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Mail.Ru Group's acquisition of ESforce may trigger other investments in e-sports

An acquisition of ESforce, one of the major e-sports companies in the world, by Internet giant Mail.Ru Group for some U.S. $120 million may pave the way for other Russian companies to invest up to $400 million in cyber sports projects in 2018, analysts said.

"The e-sports market continues to see very fast growth and in 2018 SuperData Research estimates the global market will be around $1.6 billion with some 300 million users. ESforce is one of the largest e-sports companies in the world, and is the largest in Russia and Eastern Europe," Mail.Ru Group said in a statement.

The group develops and releases game products on the local market and in the CIS. Its games division portfolio includes such popular launches as Armored Warfare: Armata Project, Skyforge, Legend: Legacy of the Dragons, and others with 95 million registered users worldwide.

Mail.Ru Group CEO (Russia) Boris Dobrodeyev said the global e-sports business continues to experience exceptional growth and could overtake the traditional sports market over the next decade.

The Internet company created a target investment division, called Mail.Ru Games Ventures, in April 2017 to inject $100 million in Russian and international games projects over the next two years.

Georgy Vashchenko, director of operations on the Russian stock market at investment company Freedom Finance, said that e-sports has been officially recognized in Russia with the Mail.Ru Group's acquisition of ESforce.

"The audience of e-sports viewers is certainly less than that of fans of traditional sports teams, but is growing rapidly. It is now close to 400 million people and could reach 1 billion in the 2020s," he said in a research note.

"At present I don't expect an investment boom in e-sports, big deals will be rare, but the trend of rising investments in e-sports will directly depend on the number of players and fans and monetization of the Internet audience. Perhaps, leading Russian IT companies would invest $300 million–$400 million in e-sports floors by the end of 2018."

Mail.Ru Group will pay for ESforce $100 million less debt in cash with the deal to be closed by April subject to third party approvals. The Internet group will also pay a further KPI related chunk of some $20 million at the end of 2018. ESforce is purchased from Anton Cherepennikov and Highland Falls Investment, whose beneficiaries were not disclosed.

ESforce owns two world-class clubs Virtus Pro and SK, 14 Web sites, 209 social media groups and video production studios, Media Cybersport.ru and Cybersport.com, as well as big e-sports venue Yota Arena in Moscow.

Vashchenko at Freedom Finance said the acquisition is a signal that virtual teams and computer games floors could also cost a great deal of money.

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Investment company Sberbank CIB said: "ESforce is expected to post revenues of around $36 million in 2018 and break even on EBITDA at the end of the year. ESforce has strong and successful team, making it well placed to penetrate the global e-sports market worth over $1 billion."

"The e-sports market itself is a 'blue ocean' and is gaining an increasing share of the entertainment market. We think the acquisition fits well with Mail.Ru Group's portfolio, given its gaming exposure and ownership of Russia's largest social media platform."

In addition to a wide games portfolio, Mail.Ru Group owns the country's three main social networks: VK, Odnoklassniki, and My World.

The analysts agree that the purchase fits Mail.Ru Group's development strategy, but some of them say the deal is overpriced and risky.

> **"The e-sports market itself is a 'blue ocean' and is gaining an increasing share of the entertainment market"**

Investment company UralSib Capital, which affirmed its Sale recommendation for Mail.Ru Group's shares, said ESforce is not profitable yet despite its rapid growth.

"The company's audience amounted to 116 million users in 2017, and the number of sessions stood at 440 million. In revenue, 80% are presented by advertising and rewards. Revenue for 2017 is expected at $19 million, which is a 150% increase on the year. The EBITDA loss was at some $15 million. As of the end of 2018, the company expects its revenue to rocket 80–100% and the EBITDA loss to halve," UralSib Capital's analysts said.

Mail.Ru Group's investment in ESforce is even risky, they said. "The price of the deal as compared to ESforce's current financial indicators could be justified only by a sizeable growth and margins. This means that there are significant risks that return on investments will be insufficient," UralSib Capital said.

Vashchenko at Freedom Finance said that e-sports firms find it hard to raise investments, because donors are skeptical about business models and potential to monetize services.

"If a Web site with the number of users of 120 million per year gets $19 million in revenue, there is something wrong with it. Growth potential thanks to users and advertising agencies, in my view, is at least 10-fold," Vashchenko said, referring to ESforce's 2017 revenue.

> **"The trend of rising investments in e-sports will directly depend on the number of players and fans and monetization of the Internet audience"**

However, brokerage BCS said the purchase price looks fair. "ESforce's revenue stands at 2% of Mail.Ru Group's 2017 revenue and could add 2 percentage points to the indicator in 2018, which, as we think, is the most important for the market," BCS analysts said. "The deal looks a strategically justified step and should contribute to revenue growth in 2018."

