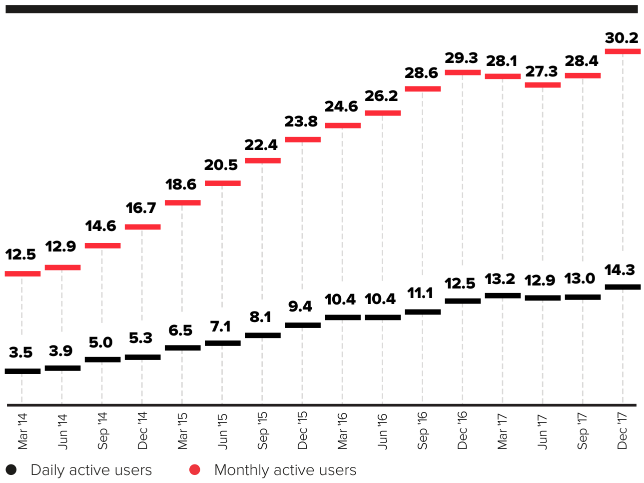
Mail.Ru email, share of core audience



Source: internal data

Note: core audience is defined as a sum of unique users who accessed Mail.Ru email service not less than 15 days a month.

Mail.Ru email, mobile users, worldwide, mln*



Source: internal data

* Mobile users include users who accessed the project solely via mobile applications or mobile versions of the website as well as users who accessed the project from both mobile and desktop devices.

Maksim Zenin
Expert of the Year
Mail.Ru People Awards

leading positions in their respective categories. This leadership is maintained by focusing on the quality of their content and regularly offering special projects covering major cultural, entertainment and sport events.

Curious, a unique editorial stand-alone project, mainly focused on millennials, i.e. young women aged 20-25 was launched. The content is presented in the form of cards with concise texts illustrated with photos and videos. This native format is especially convenient for smartphones and social networks.

News Mail.Ru launched special projects dedicated to the Ice Hockey World Championship and the FIFA Confederations Cup. Additionally, the team provided support for news bots on OK and VK. Finally, the team developed an algorithm for newsfeed generation based on user preferences.

Lady Mail.Ru created Best Blog Award, a major blogger award to nominate social media influencers, and presented its first Beauty Box. Lady Mail.Ru team started a nationwide campaign against gender stereotypes and received an All-Russian Women Matter Award.

Cinema Mail.Ru improved its recommendation system of movies and series and created a B2B product for data exchange with largest OTT services. TV Program service now offers live-TV streaming, which led to a significant growth of views.

Hi-Tech Mail.Ru improved the catalogue of stores and gadgets and its integration into the content, which generates an additional important e-commerce entry point. Hi-Tech Mail.Ru also became an official partner of all major technology events such as MWC, Computex, IFA and CES. Furthermore, the team held Gadget of the Year award.

Kids Mail.Ru rolled out a large-scale project with Maggi® brand and introduced a new mobile version. The project was fully updated and the content was reorganized with better UX.

Auto Mail.Ru is reshaping its concept from “project about cars” to “project for drivers” which is reflected in new content. The project is also actively working on Cars of the Future section. Apart from that, the team launched new services such as test drive booking, car insurance and car service and took part in offline Flugtag festival.

Health Mail.Ru developed new native ad formats for promotion of its partners. Regular streams of related events and interviews with experts generate million views on OK social network.

Realty Mail.Ru covered Moscow renovation program, one of the most talked-about issue in the city of Moscow. The project developed a special service to find out the status of the house in the program powered by the Moscow city Government data.

Mediator, the B2B editorial product, received an English interface and entered the international market. The team updated analytical tools and added social and demographic statistics regarding content readers. Other updates include AMP (accelerated mobile pages) support and a new award for the leading media.

Continued growth of international audience with new global launches, expansion of existing titles and successful entry into console games segment. International markets accounted for over 50% of total gaming segment.

Online Games

In 2017, Mail.Ru Group continued to focus on international audience. With new global launches and strong performance of the existing titles, including the successful entry into console games segment to develop multi-platform franchises, international markets accounted for over 50% of total MMO results.

The Group's MMO games portfolio remains well balanced and continues contributing to the sustainable revenue growth. While mobile games drive audience and revenue growth, PC titles generate funds for investments in new game studios, platforms and gaming content.

MMO PC games

In April 2017, Mail.Ru Group acquired worldwide rights on its top title Warface from Crytek Gmbh. This step enabled more efficient coordination of the game's development and operating teams leading to regular updates, special offers, regional and international tournaments and, ultimately, allowing Warface to reach new record highs in monthly and daily audience, paying users and monthly revenue. Significant progress was made in operations on European and North American markets where Warface audience and ARPPU doubled. Server infrastructure was expanded to some large Russian cities, San Jose and Hong Kong to smooth gaming experience in locations far from central data centers. Additionally, our Warface team held the first open-air festival WARFEST, in August 2017, and increased investments in eSports related activities to enhance players' engagement.

Launch of MMORPG Revelation Online in Europe and North America in March 2017 became the Group's first international release of the licensed title. While having received promising results during an early access, the game faced substantial challenges over the first few months of operations, including hackers' attacks, and eventually demonstrated an average performance.

In July 2017, localized version of Armored Warfare, licensed out to Kong Zhong, was announced at ChinaJoy, China's largest gaming conference; open beta test followed a few weeks later. Our development team created a lot of local content for Chinese gamers (Chinese tanks, vehicles and crews) and provided the licensee with Mail.Ru Games' proprietary downloader Game Center for smooth operation.

MMO console games

In March 2017, our highly-stylized MMORPG Skyforge started pre-sales on Sony PlayStation 4 platform followed by open beta in April.

Major new games launches in FY 2017 – Q1 2018

Game	Ownership	Type	Launch date
Hawk: Freedom squadron	In-house	Mobile	Jan 2017
Revelation Online (international)	Licensed	MMO (client based)	Mar 2017
Skyforge PS4	In-house	Console	Apr 2017
Armored Warfare (China)	Licensed out	MMO (client based)	Jul 2017
PLAYERUNKNOWN'S BATTLEGROUNDS (Russia)	Non-exclusive license	MMO (client based)	Oct 2017
Skyforge Xbox One	In-house	Console	Nov 2017
Hustle Castle	In-house	Mobile	Nov 2017
Armored Warfare: Assault	In-house	Mobile	Feb 2018
Armored Warfare PS4	In-house	Console	Feb 2018

Aik Sargsian
Egor Abramets
Boris Kaptelov
Team of the Year
Mail.Ru People Awards

Although being the first console game in the Group's history it turned out to be reasonably successful. PC version of Skyforge acts as a basis and sandbox for implementation of best practices into the console version. Encouraged by the positive reception on PlayStation 4, we recently launched Skyforge on Microsoft Xbox One. We will work on further project growth and improvement by providing high-quality content and support across all platforms in 2018.

After the successful results of Skyforge on console, the team developed PlayStation 4 version of Armored Warfare. The game went live in late February 2018. We also proceeded with development and improvement of the PC version: we launched several major updates including total game rebalancing in April-August 2017.

Acquisition of worldwide rights on Warface allowed us to proceed with building another multi-platform franchise focused on global audience. In 2017 we started developing a console version of the game. Our in-house development team successfully submitted an alpha version in February 2018. Presale on PS4 is scheduled for the end of 2018.

Mobile games

In 2017, the structure of the Group's gaming revenue shifted substantially to mobile mainly due to the worldwide success of War Robots, the flagship title of Pixonic, acquired in Q4 2016. Over the year, War Robots achieved significant results and more than doubled its major performance indicators. The game had more than 38m downloads totaling to 71m and received multiple updates, including 9 new weapons, 8 new or fully updated robots, 7 new or fully updated maps, 2 new game modes and a completely reworked battle user interface. Systematic improvements of game monetization resulted in impressive financial results.

In 2017, we launched new mobile title Hawk: Freedom Squadron on iOS and Android (in January and June respectively). The game was developed by in-house game studio IT-Territory, who created the Group's successful Juggernaut and Evolution franchises. Hawk falls into a 'shoot'em up' retro genre with cooperative modes, RPG elements and arcade endless maps. Install base of Hawk is actively growing and amounts to 7.7m.

In November 2017, our Nord Studio, the developer of Jungle Heat, Iron Desert and Jungle Clash, released Hustle Castle mobile game on iOS and Android globally. Hustle Castle is a mix of genres from economic simulation to city building with an RPG system of characters, PvP modes and adventure PvE. Hustle Castle got featured on both iOS and Android and reached over 2m MAU within 2 months after launch. The game has a potential to become one of the most successful titles in our mobile games portfolio.

#1 food delivery company in Russia (Delivery Club and ZakaZaka brands), a location-based marketplace (Youla), cross-border marketplace (Pandao), an online learning platform for developers (GeekBrains), the 3rd largest search engine in Russia, an offline mobile maps service (MAPS.ME)

Search, e-commerce & other

Search

The Group's search service, Go.Mail.Ru, is the third largest search service in the Russian internet market. In December 2017, it processed 3.5% (LiveInternet) of all web search queries. In addition to Russia, Mail.Ru Group's search has a large presence in other CIS countries.

In 2017, the team continued working on the structure of search results by adding new information cards about people, companies and books. Share of search queries with information cards increased to 15%. In addition, relevant listings from Youla were integrated into search results. Mobile search received major updates including considerably reworked search suggestions.

By the end of 2017, myWidget, a recommendation service developed by our search team, had more than 600 partners (outside of Mail.Ru Group projects) and generated over 1bn recommendations (impressions) per day. In 2017, the service rolled out bots, supported recommendations on AMP (accelerated mobile pages), started monetization experiments and introduced a new native ad format on myTarget.

Although our search service is not the core part of the Group's business, the team is actively involved in building recommendation and search tools for our social networks and O2O projects.

Delivery Club

Following the successful acquisition of Delivery Club, the number one food delivery marketplace in Russia, in November 2016, the Group further consolidated its leading position in the market by acquiring ZakaZaka in May 2017, integrating both companies into one major food delivery business in Russia under the Delivery Club

Alexander Chernyy
Startup of the Year
Mail.Ru People Awards

brand. ZakaZaka acquisition strengthened the nationwide leadership of Delivery Club by adding strong regional presence.

In 2017 the team focused on further growth of both marketplace and own delivery services and on product improvements. In Q4 2017, the average monthly orders for the combined Delivery Club business grew 65% Y-o-Y on a pro-forma basis to 862,000, and the number of restaurants reached 7,000. In December 2017, the number of orders reached a new record of around 1 million. Delivery Club own delivery service processed 9x more orders in 2017.

Growth was driven by joint marketing campaigns with large restaurant chains, such as Burger King, Shokoladnitsa, Farsh etc., and newly added restaurants. Today own delivery service, which is available in Moscow, Saint Petersburg, Rostov, Ekaterinburg and Kazan, covers 2,245 restaurants (5x growth throughout 2017). Delivery Club continues to invest in logistics software and automatic dispatch system for its couriers to improve their load, optimize order processing and reduce delivery time of own delivery service.

Delivery Club mobile apps, a primary way customers place their orders, were significantly redesigned and improved. The team rolled out a new listing of vendors with professional photos for every restaurant in Moscow, Saint Petersburg and several other cities; introduced full-text search, favorites list and reorder feature which reduced session time for repeat customers. A referral program resulting in growth of the user base was implemented. Conversion rate in the mobile apps increased by 20% in 2017.

In line with the Group strategy to develop a social commerce eco-system within its social networks, Delivery Club released a VK app allowing users to place orders inside the social network.

Youla

Our online location-based marketplace Youla is the second largest player in the Russian online classifieds market with a strong focus on mobile. In 2017, Youla experienced substantial growth in user base: MAU and DAU reached 24m and 5m respectively (December 2017). By the end of 2017, the marketplace showed first results of monetization with a peak daily revenue of RUB 2m in 1 month after the launch.

In line with our strategy of leveraging the Group's user base and social network expertise to grow the e-commerce business, Youla was integrated into OK as a separate classified section.

Youla is actively promoting transparency on C2C market having pioneered the launch of C2C delivery bundled with escrow payments. As of December 2017, delivery to pickup points is available in 352 cities; last mile delivery is performed in major cities.

Furthermore, the team is developing its Real Estate vertical, which was substantially reworked to improve customer experience. Youla's secondary housing segment demonstrated a more than 10x growth of all key indicators since the start of 2017. This vertical targets both online and offline markets providing a full service from professional real estate photography to verification of sellers and deal support (already launched in Moscow). In the primary housing category, launched in November 2017, Youla covers all major real estate developers in Moscow and Saint Petersburg.

In May 2017, Mail.Ru Group acquired Am.ru, a website for car classifieds. In October 2017, Am.ru started working with online automobile auction CarPrice and Cetelem Bank (a subsidiary of Sberbank) as the first step to create an O2O ecosystem for car purchases. Sellers can book an action time slot online, verify cars with CarPrice and post verification results on Am.ru. Buyers can receive online loan approval and use a safe deal option implying registration, loan and insurance processing with CarPrice. In October 2017, listings from car dealers were imported to Youla. In January 2018, we fully integrated Am.ru into Youla as a separate vertical Youla.Auto including listings, product features and quality assurance processes.

Youla was featured in the Best Apps of 2017 by Apple App Store (Russia).

Pandao

Pandao is an online cross-border marketplace offering goods directly from China. Russia focused service includes Russian-speaking support 24/7, full translation of product description and a loyalty program.

In September 2017, Pandao was launched on mobile devices; in October 2017, a beta version of the website was released. Few weeks later, a loyalty program and order tracking were introduced. In November, the team rolled out machine-learning algorithms to increase relevance of the product feed and introduced multiple interface improvements; as a result, conversion-to-purchase rate increased significantly.

By the end of 2017, Pandao had full basic functionality and reached more than 400,000 monthly orders, over 20,000 peak daily orders, 5m installs and over 1.2m monthly unique visits. Moreover, Pandao was listed among the Best Apps of 2017 by Google Play (Russia).

In 2018, the team will focus on improvements of design and interface, implementation and testing of artificial intelligence in the product feed, expansion of the range of goods, effective marketing, entering new markets and localization.

BeepCar

BeepCar is an internally developed ride-sharing service, which helps drivers search for travel companions and share trip costs with them.

BeepCar was the first ride-sharing service in Russia to launch online ID verification (with a passport photo), social verification (confirmation of personal details accuracy by other riders) and structured ride discussions (with option to make a request or complaint). Furthermore, BeepCar added online payment by card and applied machine learning for content moderation (spotting faces and cars in images).

As of the end of 2017 BeepCar had 2m registered users, 2.5m created rides, 2.1m booking requests and 4.7m installs on iOS and Android. BeepCar was featured in the Best Apps of 2017 by Google Play (Russia).

MAPS.ME

Throughout the year, the team improved main functionalities and launched many features and products to strengthen the travellers' oriented offering. Monthly retention rate of MAPS.ME is continuously growing. The revenue grew 7 times and the project crossed 1m ratings on Google Play and App Store with an average of 4.5 stars; 88% of users recommend MAPS.ME. The service reached 90m app downloads globally and its yearly active user base exceeded 40m.

Firstly, user interface of car navigation was improved with a new clear visual style highlighting places with highest user ratings. Pedestrian and bike routes are now estimated 20 times faster. However, one of the biggest achievements is navigation of rapid transit in 92 cities of 44 countries, which works offline and is very popular for city travelling. Furthermore, users can now set up to 3 additional stops in all transit navigation modes.

Incremental map updates were also released: the app will download only updated parts of the user's maps, which is about 10% of the map size. This will save up to 90% of internet traffic and allow map updating even with a slow cellular network.

In August, a POI-oriented multilingual (8 languages so far) website based on over 8 million POIs with detailed information was launched. Within just 3 months, the user base grew 6 times reaching 1m monthly active users on the web.

Alexander Prokhorov
Release of the Year
Mail.Ru People Awards

In October, MAPS.ME rolled out a UGC platform for users to rate and review any object on their maps.

The team believes that any local can be a unique guide, so in December a web-based project helping to find travel guides (locals.maps.me), both locals and professionals, was launched.

Another exciting feature added in December was the Discovery button that helps to find things to do, attractions, restaurants and travel guides.

Booking.com was further integrated into MAPS.ME with more detailed hotel pages and powerful filters. In addition, the team launched a self-managed advertising platform for local businesses.

GeekBrains

In April 2017, GeekUniversity, the first Russian online-university for developers, was launched. It currently has six faculties (web/Android/iOS development, Java/Python programming and game development) with 1,300 students.

During the year, GeekBrains team held 3 online conferences with 50,000 participants. The total number of registered users on GeekBrains platform increased from 1.6 to 2.5m; overall, more than 19,000 users took its online courses.

