

DME LIMITED **and subsidiaries**

Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2017

DME LIMITED AND SUBSIDIARIES

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DME LIMITED AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of DME Limited (the "Company") and its subsidiaries (the "Group") as at 31 December 2017 and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

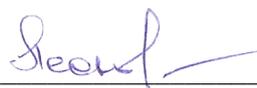
- Designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved by management on 28 April 2018.

On behalf of management:



Elena Batsunova
Chief Executive Officer



Elena Leonova
Chief Financial Officer

28 April 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of DME Limited:

Opinion

We have audited the consolidated financial statements of DME Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") adopted in Cyprus. 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* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russia, 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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<p>Revenue recognition</p> <p>The most significant revenue streams of the Group relate to aviation services and auxiliary aviation services rendered to its customers.</p> <p>The Group uses billing system for revenue calculation.</p> <p>Due to the complexity of revenue accounting caused by variety of tariffs applied we consider this issue to be a key audit matter.</p> <p>Refer to the Note 7 to the consolidated financial statements.</p>	<p>Our principal audit procedures included:</p> <ul style="list-style-type: none"> • Understanding of the Group’s key controls in respect of revenue recognition; • Understanding of the Group’s IT environment and billing systems; • Assessing adequacy of the Group’s revenue recognition policy and the judgments involved; • Assessing completeness of revenue by performing a reconciliation of flights registration system to billing system and billing system to the general ledger; • Testing revenue on a sample basis by performing reconciliations with customers and analytical procedures.
<p>Recoverability of financial assets and advances to suppliers</p> <p>As described in Note 5 of the financial statements provisions for impairment of receivables and restricted cash balances are the key sources of estimation uncertainty for the Group.</p> <p>Significant degree of management judgement is required in assessing the recoverability of restricted cash balances, incurred credit losses and the timing of expected recovery of the Group’s financial assets.</p> <p>Refer additionally to Notes 13, 15, 17, 18, 19 and 29 (in respect of credit risk) of the financial statements for the related disclosures</p>	<p>We critically assessed management’s approach to provisioning for credit losses. Our principal audit procedures included:</p> <ul style="list-style-type: none"> • Understanding the Group’s processes in respect of recording of trade receivables and advances to suppliers, billing, collectability and management assessment of recoverability; • Testing the aging of receivables and advances using a sample test of invoices and manually recalculating the invoice aging; • Performing on a sample basis a reconciliation of recorded financial asset balances with confirmations obtained from the Group’s counterparties and testing post year-end cash receipts; • Analysing the Group’s previous experience of bad debt exposure, the individual counterparty credit risk, including independent research of publicly available information over specific aged balances to identify any indicators of financial difficulty such as notices of liquidation or receivership, actual or threatened legal actions, regulatory findings, etc.; • Analysing further actions planned by the Group in respect of the recovery of restricted cash balances, such as offset of mutual obligations, by enquiring the Group’s management and the internal legal counsel and inspecting documentation and legal opinions of the external legal advisors; • Assessing the sufficiency of related disclosures in the financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

Those charged with governance 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 ISA 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 ISA, 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.
- 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.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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.

Debbie A. Touche

28 April 2018

DME LIMITED AND SUBSIDIARIES

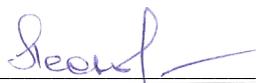
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

	Notes	2017	2016
Revenue	7	40,612	38,153
Operating expenses, net	8	(29,934)	(26,885)
Operating profit		10,678	11,268
Interest expense	9	(1,011)	(1,340)
Interest income		265	299
Foreign exchange gain, net		652	1,135
Profit before income tax		10,584	11,362
Income tax	10	(1,229)	(3,277)
Profit and other comprehensive income for the year		9,355	8,085
Profit and other comprehensive income for the year attributable to:			
Equity holders of the Company		9,399	8,046
Non-controlling interests		(44)	39
		9,355	8,085

On behalf of management:



Elena Batsunova
Chief Executive Officer



Elena Leonova
Chief Financial Officer

28 April 2018

The accompanying notes form an integral part of these consolidated financial statements.