In January–September 2017, Mail.Ru Group's aggregate segment revenue spiked 35.2% on the year to 39.9 billion rubles, as calculated under unaudited International Financial Reporting Standards.

Industry Politics

Medvedev wants foreign soft purchases for state cos scrutinized

The Russian government should closely watch purchases of foreign software by state companies and does not tolerate unjustified acquisitions when there are local analogues, Prime Minister Dmitry Medvedev said on Friday at a meeting of the government's IT commission.

"It's absolutely unacceptable when such software is purchased without reason, when we have Russian programs similar (to foreign ones) by functions. We should monitor it, in particular the Communications and Mass Media Ministry, moreover, these issues are quite subtle," Medvedev said.

Independent experts should be involved in disputable matters related to the installation of foreign software.

"If the experts who are not linked to a company, including a state one, say that our software won't suit, we should buy (foreign analogues) then. However, I'd ask to thoroughly watch this process," he said.

Medvedev also ordered clarification of reasons why the money the government allocated for the purchase of local microelectronics has not been spent. State customers were earlier guided to buy microelectronics, including chips made in Russia for medical insurance electronic policies, banking cards, and other documents.

Russian components should be used to manufacture servers and computers, Medvedev said. "We grant significant amounts for the purchase of these things. Let's discuss how they are spent. I'll put it directly, they're spent poorly. The plan is fulfilled in numbers by 13% for 2017," he said.

Russian government to submit over 25 bills on digital economy soon

The Russian government plans to present over 25 bills as part of the implementation of the digital economy program, Maxim Akimov, head of the digital economy sub-commission and the first deputy of the government chief of staff, said on Thursday at the Digital Transformation Forum.

"We'll hold some 1,300 events in the coming three years. In the regulation part, we'll submit more than 25 bills on sensitive issues during the spring session to the State Duma (the parliament's lower house)," Akimov said.

The bills cover such matters as the regulation of personal data and the Internet of Things. "These are issues that society, not only business, should get answers rather quickly," the official said.

"Our task is to have regulation. It should be more balanced than European directives of 2016 or the regulation in force in the U.S.," Akimov said.

Business union asks government to soften data law further

The Russian Union of Industrialists and Entrepreneurs (RSPP) has asked the government to soften the looming data retention law further since the mild version proposed by the communications ministry will hike tariffs by 12–90% and kill operators' investment, business daily Kommersant reported on Monday.

The RSPP, dubbed the oligarchs' trade union, wants the period to store subscribers' data and its volume cut further. It required a gradual application of the law until 2022 not only by the deadline, but also by regions to reduce load on power grids, according to the union's document, signed by its head Alexander Shokhin addressed to Deputy Communications Minister Dmitry Alkhazov and Deputy Prime Minister Arkady Dvorkovich.

Under the ministry's plan, connection operators will have to retain transferred traffic, voice excluded, over 30 days. The union estimates that expenses for the fulfilment of the requirement will amount to 43 billion rubles for major mobile operator MTS, while mobile operator VimpelCom will have to spend at least 63 billion rubles and mobile operator MegaFon 40 billion rubles.

The union offers to reduce the period of storage and the volume of traffic, exclude traffic of corporate clients, among others.

Communications Minister Nikolai Nikiforov said in January that the government will most likely delay the data retention law by three to four months from the previously set deadline of July 1.

Russian central bank wants 90% of bank services provided remotely in 2019

The central bank expects that about 90% of banking services in Russia will be delivered to consumers remotely in 2019 as compared to 66% at present, First Deputy Chairwoman Olga Skorobogatova told reporters on Wednesday.

"We suppose that thanks to the implementation of new technologies and new infrastructure solutions we'll enable us all as consumers to use remote services, most widely-spread electronically in 90% of cases," Skorobogatova said.

One of the infrastructure solutions the central bank plans to introduce is a switch to electronic document flow.

"As a regulator we would like to switch to electronic document flow in credit organizations by 50% in 2018 and 80% in 2019. Correspondingly, non-credit financial organizations will be serviced with electronic documents by 80% in 2018 and 90% in 2019. In general, we have the target to reach 100% in 2020 to exclude paper documents," she said.

Central bank says remote identification of bank clients keeps data separately

A system of remote identification of bank clients, which Russia is going to launch, is based on two separate databases in order to reduce the risk of information leakage and could be later used not only for financial services, Olga Skorobogatova, first deputy chairwoman of the central bank, told reporters on Wednesday.