Payment processing

Our payment processing facilitates all Group’s projects and develops payment infrastructure for online payments within our products. The team developed an escrow-like online service: NBCO Money Mail.Ru, a company with a license from the Central Bank, acts as a third-party trust keeping funds in order to protect both the buyer and the seller in a transaction. Money Mail.Ru releases payment to the seller only after the buyer has approved the quality of goods. This service was successfully integrated into Youla and BeepCar.

NBCO Money Mail.Ru developed a unified platform for opening and managing eWallet accounts. The platform allows any project, for example social networks, to launch its own modern payment system.

This creates a key element for further developing of our O2O projects and payment eco-systems in social networks.

B2B services

Big Data Analytics B2B services

The Big Data team works on predictive models based on analytical services built with the help of machine learning methods. The services created are related to AaaS (Analytics as a Service) class; the team works with its clients through long-term subscriptions to its analytical services.

Russian Association of Electronic Communications (RAEC) included Big Data of Mail.Ru Group in its HOT-LIST 2018, a list of 10 trendsetters, which, according to experts, will influence the digital world in 2018.

Data storage

In 2017, the team focused on improving scalability of Tarantool by developing an automated clustering and fault-tolerance system and continued working on Vinyl disk engine and SQL interface. Moreover, the team established relationships with big Russian enterprises in financial and telecom sectors including MegaFon.

In 2017, following the global launch of Tarantool, marketing in the US using major global tech communities such as DZone.com was ramped up and negotiations with potential clients in the course of a pre-sale process were started. The team contacted representatives of more than 100 companies across various sectors such as telecom, manufacturing and IT and obtained the necessary feedback to adapt the product to the US market.

Mail.Ru Cloud Solutions (MCS)

Mail.Ru Group's vast experience in management of own IT infrastructure, growth of the IaaS market and client enquiries were essential conditions for development of the new segment. At the beginning of 2017, our B2B services for cold and hot data storage (Icebox and Hotbox respectively) announced a commercial launch and got their first clients among major businesses. In May 2017, Mail.Ru Group launched B2B cloud service Infra that provides their clients with infrastructure of a virtual data center.

Moreover, Cloud Mail.Ru brought together its B2B IaaS products (Infra, Hotbox and Icebox) under new brand Mail.Ru Cloud Solutions. Apart from MCS Cloud Mail.Ru also offers Tarantool, a database management system, which already gained a good reputation in the market.

Mail.Ru for Business

Mail.Ru for Business launched an extended paid plan of Email for Domain providing additional functions and services to companies and individuals who want premium customer support.

Teambox, a cloud service for business, was rolled out to help simplify data processing and exchange during teamwork. Teambox replaces a standard network drive allowing for safe data storage with access from any mobile device.

Mail.Ru for Business Club, a loyalty program for users of the Group's SaaS platform, was launched. It features special discounts and offers from partners offering B2B products and services.

Other activities

IT infrastructure

Our network infrastructure is designed to meet the requirements of our operations and to support the growth of our business. This infrastructure includes services supplied internally as well as by third parties.

Our computer servers and networking equipment are located in own data centers as well as in rented ones. The Group also has a number of relationships with third-party IT providers, which provide it with a range of telecommunication services, including internet access and internet (traffic) transit.

In 2017, the peak network traffic increased to 5.24 terabits per second and the total amount of outgoing data reached 10,249 petabytes. In Moscow and St. Petersburg, Mail.Ru Group has 66,500 servers with a total storage capacity of 424 petabytes located in 10 data centers. It ensures load balancing and protection against the loss of data caused by network or power failures. In 2017, the Group continued using 2 international data center facilities – in Amsterdam, the Netherlands, and San Jose, California, USA. They are aimed at serving European and North American users and currently host about 1,200 servers.

The ability to provide products and services depends on the continuous operation of our network and IT infrastructure. It also relies on the provision of network facilities by third-party IT providers and on the performance and reliability of the internet, power and telecommunications infrastructure in Moscow, St. Petersburg and the rest of Russia.

The team believes that the current access to network facilities and broadband capacity is sufficient to support its current operations and can meet the planned growth of its business for at least the next 12 months. A staff of full-time engineers administers the network

Alexander Gornyi
Expert of the Year
Mail.Ru People Awards

infrastructure. They handle the day-to-day system as well as hardware operations and maintenance.

The Group's automation, dispatch and monitoring systems are being continuously improved in all infrastructure divisions. The team is committed to increasing the level of autonomy of the systems while reducing the human role in the decision-making process.

The team pays close attention to protection of user data. The Information Security department monitors the entire infrastructure and prevents, detects and responds to security threats.

To achieve the most efficient use of technical and material resources, the team of engineers monitors the changes in load profiles and optimizes the infrastructure while ensuring a high level of availability of the Group's products and services.

A high priority is placed on providing users with the consistently high-quality service and support through the technical support staff.

Sales and marketing

Advertising is sold on our auction-based platforms. We have teams working on the ad product, ad technologies, sales marketing and client support.

The main focus is on the new technologies that drive effectiveness and improve ROI for the clients.

In 2017, the team concentrated efforts on three key improvements:

- development of new cross-device ad formats;
- development of targetings and look-alikes;
- connecting ad impression with offline user experience.

Major highlights of ad product development and technology improvement in 2017:

- Ad network in VK communities simplifying content monetization for the communities: newly launched system automatically selects VK communities based on advertisers' targets, which makes ad placement more effective;
- Data Marketplace with third-party data, which allows owners to monetize their data by creating audience segments for ad targeting based on third-party data including loyalty programs;

- Audio ads for our music streaming services which are now available in myTarget self-service system;
- Improved dynamic retargeting: now it is possible to create and save audience segments based on various types of interaction with ad posts;
- Launch of automatic conversion tracking of offline store visits;
- Trigger platform, connecting ad campaign goals with specific automatically controlled off-line triggers;
- Integrated independent analytics for auditing of ads visibility and other metrics;
- A lot of inventive ad supporting fun features such as chat bots, challenges, stickers and masks.

A lot of effort was put on video advertising. Mail.Ru Group’s social networks lead in terms of video views and digital video promotion is getting adopted by its major partners. New video formats launched in 2017:

- native newsfeed videos on VK and OK. By the end of 2017, the share of video reached over 25% of all promoted posts;
- further improvements of ad viewability and CPA (cost-per-action) methods, allowing to increase marketing campaign effectiveness;
- video ads of ad networks.

Sales force is focused on attracting and retaining advertisers and providing support to them on all stages of the ad campaign. Largest advertising clients are generally major FMCG companies, retail businesses, automotive manufacturers, banks, mobile telecom operators and various mobile app developers.

myTarget, our self-service ad platform, offers desktop and mobile ad inventory on the largest social networks in the Russian-speaking countries, as well as that of third-party mobile apps and websites that joined myTarget ad network. Among the key features of the platform are newsfeed ads, various types of targeting, detailed statistics, filters against bots and click fraud, automated optimization of ad campaigns and support of popular analytics services.

Ad price is determined programmatically through an auction process, which analyzes bids on impression and estimated click-through rates. The higher the value of either metric, the more likely the impression will be served.

Throughout 2017, the team continued developing and improving myTarget. Many new types of targeting such as ‘Users who make in-app purchases’ and ‘Users interested in a new car’ and targeting of users who installed apps of specific categories were added.

Furthermore, the team worked on DMP (data management platforms). A full-scale dashboard for DMP with statistics and an ability to share audience segments was created. Marketplace DMP with taxonomy and requests of segments was also added; third party DMPs can now add audience segments. Automatic attribution of offline conversion became available with statistics displayed in the dashboard. The look-alike model was improved and can now be shared among clients of myTarget.

Clients of myTarget got access to results of independent auditing of ad viewability provided by MOAT, a leading international expert. Advertising strategies were complemented with CPI and oCPM for mobile apps and Cost per Event / Cost per View models. Statistics were updated with an offline report generator and data regarding ad placement and in-app events. Targeting received major updates related to targeting by interests, blacklisting, in-app retargeting and improved targeting by category of installed apps.

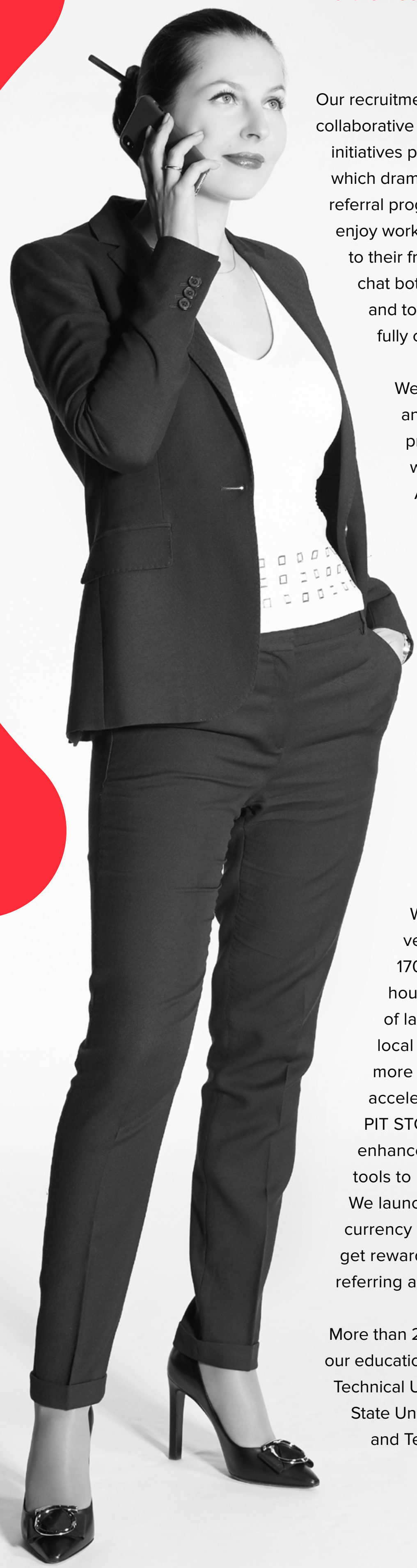
Ad campaigns management was updated with new Campaigns page, Banners and Campaigns tables and improved functionality of creating and editing of campaigns and Statistics page. The team added support of deep linking on iOS and Android to improve ad delivery.

Employees

At the end of 2017, the Group had 4,458 full-time employees. We highly value our employees and believe that our culture encourages individuality, creativity and systematic approach to providing excellent service to our users.

In 2017, we improved our positions in Russia's Most Attractive Employers Ranking (Universum): +3 positions among IT students and +2 positions among IT professionals. Many of our people are frequently awarded by the professional community.

A significant proportion of our employees possess a strong product and technical background, allowing them to contribute to our projects by generating new ideas and enhancing existing products. In 2017, our research and development activities were primarily focused on machine learning, ad tech, communication products and mobile games. Our collaborative and innovative culture helped new startups (Pandao), supported effective integration of new businesses (ZakaZaka and Am.ru) and drove effective cross-product cooperation on new services among e-commerce, messengers, search and social networks teams.



Varvara Yaffa
Internal Solution of the Year
Mail.Ru People Awards

Our recruitment strategy is to hire the most driving, competent, collaborative and innovative people. We successfully launched new initiatives promoting our external referral program for new hires, which dramatically improved the hiring process. Our successful referral program also acts as a good indicator that our employees enjoy working at Mail.Ru Group and are ready to recommend us to their friends and colleagues. Last year we also started using chat bots and online screening to identify potential candidates and to appeal to their specific interests which let us successfully close 40% more vacancies.

We arranged more than 50 meetups for top experts and developers in various IT fields and over 60 internal professional meetups and gatherings. Some of them were fundamentally new, such as Game Design meetup, Atlassian meetup. We organized special days for our new projects so they could share more info about themselves, onboarding programs, and career ladders across business units.

Family values and traditions are an important part of our culture. The average age of our employees is about 30 years old; in total, we have more than 1,500 children. We regularly host family days in our office with a variety of family fun and kids activities, from shows to coding classes. Our family programs are designed not only for kids but also for employees' parents and partners: we have a variety of workshops, office tours, sports activities and other events.

We continued expanding the range of training and development opportunities: our employees attended over 170 learning events and team alignment sessions, 1,500 hours of professional learning and over 3,500 hours of language classes. More than 500 employees visited local and foreign professional conferences, presented at more than 40 events. We successfully launched an annual accelerated development program for key managers TECH PIT STOP to boost collaboration, idea exchange and skill enhancement of our team leaders, and developed various tools to help our employees receive and give feedback. We launched an internal gamification platform with its own currency and Mail.Ru Group's merchandise store. Employees get rewards for teaching in our educational projects, mentoring, referring a friend for a vacancy etc.

More than 2,800 students attend programming classes as part of our educational projects: Technopark at Bauman Moscow State Technical University, Technosphere at Lomonosov Moscow State University, Technotrack at Moscow Institute of Physics and Technology, Technoatom at National Research Nuclear

University MEPhI and Technopolis at Peter the Great St. Petersburg Polytechnic University. 94 of them are now employed full time or interning in more than 15 business units of Mail.Ru Group.

In 2017, we debuted our programming courses in Python, Go, and UX on Coursera with more than 21,000 students over the year. We also created 330 new video lectures for our Technostream platform, which has over 75,000 subscribers.

For experienced programmers we launched Highload Cup, a competition for developing highload systems. Our ML Boot Camp (machine learning and data mining), RCC (coding), VK Cup (coding), Russian AI Cup and MiniAiCups (artificial intelligence) and Russian DevCup (product prototyping) are one of the most prominent events in the Russian internet community (over 13,500 participants) and attract from students to leading experts.

In July 2017, we organized our first Science Slam Digital, a "tech comedy stand-up show". Our employees delivered 10-minute speeches on technology they use or develop every day. Live streams on VK and OK gathered more than 400,000 viewers.

In October 2017, we awarded a special prize for proficiency in using technology in school teaching as part of Russia's Teacher of the Year. The winner of the prize was Nina Danilina, the teacher at School 27 in Mytishchi. Furthermore, we organized Day of IT and Tech Studies, a special event in support of IT education: our employees taught 134 classes at 104 schools for more than 6,000 students in 33 Russian regions, Belarus, Kazakhstan and Uzbekistan. Live streams on VK and OK gathered more than 1m viewers.

In January 2018, together with Sirius educational center and the Center for support of IT education, we organized a winter programming camp for talented high school students.

Charity and social projects

Today Dobro Mail.Ru has 135 verified charity organizations from 42 regions of Russia on its platform and allows users to participate in social projects as volunteers or with one-off or regular donations. Donations made in 2017 increased by 50% over the year.

Unique service MAYAK ('lighthouse') was introduced to help users find relevant helplines, if they need support or medical advice.

#dogoodtoeveryone project was also launched: employees and participants of Mail.Ru Group's major events can receive a medical checkup in exchange for a donation to one of charity funds. We hope it will help to promote early detection of diseases.

In addition, Dobro Mail.Ru contributes to professional development of non-commercial organizations in Russia by organizing educational conferences Dobro in Moscow and Kind Kazan in Tatarstan, Russia. The service cooperates with leading Russian media to popularize charity.

On February 20th, VK held VK for Good, the 1st annual conference on digital fundraising. Non-profit organizations and advertising agencies shared their best practices to find the most effective ways for fundraising on the Internet.

We continued our partnership with the Pushkin State Museum supporting its media and cultural initiatives. In 2017, Mail.Ru Group supported media art exhibition Humans like Birds of The Pushkin State Museum of Fine Arts, a collateral event of the 57th Venice Biennale.

In February 2017, VK launched VK Charity initiative aimed at uniting the non-profit sector, providing tools for effective cooperation with funds and promoting charitable acts among VK users. Registered NPOs with a verified VK page can win grants to promote their pages on the social network. In addition, representatives of charity organizations participated in the VK Tools for Charitable Projects educational program.