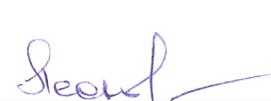
DME LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	11	81,551	65,300
Investment property	11	612	542
Advances for acquisition of non-current assets	11	2,848	2,663
Intangible assets	12	5,079	5,041
Deferred tax asset, net	10	2,237	1,245
Amounts due from grantor under a concession agreement	14	-	206
Long-term finance lease receivable	15	261	246
Other non-current assets	13	48	1,866
Total non-current assets		92,636	77,109
Current assets			
Inventory	16	1,922	1,641
Trade and other receivables	17	2,682	2,690
Prepayments and other current assets	18	6,077	3,777
Prepaid current income tax		1,107	1,035
Short-term finance lease receivable	15	157	146
Cash and cash equivalents	19	10,270	14,306
Total current assets		22,215	23,595
TOTAL ASSETS		114,851	100,704
EQUITY AND LIABILITIES			
Capital			
Share capital	20	11,877	11,877
Retained earnings	20	37,531	33,108
Equity attributable to the owners of the Company		49,408	44,985
Non-controlling interests		(54)	(10)
Total equity		49,354	44,975
Non-current liabilities			
Deferred tax liability, net	10	5,401	5,229
Amounts due to grantor under a concession agreement, long-term portion	14	3,134	3,135
Debt securities, long-term portion	21	29,989	34,335
Borrowings, long-term portion	22	1,594	2,017
Total non-current liabilities		40,118	44,716
Current liabilities			
Trade and other payables	23	4,441	4,919
Current income tax payable		1,282	1,314
Taxes other than income tax payable	24	1,374	1,088
Dividends payable	20	703	-
Amounts due to grantor under a concession agreement, short-term portion	14	247	250
Accrued expenses and other current liabilities	25	2,115	1,903
Debt securities, short-term portion	21	13,016	384
Borrowings, short-term portion	22	2,201	1,155
Total current liabilities		25,379	11,013
TOTAL EQUITY AND LIABILITIES		114,851	100,704

On behalf of management:


Elena Batsunova
Chief Executive Officer


Elena Leonova
Chief Financial Officer

28 April 2018

The accompanying notes form an integral part of these consolidated financial statements.

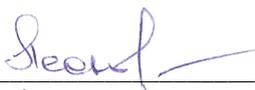
DME LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Profit before income tax	10,584	11,362
Adjustments for:		
Depreciation and amortization	3,381	3,105
Change in provision for impairment of accounts receivable and advances to suppliers	514	(43)
Interest income	(265)	(299)
Interest expense	1,011	1,340
Foreign exchange gain, net	(652)	(1,135)
Other non-cash items, net	126	(24)
	14,699	14,306
Increase in inventory	(280)	(423)
(Increase) / decrease in trade and other receivables	(622)	49
Increase in prepayments and other current assets	(289)	(110)
Decrease in trade and other payables	(44)	(150)
Increase / (decrease) in taxes other than income tax payable	286	(45)
Increase / (decrease) in accrued expenses and other current liabilities	73	(1,032)
	13,823	12,595
Net cash from operating activities before income tax	13,823	12,595
Income tax paid	(2,155)	(2,843)
Net cash provided by operating activities	11,668	9,752
Cash flows from investing activities:		
Purchases of property, plant and equipment	(18,415)	(12,214)
Purchases of intangible assets and other non-current assets	(700)	(701)
Proceeds from disposal of property, plant and equipment	50	207
Purchases of investments	(72)	(3,021)
Proceeds from disposal of investments	75	14,481
Proceeds from grantor under a concession agreement	222	294
Interest received	230	487
	(18,610)	(467)
Net cash used in investing activities	(18,610)	(467)
Cash flows from financing activities:		
Proceeds from borrowings	1,579	2,970
Proceeds from debt securities	9,975	22,210
Repayments of borrowings	(1,208)	(9,271)
Repayments of debt securities	-	(5,121)
Interest paid	(2,432)	(2,197)
Dividends paid (Note 20)	(4,368)	(5,633)
	3,546	2,958
Net cash provided by financing activities	3,546	2,958
Net (decrease) / increase in cash and cash equivalents	(3,396)	12,243
Cash and cash equivalents at the beginning of the year	14,306	4,783
Foreign exchange loss on cash and cash equivalents	(640)	(2,720)
Cash and cash equivalents at the end of the year	10,270	14,306

On behalf of management:


Elena Batsunova
Chief Executive Officer


Elena Leonova
Chief Financial Officer

28 April 2018

The accompanying notes form an integral part of these consolidated financial statements.

DME LIMITED AND SUBSIDIARIES

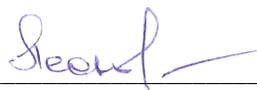
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Attributable to the equity holders of the Company</u>	<u>Attributable to the non- controlling interests</u>	<u>Total equity</u>
Balance as of 1 January 2016	11,877	42,573	54,450	101	54,551
Profit and other comprehensive income for the year	-	8,046	8,046	39	8,085
Dividends (Note 20)	-	(17,511)	(17,511)	(150)	(17,661)
Balance as of 31 December 2016	11,877	33,108	44,985	(10)	44,975
Profit and other comprehensive income for the year	-	9,399	9,399	(44)	9,355
Dividends (Note 20)	-	(4,976)	(4,976)	-	(4,976)
Balance as of 31 December 2017	11,877	37,531	49,408	(54)	49,354

On behalf of management:



Elena Batsunova
Chief Executive Officer



Elena Leonova
Chief Financial Officer

28 April 2018

The accompanying notes form an integral part of these consolidated financial statements.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

1. NATURE OF THE BUSINESS

DME Limited (previously FML Limited, hereinafter the "Company"), is a limited liability company incorporated under the laws of the Isle of Man in February 2001. Immediately following the formation of the Company an entity under common control transferred to the Company a number of entities operating as a group since 1996. The assets and liabilities of the entities were transferred to the Company at their previous carrying amounts. In 2012 the Company transferred its registered office and place of domicile to the Republic of Cyprus.