"These two platforms are linked inside themselves via internal identifiers. This allows for separate storage of databases: one for face and voice and the other for personal data, which are now kept in the single system of identification and authentication. As soon as the steps are passed, a record on an individual is created, and the person can access it remotely, which is the second stage," Skorobogatova said.

If all the data are kept in a single information base, there will be a risk of leakage. Positive experience of the system could be then shared with other non-financial services, she said.

President Vladimir Putin signed the law in late December 2017 to use biometrics to remotely identify potential clients of banks.

Antitrust sees signs of law breach in MegaFon's international roaming prices

The Federal Antimonopoly Service has seen signs of violation of the competition law in actions of MegaFon, one of Russia's biggest mobile operators, on setting prices in international roaming, an authority spokesperson said on Monday.

"The (service's) commission delayed consideration of the case against MegaFon and made a conclusion on circumstances of the case…The date for the next hearing of the case will be scheduled within three days," the spokesperson said.

The antitrust service opened the case against MegaFon in January 2017, but has postponed hearings several times due to a necessity to receive additional proof.

The case is built on the fact that MegaFon raised its basic tariffs on connection services in international roaming for 38 directions from December 12, 2016. The antitrust said later that tariffs were hiked for 198 directions.

MegaFon said earlier that it had to raise tariffs due to changes of foreign exchange rates and higher prices of roaming partners, but the other local operators did not follow the move.

Antitrust could punish unnamed operator for internal roaming

Russia's Federal Antimonopoly Service does not rule out punishing a connection operator for ignoring its warrant on internal roaming, Director Igor Artemyev told reporters on Thursday without naming the company.

"I don't rule out that we'll have to punish someone, but we don't really want to follow this path…We came to terms with the communications ministry that we'll hold one more meeting with it. I won't disclose the name but one more company concerns us, while the others seem to be all right," Artemyev said.

In August 2017, the antitrust service opened cases against the country's four biggest mobile operators – MTS, MegaFon, VimpelCom, and T2 RTK Holding – for setting excessive prices in national roaming, when operators provide services via external networks in regions where they are not present. The service planned to close the cases in January.

The watchdog also prolonged the deadline to abolish intra-network roaming applied when the carriers use various tariffs for different regions within their networks, until the end of January for MTS, MegaFon, and VimpelCom and the end of May for T2 RTK Holding. On February 1, Artemyev said the service will study the operators' reports within 10 working days.

Antitrust sees Tele2's reduced tariffs for Crimea justified

Russia's Federal Antimonopoly Service has found new reduced tariffs of mobile operator T2 RTK Holding, working as Tele2, in Crimea as economically justified, but does not rule out issuing a warrant to bigger operators MTS and MegaFon, which have not cut tariffs yet, the authority said on Friday in a statement.

T2 RTK Holding said on Wednesday that it will reduce tariffs for its subscribers when they are in Crimea and the city of Sevastopol starting from February 15.

The service is studying cases against MTS and MegaFon.

"If tariffs for connection services in Crimea are found as economically unjustified, the (service's) commission is authorized to issue a warrant to MegaFon and MTS, including on

a transfer of illegally received incomes to the budget of the Russian Federation," the antitrust service's Deputy Director Anatoly Golomolzin said, as quoted in the statement.

Russian watchdog notifies Facebook of full-scale check in July–December

The Russian communications service has informed U.S. social network Facebook of conducting a comprehensive check in July–December, the Federal Service for Supervision of Communications, Information Technology, and Mass Media said on Thursday on its Web site.

"The service and Facebook agreed to exchange necessary information as part of preparation for the comprehensive check," the watchdog said after a meeting of the service's Director Alexander Zharov with representatives of Facebook.

In November 2017, Zharov said that Facebook planned to discuss issues of localization of data of Russian users inside the country and a quick deletion of banned content.

The service threatened to block Facebook regardless of its huge audience if the social network fails to respect the Russian law obliging companies to store personal data of Russians on the country's territory.

London court rules in favor of VTB Capital in Vivacom case

The High Court of Justice in London has sided with an investment unit of Russia's VTB Bank, VTB Capital, regarding an auction to sell 100% in InterV, a holding company of Bulgarian connection operator Vivacom, in 2015, according to the court's decision seen by PRIME on Thursday.

VTB Bank is part of a consortium of international investors that acquired Vivacom in November 2015 at a public auction. In February 2016, Empreno Ventures Ltd., which considered itself the owner of 43.3% of Vivacom, filed a suit to the London court against VTB Capital, accusing it of an illegal takeover of the Bulgarian operator.

The court found no legal grounds for the lawsuit and said that Empreno had no right to contest results of the auction on the sale of InterV and had no right to ask for reimbursement of losses allegedly suffered as a result of the sale.