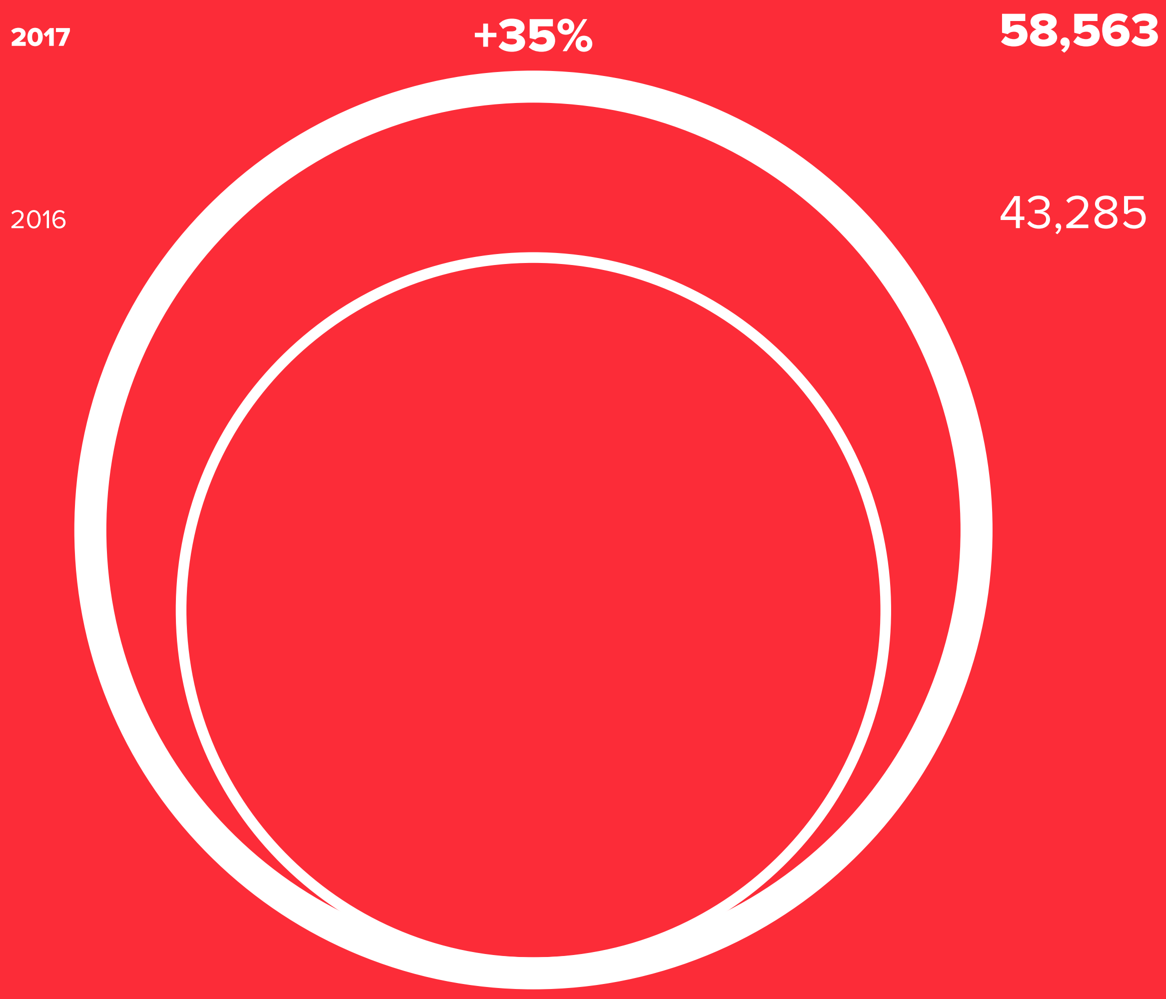
On March 21st, Love Syndrome charity foundation and VK launched the #MEDIASYNDROME project to contribute to breaking stereotypes about Down syndrome. On this day on VK Live, teenagers with Down syndrome became journalists and interviewed celebrities.

On June 14th, in coordination with DonorSearch service, VK launched a project dedicated to the World Blood Donor Day. A special section on VK connected users with friends who could become a blood donor for them. Users were asked to fill in a small questionnaire and provide information about their blood type, Rh factor and age.

On October 31st, charities received 972 hours of digital services from interactive agencies at VK for Good auction organized by VK, the Association of Interactive Agencies (AIA) and the Association of Fundraisers (AF). VK provided its tools for promoting partner funds in the social network for free.

In December 2017 - January 2018, VK users made charitable New Year's gifts to friends. In total, VK users sent over 100,000 gifts that was then distributed among 3 charities.

02
FINANCIAL REVIEW



REVENUE & YOY GROWTH
RUR MLN

Financial review

Andrey Lukashevich
Leader of the Year
Mail.Ru People Awards

This review reflects highlights of our financial performance for 2017. Full details can be found in the annual financial statements presented on pages 76 to 124 of this annual report.

Overview of consolidated results

We are pleased to have demonstrated strong progress throughout 2017 in all key areas with total revenues growing by more than a third, while we put significant resources behind a number of our new projects, especially our O2O initiatives. Online advertising showed strong growth, driven by growing user engagement, improved advertising technologies and sales execution. Customer budgets continued shifting to online and towards mobile and social networks in particular. MMO games performed very well, with international revenue increasing to over half of our MMO revenues and strong growth broadly based across both established and recently released titles on multiple platforms. While the transition to mobile IVAS remains challenging, our cross-platform IVAS initiatives specifically the subscription service and the VIP services on OK have made good progress.

Structure

Our segment reporting is prepared on a pro forma basis, i.e. segment financial information is presented for each period on the basis of an ownership interest as of the date hereof and consolidation of each of our subsidiaries, including for periods prior to the acquisition of control of the entities in question. The financial information of subsidiaries disposed of prior to the date hereof is excluded from the segment presentation starting from the beginning of the earliest period presented.

Accordingly, our segment reporting presented herein includes the financial information of GeekBrains, Delivery Club, Pixonic (all acquired in 2016), ZakaZaka, Am.ru (both acquired in 2017) and ESforce (acquired in 2018) and excludes the financial information of HeadHunter (disposed in 2016), all starting from January 1, 2016.

The structure of our segment reporting is based around the services we offer and includes the following reportable segments:

I. Email, Portal and IM,
II. Social Networks (ex VK),
III. Online Games,
IV. VK and
V. Search, E-Commerce and Other.

The Email, Portal and IM segment includes email, our instant messaging services and the Mail.Ru portal together with media projects; the Social Networks (ex VK) segment includes OK and My World social networks; the Online Games segment comprises our mobile, client-based, browser-based and social games. The VK segment includes the VK.com social network. The Search, E-Commerce and Other segment includes search services, e-commerce (including O2O services), our eSports business (ESforce) and certain other projects. Please refer to “Operating segments performance – Basis of preparation” below for more details on operating segments presentation.

Reconciliation of Segment results analysed in the Annual report to Note 5 to the audited consolidated financial statements:

	2017			2016		
	Note 5 to Financial Statements	Esforce	Annual report	Note 5 to Financial Statements	Esforce	Annual report
Group aggregate segment revenue (1)						
Online advertising	23 766	599	24 365	18 442	330	18 772
MMO games	17 422	-	17 422	11 390	-	11 390
Community IVAS	13 946	-	13 946	11 854	-	11 854
Other revenue***	2 335	495	2 830	1 065	205	1 270
Total Group aggregate segment revenue	**57 469**	**1 094**	**58 563**	**42 751**	**534**	**43 285**
Group aggregate operating expenses						
Personnel expenses	10 673	1 350	12 023	8 630	546	9 176
Office rent and maintenance	2 126	135	2 261	2 052	66	2 118
Agent/partner fees	11 090	368	11 458	6 892	35	6 927
Marketing expenses	8 732	150	8 882	3 017	26	3 043
Server hosting expenses	1 795	3	1 798	1 894	-	1 894
Professional services	342	175	517	510	84	594
Other operating (income)/expenses, excluding amortisation and depreciation	2 160	171	2 331	1 842	464	2 306
Total Group aggregate operating expenses	**36 918**	**2 352**	**39 270**	**24 837**	**1 221**	**26 058**
Group aggregate segment EBITDA (2)	**20 551**	**-1 258**	**19 293**	**17 914**	**-687**	**17 227**
margin, %	35,80%		32,90%	41,90%		39,80%
Depreciation and amortisation (3)	3 587	74	3 661	2 940	74	3 014
Other non-operating income (expense), net	484	-51	433	115	-9	106
Profit before tax (4)	**17 448**	**-1 384**	**16 064**	**15 089**	**-770**	**14 319**
Income tax expense (5)	3 204	-78	3 126	3 473	-63	3 410
Group aggregate net profit (6)	**14 244**	**-1 306**	**12 938**	**11 616**	**-707**	**10 909**

Acquisitions and disposals in 2017

In May 2017 as a result of a number of transactions we completed the acquisition of 100% of Site-Agregator LLC ("ZakaZaka"), the number two food delivery company in Russia, for a cash consideration of RUR 1,042 million. The main purpose of the acquisition was further expansion of our food delivery business.

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

See also Notes 6 and 25 to our consolidated financial statements for further details on acquisitions and disposals.

Goodwill

We account for business combinations by applying the acquisition method. As a result, we record goodwill as the fair value of the consideration transferred, including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. The significant goodwill recorded in connection with our acquisitions may lead to charges in future periods if the goodwill is impaired.

Total goodwill amounted to RUR 133,140 million as at December 31, 2017, and increased by RUR 831 million from December 31, 2016 mostly as a result of the ZakaZaka and Am.ru acquisitions. The goodwill is allocated to groups of cash-generating units (CGUs) – "Email, Portal and IM", "Search", "Online Games", "Social Networks", "VKontakte", "Delivery Club", "Pixonic" and "E-Commerce and Other" – in accordance with the operating segment structure of our business and IFRS requirements. Please see Note 11 to our consolidated financial statements for further details.

Operating segments performance

Basis of preparation

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

Management reporting is different from IFRS, because it does not include certain IFRS adjustments that 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 payment transactions, disposal of and impairment of investments, business combinations, fair value adjustments, amortisation and impairment thereof, net foreign exchange gains and losses, share in financial results of 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 subsidiaries disposed of prior to the date hereof is excluded from the segment presentation starting from the beginning of the earliest period presented.

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

We identify our operating segments based on the types of products and services we offer. We have identified the following reportable segments on this basis:

- Email, Portal and IM;
- VK (Vkontakte);
- Social Networks (ex VK);
- Online Games; and
- Search, E-Commerce and Other Services

The Email, Portal and IM segment includes email, instant messaging and portal (main page and verticals). It earns substantially all revenues from display and context advertising.

The VK segment includes the Group's social network VKontakte (VK.com) and earns revenues from (i) online advertising, including display and context advertising, (ii) commission from application developers based on the respective applications' revenue, and (iii) user payments for virtual gifts, stickers and other value-added services.

The Social Networks (excluding VK) segment includes the Group's two other social networks (OK and My World) and earns revenues from (i) user payments for virtual gifts, stickers and other value-added services, (ii) commission from application developers based on the respective applications' revenue, and (iii) online advertising, including display and context advertising.

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

The Search, E-commerce and Other Services segment primarily consists of search engine services earning substantially all revenues from context advertising, food delivery services earning substantially all revenue from restaurant's commission and our ESforce eSports business earning substantially all revenues from sponsorship and other advertising. This segment also includes a variety of other

Yury Vetrov
Expert of the Year
Mail.Ru People Awards

services, which are either not currently earning any material revenues or considered insignificant by the CODM for the purposes of performance review and resource allocation.

We measure the performance of our 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, amortisation and impairment of intangible assets), including our corporate expenses allocated to the respective segment.

EBITDA is not a measure of financial performance under IFRS. The calculation of EBITDA by us 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 our operating results as reported under IFRS.

EBITDA is not a direct measure of our 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 our financial commitments. EBITDA may not be indicative of our historical operating results, nor is it meant to be predictive of our potential future results. We believe that EBITDA provides useful information to the users of the consolidated financial statements because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditure, acquisitions and other investments and our ability to incur and service debt.

Principal revenue drivers

Organic growth in our revenue, including online advertising and IVAS, is primarily driven by the audience of our properties. Advertising revenues also depend on the pricing of our advertisements and availability and sell-through rates of our advertising inventory, while IVAS revenue is also driven by paying user engagement and average revenue per paying user ("ARPPU").

Analysis of 2017 results compared with 2016

The discussion that follows is based on the analysis of segment and supporting management financial information according to the Group's actual structure as of the date of this Annual Report. As discussed under "Basis of Preparation" above, this information differs in certain significant respects from information presented in accordance with IFRS.

Group aggregate segment financial information*

Name	2017	% of revenue	2016	% of revenue	YoY, %
Group aggregate segment revenue (1)					
Online advertising	24 365	42%	18 772	43%	30%
MMO games	17 422	30%	11 390	26%	53%
Community IVAS	13 946	24%	11 854	27%	18%
Other revenue*	2 830	5%	1 270	3%	123%
Total Group aggregate segment revenue	**58 563**	**100%**	**43 285**	**100%**	**35%**
Group aggregate operating expenses					
Personnel expenses	12 023	21%	9 176	21%	31%
Office rent and maintenance	2 261	4%	2 118	5%	7%
Agent/partner fees	11 458	20%	6 927	16%	65%
Marketing expenses	8 882	15%	3 043	7%	192%
Server hosting expenses	1 798	3%	1 894	4%	-5%
Professional services	517	1%	594	1%	-13%
Other operating (income)/expenses, excluding amortisation and depreciation	2 331	4%	2 306	5%	1%
Total Group aggregate operating expenses	**39 270**	**67%**	**26 058**	**60%**	**51%**
Group aggregate segment EBITDA (2)	**19 293**	**33%**	**17 227**	**40%**	**12%**
margin, %	33%		40%		
Depreciation and amortisation (3)	3 661	6%	3 014	7%	24%
Other non-operating income (expense), net**	433	1%	106	0%	288%
Profit before tax (4)	**16 064**	**27%**	**14 319**	**33%**	**12%**
Income tax expense (5)	3 126	5%	3 410	8%	-8%
Group aggregate net profit (6)	**12 938**	**22%**	**10 909**	**25%**	**18%**

*Including Other IVAS revenues.

** Including interest expenses of RUR 780 and 58 million in 2016 and 2017 respectively

1) Group aggregate segment revenue is calculated by aggregating the segment revenue of our operating segments and eliminating intra-segment and inter-segment revenues. This measure differs in significant respects from IFRS consolidated net revenue.

2) Group aggregate segment EBITDA is calculated by subtracting Group aggregate segment operating expenses from Group aggregate segment revenue. Group aggregate segment operating expenses are calculated by aggregating the segment operating expenses (excluding the depreciation, amortisation and impairment) of our operating segments including allocated Group corporate expenses, and eliminating intra-segment and inter-segment expenses.

3) Group aggregate depreciation, amortisation and impairment expense is calculated by aggregating the depreciation, amortisation and impairment expense of the subsidiaries consolidated as of the date hereof, excluding amortisation and impairment of fair value adjustments to intangible assets acquired in business combinations.

4) Profit before tax is calculated by deducting from Group aggregate segment EBITDA Group aggregate depreciation, amortisation and impairment and adding/deducting Group aggregate other non-operating incomes/expenses primarily consisting of interest income on cash deposits, interest expenses, dividends from financial and available-for-sale investments and other non-operating items.

5) Group aggregate income tax expense is calculated by aggregating the income tax expense of the subsidiaries consolidated as of the date hereof. Group aggregate income tax expense is different from income tax as would be recorded under IFRS, as (i) it excludes deferred tax on unremitted earnings of our subsidiaries and (ii) it is adjusted for the tax effect of differences in profit before tax between Group aggregate segment financial information and IFRS.

6) Group aggregate net profit is the (i) Group aggregate segment EBITDA; less (ii) Group aggregate depreciation, amortisation and impairment expense; less (iii) Group aggregate other non-operating expense; plus (iv) Group aggregate other non-operating income; less (v) Group aggregate income tax expense. Group aggregate segment net profit differs in significant respects from IFRS consolidated net profit.

Operating segments performance – 2017

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	Search, e-commerce and other	Eliminations	Group
Revenue							
External revenue	5 206	16 147	17 614	13 811	5 785	-	58 563
Intersegment revenue	3	33	-	156	408	-600	-
Total revenue	**5 209**	**16 180**	**17 614**	**13 967**	**6 193**	**-600**	**58 563**
Total operating expenses	3 016	5 942	12 828	5 257	12 827	-600	39 270
EBITDA	**2 193**	**10 238**	**4 786**	**8 710**	**-6 634**	**-**	**19 293**
Net profit							12 938

Operating segments performance – 2016

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	Search, e-commerce and other	Eliminations	Group
Revenue							
External revenue	4 797	14 219	11 526	8 883	3 860	-	43 285
Intersegment revenue	4	20	-	54	383	-461	-
Total revenue	**4 801**	**14 239**	**11 526**	**8 937**	**4 243**	**-461**	**43 285**
Total operating expenses	3 268	4 690	9 309	3 605	5 647	-461	26 058
EBITDA	**1 533**	**9 549**	**2 217**	**5 332**	**-1 404**	**-**	**17 227**
Net profit							10 909

Online advertising

Online advertising includes two major kinds of advertising technology: Display and Context. Display advertising revenue is generated from promo posts in social networks, video, banner and similar advertisements on our properties. Advertisements are sold either on the time that they last, or on the number of ad views. Our standard rates depend on a number of factors, including the property on which the advertisement appears, amount and the length of the contract, the season, and the advertisement's format, size and position.