The principal activities of the Company, together with its subsidiaries (collectively the "Group") are the management, operation and development of Domodedovo airport, including servicing international and domestic passenger and cargo flights. The Group sells fuel and pre-packaged meals as well as provides airport-related commercial services comprising leasing of retail space, leasing of other commercial properties and fuelling services. The Group's principal place of business is Domodedovo airport in the Moscow region, Russia.

The Group operates in three business segments: aviation services, auxiliary aviation services and commercial services.

The Company's ownership interest in the significant controlled subsidiaries is as follows:

Company name	Place of incorporation	Principal activity	Percentage held as of	
			31 December 2017	31 December 2016
Domodedovo Passenger Terminal	Russia	Passenger terminal complex	100%	100%
Domodedovo Cargo	Russia	Cargo terminal complex	100%	100%
Domodedovo Catering Service	Russia	In-flight catering facility	100%	100%
Domodedovo Asset Management	Russia	Rent and parking operator	100%	100%
Domodedovo Fuel Services	Russia	Fuel storage and supply facility	100%	100%
Domodedovo Security	Russia	Aviation security	100%	100%
Domodedovo Commercial Services	Russia	General agent for Group companies	100%	100%
Domodedovo International Airport	Russia	Take-off and landing services	100%	100%
Domodedovo Slot Allocation	Russia	Aeronautical services	100%	100%
Domodedovo Construction Management	Russia	Capital development	100%	100%
Domodedovo Airport Handling	Russia	Ground handling	100%	100%
Domodedovo Information Technologies Services	Russia	IT services	100%	100%
Domodedovo Fuel Facilities	Russia	Jet fuelling and storage	100%	100%
Hacienda Investments Limited	Cyprus	Group property management	100%	100%
Verulia Investments Limited	Cyprus	Investing and financing activities	100%	100%
Airport Management Company Limited	Isle of Man	Group management company	100%	100%
Ocean Fest Development SA	British Virgin Islands	Investing and financing activities	100%	100%
Domodedovo Training	Russia	Staff professional trainings and development	100%	100%
Domodedovo Integration	Russia	Software development	100%	100%
Domodedovo Parking	Russia	Management of car park facilities	100%	100%
Domodedovo Non-aviation Sales	Russia	Rent and advertizing services	100%	100%
DME Airport Designated Activity Company	Ireland	Investing and financing activities	-	-

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

The Russian Federation is the place of operation for all the companies listed above, except for Verulia Investments Limited for which the place of operation is Cyprus and DME Airport Designated Activity Company for which the place of operation is Ireland. Verulia Investments Limited acts as a major holder of the intangible assets owned by the Group and is involved in treasury activities of the Group, facilitating financing and investing transactions between the Group's individual companies, as well as between the Group and third parties.

DME Airport Designated Activity Company is a special purpose entity that acts as a corporate vehicle for USD loan participation notes issued on the Irish Stock Exchange.

Starting from December 2016 DME Stichting Administratiekantoor ("DME Administrative Foundation"), a foundation organized and existing under the laws of the Netherlands, together with Atlant Foundation, a private foundation established and governed under the laws of Malta, collectively own 100% of the issued share capital of DME Limited.

The ultimate controlling party of the Group is Mr. Dmitry Kamenshchik.

The consolidated financial statements of the Group for the year ended 31 December 2017 were authorized for issue by management on 28 April 2018.

2. PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance – These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of preparation – These consolidated financial statements are prepared on the basis of standalone financial statements of the Company and its subsidiaries. The entities of the Group maintain their accounting records in accordance with laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows of the Group in accordance with IFRS.

These consolidated financial statements are presented in millions of Russian Rubles (hereinafter "RUB million"), unless otherwise indicated.

The consolidated financial statements have been prepared using the historical cost convention, except for certain items of property, plant and equipment which were stated at deemed cost as of 1 January 2008 as part of the Group's adoption of IFRS. The deemed cost was equal to fair value as determined by an independent appraiser.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value-in-use in IAS 36 "Impairment of assets".

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Going concern – These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, which implies the realization of assets and settlement of liabilities in the normal course of business.