In April 2017, VTB Bank's Deputy CEO Herbert Moos said that the bank was going to withdraw from the capital of Vivacom and close the deal with profit within two years. VTB Bank's share in the consortium was 20% plus one share, as he said then.

Court to hear Ulmart co-owner bankruptcy suit from other owner March 21

The Arbitration Court of St. Petersburg and the Leningrad Region will consider on March 21 a bankruptcy suit against Mikhail Vasinkevich, a co-owner of online retailer Ulmart, filed by another co-owner, Dmitry Kostygin, who is accused of a 1 billion ruble fraud, according to the materials released on Thursday on the Electronic Justice portal.

Ulmart and Gazprombank are involved into the case as third parties.

According to earlier reports, the amount sought from Vasinkevich stands at 405.3 million rubles. Kostygin's lawyer Stanislav Danilov said in January that the suit was submitted to court because Vasinkevich does not intend to repay his debts.

In December 2017, the Smolninsky District Court of St. Petersburg prolonged house arrest for Kostygin until February 14. According to investigators, Kostygin received the loan from Sberbank in April 2016 after presenting fraudulent information about the company's solvency. The businessman used the money at his sole discretion, they said earlier. Kostygin denied his guilt.

Expert says digital economy can contribute 10% to Russia's GDP

The digital economy's contribution to Russia's gross domestic product (GDP) may approach 10% in the foreseeable future, Alexander Shokhin, president of the Russian Union of Industrialists and Entrepreneurs (RSPP) said on Thursday at the Digital Transformation Forum.

The digital economy's current contribution to the country's GDP is at a rather low level. "Despite the fact that you all are well aware of what it is and, it appears, that you deal with digital transformation, the level of digitization is seen at the level of few percentage points," Shokhin said.

Digitization should help save resources, reduce risks of human factor to minimum and improve transparency and controllability both in business and state management. The issue of using digital technologies in the system of state management is a key one, he said.

Basic or classical branches, like oil and gas production, engineering, and agriculture should be also digitized, Shokhin said.

Mergers and Acquisitions

Rostelecom could buy info security firm for 1 billion rubles by July

Russian state-controlled telecom operator Rostelecom has started acquisition negotiations with Solar Security, a firm providing information security services, and could close a 1 billion ruble deal in April–June, RBC Daily reported on Wednesday, referring to several sources.

One of the sources said a preliminary agreement on the deal has been reached, and as details are settled, the matter will be put on the agenda of Rostelecom's board of directors and could be closed by July.

Rostelecom and Solar Security declined to comment.

Alexander Chachava, a managing partner of venture fund LETA Capital, is aware of the talks and said that Rostelecom is interested in various communications, IT, and state services directions as it tries to diversify and enters all growing segments. Rostelecom plans to offer information security services as well, he said.

Solar Security "leads in some segments of the Russian market, for example, the company has one of the most successful commercial security operation centers," monitoring and response to cyberthreats, Chachava said.

"But the Russian market is not quite liquid, this is why the purchase of Solar Security, if it takes place, could stand at about U.S. $20–25 million, I think," he said.

Yandex and Uber say close $3.8 billion merger of taxi business in Russia

Russian Internet giant Yandex and U.S. taxi hailing service Uber have closed a U.S.$3.8 billion merger of their taxi services in Russia and some CIS countries, Yandex said late on Wednesday in a statement.

Uber invested $225 million and Yandex contributed $100 million in cash in the combined company, which has more than $400 million in cash on hand at closing.

Yandex owns 59.3% in the new company, Uber holds 36.9% and 3.8% belong to employees of the group on a fully diluted basis.

The combined business is headed by Tigran Khudaverdyan, ex-CEO of Yandex.Taxi.

After the closing, consumers will be able to use both Yandex.Taxi and Uber apps, while the driver-side apps will be integrated. Uber will also contribute its UberEATS business in the region to the combined company.

Yandex will provide an update on the operational statistics of the combined company during its regular quarterly earnings call with analysts and investors, scheduled for February 15.

RDIF agrees with Yandex to invest in Yandex.Taxi–Uber JV

The Russian Direct Investment Fund (RDIF) has reached an agreement with Internet giant Yandex to enter jointly with partners a merged company of taxi services Yandex.Taxi and Uber, the fund's head Kirill Dmitriev told reporters on Friday.

"Financial investors will enter the deal at the next stage, we'll join it. We've reached all the agreements with Yandex on the matter. We'll certainly invest in Yandex.Taxi, in the merged company," Dmitriev said without disclosing the volume of a possible stake.

"I can say that investments are at tens of millions of U.S. dollars, but we cannot disclose the stake."