Context advertising revenue is earned with our myTarget technology, as well as through partnerships with third parties.

myTarget (formerly known as Target Mail.Ru), is our proprietary self-service programmatic advertising technology, which sells the advertisements through an online auction both on desktop and mobile using verious pricing models. The technology is integrated in almost all advertising formats, so the advertiser can choose whether to purchase impressions via display ads based on fixed CPM or use online auction in myTarget programmatic system with possible lower price but with lower view priority. The new improvements of the technology are new cross-device ad formats, integration of offline user experience and new targeting opportunities.

We also generate context advertising revenues through our search service. When a user carries out a search on our search page, results – together with advertisement links – are displayed based on certain parameters, including relevance to the topic.

Additionally, we sell text links to third-party advertising networks which are displayed based on certain parameters. When users click on advertisements they are directed to the advertisers' websites; we receive a portion of the subsequent fee earned by the third party.

We generated revenue of RUR 24,365 million from online advertising in 2017 (2016: RUR 18,772 million). Our advertising revenue grew by 29.8%, ahead of the Russian online advertising market, even though we continued to invest in our new businesses and allocate part of our inventory to promote these new products, which had a limiting effect on inventory available for sale. The strong growth in our advertising revenues was driven by continued shift of advertising budgets to online from all other mediums and in online towards

BUSINESS REVIEW

mobile and social networks in particular. In line with this trend, promo posts across our social networks and our native in-feed video formats were our fastest-growing advertising revenues.

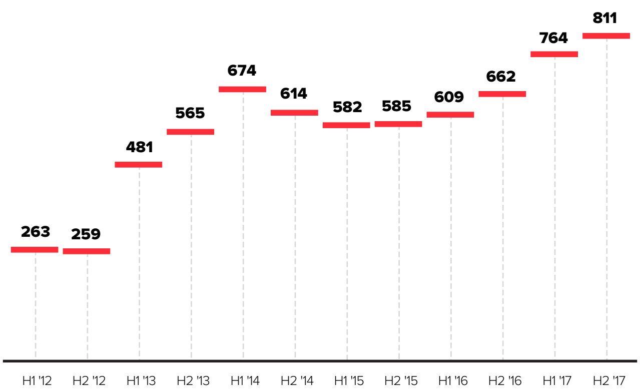
IVAS

We generate a significant portion of our revenue from IVAS. This includes MMO games and Community IVAS.

MMO games

About a third of our total revenue is generated by MMO games, including client, browser and mobile titles. Players have the opportunity to buy in-game enhancements for these free-to-play games; revenue is recognised net of any commissions of SMS operators, but before other revenue collection costs, including commissions paid to mobile app stores. In 2017, we generated revenues of RUR 17,422 million from MMO games (2016: RUR 11,390 million). The 53% increase in MMO revenues is primarily due to the significant growth in revenue from Pixonic's flagship mobile title War Robots, continued solid growth of Warface and revenue from a number of successful new launches in 2017, such as HAWK and Hustle Castle on mobile and Skyforge on console. Starting from Q4 2016, our MMO revenues have also been positively affected by the application of a Russian VAT exemption to the respective revenues generated in Russia.

MMO games, thousands of average monthly paying users



Source: internal data

Note: the numbers combine paying users of individual MMO and mobile games and may include overlap

In 2017 the average number of monthly MMO paying users increased, mainly as a result of organic growth in Warface and War Robots paying users, as well as new users of HAWK and Hustle Castle.

Community IVAS

Community IVAS revenue is driven by payments for features and virtual items sold primarily on our social networks. Such features and items include virtual gifts, stickers, premium music access and other paid features. Community IVAS revenue is also driven by revenues shared with application developers through our Application Programming Interface ("API"), revenue from our own social games and revenue from dating services. A significant portion of these payments are paid for via SMS, and revenue is recognised net of commission paid to SMS operators.

Aggregate segment Community IVAS revenue increased by 17,6% to RUR 13,946 million (2016: RUR 11,854 million) mostly due to the application of a Russian VAT exception to most of our Community IVAS revenues generated in Russia starting from January 1, 2017. Excluding the VAT exemption effect, our Community IVAS revenues were broadly flat, as decrease in the number of paying users was offset by a 14.2% increase in ARPPU.

Also in 2017 we find new points of growth in mobile area such as subscription services which already showed a number of ways and opportunities for further development. Audience shift to mobile is still challenge for us, but our new cross-platform initiatives inspire confidence.

Costs and margins

Our principal cost items include personnel expenses, office rent and maintenance expenses, agent/partner fees, marketing expenses, server hosting expenses, professional services and other operating expenses, excluding depreciation, amortisation and impairment.

Personnel expenses increased by 31.0% to RUR 12,023 million (2016: RUR 9,176 million), mainly driven by an increase in headcount, principally within our fast-growing O2O, Pixonic and ESforce businesses, and, to a lesser extent, by an organic increase in average salary levels.

Most of our office rent and maintenance expenses are denominated in USD but at a fixed rate to the RUR significantly below the actual exchange rate. Those expenses increased by 6.7% to RUR 2,261 million (2016: RUR 2,118 million), driven by additional office space rented as the headcount increased.

Agent/partner fees increased by 65.4% to RUR 11,458 million (2016: RUR 6,927 million). The increase in agent/partner fees was primarily

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driven by growth of revenue collection costs, development of our food delivery network and advertising commissions paid to group administrators in VK.

Revenue collection costs represent fees to payment systems for processing payments for our games and Community IVASs. These costs also include the share of our mobile products' revenue that we pay to mobile app stores (mainly Google Play and Apple's App Store), as well as the share of our console gaming revenue paid to the respective console platforms (Sony's PlayStation and Microsoft's Xbox). The increase in revenue collection costs was mainly due to increased revenue from games, mostly mobile and console titles.

Advertising commissions represent arrangements where we share revenue from promotional posts on groups' pages in VK with the respective groups' administrators. The increase in commission is mainly due to the significant growth in related revenue in 2017.

The development of our food delivery network in 2017 resulted in an increase in agent/partner fees as we outsource a significant part of food delivery services.

Marketing expenses almost tripled to RUR 8,882 million (2016: RUR 3,043 million), as we significantly stepped up the marketing effort to support the fast growth of our mobile games such as War Robots and Hustle Castle, and as we invested in our fast-growing e-commerce products, including Youla, Delivery Club and Pandao.

Server hosting expenses decreased by 5.1% to RUR 1,798 million (2016: RUR 1,894 million), primarily as a result of continued synergies in VK, mostly with respect to the pricing of telecommunication channels rent.

Professional fees decreased by 12.9% to RUR 517 million (2016: RUR 594 million). This was mainly caused by a decrease in consulting services related to certain legal restructuring processes mostly consummated in 2016, and an optimisation of M&A related costs.

Other operating expenses, excluding depreciation, amortisation and impairment, increased by 1.1% to RUR 2,331 million (2016: RUR 2,306 million), primarily due to increased VAT write off as a result of the Russian VAT exemptions received in Q4 2016 and in 2017, partially offset by optimised cybersport tournament organization costs.

In total, our aggregate segment operating expenses (excluding depreciation, amortisation and impairment) increased by 51% to RUR

39,270 million (2016: RUR 26,058 million). As a result, our aggregate segment EBITDA increased by 12.0% to RUR 19,293 million (2016: RUR 17,227 million) and EBITDA margin decreased to 32.9% in 2017 (2016: 39.8%).

Depreciation, amortisation and impairment, other non-operating income, income tax and net income

Depreciation, amortisation and impairment increased by 21.5% to RUR 3,661 million (2016: RUR 3,014 million) mainly due to the amortisation of our access to music rights acquired and recognised as an intangible asset late in 2016.

Other non-operating income amounted to RUR 433 million (2016: RUR 106 million), with the variance primarily driven by a decrease in interest expense, which amounted to RUR 57 million in 2017 compared to RUR 780 million in 2016 partially offset by a decrease in interest income to 521 million in 2017 compared to 779 million in 2016. The interest expenses decreased due to our full repayment of a bank loan in June 2016. The decrease in interest income is due to a combination of lower deposit interest rates and lower amounts deposited in 2017.

Profit before income tax and net profit

Profit before income tax expense increased by 12.2% to RUR 16,064 million (2016: RUR 14,319 million) as a result of the 35,3% increase of revenues offset by a 50,7% increase in expenses.

While profit before tax increased by 12.2%, income tax expense decreased by 8.3% to RUR 3,126 million (2016: RUR 3,410 million). This was primarily due to an increased proportion of income before tax contributed by our international operations, combined with the effect of certain regional income tax incentives applied by some of our Russian entities.

Group aggregate net profit increased by 18.6% to RUR 12,938 million (2016: RUR 10,909 million) as result of increased profit before tax and decreased income tax expense.

Consolidated results of operations in accordance with IFRS

The following tables summarises the principal line items from our consolidated income statements under IFRS:

	2017 RURm	2016 RURm
Total revenue	51 744	40 001
Other operating gain	565	-
Net loss on venture capital investments and associated derivative financial assets and liabilities	-27	-769
Total operating expenses (excluding depreciation, amortisation and impairment)	**-39 309**	**-25 858**
Earnings before interest, tax, depreciation and amortisation	12 973	13 374
(EBITDA)		
Profit before income tax expense	4 956	12 669
Income tax expense	-2 675	-838
Net profit	2 281	11 831
Attributable to:		
Equity holders of the parent	2 248	11 813
Non-controlling interest	20	18

BUSINESS REVIEW

Our consolidated revenue increased by 29.4% to RUR 51,744 million (2016: RUR 40,001 million) in 2017 mostly due to organic growth partially offset by increased online gaming revenue deferral resulting from significant growth of our mobile games. The primary drivers of the organic revenue growth are described under “Operating segments performance” above.

EBITDA under IFRS decreased by 3.0% to RUR 12,973 million (2016: RUR 13,374 million) and EBTDA margin decreased to 25.1% (2016: 33.4%) as a result of operating expenses (excluding depreciation, amortisation and impairment) growing at a faster pace than revenues.

Operating expenses grew by 52.0% to RUR 39,309 million, or 76.0% of revenue (2016: RUR 25,858 million, or 64.6% of revenue).

The growth in operating expenses was primarily driven by RUR 6,208 million increase in Marketing expenses, RUR 4,579 million increase in Agent/partner fees and RUR 2,426 million increase in Personnel expenses, all mostly organic. The key drivers and components of the organic growth in operating expenses are discussed in detail under “Operating segments performance” above.

Our IFRS profit before income tax expense decreased by 60.9% to RUR 4,956 million (2016: RUR 12,669 million) primarily due to a one-time gain recognised in 2016 as a result of the HeadHunter disposal, combined with an increase in amortisation of intangible assets, and decrease in EBITDA as discussed above, partly offset by increase in Net foreign exchange gain.

Net profit decreased to RUR 2,281 million (2016: RUR 11,381 million) as result of the decrease in profit before tax and an increase in income tax expense to RUR 2,675 million (2016: RUR 838 million).

The increase in income tax expense was primarily driven by a deferred tax asset write off due to a decrease in estimated tax rates applicable to future taxable profits of some of our subsidiaries resulting from a contemplated restructuring.

The change in income tax expense was not correlated with the increase in profit before income tax also because the gain on the HeadHunter disposal was not taxable and share-based payment transactions were not deductible for income tax purposes. The drivers of organic growth of profit before tax and income tax expense are further described in Section “Operating segments performance” above.

A detailed reconciliation of our management reporting to IFRS is presented in the tables below.

Reconciliation of Management reporting to IFRS

	2017	2016
Total revenue, as presented to the CODM	58 563	43 285
Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:		
Effect of difference in dates of acquisition and loss of control in subsidiaries	-1 094	-1610
Differences in timing of revenue recognition	**-5 181**	**-1 740**
Barter revenue	12	30
Dividend revenue from venture capital investments	**9**	**36**
Difference in classification of revenue	-565	-
Consolidated revenue under IFRS	51 744	40 001

	2017	2016
Group aggregate segment EBITDA, as presented to the CODM	**19 293**	**17 227**
Adjustments to reconcile EBITDA as presented to the CODM to consolidated profit before income tax expense under IFRS:		
Effect of difference in dates of acquisition and loss of control in subsidiaries	1 258	893
Differences in timing of revenue recognition	-5 070	-1 740
Net loss on venture capital investments	-27	-769
Share-based payment transactions	-2 475	-2 226
Dividend revenue from venture capital investments	9	36
Other	-15	-47
EBITDA	**12 973**	**13 374**
Depreciation and amortisation	-8 931	-7 754
Impairment of intangible assets	-	-52
Share of profit of equity accounted associates	15	27
Finance income	511	839
Finance expenses	-15	-732
Other non-operating income/(loss)	-21	39
Net loss on disposal of shares in available-for-sale investments	-	-342
Impairment losses related to equity accounted associates	-273	-
Net loss on derivative financial assets and liabilities at fair value through profit or loss	-30	-112
Net (loss)/gain on disposal of shares in subsidiaries	-15	8 712
Net foreign exchange (loss)/gain	742	-1 330
Consolidated profit before income tax expense under IFRS	**4 956**	**12 669**

	2017	2016
Total net profit, as presented to the CODM	**12 938**	**10 909**
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payment transactions	-2 475	-2 226
Differences in timing of revenue recognition	-5 070	-1 740
Effect of difference in dates of acquisition and loss of control in subsidiaries	1 306	921
Amortisation of fair value adjustments to intangible assets and impairment thereof	-5 344	-4 867
Net loss on financial instruments at fair value through profit or loss	-57	-882
Net (loss)/gain on disposal of shares in subsidiaries	-15	8 712
Net foreign exchange (loss)/gain	**742**	**-1 330**
Net loss on disposal of shares in available-for-sale investments	-	-342
Share of (loss)/profit of equity accounted associates	15	27
Impairment losses related to equity accounted associates	-273	-
Other	-15	-43
Tax effect of the adjustments and tax on unremitted earnings	529	2 692
Consolidated net profit under IFRS	**2 281**	**11 831**

Semi-annual analysis

	2017				2016			
	H1 2017	% of revenue	H2 2017	% of revenue	H1 2016	% of revenue	H2 2016	% of revenue
Group aggregate segment revenue								
Online advertising	10 565	39,30%	13 800	43,50%	8 277	41,40%	10 495	45,10%
MMO games	7 834	29,20%	9 588	30,30%	5 126	25,60%	6 264	26,90%
Community IVAS	7 283	27,10%	6 663	21,00%	6 110	30,50%	5 743	24,70%
Other revenue*	1193	4,40%	1 637	5,20%	503	2,50%	766	3,30%
Total Group aggregate segment revenue	**26 875**		**31 688**		**20 017**		**23 268**	
Group aggregate segment EBITDA	**9 217**	**34,30%**	**10 076**	**31,80%**	**8 385**	**41,90%**	**8 842**	**38,00%**
Group aggregate net profit	**6 159**	**22,90%**	**6 780**	**21,30%**	**5 396**	**27,00%**	**5 513**	**23,70%**

The table above represents our segment semi-annual results with a percentage of revenue for the four consecutive half-years ended December 31, 2017.

The majority of our revenues are affected by seasonality and as a result, revenues and operating profits are generally higher in the second half of the year than in the first six months:

- Advertising revenues are generally higher in the second half of each year since significant amounts of advertising budgets are typically spent in the last quarters of the year.
- MMO games revenues are generally higher during the second half of the year due to the end of the vacation period because users tend to play our MMO games more when not on vacation.
- Community IVAS revenues are generally higher ahead of, during and immediately after holiday and festivity periods.

In addition to seasonal fluctuations, a number of other reasons have affected our semi-annual results in H2 2017, mainly the launch of new products and marketing expenses related to them and to investments in our e-commerce initiatives.

Most of the revenue growth in H2 2017 was concentrated in online advertising (31.5% vs H2 2016) and MMO games (53.1% vs H2 2016).

The growth in online advertising was primarily driven by myTarget and in-feed video formats, particularly on mobile. The growth in MMO games was mostly driven by mobile games such as War Robots, HAWK and Hustle Castle.

Aggregate segment EBITDA increased by 14.0% in H2 2017 vs H2 2016 due to operating expenses growing faster than revenues. Particularly Marketing expenses increased significantly in H2 2017 due to the marketing support of our newly launched mobile games (HAWK and Hustle Castle) and increased investment in the promotion of our fast-growing e-commerce products (including Youla, Delivery Club, Pandao). Agent/Partner fees also increased in H2 2017 mainly due to growth of mobile store commissions in line with the growth in mobile games revenues.

Financial position

Liquidity and capital resources

As of 31 December 2017, the Group had RUR 15,371 million of cash and no debt outstanding. Our financial position remains stable due to stability in cash flows.