Mergers and Acquisitions

Yandex and U.S. taxi hailing service Uber closed a merger of their taxi services in Russia and some CIS countries on Wednesday. Uber invested U.S. $225 million and Yandex contributed $100 million in cash in the combined company, which has more than $400 million in cash on hand at closing and is valued at $3.7 billion.

The Internet giant owns 59.3% in the new company, the U.S. firm holds 36.9% and 3.8% belong to employees of the group on a fully diluted basis.

Wireless Operators

Virgin Connect starts mobile operator in Moscow on Tele2 net

Virgin Connect, a unit of London-headquartered Virgin Group of businessman Richard Branson, has started providing mobile connection services in Moscow on the network of Russian mobile operator T2 RTK Holding, working under the Tele2 brand, news portal Hi-Tech Mail.Ru reported on Monday.

"One can subscribe to Virgin Connect only online, and a courier will deliver the order, if a customer uses the Internet of the same company, or mobile connection will be provided along with the Internet. The service is not provided separately," a Virgin spokesperson told the portal.

The first range of tariffs has six offers with the cheapest costing 350 rubles and one of them without any limits or a subscriber fee, while calls, SMSs, and the Internet are paid per unit used. For example, calls inside the network or to Tele2 cost 0.5 rubles per minute and 1.5 rubles to numbers of other operators.

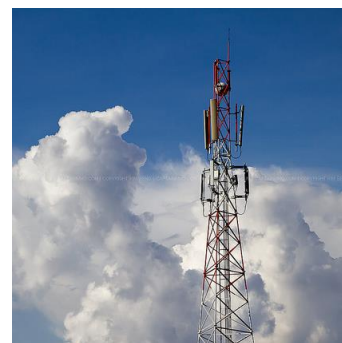The operator will revise tariffs in the future.

Virgin Connect, or OOO Trivon Networks, has been working in Russia since 2004 and provides services of Internet access, television, and telephony.

Tele2 to slash tariffs for subscribers visiting Crimea soon

Russian mobile operator T2 RTK Holding, working under the Tele2 brand, will slash tariffs for individuals and companies during their presence in Crimea starting from February 15, the operator said on its Web site late on Monday.

"Thanks to joint efforts of the Federal Antimonopoly Service and market participants, inter-operator tariffs were reduced. It enabled Tele2 to revise terms of tariffs in Crimea and cut prices significantly," T2 RTK Holding's press secretary Olga Galushina said.

Incoming calls will fall to 1 ruble per minute from 5 rubles at present, and outgoing calls and SMSs to any number of the country will cost 3 rubles per minute or per unit as compared to 5 rubles charged at present. The price of 1 megabyte of Internet traffic will amount to 3 rubles as compared to 5 rubles at present.

VEON says VimpelCom has no plans to sell towers yet

Russian mobile operator VimpelCom, working under the Beeline brand and fully owned by Amsterdam-based VEON, does not have plans to sell its tower infrastructure, Kjell Morten Johnsen, who is in charge of VEON's business in Russia and Italy, said on Wednesday.

VEON studied options of sale of some infrastructure in different countries and decided that it would be wrong for the Russian market, at least at present, Johnsen said.

If it makes sense, the company can sell towers next year or later, the executive said.

Johnsen said separately that VEON does not set the goal of regaining the position of Russia's second biggest mobile operator, currently held by MegaFon, for VimpelCom's new CEO Vasil Latsanich. Before joining VimpelCom, Latsanich was a vice president for strategy and marketing at the country's number one operator, MTS.

Latsanich has broad experience in this business, Johnsen said, adding that he expects the new CEO to stick to VimpelCom's strategy.

Wireline Operators

CEO says Rostelecom may sell telecom branch in Armenia

Russian state-controlled telecom operator Rostelecom is studying sales of its Armenian branch, President Mikhail Oseyevsky told reporters on Thursday on the sidelines of a forum.

"We're thinking about it, about how much this company compliments our other business. There is no goal to sell immediately. But our practice as well as the practice of other global players shows that such an inter-state synergy is not evident," Oseyevsky said.

"Laws, client bases and products are different. We're thinking how to organize our work there, maybe, via a sale."

Rostelecom's unit in Armenia, GNC-Alfa, is one of the biggest telecom operators on the local market, providing broadband, smart TV and fixed-line connection services for individuals and companies.

Retail Market

AliExpress opens low-price online store in Russia mainly for youth

Chinese trade giant AliExpress has launched a new online store in Russia, called Lowcoster, which focuses on goods with a price tag of up to 600 rubles, the marketplace said on Monday in a statement.

At the first stage, Lowcoster will be launched in the mobile application of AliExpress, since the bulk of its audience will be young people of up to 25 years old, who behave most actively there.

"AliExpress in Russia gradually moves away from the discounter image, and we see it by our average check and a changing profile of buyers, who prefer more expensive goods more frequently," Mark Zavadsky, director for development of AliExpress in Russia, said, as quoted in the statement.

"With the launch of Lowcoster we'll be able to distinctly separate flows of buyers: for a young audience and beginners, there is Lowcoster, and for constant and confident clients, there is AliExpress, and for those who want to buy famous brands with a delivery to Russia, there is Tmall. This is the strategy we'll stick to in the future."

In its new section, AliExpress will focus not only on the price, but also on the goods enjoying the greatest demand and popularity from high rated sellers. The range will start from more than 300,000 items. AliExpress itself will focus on mid-priced products and a more diverse assortment.

Internet Projects

Kadyrov says Chechnya to use blockchain in local cadaster service

The Russian republic of Chechnya is introducing the blockchain technology into its local branch of the Federal Service for State Registration, Cadaster and Cartography (Rosreestr), the republic's head Ramzan Kadyrov said on February 4 on its Telegram channel.

"We're really implementing blockchain in the republic's Rosreestr. I cannot mention the exact date, but the work is in an active phase…In teamwork with (state development bank) VEB, the Chechen government has created a working group to introduce blockchain," Kadyrov said.

The blockchain technology is a distributed database that maintains a continuously-growing list of ordered records, called blocks. It is used in the bitcoin to track transactions.

Mail.Ru Group, TeleSport to broadcast Olympics in social nets

Russian Internet giant Mail.Ru Group and sports marketing company TeleSport will broadcast the upcoming Winter Olympics from the South Korean city of PyeongChang in social networks VKontakte and Odnoklassniki, both owned by Mail.Ru Group, and on the group's portal, the Internet giant said on Monday in a statement.

"In addition to broadcasting on main television channels, users will be able to watch special content on resources of Mail.Ru Group. TeleSport will launch several video streams from PyeongChang," the statement read.

"One of the streams will be round o'clock: in addition to competitions, viewers will see replays of the brightest moments of the Olympics, announcements of new broadcasting, regularly updated results and reviews of a previous competition day."

Special groups of social networks will release news, results, videos and photos from the Olympics, which will be held on February 9–25.

Microsoft poll says 75% of Russians face Internet risks in 2017

About 75% of Russians have faced Internet risks at least once in a lifetime, Elza Ganeyeva, manager for work with state organizations at Microsoft Russia, said on Monday at the Cyber Security Forum, quoting results of the company's 2017 Digital Civility Index (DCI) research.

"The risk of unwanted contact was the most widely-spread among Russians," Ganeyeva said, adding that the number of respondents choosing this risk rose to 65% in 2017 from below 60% in 2016.

The poll said that teenagers, or 77% of the respondents, encountered aggressive behavior in the Internet.

"These results are explained by a low level of online civility of teenagers themselves, who treat others with respect more seldom than the others. At the same time, young people are able better than the others to protect their interests and interests of other people. The baby-boomers generation (people at the age of 50–74 years) demonstrated the highest level of civility in the network," the research read.

Russians encountered sexual risks in the Internet less than citizens of other countries: 20% against the world's average of 31%.

Expert says hackers get more interested in infrastructure, crypto money

The volume of money stolen by cyber criminals in Russia decreased to U.S. $55.441 million in July 2016– June 2017 from $66.863 million in July 2015–June 2016, but hackers refocus on infrastructure and cryptocurrencies, Ilya Sachkov, founder and a co-owner of information security firm Group-IB, said on Tuesday at the Cyber Security Forum.

"Physical robbery takes place every 90 seconds, and 2,920 records of banking data are stolen within the same stretch of time. These statistical data are almost the same in Russia and in Europe," Sachkov said.

"The most powerful groups of cybercriminals hunt for money, they're not interested either in politics or in terrorism. Their main goal is to steal money and the core means remain the same: the system of Internet banking for companies; banking cards; a colossal growth of Trojans for Android, allowing hackers to steal money from online banking and cards; and target attacks on banks, when money is stolen directly from accounts or via SWIFT."

The largest hacker teams, which are now most active in the post-Soviet space, aim at Internet banking, payment channels, automated-teller machines, points-of-sales, and card processing. Card processing allows perpetrators to attack a bank in Russia, for example, and withdraw money on the territory of another state, which makes it almost impossible to get the stolen money back. "It makes card processing the main trend of protection against hackers in 2018," Sachkov said.