We have historically principally relied on our own cash flow as a source of financing our operations and capital expenditures. Consolidated operations have been cash flow positive since 2009. In 2017, net cash provided by operating activities before interest and income tax increased by 45.1% to RUR 21,917 million (2016: RUR 15,107 million). If adjusted for a one-off prepayment of our Moscow headquarters rent in 2016, net cash provided by operating activities before interest and income tax increased largely in line with the IFRS EBITDA growth excluding the effects of share-based payment expense and deferred revenue from sale of virtual in-game items, which represent the most significant non-cash IFRS adjustments to EBITDA.

* Other revenue includes Other IVAS

The ratio of net cash provided by operating activities to consolidated revenues increased to 37.3% in 2017 (2016: 31.5%), mainly as a result of the one-off rent prepayment in 2016 and a significant increase in the non-cash revenue deferral in 2017, partially offset by decreased EBITDA margins.

Capital expenditure to acquire property and equipment and intangible assets increased by 14.5% to RUR 4,382 million, driven by a 27.3% increase in fixed asset expenditure, mostly consisting of investment in servers and infrastructure of our social networks.

The intangible asset expenditures remained broadly flat and amounted to RUR 1,747.

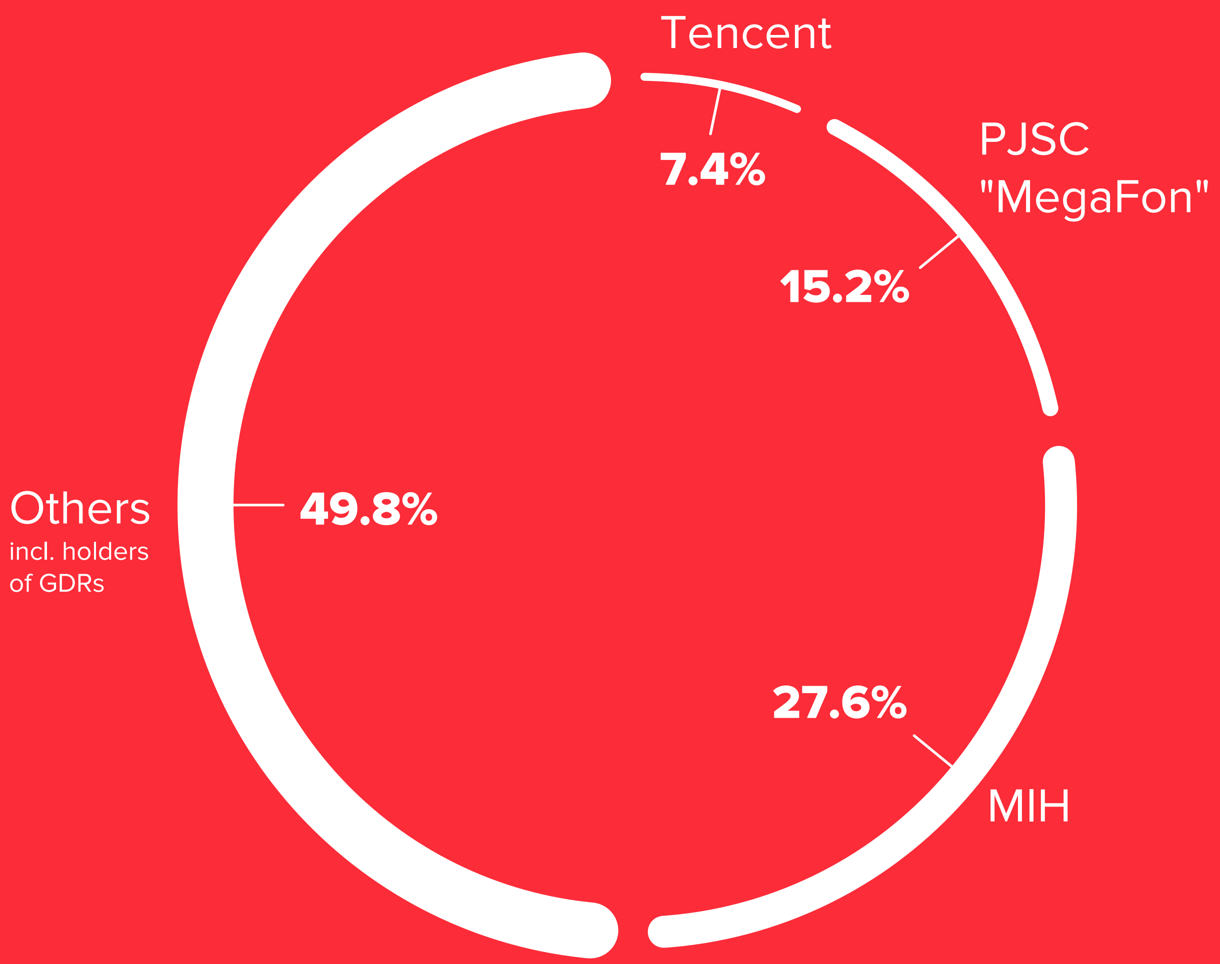
Net cash used in investing activities in 2017 also included a net RUR 1,560 million paid for the 2017 acquisitions of ZakaZaka and Am.ru and RUR 1,209 million deferred consideration for Delivery Club and Pixonic, both acquired in 2016.

New Terms for RSU Plan

On November 23, 2017 The Remuneration Committee of the Board of Directors of the Company approved New Terms for 2015 Restricted Stock Unit Plan (the “2017 RSU Plan”) setting out that RSUs vesting shall generally be conditional on meeting of certain performance KPIs. Please refer to Note 24 to our Consolidated Financial statements for further details.

Yuriy Kashnitskiy
Mentor of the Year
Mail.Ru People Awards

03
MANAGEMENT



SHAREHOLDERS' ECONOMIC INTEREST

Management

Board of Directors

Dmitry Grishin, age 39
Co-Founder and Chairman of the Board

Dmitry Grishin was appointed Chairman of the Board in March 2012. He co-founded Mail.Ru Group in 2005 and served as Chief Executive Officer (Russia) from November 2010 to October 2016. Dmitry joined Mail.Ru in 2000 and was promoted to Technical Director in 2001. From 2003 to 2010, he led the business as CEO. Dmitry graduated from the Faculty of Robotics and Complex Automation at Moscow State Technical University and in 2012 founded Grishin Robotics, a global investment company that is dedicated to supporting personal robotics around the world.

Sergey Soldatenkov, age 54
Director

Sergey Soldatenkov was appointed to the Board in June 2017. In 1986, he graduated from Leningrad Institute of Aviation Instrument Engineering with a degree in radio engineering. From 1994 till 1999 he headed Delta Telecom CJSC. In 1999-2000 he became the Deputy Chief Executive Officer of Telecominvest CJSC. From 2000 till 2002 he served as the Deputy Chief Executive Officer for Commercial Affairs, and then as the Chief Executive Officer, at Petersburg Telephone Networks OJSC. In 2002-2003, he was the Vice-President of “United Company “GROS”. He became Chief Executive Officer of MegaFon in April 2003 and served in that capacity until April 2012. From May 2012 until April 2016 he was the Chairman of the Board of Directors of MegaFon. In June 2016 he was again elected to be the Chief Executive Officer of MegaFon. He also served as a Board member of METALLOINVEST MC LLC from April 2014 till April 2016.

Vlad Wolfson, age 41
Director

Vlad Wolfson was appointed to the Board in June 2017. Born in 1977 Vlad Wolfson joined MegaFon in 2012 and was appointed the Director of B2B. In December 2013 he became the Director for Corporate Business Development. Since June 2014 he has been a member of the Management Board. In October 2016 Vlad Wolfson became the Chief Commercial Officer of MegaFon. He studied Banking and Finance in Kyiv National University of Trade and Economics in Ukraine and Statistics and Economics in the University of Haifa in Israel.

Vladimir Streshinsky, age 48
Director

Vladimir Streshinsky was appointed to the Board in August 2008. He presently holds the positions as follows: Director of USM Holdings Limited, Director of USM Monaco Limited, Member of the Board of Directors of PJSC CITY, General Director of USM Management LLC, Chairman of the Board of Directors of LLC Management Company Metalloinvest, Member of the Boards of Directors of PJSC MegaFon, JSC “Kommersant”. He graduated with honors in applied mathematics from Moscow Physics and Technology Institute in 1992.

Anna Serebryanikova, age 44
Director

Anna Serebryanikova was appointed to the Board in June 2017. Anna graduated with honours from Moscow State University Law School, and holds a Master of Law degree from the University of Manchester. She joined MegaFon in 2006. From 2008 until 2016 she was in charge of the Legal Department of MegaFon and since 2012 she has also headed its Government Relations division. In October 2016 she was appointed as the Chief Operating Officer of MegaFon. In addition, from December 2012 to November 2015 she was a member of the Management Board, and since November 2015 has been a member of the Supervisory Board, of Euroset Holding N.V. And since December 2016 she has also been a member of the Board of Directors of JSC PETER-SERVICE.

Charles St. Leger Searle, age 54
Director

Charles Searle is currently Chief Executive Officer of Naspers Internet Listed Assets. He serves on the boards of a number of companies associated with the Naspers Group, including Tencent Holdings Ltd and MakeMyTrip Limited. Prior to joining the Naspers Group, he held positions at Cable & Wireless plc and at Deloitte & Touche in London and Sydney. Mr. Searle is a graduate of the University of Cape Town and a member of the Institute of Chartered Accountants in Australia and New Zealand. Mr. Searle has more than 20 years of international corporate development experience in the telecommunications and internet industries.

Vasileios Sgourdos, age 48
Director

Vasileios Sgourdos was appointed to the Board in October 2010. A chartered accountant, he became Group Chief Financial Officer for MIH which owns South African listed Naspers' Internet and Pay TV businesses in January 2009. On April 1, 2014 he was appointed as Naspers' Group Chief Financial Officer. He was formerly director of Abril SA, Latin America's leading magazine publisher and serves on the Board of a number of other companies in the Naspers Group. From 2007 he was General Manager for Business Development Pay Television and from 1997 to 2007, was CFO at Thai listed pay TV operator UBC. He graduated with a Bachelor of Commerce degree from the University of Witwatersrand, South Africa, and is an Honours Bachelor in Accounting Science from the University of South Africa. He is a registered member of the South African Institute of Chartered Accountants.

Mark Remon Sorour, age 56
Director

Mark Sorour was appointed to the Board in August 2010. A chartered accountant, he joined the Naspers Group in 1994 and has been Chief Investment Officer since 2002 and currently serves on the Naspers Board. This role gives Mark worldwide responsibility for the Naspers Group's M&A, corporate finance and capital-market fundraising activities. Mark's 19 years' experience in Internet, technology and video entertainment businesses includes business development and dealmaking in Africa, the Middle East, Thailand, India, China, Europe, the USA, Latin America and South-East Asia.

Jan Buné, age 65
Independent Director

Jan Buné was appointed as Independent Director and Member of the Board in October 2013. In October 2014 he became Chairman of the Audit Committee. He has extensive experience in public accounting in both the technology, media and telecommunications sector, and the financial services sector. He was a senior Audit Partner at Deloitte Netherlands until May 2013. Since then he has a number of non-executive positions. He serves as Commissioner at the Media Supervisory Authority in the Netherlands. He is Chairman of the Audit Committee of the Supervisory Board at Citco Bank Netherlands. He is also Independent Chairman of the Risk Advisory Committee at PayU Internet Payments. He has gained extensive knowledge as a Board Advisor of governance, risk and compliance. He has a qualification as Certified Board Member (CBM) in the Netherlands.

Sang Hun Kim, age 54
Independent Director

Sang Hun Kim was appointed to the Board in February 2011. He was CEO of South Korea's largest internet company, NAVER Corp, from April 2009 until March 2017, when he stepped down as CEO to become a senior advisor to the company. Since 2017 he has served as a non-executive director on the board of Woowa Brothers Company (Korean food delivery service operator). He has served as President of the Korean Internet Companies Association for 6 years and has contributed to the development of the internet industry in Korea. Sang Hun graduated from Seoul National University and received an LL.M. degree from Harvard Law School. He is admitted to both the Korean Bar Association and the New York Bar Association. He had served as a judge in the Seoul District Court and was General Counsel at LG Corp before joining NAVER Corp.

Senior management

Matthew Hammond, age 43
Managing Director, Chief Financial Officer

Matthew Hammond was appointed to the Board in May 2010 and became Managing Director in April 2011. In June 2013 Matthew also became Chief Financial Officer. Matthew graduated from Bristol University, UK, in 1996, with a degree in Economics and History. From 1997 to 2008, he was a technology analyst at Credit Suisse and was ranked number 1 in the Extell and Institutional Investor Survey eight times. Between 2008-2010 Matthew was Group Strategist at Metalloinvest Holdings dealing with non-core investments. Matthew is a non-executive director of Strike Resources.

Boris Dobrodeev, age 34
Chief Executive Officer (Russia)

Boris Dobrodeev was appointed to the Board in February 2016 and became Chief Executive Officer (Russia) in October 2016. From 2014 to 2016 Boris held positions of Mail.Ru Group's Director for Strategy & Development and VKontakte's CEO and from 2013 to 2014 he was Deputy CEO of VKontakte. Boris graduated from Moscow State University, Russia, in 2007, with a degree in History, and holds the Master in International Business Degree obtained from Moscow State University Business School in 2009. Boris worked as Analyst in Metalloinvest from 2006 to 2009, and occupied the position of a Business Development Director at an online video company Zoomby.ru in 2009-2011. From 2011 to 2012 Boris worked as an Investment Analyst in DST Advisors and from 2012 to 2014 as the Head of the Internet Asset Management Department at USM Advisors.

Dmitry Sergeev, age 42
Deputy Chief Executive Officer (Russia)

Dmitry Sergeev joined Mail.Ru Group in September 2014 when the Group fully consolidated VK and was appointed Deputy Chief Executive Officer (Russia) in October 2014. In VK Dmitry has been Chief Operating Officer since January 2014. Dmitry graduated from the Moscow State Institute of International Relations in 1998 with a law degree. He worked at several investment companies, then at Alfa-Bank. From 2002 he was COO of Regional Media Group working on consolidation of media assets (TV, radio). From 2005 to 2006 Dmitry was a corporate director at TV-3 television network. In 2007 he was appointed COO of Media One Group, in 2009-2010 and 2011 he held positions of COO and CEO of UTH Holding respectively (Russian TV channels U Channel, Disney Channel Russia, a JV with The Walt Disney Company, and MUZ-TV). From 2012 to 2013 Dmitry was the President of Kommersant Publishing House, a major Russian business media including print, radio and digital media assets.

Vladimir Nikolsky, age 45
Chief Operating Officer (Russia)

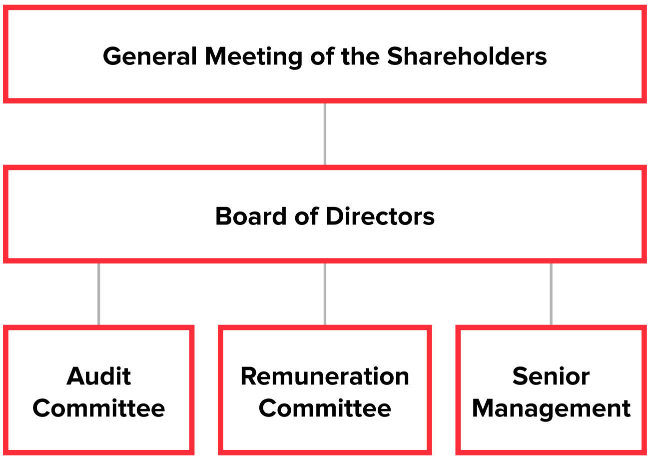
Vladimir Nikolsky joined Mail.Ru Group as Vice President of Online Games business in 2009 and became Chief Operating Officer (Russia) in 2013. He was previously CEO of online game holding Astrum Online Entertainment (from 2007 to 2009) which subsequently became a part of Mail.Ru Group, and co-founder and CEO of online game company IT Territory (from 2004 to 2007). Vladimir graduated from Ivanovo State Power Engineering University.

Corporate governance

Mail.Ru Group Limited is incorporated in the British Virgin Islands with a principal office in Limassol, the Republic of Cyprus.

Governance structure

In accordance with the Memorandum and Articles of Association of the Company and applicable BVI law, our ultimate decision-making body is the shareholders' meeting. This is followed by the Board of Directors; they are responsible for the general management of the Group including coordinating strategy and general supervision. We also have an Audit Committee and a Remuneration Committee. Senior managers are involved in the day-to-day running of the Group.