"Last year we saw a group of hackers that disguised its political actions with financial motivation. There had not been such a trend before, and all hackers used to want just money. Along with money theft we observe cases of espionage, theft of information on banks' main clients, core economic trends in the country via access to the banking and payment systems."

There is also viruses like Petya and WannaCry, when hackers steal money and later activate an encoder-virus that fully disrupts work of infrastructure. "Last summer this activity forced some 200 companies (in Russia) to suspend work for a period from a week to 10 days," Sachkov said.

Another trend is a rise of ready-made scripts allowing a wider, less-qualified circle of people to use such programs to get involved in illegal activities

"Although many people believe that cryptocurrencies are not money, they can be swapped for real money in many countries, which is also the case for perpetrators. This is why there is a great volume of programs to steal cryptocurrencies. Several groups of hackers stopped attacking Russian banks and fully focused on stealing cryptocurrencies, which can be later exchanged for real money. Victims are not protected by law, which is why the crypto industry needs an even better protection than any other," the experts said.

Hackers also create many viruses for the dominant Android operating system, which has 80% of the world's smartphone market, making users widely exposed to malware. "A great deal of criminals creates a great deal of programs to attack Android devices," Sachkov said.

NMG and CTC Media to set up firm to manage joint online assets

Russian holdings National Media Group (NMG) and CTC Media, which own popular television channels, will set up a company to manage their Internet assets, including online cinema Videomore and Web sites of six television channels, business daily Kommersant reported on Wednesday.

Internet Projects

The new company, headed by Denis Gorshkov, a former general director of Amedia TV of Leonard Blavatnik and Alexander Akopov, will receive all digital resources of NMG and CTC Media, with an exception made for news and public and political Web sites Izvestia, belonging to NMG.

The alliance will comprise CTC Media's Videomore and Web sites CTC, Domashniy, Che, CTC Love, REN TV, and Channel Five – their mobile applications and accounts in social networks.

Transmedia projects imply the use and adaptation of content to various media, for example to broadcasting and the Internet, collaborations with advertising providers specifically for digital websites, and so forth.

A source familiar with the situation said that the new company is passing a registration stage.

Sberbank chief Gref offers to create AI ministry in Russia

Russia may establish an artificial intelligence ministry, German Gref, head of the country's biggest bank Sberbank, said on Wednesday at a forum.

"In business literally everyone is engaged (in artificial intelligence), and the government is involved as well," Gref said.

Creation of the ministry is "a brave solution." "I don't think it's only a PR task. Of course, it's PR on the one hand, and on the other hand, we should thoroughly think, perhaps, that it makes sense to create such a ministry," Gref said.

The United Arab Emirates has been the first country in the world to appoint Omar Bin Sultan Al Olama, aged just 27 as the minister of state for artificial intelligence in October 2017.

Russian Internet giant Yandex starts financing films

Russian Internet giant Yandex has created a producer center to finance and provide expertise in film production, business daily Vedomosti reported on Friday, referring to the company's statement.

Olga Filipuk, director for media services development at Yandex, said the center will exploit Yandex's technologies and assist in promoting films of various genres.

One of the first films Yandex co-funded was Rough Draft, a big-screen adaptation of a book by Sergei Lukyanenko about a games designer-turned customs officer on the border of parallel worlds. The film, whose production was said to cost 289 million rubles, is provided by Sony Pictures. The Russian first night is scheduled for March 15.

Spun off by Yandex in January, the media services direction comprises Yandex.Music, Kinopoisk, Yandex.Afisha, and Yandex.TV. Total monthly audience of these services exceeds 50 million users.

Fixed Income Market News

Source says MegaFon raises bond offer to 20 billion rubles from 15 billion rubles

Russian mobile operator MegaFon has increased the size of a 3-year exchange bond offering to 20 billion rubles from at least 15 billion rubles, a banking source said on Friday.

The operator earlier set the final guidance for the first coupon at 7.2% annually with an annual yield to maturity of 7.33%.

Initially, the guidance was set at 7.3–7.4% and was later reduced to 7.20–7.25%. The bonds carry semiannual coupons.

The technical placement is scheduled for February 19.

Gazprombank, Raiffeisenbank, and Sberbank CIB are organizing the deal.

Stock Market News

Sistema sells 1.36 billion ruble MTS shares under operator's buyback plan

Sistema Finance S.A., a subsidiary of Russian multi-industry holding Sistema, has sold 4,712,756 ordinary shares of the country's major mobile operator MTS to its unit, Stream Digital, for 1.36 billion rubles, as part of the MTS share buyback program, Sistema said late on Thursday in a statement.

MTS' buyback program was approved by its board of directors in April 2016 and will be effective until April 2019.

In accordance with the terms of the program, the number of shares for the purpose of the transaction was calculated based on the number of ordinary shares and American Depositary Shares of MTS purchased by Stream Digital in the open market in January in proportion to Sistema Group's effective equity stake in MTS.

As a result of the implementation of the program in January, Sistema Group's effective stake in MTS remained unchanged at 50.004%.

Stock Market Results

INDICES

Index	Value, February 9	Weekly change, %	Monthly change, %	Year-to-date change, %
RTS	1185.79	-6.8	-3.5	+2.7
MOEX Russia	2197.12	-3.7	-1.3	+4.1
Telecoms	1815.04	-2.6	+2.8	+5.1

MICEX

Company	Closing price, February 9	Weekly change, %	Monthly change, %	Year-to-date change, %
Rostelecom (RTKM)	65.90	0.0	+2.6	+3.1
MTS (MTSS)	294.00	-3.4	+3.9	+6.5
MegaFon (MFON)	515.60	-1.6	-1.5	+0.5
MGTS (MGTS)	1505.00	+0.3	+0.3	+10.7
Central Telegraph (CNTL)	16.90	-4.5	-12.9	-7.1
Tattelecom (TTLK)	0.1510	-2.9	+0.7	+4.9
Yandex (YNDX)	2086.50	-3.0	+6.3	+10.2

ADRs, GDRs

Company, stock exchange	Closing price, USD, February 8	Weekly change, %	Monthly change, %	Year-to-date change, %
MTS (NYSE: MBT)	11.30	-7.9	+5.8	+11.3
MegaFon (LSE: MFON)	9.05	-6.5	-4.5	-2.2
VEON (Nasdaq: VEON)	3.47	-8.2	-12.8	-10.6
Mail.Ru Group (LSE: MAIL)	31.22	-3.8	-4.2	+8.8
Yandex (Nasdaq: YNDX)	36.02	-8.6	+7.1	+10.6
Qiwi (Nasdaq: QIWI)	14.91	-9.7	-11.4	-2.0

The telecommunications index plunged 2.6% over the week, almost in line with its broader fellow, MOEX Russia, while the observed period was quite rich in events.

Mass media reported that **Rostelecom** had started acquisition negotiations with Solar Security, a firm providing information security services, and could close a 1 billion ruble deal in April–June.

"The possible acquisition of Solar Security follows Rostelecom's strategy aimed to improve diversification of business and reduce the share of incomes from traditional connection services," UralSib Capital said in a research note.

MTS' major shareholder, multi-industry holding Sistema, sold the operator's shares to MTS' unit for 1.36 billion rubles under MTS' buyback program.

Stock Market Results

"The acquisition of own shares by MTS corresponds to interests both of Sistema, which gets additional money on the level of corporate center, and to minority shareholders of MTS thanks to quotes' backup. We don't see huge extra risks for MTS' operations, keeping in mind its stable footing," UralSib Capital said.

Yandex said that it had closed a deal on the merger of taxi businesses with Uber in Russia and some CIS countries.

"We consider the news positive for **Yandex**. According to Yandex.Taxi CEO Tigran Khudaverdyan, the new venture will control 5–6% of the total market, with Yandex set to focus on its main competitor Gett after the deal's conclusion. The deal's business impact will be clearer after the quarterly earnings call on February 15 during which Yandex will discuss its operational results," Aton analysts said.

On February 15, Yandex will disclose U.S. GAAP results for October–December 2017. "We expect to see a slight top-line acceleration quarter-to-quarter to 22.1% on the year, with revenues picking up to 27 billion rubles on faster growth from the taxi business and an eased decline for the e-commerce segment," Sberbank CIB said.

"We project a circa 20% on the year increase in adjusted EBITDA to 8 billion rubles, for a 29.7% margin. We expect a strong 42% EBITDA margin in search, which would be an increase on the year, thanks to a low comparison base, affected by a one-off provision."

Calendar

February 13–15 International forum Security Technologies in Moscow	**February 14** Deadline set by Smolninsky District Court of St. Petersburg for house arrest of Ulmart's co-owner Dmitry Kostygin	**February 15** Deadline set by Moscow's Tverskoi District Court for plaintiffs to amend four lawsuits to Apple for iPhone's slowing down
February 15 T2 RTK Holding to start reducing tariffs for clients during their presence in Crimea	**February 15** Yandex to disclose financial results for October–December 2017	**February 19** MegaFon to place 3-year exchange bonds on Moscow Exchange
February 19–21 World Congress on Information Technology in Hyderabad, India	**February 20–22** Conference on Innovation in Clouds, Internet and Networks in Paris	**February 21** Business forum Telecom of Russian Capitals: ICT for City in St. Petersburg