Share capital structure

Authorised and issued share capital of the Company as of the date hereof:

Class of share	Authorised shares	Issued shares
Class A (US$0.000005 par value each)	10,000,000,000	11,500,100
Ordinary (US$0.000005 par value each)	10,000,000,000	208,582,082

Both classes of shares are in registered form. In respect of 181,263,963 Ordinary Shares, Global Depositary Receipts ("GDRs") (which represent interests in such Ordinary Shares) have been issued by Citibank NA and are traded on the London Stock Exchange.

As of the date hereof, there are the following types of options over the Company's shares:

- options for 6,423,842 Ordinary Shares granted to the Mail.Ru Employee Benefit Trust on 11 November 2010 with the initial exercise price of US$27.70, which was then reduced by US$3.80 on 17 August 2012 and further reduced by US$4.30 on 20 March 2013 (due to dividend payments) resulting in the current exercise price of US$19.60. As of 5 April 2018, 835,755 of these options remained allocated, all of which were vested. Out of 6,423,842 options, 5,512,130 options were exercised; and
- options for 4,282,561 Ordinary Shares granted to the Mail.Ru Employee Benefit Trust on 22 December 2011 with the initial exercise price of US$25.60, which was then reduced by US$3.80 on 17 August 2012 and further reduced by US$4.30 on 20 March 2013 (due to dividend payments) resulting in the current exercise price of US$17.50. As of 5 April 2018, 429,167 of these options remained allocated, 305,000 of which were vested. The options generally have a 4-year vesting schedule. Out of 4,282,561 options, 3,282,958 options were exercised.

In March, 2015 the Shareholders of the Company approved the issue of up to 10,977,971 Ordinary Shares, all of which have been issued to Mail.Ru Employee Benefit Trust to establish an incentive plan for employees, directors, officers and consultants of the Group, to be known as the 2015 Restricted Stock Unit Plan. As of 5 April 2018, 4,251,550 RSUs were allocated, 495,800 of which were vested. 4,951,450 RSUs were exercised. The RSUs generally have a 4-year vesting schedule. On November 23, 2017 the Remuneration Committee of the Board of Directors of the Company approved New Terms for 2015 Restricted Stock Unit Plan (the "2017 RSU Plan") setting out that RSUs vesting shall generally be conditional on meeting of certain performance KPIs.

During the 2017 financial year, the Company itself did not acquire any of its own shares. However, the Mail.Ru Employee Benefit Trust during 2017 spent US$24.9 million to acquire 857,736 GDRs at an average price of US$29.1. All of the GDRs purchased during 2017 are held by the Mail.Ru Employee Benefit Trust to be used over the lifetime of the option program.

Annual General Meeting ("AGM") of shareholders

The shareholders' meeting is the Company's supreme governing body. AGMs are convened by the Board of Directors or by a written request of shareholders who hold, in aggregate, 30% or more of the outstanding votes in the Company.

The share capital of the Company is divided into two classes of shares: Class A Shares and Ordinary Shares. Class A Shares each carry 25 votes at shareholders' meetings while Ordinary Shares carry 1 vote per share.

The agenda for the shareholders' meetings is determined by the Board of Directors. However, a shareholder or shareholders who hold, in aggregate, 10% or more of the outstanding voting shares of the Company may add items to the agenda in compliance with the following requirements:

I. no later than a week before the meeting;

II. at the meeting itself, with the consent of shareholders who hold, in aggregate, more than 50% of outstanding voting shares of the Company.

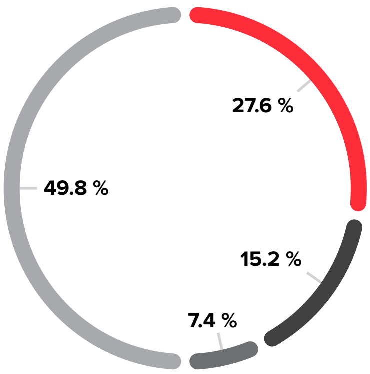
Transfer and conversion of shares

Ordinary Shares are freely transferable. Class A shares are freely transferable save that a transfer of Class A Shares that would result in the proposed acquirer (other than a person who was already a member on 27 August 2010) and persons acting in concert with the acquirer holding 75% or more of the voting rights of the Company is subject to meeting mandatory offer requirements set out in the Articles.

At the request of any member holding any Class A shares, Class A shares, which are the subject of the request, are automatically converted into Ordinary shares. This is on the basis that each Class A Share automatically converts into one Ordinary Share and ranks pari passu in all respects with the existing Ordinary Shares in issue.

Anastasiya Semenyuk
Mentor of the Year
Mail.Ru People Awards

Shareholders’ economic interest, %



27.6 %
MIH

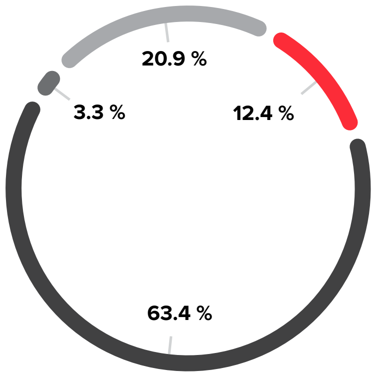
15.2 %
PJSC “MegaFon”

7.4 %
Tencent

49.8 %
Others incl. holders of GDRs*

* incl. 1.05% economic interest held by Dmitry Grishin as of the date hereof

Shareholders’ voting interest, %



12.4 %
MIH

63.4 %
PJSC “MegaFon”

3.3 %
Tencent

20.9 %
Others incl. holders of GDRs

Voting rights

- Each Class A Share has the right to 25 votes at a meeting of the shareholders of the Company or on any resolution of the shareholders of the Company
- Each Ordinary Share has the right to 1 vote at a meeting of the shareholders of the Company or on any resolution of the shareholders of the Company

Board of Directors

The Board of Directors is responsible for the general management of the Group. This includes the co-ordination of strategy and general supervision.

The Memorandum and Articles of Association specify that there shall be ten Directors – eight of whom shall be nominated and elected by shareholders (the “Elected Directors”) and two of whom shall be independent directors (the “Independent Directors”).

The Elected Directors are appointed by a vote of the members, with each proposed candidate being put to the members for a vote, with voting on each candidate being treated as a separate vote and with each member being entitled to vote on each proposed candidate (to the effect that the eight candidates who attract the highest number of votes shall be elected as the eight Elected Directors) for a period from the date of their appointment until the second AGM after that date. On expiry of their term, Elected Directors must resign, but are eligible for re-election.

Any shareholder, or group of shareholders, who hold, in aggregate, not less than 5% of (a) the total number of votes attached to the issued shares; or (b) the total number of the issued shares, are entitled to nominate candidates for election by the shareholders as Elected Directors to the Board of Directors. Such nomination must be made not less than 21 days before any AGM at which any Elected Director is due to resign.

The two Independent Directors are nominated by the Board of Directors and appointed by a resolution of the Board of Directors. Independent Directors serve for the period fixed in their terms of appointment, as specified by the Board.

The Board of Directors elects one of its members to act as the Chairman of the Board.

Powers of the Board of Directors

The Board of Directors is granted the authority to manage the business affairs of the Group. They have the authority to make decisions relating to, among other things, the following:

- The right to issue shares and other securities (except as otherwise required by the Company's Memorandum and Articles of Association)
- The approval of the annual budget and annual financial statements of the Group
- The declaration of any dividend
- The convening of any shareholders’ meeting

- The appointment of the Group's auditors
- The appointment of any committee of the Board of Directors, including the Company's Audit Committee and Remuneration Committee (see below)
- The exercise of all rights of the Company in relation to ICQ LLC
- The approval of any proposal under which the Company or any subsidiary of the Company delegates any substantial management authority to any other entity
- The approval of transactions which are not Substantial Transactions (as defined in the Memorandum and Articles of Association)
- The appointment and removal of any Officer of the Company, or any Officers or Directors of any direct subsidiary of the Company (including, but not limited to the Managing Director (being the chief executive officer of the Group), Chief Financial Officer or Chief Operating Officer) and the determination of the scope of authority of such Officers of the Group.

The Board of Directors, or any committees thereof, meet when and how the Directors determine to be necessary or desirable. Meetings are held in the Company's principal office or wherever the majority of the Directors agree.

A resolution at a duly constituted meeting of the Board of Directors or of a committee of Directors is approved by a simple majority vote of the Directors. A resolution consented to in writing is approved by an absolute majority of all the Directors. For the purposes of establishing a majority, the Chairman of the Board (or chairman of the meeting as the case may be) has a casting vote in the event of a tie.

Name	Position	Date of appointment	Expiry of term
Dmitry Grishin	Chairman	June 2, 2017	2019 AGM
Anna Serebryanikova	Elected Director	June 2, 2017	2019 AGM
Sergey Soldatenkov	Elected Director	June 2, 2017	2019 AGM
Vladimir Streshinskiy	Elected Director	June 2, 2017	2019 AGM
Charles Searle	Elected Director	June 2, 2017	2019 AGM
Mark Remon Sorour	Elected Director	June 2, 2017	2019 AGM
Vlad Wolfson	Elected Director	June 2, 2017	2019 AGM
Vasileios Sgourdos	Elected Director	June 2, 2017	2019 AGM
Jan Buné	Independent Director	June 2, 2017	2019 AGM
Sang Hun Kim	Independent Director	June 2, 2017	2019 AGM

Senior management

Our senior management is involved in the day-to-day management.

Name	Position	Appointment
Matthew Hammond	Managing Director; Chief Financial Officer	April 2011 June 2013
Boris Dobrodeev	Chief Executive Officer, Russia	October 2016
Dmitry Sergeev	Deputy Chief Executive Officer, Russia	October 2014
Vladimir Nikolsky	Chief Operating Officer, Russia	June 2013

Committees of the Board of Directors

The Company has an Audit Committee and a Remuneration Committee.

Audit Committee

The Audit Committee is appointed by the Company’s Board of Directors and meets on a regular basis, but not less than once every six months.

The purpose of the Audit Committee is to assist the Company's Board of Directors in fulfilling its responsibilities in respect of:

- the quality and integrity of the Group's integrated reporting including its financial statements;
- the Group's compliance with key applicable legal and regulatory requirements as relating to financial reporting;
- the quality and independence of the Group's external auditors;
- the performance of the Group's internal audit function and the external auditors;
- the adequacy and effectiveness of internal control measures, accounting practices, risk management, information systems and audit procedures; and
- monitoring compliance with the Company's code of ethics.

Egor Abramets
Leader of the Year
Mail.Ru People Awards

The Audit Committee is responsible, among other things, for:

- Annual financial statements and interim financial results
- Regular internal reports to management prepared by the internal audit department and management's response
- External auditors' reports – including the receipt and review of reports, which furnish, in a timely fashion, information relating to various accounting matters – and matters relating to internal controls if applicable
- Annually reviewing and reporting on the quality and effectiveness of the audit process. Assessing the external auditors' independence, deducing whether they have performed the audit as planned and establishing the reasons for any changes. Obtaining feedback about the conduct of the audit from key members of the Group's management, including the CFO
- Reviewing the performance of the external auditors and evaluating the lead partner and discharging and replacing, in consultation with the Board, the external auditor or lead audit partner when circumstances warrant
- Presenting the Committee's conclusions in respect of the external auditors to the Board
- Evaluating and providing commentary on the external auditors' audit plans and scope of findings, identifying issues and reports, and approving non-audit services performed by the external auditor

Members of the Committee

Jan Buné, Chairman
Sang Hun Kim
Vasileios Sgourdos

Remuneration Committee

The Remuneration Committee is responsible for approving the terms of appointment and remuneration of the Group's senior managers as well as for the approval of options or RSUs to be granted under the incentive plans.

The Remuneration Committee meets on as and when appropriate basis.

Members of the Committee

Anna Serebryanikova, Chairman
Charles Searle
Sang Hun Kim
Dmitry Grishin

Internal control system in relation to the financial reporting process

Internal control is exercised by the Board of Directors, executive bodies, officers and other employees of the Group. Their aim is to secure the achievement of goals set by the Company in the following areas:

- efficiency and effectiveness of business activity of the Group;
- reliability and credibility of the Group's reporting; and
- compliance with the requirements of regulatory acts and internal documents of the Group.

The following functions are performed by the Internal Audit Department:

- Carrying out internal audits, reviews and other engagements with respect to the Company's subsidiaries
- Assessing the effectiveness of the internal control system of the Company, including its subsidiaries and associates and proposing recommendations as a result of those assessments
- Assessing the effectiveness of the risk management process within the Group and proposing recommendations as a result of those assessments
- Providing necessary consultations to the management of the Company and its subsidiaries and associates on appropriate corrective action plans flowing from internal audits.

Alexander Zinchenko
Internal Solution of the Year
Mail.Ru People Awards

Risk management system

Mail.Ru Group is subject to certain risks that affect our ability to operate, serve our clients, and protect our assets. Controlling these risks through a formal program is necessary for the well-being of Mail.Ru Group. The Group is committed to identifying and managing risk, in line with international best corporate governance practice.

Effective and adequate risk management and internal control systems are crucial to the achievement of the business strategies. To ensure effectiveness and efficiency of both these systems the Group adopted the "Three lines of defence" model, which comprises day-to-day operations and management, risk management function and independent assurance. These lines are aimed at providing reasonable but not absolute assurance against material losses or failures to achieve strategic objectives.

The existing risk management system operates as follows:

- The board of directors has a responsibility to ensure that it has dealt with the governance of risk comprehensively;
- The Board is also responsible for overseeing the risk appetite, i.e. the level of risk the Group is willing and is ready to take;
- The CEO is accountable to the Board for the enterprise-wide management of risk;
- Management is responsible for assessing and managing the risks in accordance with approved plans and policies;
- The Risk Management Committee assists the management in carrying out its responsibility for the governance of risk, reviews and approves risk management policy, risk map and register, risk assessments and mitigation activities; ensuring that an appropriate enterprise-wide risk management system and process is in place with adequate and effective risk management processes that include strategy, ethics, operations, reporting, compliance, IT and sustainability;
- The Audit committee assists the Board in its responsibility for overseeing the risks, including financial reporting risks and internal financial controls, as well as fraud and IT risks as they relate to financial reporting; overall adequacy and effectiveness of risk management;
- Internal audit provides assurance on the adequacy and effectiveness of the risk management process across the Group.

The Risk Management Committee comprises principal operating managers of the Company (heads of principal business units) appointed by the CEO or his Deputy. The Risk Management Committee is chaired by the Deputy CEO. Members of the Risk committee, taken as a whole, must comprise individuals with risk management skills and experience.

Corporate governance code

Mail.Ru Group Limited, as a BVI incorporated limited company with a listing of Global Depositary Receipts on the Official List maintained by the UK Listing Authority, which are admitted to trading on the London Stock Exchange, is not subject to any corporate governance code, nor has it voluntarily decided to apply any corporate governance code.

However, the Company does apply corporate governance standards, including: the appointment of two Independent Directors to its Board of Directors, the appointment of Remuneration and Audit Committees, and periodic re-election of Directors. This goes beyond the requirements of national law.

The Board of Directors adopted various policies and charters relating to the Company's governing bodies. These include the Board Charter, Code of Ethics and Business Conduct, Directors' Right to Access Information/Documents Policy, Legal Compliance Policy, Charter of the Audit Committee, Internal Audit Charter, Remuneration Committee Charter, Risk Committee Charter, Risk Management Policy, and the Trading Policy for Directors, Senior Managers and Employees. These are all followed by the Group in all material respects.

Policies and other details of the Company's corporate governance practices can be found at http://corp.mail.ru/en/investors/management/.

Risk management

Andrey Shamne
Feature of the Year
Mail.Ru People Awards

Summary

The Group has developed risk management policy which covers the following major aspects: identification, mapping and analysis of the risks the Group faces, setting appropriate control frameworks, monitoring risks and ensuring that major risks are properly identified, assessed, reported, and adequately mitigated. Risk management procedures and systems are reviewed regularly. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment. The overall objective of the financial risk management is to minimise the risks to an acceptable level.

The Company's Audit Committee has been established to oversee, among other things, how management monitors compliance with the Group's risk management practices and procedures. Management regularly performs its assessment of the principal strategic, operational and compliance risks that the Group faces and has proper mitigation plans developed. Management defines the risk appetite – the acceptable levels of risk the Group is ready to tolerate in its operational activities, which are the maximum performance variability and loss exposures with both qualitative and quantitative statements targeting parameters or acceptable boundaries when executing the business model for creating value to the Group's stakeholders.

Further information on Risk management system can be found in the Corporate governance section on page 63.

We present below the major aspects of our financial risk management policies and objectives (see Note 23 to the financial statements for further details), as well as principal operating risks and uncertainties faced by the Group.

Financial risk management structure

The Group's operations include strategic operations and venture capital investments. Its financial risk management objectives and policies for these operations are based on the significant difference in the degree of risk tolerance between strategic and venture capital operations.

Financial risk arising from the Group's strategic operations is managed through regular in-depth reviews of all operational segments and day-to-day management of their financial and operating activities by key management personnel. In contrast, management of the financial risk arising from its venture capital activities is primarily based on regular reviews of the effect of the existing and prospective investees' operating performance on their fair values, which serve as the foundation for the Group's investment and divestment decisions as part of its venture capital operations.

The Group's principal financial liabilities, other than derivatives, comprise short-term payables and accrued expenses. The main purpose of these liabilities is to finance the Group's operations. The Group has short-term receivables, short-term time deposits, cash and cash equivalents, and other current financial assets that are created by its strategic and venture capital operations.

Liquidity and financial resources

Credit risk

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

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

Capital management policy

For the purposes of our capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of our capital management is to maximise the shareholder value. The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants, as applicable.

Market risk

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

Foreign currency risk

The functional currency of the Company and majority of its subsidiaries and associates is the Russian rouble. The Group has, however, monetary assets and liabilities which are denominated in other currencies, and changes in exchange rates can result in gains or losses. In 2017, the Group recorded a gain of RUR 742 million (2016: a loss of RUR 1,330 million).

Alan Basishvili
Expert of the Year
Mail.Ru People Awards

Business risks

Technological changes

The Internet industry is characterised by constant and rapid change in technology, consumer preferences, the nature of services offered and business models. If we are unable to respond effectively to change and to continue to offer attractive and innovative products to our users, the popularity of our websites and services may decline, which could adversely affect our business in a number of ways, including through lower revenues from advertising and IVAS.

Quality products for expansion to new markets

The Group aims to continue its expansion to foreign markets of Europe and the USA by offering innovative and competitive products to audiences. Should we fail to ensure sufficient supply of high quality game titles, mail services and social network features for our users, we may face decline in respective audiences and, subsequently, revenues.

Mobile distribution

As we distribute our mobile products primarily via two app stores, we are dependent on the interoperability of our products with two major operating systems which we do not own or otherwise control – iOS and Android. If Google Play or Apple App Store alternate search mechanisms or otherwise give preferential treatment to competing apps, we may face decrease in ratings for our products and, subsequently, changes in mobile market shares.

Mobile technology development

Users tend to use mobile devices to access Internet services more and more every year. Mobile devices monetisation may not catch up with desktop monetisation rates. If we fail to successfully develop or use new mobile technologies or adapt in a cost-effective and timely manner to changing industry standards or user preferences, whether due to legal, financial or technical reasons, our financial results could be adversely affected.

Underlying markets

If penetration rates for Internet, spending on advertising and IVAS in Russia do not increase, our ability to increase revenue could be materially and adversely affected.

Competition

The development of products, which compete with the services provided by the Group, by domestic and large international internet companies 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 Community 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.

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 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.

Delays in launch of new game titles

We might face delays in the launch of new game titles due to insufficient staffing and/or failures from third party developers. Delays in launch time may disappoint users and lead to loss of potential audience and revenue and/or result in higher-than-expected development spend.

Unsuccessful game titles

User expectations regarding the quality, performance and gameplay of MMOs are high, though even the most successful titles remain in high demand only for a limited period of time, unless refreshed or otherwise enhanced with additional content. In order to remain competitive and attractive to our users we must constantly develop new products or enhance existing ones. There is a risk of failure of any of the major new MMO titles to gain traction with users, which would lead to underperformance of the online games business and lower-than-expected revenues. Mobile games might also be unsuccessful as they may fail to achieve the required profitability targets due to high cost of marketing and revenue share payable to mobile platforms.

Investments and acquisitions

Investments to and acquisitions of other entities are an important part of our overall strategy. We have invested to a number of diverse businesses over last years. We expect to continue to consider various businesses, technologies, services, products as potential investment targets pursuing our development strategy and use of capital. We may face difficulties in integrating those diverse corporate cultures, technologies, business models, employees, internal controls, financial reporting, other policies and procedures into our existing business processes in effective and efficient manner. We may also encounter difficulties with those investments relating to their underperformance relative to our initial expectations or acquisition price or we may incur unexpected expense pertaining to these integrations.

Online marketplace and e-commerce

Products on our marketplace and verticals, as well as orders in food delivery service are provided by third-party sellers, which makes it more difficult for us to ensure the same high quality for our customers for all products sold via our services. If any third-party seller does not control the quality, or delivers products which are significantly different from their description in our apps or on websites, or offers counterfeit goods, we may face damage to our reputation and, subsequently, to our revenues.

Personnel

As competition in Russia's internet industry increases, our business and operations could be adversely affected by difficulties in hiring, motivating and retaining highly-skilled people. Our performance and future success depend on the talents and efforts of a large number of highly skilled individuals within the Group. We will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organisation, including those with programming skills on rare languages. Competition in the Internet industry, and in particular in Russia, for suitably qualified employees is high. As competition in the Internet industry in Russia increases, and in particular if larger multinational internet companies focus their attention on the Russian speaking market, it may be more difficult for us to motivate, retain and hire highly skilled personnel. If we do not succeed in retaining or motivating existing personnel or attracting additional highly skilled personnel, our business and results of operations may be materially and adversely affected.

Our future success depends heavily upon the continuing services of our senior management team and a failure to retain those personnel could have a material adverse effect on our business.

In addition, even if sufficient numbers of highly skilled personnel can be retained, salaries may rise significantly due to competition within the Internet industry in Russia, increasing our costs, which could have a material adverse effect on our business, results of operations and financial condition.

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.

Ksenia Pushkarskaya
Team of the Year
Mail.Ru People Awards

Cyber security

Hackers and groups of hackers may create malicious software (malware) to pursue their own criminal interests. These cyber criminals create Trojan programs and computer viruses, including adware and ransomware, aimed at stealing sensitive information or otherwise harm the users and their data.

Should those hackers aim at the Group's customer databases or online gamers' personal data, and we fail to appropriately and rapidly defend our servers, we may face serious reputational losses and material financial effects.

Private information

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

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.

Political, economic and social risks

Regulations uncertainty in Russia

Regulations uncertainty or changes and inconsistencies in government or in economic policy could adversely affect our business and the value of investments in the GDRs. The parliament may adopt and government officials may apply politically motivated or ambiguous legislative acts that would have unpredictable adverse effect on our business.

Economic and military conflicts

The involvement of the Russian Federation in any economic and military conflicts could negatively affect the Group's results of operations and business prospects.

Economic instability in Russia

Mail.Ru Group Limited is registered in the BVI with the principal office of the Company in the Republic of Cyprus, whereas the operating businesses of the Company's subsidiaries are mostly 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 is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, 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.

Inflation

High rates of inflation could increase our costs, and there can be no assurance that we will be able to maintain or increase our margins.

Legislative and legal risks

Regulation

The Internet and its associated technologies are subject to government regulation. Substantial part of our business is subject to Russian laws. As such we are subject to various specific Russian laws, such as so-called Anti-Piracy Law, Anti-extremism Law, Black List Law, Yarovaya Law etc. In addition, new laws and regulations, or new interpretations of existing laws and regulations, may be adopted with respect to the Internet or other online services we provide.

For example, in January 2017 law regulating online news aggregation services came into force. The law regulates activities of providers of news aggregation services, requiring registering with a governmental authority if daily audience of aggregation services is more than one million users and imposing on news aggregation services obligations similar to those of registered mass media.

In July 1, 2017 law on online cinemas came into force. Though it intends to limit foreign ownership by 20% in online cinemas in Russia, we do not anticipate negative impact on our business. Our services (such as social networks, video search and preview, service Cinema Mail.Ru) are excluded from the regulation.

Further, in 2017 new Russian laws have been adopted: 1) on simplified procedure to block “mirrors” of restricted websites (effective from October 1, 2017); 2) on “anonymizers”/VPN (effective from November 1, 2017) requiring respective service providers to restrict access to the blocked websites; 3) on identification of messengers' users (effective from January 1, 2018). Starting October 1, 2017 search services are obligated to filter blocked pirate websites in search results, and starting November 1, 2017 search services are obligated to filter all restricted websites in search results.

Certain Mail.Ru Group's properties are subject to laws of non-Russian jurisdictions.

Our failure or the failure of our third party providers to accurately comply with the applicable laws and regulations could create liability for us, result in adverse publicity, or could otherwise have a material adverse effect on our business, results of operations and financial conditions, including blocking of our properties.

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 impact on the Group's financial position or operating results.

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 Russian tax 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.

The Russian Federation is actively considering measures that may be taken in order to prevent tax evasion, such as limiting the use of low tax jurisdictions and aggressive tax planning structures. Recent initiatives incorporated into Russian law and effective from 2015 include the concept of beneficial ownership, regulations relating to the tax residency of legal entities and the introduction of "controlled foreign companies" rules. Additionally please note that the Russian tax authorities now more often pay a careful attention to any structure that contains a foreign element. They have more instruments now allowing them to identify risks, collect relevant tax information and impose tax than they had ever before, including international information exchange under the double tax treaty provisions or/and automatic international exchange (in effect from 2018 for Russia).

No assurance can currently be given as to how the above legislative changes will be interpreted by the Russian tax authorities and potentially impact the Group. The Group may be subject to additional tax liabilities as a result of such changes being applied to transactions carried out by the Group, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Modifications of the Group's legal structure made from time to time may result in additional taxes, interest, and penalties in various jurisdictions. Any such taxes or penalties caused by the Group's structure or its modifications could have a material adverse effect on the Group's business, operating results, financial condition or prospects.

Board and management remuneration

The Remuneration Committee is responsible for approving the remuneration of the Directors and senior managers of the Group. It is also charged with reviewing and approving general policy relating to strategic compensation of the Group and the approval of grants under the incentive schemes.

Further information on the Remuneration Committee can be found in the Corporate governance section on page 62.

Interests of members of our Board of Directors and our employees

Certain members of our Board of Directors have beneficial ownership interests in our Global Depositary Receipts. The table below includes information of their ownership. Furthermore, it highlights options and RSUs over Ordinary Shares of the Company held, directly or indirectly, by each Director as of the date hereof.

The aggregate beneficial interest in the Company (excluding options granted over Ordinary Shares) held by senior managers and employees of the Group (including Matthew Hammond) as of 27 March 2018 was about 1.21%.

Incentive scheme

In November 2010, the Board of Directors of the Company adopted an equity-based long-term incentive scheme. Under the scheme, the Board, or its Remuneration Committee, is authorized to grant options to acquire Ordinary Shares to a broad base of employees, consultants and Directors. This can be direct or through an employee benefit trust or vehicles controlled by such persons.

The 2010 Option Plan comprised options over an aggregate of 10,706,403 Ordinary Shares. On the IPO date, the Company assigned options for 6,423,842 Ordinary Shares to the Mail.Ru Employee Benefit Trust with an exercise price equal to the IPO price

Alexander Sapegin
Person of the Year
Mail.Ru People Awards

	Class A shares (direct and indirect)	Ordinary shares/GDRs (direct and indirect)	Total % of the Company's issued share capital represented by outstanding shares	Outstanding options and RSUs over Ordinary Shares
Dmitry Grishin	-	2,300,792	1.05%	-
Anna Serebryanikova	-	-	-	-
Sergey Soldatenkov	-	-	-	-
Vlad Wolfson	-	-	-	-
Sang Hun Kim	-	-	-	10,000
Charles Searle*	-	-	-	-
Vasileios Sgourdos*	-	-	-	-
Mark Remon Sorour*	-	-	-	-
Vladimir Streshinskiy	-	-	-	53,532
Jan Buné	-	-	-	7,500

* 160,596 options granted to the Directors nominated by MIH were assigned to the shareholder that nominated such Directors.

of US$27.70, which was reduced by US$3.80 on 17 August 2012 and then by US$4.30 on 20 March 2013 resulting in the exercise price of US$19.60. As of 5 April 2018, 835,755 of these options remained allocated, all of which were vested. Except for the options allocated for the benefit of the Directors, the options have generally a 4-year vesting schedule. Options allocated for the benefit of the Directors have a 2-year vesting schedule and are fully vested.

Subsequently, in December 2011 the Company assigned options for 4,282,561 Ordinary Shares to the Mail.Ru Employee Benefit Trust with an exercise price equal to the then current market price of US$25.60, which was reduced by US$3.80 on 17 August 2012 and then by US$4.30 on 20 March 2013 resulting in the exercise price of US$17.50. As of 5 April 2018, 429,167 of these options remained allocated, 305,000 of which were vested. The options have generally a 4-year vesting schedule.

In March, 2015 the Shareholders of the Company approved the issue of up to 10,977,971 Ordinary Shares to Mail.Ru Employee Benefit Trust to establish an incentive plan for employees, directors, offices and consultants of the Group, to be known as the 2015 Restricted Stock Unit Plan. As of 5 April 2018, 4,251,550 RSUs were allocated, 495,800 of which were vested. The RSUs have generally a 4-year vesting schedule. On November 23, 2017 The Remuneration Committee of the Board of Directors of the Company approved New Terms for 2015 Restricted Stock Unit Plan (the "2017 RSU Plan") setting out that RSUs vesting shall generally be conditional on meeting of certain performance KPIs.

Compensation

Directors of the Company

Total cash remuneration of the members of the Board of Directors (each a “Director” and collectively, “Directors”) of the Company amounted to RUR 130 million for the year ended December 31, 2017 (2016: RUR 145 million). In 2017, 20,000 RSUs out of 2017 RSU Plan were granted to Directors (2016: nil). During the year ended December 31, 2017, Directors did not forfeit any options (2016: nil) and exercised 3,986,032 options (2016: nil). This includes 1,100,000 RSUs held by Directors of the Company accelerated in 2017. The corresponding share-based payment expense was RUR 728 million for the year ended December 31, 2017 (2016: a negative RUR 54 million).

Key Management of the Group

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

Responsibility statement

We confirm that, to the best of our knowledge:

The consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit and loss of Mail.Ru Group Limited and the undertakings included in the consolidation taken as a whole.

This annual report includes a fair review of the development and performance of the business and the position of Mail.Ru Group Limited and the undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Matthew Hammond
Managing Director, Chief Financial Officer
Mail.Ru Group Limited
24 April 2018

04

FINANCIAL STATEMENTS

Mail.ru Group Limited

Consolidated Financial Statements

For the year ended December 31, 2017

Contents

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Independent auditor's report

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

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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

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

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

Other information included in the Group's 2017 Annual report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Alexey Chizhikov
Partner
Ernst & Young LLC

February 28, 2018

Details of the audited entity

Name: Mail.ru Group Limited
Registered: May 4, 2005
Address: 232 28th October Street, Office 501, 3035 Limassol, Cyprus.

Details of the auditor

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

Consolidated Statement of Financial Position

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

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

Consolidated Statement of Comprehensive Income

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

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

Consolidated Statement of Cash Flows

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

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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016
(in millions of Russian Roubles)

	Share capital								
	Number of shares issued and outstanding	Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2016	208,127,372	–	49,328	(1,293)	100,602	(205)	148,432	15	148,447
Profit for the year	–	–	–	–	11,813	–	11,813	18	11,831
Other comprehensive income:							–		
Foreign currency translation	–	–	–	–	–	381	381	–	381
Net change in cumulative holding gains on available-for-sale investments	–	–	–	–	–	14	14	–	14
Total other comprehensive income	–	–	–	–	–	395	395	–	395
Total comprehensive income	–	–	–	–	11,813	395	12,208	18	12,226
Share-based payment transactions	–	–	2,433	–	–	–	2,433	–	2,433
Exercise of RSUs and options over the shares of the Company	507,065	–	(3)	3	–	–	–	–	–
Acquisitions of non-controllinginterests in business combinations	–	–	–	–	–	–	–	52	52
Effect of disposal of subsidiary (Note 6)	–	–	–	–	–	280	280	(19)	261
Dividends by subsidiaries to non-controlling shareholders	–	–	–	–	–	–	–	(2)	(2)
Balance at December 31, 2016	208,634,437	–	51,758	(1,290)	112,415	470	163,353	64	163,417

Consolidated Statement of Changes in Equity

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

	Share capital: Number of shares issued and outstanding	Share capital: Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2017	208,634,437	–	51,758	(1,290)	112,415	470	163,353	64	163,417
Profit for the year	–	–	–	–	2,261	–	2,261	20	2,281
Other comprehensive income:									
Foreign currency translation	–	–	–	–	–	(353)	(353)	–	(353)
Total other comprehensive income	–	–	–	–	–	(353)	(353)	–	(353)
Total comprehensive income	–	–	–	–	2,261	(353)	1,908	20	1,928
Share-based payment transactions	–	–	2,238	–	–	–	2,238	–	2,238
Exercise of RSUs and options over the shares of the Company	4,648,093	–	(2,274)	2,276	–	–	2	–	2
Acquisition of treasury shares (Note 14)	(857,736)	–	–	(1,430)	–	–	(1,430)	–	(1,430)
Effect of disposal of subsidiary	–	–	–	–	–	11	11	–	11
Balance at December 31, 2017	212,424,794	–	51,722	(444)	114,676	128	166,082	84	166,166

Notes to Consolidated Financial Statements

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

1 Corporate information and description of business

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

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

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

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

2 Basis of preparation

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

2.1 Statement of compliance

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

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

2.2 Application of new and amended IFRS and IFRIC

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

IAS 7 Disclosure Initiative – Amendments to IAS 7

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

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

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

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

Annual Improvements Cycle – 2014-2016

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

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

2.3 New accounting pronouncements

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

Notes to Consolidated Financial Statements (continued)

2 Basis of preparation (continued)

2.3 New accounting pronouncements (continued)

IFRS 9 Financial Instruments

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

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

(a) Classification and measurement

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

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

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

(b) Impairment

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

Loss allowances are measured on either of the following bases:

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

(a) Principal versus agent considerations

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

Notes to Consolidated Financial Statements (continued)

2 Basis of preparation (continued)

2.3 New accounting pronouncements (continued)

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

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

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

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

(b) Presentations and disclosures

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

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

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

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

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

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

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

Notes to Consolidated Financial Statements (continued)

2 Basis of preparation (continued)

2.3 New accounting pronouncements (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

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

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

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

Prepayment Features with Negative Compensation – Amendments to IFRS 9

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

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

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

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

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

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

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

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

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

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

3 Summary of significant accounting policies

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

3.1 Principles of consolidation

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

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

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

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

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.1 Principles of consolidation (continued)

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

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

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

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

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

If the Group loses control over a subsidiary, it:

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

3.2 Business combinations and goodwill

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

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.2 Business combinations and goodwill (continued)

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

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

3.3 Investments in associates

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

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

3.3.1 Financial investments in associates

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

3.3.2 Investments in equity accounted associates

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.3 Investments in associates (continued)

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

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

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

3.4 Property and equipment

3.4.1 Recognition and measurement

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

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

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

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

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

3.4.2 Depreciation and useful life

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

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

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

3.5 Intangible assets other than goodwill

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

3.5.1 Software development costs

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

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.5 Intangible assets other than goodwill (continued)

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

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

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

3.5.2 Useful life and amortisation of intangible assets

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

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

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

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

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

3.6 Cash and cash equivalents

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

3.7 Employee benefits

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

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

3.8 Provisions

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

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

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.9 Revenue recognition

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

3.9.1 Online advertising

3.9.1.1 Display advertising

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

3.9.1.2 Context advertising

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

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

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

3.9.2 Internet value-added services ("IVAS")

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

3.9.2.1 Revenue from MMO games

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

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

3.9.2.2 Community IVAS

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

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

3.9.3 Other revenue

3.9.3.1 Food delivery revenue

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

3.9.3.2 Other revenues

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

3.10 Income taxes

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

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

Current income tax

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

Deferred income tax

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

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

3.11 Share-based payment transactions

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

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

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

3.11.1 Equity-settled transactions

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

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.11 Share-based payment transactions (continued)

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

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

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

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

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

3.11.2 Cash-settled transactions

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

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

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

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

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

3.12 Financial instruments

3.12.1 Initial recognition and measurement

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

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

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

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

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.12 Financial instruments (continued)

3.12.2 Subsequent measurement

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

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

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

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

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

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

3.12.2.2 Loans and receivables

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

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

3.12.2.3 Available-for-sale investments

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

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

3.12.2.4 Loans and borrowings and other financial liabilities

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

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

3.12.3 De-recognition

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

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

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

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.12 Financial instruments (continued)

3.12.4 Offsetting of financial instruments

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

3.12.5 Fair value of financial instruments

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

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

3.12.6 Impairment of financial assets

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

3.12.6.1 Financial assets carried at amortised cost

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

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

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

3.12.6.2 Available-for-sale financial assets

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

3.13 Foreign currency translation

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

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

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

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

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

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

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

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

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

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

3.15 Earnings per share

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

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

3.16 Segment reporting

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

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

4 Significant accounting judgments, estimates and assumptions

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

4.1 Judgments

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

4.1.1 Consolidation and accounting for associates

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

Notes to Consolidated Financial Statements (continued)

4 Significant accounting judgments, estimates and assumptions (continued)

4.1 Judgments (continued)

4.1.2 Consolidation of a structured entity

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

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

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

4.2 Estimates and assumptions

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

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

Actual results could materially differ from those estimates.

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

4.2.1 Revenue recognition – in-game items life span

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

4.2.2 Fair value of financial instruments

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

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

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

Notes to Consolidated Financial Statements (continued)

4 Significant accounting judgments, estimates and assumptions (continued)

4.2 Estimates and assumptions (continued)

4.2.3 Useful life of intangible assets

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

4.2.4 Software development costs

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

4.2.5 Impairment of goodwill and other intangible assets

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

4.2.6 Fair value of assets and liabilities in business combinations

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

4.2.7 Share-based payments

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

4.2.8 Deferred taxes on undistributed earnings

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

4.2.9 Changes in estimates

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

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

5 Operating segments

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

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

Notes to Consolidated Financial Statements (continued)

5 Operating segments (continued)

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

The financial information of subsidiaries disposed of prior to the date of these consolidated financial statements is excluded from the segment presentation starting from the beginning of the earliest period presented.

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

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

The Email, Portal and IM segment includes email, instant messaging and portal (main page and verticals). It earns substantially all revenues from display and context advertising.

The VK segment includes the Group's social network Vkontakte (VK.com) and earns revenues from (i) commission from application developers based on the respective applications' revenue, (ii) user payments for virtual gifts and stickers and (iii) online advertising, including display and context advertising.

The Social Networks (excluding VK) segment includes the Group's two other social networks (OK and My World) and earns revenues from (i) user payments for virtual gifts, (ii) commission from application developers based on the respective applications' revenue, and (iii) online advertising, including display and context advertising.

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements (continued)

5 Operating segments (continued)

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

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

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

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

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

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

Notes to Consolidated Financial Statements (continued)

5 Operating segments (continued)

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

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

6 Acquisitions and disposals for 2016 and 2017

6.1 Delivery Club

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

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

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

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

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals for 2016 and 2017 (continued)

6.1 Delivery Club (continued)

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

Intangible assets mainly include Delivery Club's trademark, restaurants relationship and customer base and are amortised over the period of 7 to 10 years.

The cash flows on acquisition were as follows:

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

6.2 Pixonic

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

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

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

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

Goodwill is mainly attributable to the potential of Pixonic to develop new games, as well as the prospects of potential synergies with the Group's other operations. Goodwill is not expected to be deductible for income tax purposes.

Intangible assets mainly include mobile games and are amortised over the period of 4 years.

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals for 2016 and 2017 (continued)

6.2 Pixonic (continued)

The cash flows on acquisition were as follows:

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

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

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

6.3 Headhunter

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

6.4 ZakaZaka

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

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

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

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals for 2016 and 2017 (continued)

6.4 ZakaZaka (continued)

Goodwill on the transaction was calculated as the excess of:

(a) the consideration transferred by the Group measured at fair values:	
[1] Cash consideration	1,027
[2] the acquisition date fair value of the Group's previously held equity interest (Note 22.2)	120
Consideration transferred by the Group	1,147

Over

(b) Financial liabilities at fair value through profit or loss – derivative over the equity of investee (Note 22.2)	246
(c) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3R	121
Goodwill	780

Goodwill is mainly attributable to expected synergies and cost savings with the Group's food delivery business (Delivery Club CGU). Goodwill is not expected to be deductible for income tax purposes.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	1,042
Cash acquired (included in cash flows from investing activities)	(24)
Net cash flow on acquisition	1,018

6.5 Am.ru

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

In accounting for the business combination, the Group has provisionally determined the amounts of Am.ru's net identifiable assets at RUR 392, mainly consisting of software and brand amortisable over 4-10 years and as a result determined the amount of goodwill at RUR 150 (Note 11). The acquisition accounting will be finalised upon completion of the tax planning and valuation of Am.ru's assets and liabilities. Goodwill is mainly attributable to expected synergies with the Group's classifieds business and is not expected to be deductible for income tax purposes.

6.5 Inplat

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

Notes to Consolidated Financial Statements (continued)

7 Intangible assets

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

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

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

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

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

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

Notes to Consolidated Financial Statements (continued)

8 Property and equipment

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

Notes to Consolidated Financial Statements (continued)

9 Consolidated subsidiaries

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

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

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

10 Investments in equity accounted associates

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements (continued)

11 Impairment testing of goodwill

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

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

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

Value in use

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

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

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

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

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

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

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

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

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

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

12 Trade accounts receivable

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

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

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

Notes to Consolidated Financial Statements (continued)

12 Trade accounts receivable (continued)

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

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

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

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

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

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

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

13 Cash and cash equivalents and short-term deposits

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

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

14 Share capital

14.1 Charter capital and share issues

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

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

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

Notes to Consolidated Financial Statements (continued)

14 Share capital (continued)

14.1 Charter capital and share issues (continued)

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

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

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

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

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

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

14.2 GDR buying programme

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

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

14.3 Restricted stock

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

15 Other assets

The table below represents other non-current assets:

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

16 Other payables and accrued expenses

Other payables and accrued expenses consist of:

	December 31, 2017	December 31, 2016
Payables to personnel	1,724	1,260
Accrued vacations	774	611
Accrued professional consulting expenses	35	101
Payables under lease contract	121	156
Other current payables (Note 6)	248	1,575
Total other payables and accrued expenses	2,902	3,703

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

Notes to Consolidated Financial Statements (continued)

17 Other operating gain and other operating expenses

17.1 Other operating gain

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

17.2 Other operating expenses

The increase in "Other operating expenses" was mostly due to input VAT write-off as a result of VAT exemption related to part of Russian MMO Games and Community IVAS (Note 17.1) and requirements of Russian tax rules.

18 Income tax

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

The Russian Federation

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

Cyprus

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

British Virgin Islands

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

United States of America

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

The Netherlands

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

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

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

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

Notes to Consolidated Financial Statements (continued)

18 Income tax (continued)

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

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

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

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

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

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

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

19 EPS

19.1 Basic EPS

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

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

Notes to Consolidated Financial Statements (continued)

19 EPS (continued)

19.2 Diluted EPS

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

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

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

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

20 Commitments, contingencies and operating risks

20.1 Operating environment of the Group

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

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

20.2 Taxation

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

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

20.3 Legal proceedings

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

20.4 Competition

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

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

Notes to Consolidated Financial Statements (continued)

20 Commitments, contingencies and operating risks (continued)

20.5 Private information

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

20.6 Intellectual property rights

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

20.7 Development

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

20.8 Regulation

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

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

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

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

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

20.9 Personnel

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

20.10 Infrastructure and capacity

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

Notes to Consolidated Financial Statements (continued)

20 Commitments, contingencies and operating risks (continued)

20.11 Operating lease commitments – the Group as a lessee

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

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

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

21 Balances and transactions with related parties

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

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

21.1 The ultimate controlling party

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

21.2 Directors of the Company

Total cash remuneration of the members of the Board of Directors (each a “Director” and collectively, “Directors”) of the Company amounted to RUR 130 for the year ended December 31, 2017 (2016: RUR 145) was accrued. In 2017 20,000 RSUs out of 2017 RSU Plan were granted to Directors (2016: nil). During the year ended December 31, 2017, Directors did not forfeit any options (2016: nil) and exercised 3,986,032 options (2016: nil). This includes 1,100,000 RSUs held by Directors of the Company accelerated in 2017. The corresponding share-based payment expense was RUR 728 for the year ended December 31, 2017 (2016: a negative RUR 54).

21.3 Key management of the Group

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

Notes to Consolidated Financial Statements (continued)

22 Financial instruments

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

	Category*	December 31, 2017	December 31, 2016
Financial assets			
Financial investments in associates	FAFVPL	264	322
Financial derivatives under lease and hosting contracts	FAFVPL	150	164
Derivative financial assets over the equity of investee	FAFVPL	122	22
Trade accounts receivable	LR	6,556	5,089
Loans and interest receivable	LR	77	31
Cash and cash equivalents	LR	15,371	5,513
Total financial assets		22,540	11,141
Current		22,110	10,725
Non-current		430	416
Total derivative financial assets		272	186
Current		172	105
Non-current		100	81
Financial liabilities			
Long-term and short-term interest-bearing loans and related interest payable	FLAC	–	122
Financial liabilities at fair value through profit or loss - derivative over the equity of investee	FLFVPL	–	234
Trade accounts payable, other payables and accrued expenses	FLAC	8,043	7,767
Total financial liabilities		8,043	8,123
Current		7,798	7,375
Non-current		245	748

* Financial instruments used by the Group are included in one of the following categories:
- FAFVPL – financial assets at fair value through profit or loss;
- AFSFA – available-for-sale financial assets;
- LR – loans and receivables;
- FLFVPL – financial liabilities at fair value through profit or loss; or
- FLAC – financial liabilities at amortised cost.

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

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

22.1 Financial assets classified as loans and receivables

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

22.2 Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Notes to Consolidated Financial Statements (continued)

22 Financial instruments (continued)

22.2 Fair value hierarchy (continued)

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

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

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

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

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

	Balance as of January 1, 2017	Gains/(losses) recognized in profit and loss	Purchases	Acquired through business bombination (Note 6)	Balance as of December 31, 2017
Financial assets measured at fair value					
Financial assets at fair value through profit or loss:					
Financial investments in associates	322	(27)	89	(120)	264
Derivative financial assets over the equity of investee	22	100	–	0	122
Financial derivatives under lease and hosting contracts	164	(14)	–	–	150
Total financial assets at fair value through profit or loss	508	59	89	(120)	536
Financial liabilities at fair value through profit or loss – *derivative over the equity of investee*	(234)	(56)	44	246	–
Financial liabilities at fair value through profit or loss – *derivative over other agreements*	–	(60)	60		–
Total financial liabilities measured at fair value	(234)	(116)	104	246	–

Notes to Consolidated Financial Statements (continued)

23 Financial risk management objectives and policies

23.1 Introduction

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

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

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

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

23.2 Liquidity and financial resources

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

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

23.3 Credit risk

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

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

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

23.4 Capital management policy

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

23.5 Market risk

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

Notes to Consolidated Financial Statements (continued)

23 Financial risk management objectives and policies (continued)

23.6 Foreign currency risk

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

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

24 Share-based payments

24.1 Share-based payment arrangements of the Company

24.1.1 Option plans

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

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

Notes to Consolidated Financial Statements (continued)

24 Share-based payments (continued)

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

24.1.2 Changes in outstanding options

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

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

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

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

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

24.1.3 Valuations of share-based payments

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

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

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

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

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

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

Notes to Consolidated Financial Statements (continued)

24 Share-based payments (continued)

24.2 Share-based payment expense

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

25 Events after the reporting period

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

Cautionary statements

Forward-looking statements

The Mail.Ru Group Limited Annual Report and Accounts for 2017 contain certain “forward-looking statements” which include all statements other than those of historical facts that relate to the Company’s plans, financial position, objectives, goals, strategies, future operations and performance, together with the assumptions underlying such matters. Mail.Ru Group Limited generally uses words such as “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should” and other similar expressions to identify forward-looking statements. Mail.Ru Group Limited has based these forward-looking statements on the current views of its management with regard to future events and performance. These views reflect management’s best judgment, but involve uncertainties and are subject to certain known and unknown risks together with other important factors outside the Group's control, the occurrence of which could cause actual results to differ materially from those expressed in Mail.Ru Group Limited forward-looking statements.

Competitive position

Statements referring to the Group's competitive position reflect the Group's beliefs and, in some cases, rely on a range of sources, including investment analysts’ reports, independent market studies and the Group's internal estimates of market share based on publicly available information regarding the financial results and performance of various market participants.

Rounding

Certain figures included in this document have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Terminology

In this document, a reference to the “Company” means Mail.Ru Group Limited, which together with its subsidiaries is referred to as “we”, the “Group” or “Mail.Ru Group”. Any reference to a position of Boris Dobrodeev as Chief Executive Officer (CEO) means reference to his position as Chief Executive Officer (CEO), Russia. Any reference to a position of Vladimir Nikolsky as Chief Operating Officer (COO) means reference to his position as Chief Operating Officer (COO), Russia. Any reference to a position of Dmitry Sergeev as Deputy Chief Executive Officer means reference to his position as Deputy Chief Executive Officer, Russia.

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