As of 31 December 2017 the current liabilities of the Group to exceed its current assets by RUB 3,164 million. The reasons were as follows:

- As disclosed in the Note 22 the Group breached one of the financial covenants set out in the long-term loan agreement with Raiffeisen bank resulting in lender's entitlement to request early repayment of the loan. As required by the accounting standards, the Group presented the outstanding balance of the loan as of 31 December 2017 of RUB 2,195 million as short-term borrowings. Subsequent to 31 December 2017, the Group received a waiver from the bank confirming the lender would not demand an early repayment of the loan.
- As disclosed in Note 21 the 2018 LPNs mature in November 2018, so the Group presented the outstanding balance of the 2018 LPNs of RUB 12,819 million as short-term portion of debt securities. In February 2018 the Group issued the 2023 LPNs (Note 30), aimed to refinance the 2018 LPNs.

Accordingly, management believes that the going concern assumption for the Group remains appropriate as at the date of the approval of these consolidated financial statements.

Offsetting – Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Reclassifications

Interest paid for the year was reclassified from the cash flows from operating activities into the cash flows from financing activities, because this provides better comparability with the Group's peer companies operating in the same industry.

Irrevocable letters of credit for the year ended 31 December 2016 were reclassified from prepayments and other current assets to advances for acquisition of non-current assets for consistency with the method of presentation of the Balance sheet items adopted in the Group's consolidated financial statements for the year ended 31 December 2017. After the reclassification the acquisition of non-current assets increased by RUB 288 million to RUB 2,663 million and prepayments and other current assets decreased by RUB 288 million to RUB 3,777 million for the year ended 31 December 2016. Accordingly, corresponding amount was reclassified from the cash flow from operating activities into the cash flows from investing activities.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The accounting policies have been applied consistently by all consolidated operating entities.

Consolidation – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared through 31 December of each year.

Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

The Company reassesses 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceased. Intragroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in full in preparing the consolidated financial statements.

Non-controlling interest in consolidated subsidiaries represents the equity in a subsidiary not attributable, directly or indirectly, to a parent and is identified separately from the Group's equity therein. Total comprehensive income / (loss) is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets, and liabilities of the subsidiary and any non-controlling interests.

Functional and presentation currency – The primary economic environment of the Group is the Russian Federation. Therefore, the Russian Ruble ("RUB") is the functional currency of the Company and all subsidiaries of the Group, except for DME Airport Designated Activity Company (the functional currency is US dollar, "USD"), as well as the Group's presentation currency.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the reporting date exchange rate.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Russian Ruble at foreign exchange rates ruling at the dates the fair value was determined. Exchange differences arising from such retranslation are included in the consolidated statement of profit or loss and other comprehensive income.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Revenue recognition – The Group's revenue is generated by the provision of services (airport services, parking fees, rental income, fuel storage services, and aircraft maintenance), and sale of products (jet fuel and in-flight meals). Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes, estimated rebates and discounts. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Airport and other related charges

Revenue from airport and other related charges mainly includes fees collected for aircraft take-off and landing, runway lighting, aircraft parking, and passenger-related charges for the use of terminal. Certain airport charges were regulated till February 2016. Revenue from airport and other related charges is recognized in the accounting period in which the services are rendered.

Rental income

Rental income is generated principally from leasing trading space and office facilities located inside the airport terminal and adjacent buildings. Rental revenue is recognized on a straight-line basis during the term of rent agreements.

In accordance with the rent agreements, rental revenue can be calculated based on either the fixed monthly rental rates or the passenger traffic volume for the period.

Ground handling

Ground handling includes a wide range of services related to aircraft maintenance before take-off and after landing, including pre-flight aircraft preparation, towing, cleaning, required technical maintenance before and after flights, luggage handling, passenger check-in, boarding and transportation to and from aircraft. Revenue from ground handling services is recognized in the accounting period in which the services are rendered.

Jet fuelling and storage services

Jet fuelling and storage services include revenue from into-plane fuelling services and revenue from the storage of third-parties' jet fuel. Revenue from these services is recognized in the accounting period in which the services are rendered. Storage charge rates are regulated for foreign airline customers and periodically reviewed by the Federal Antimonopoly Service of the Russian Federation.

Aviation security

Aviation security services include services such as the inspection/screening of passengers, crews, baggage, cargo and in-flight supplies, aircraft security (including guarding the aircraft at the airport), pre-flight inspection and access control and security of areas with restricted access. Revenue from aviation security services is recognized in the accounting period in which the services are rendered.

Parking fees and other revenue

Parking fees consist of fees collected at the passenger terminal's car park. Other revenue consists of auxiliary services provided at the cargo and passenger terminals. Revenue from such services is recognized in the period in which the services are rendered.

Jet fuel sales

Jet fuel sales comprise the sales of jet petroleum, lubricants and other specialized liquids. Revenue from the sale is recognized when significant risks and rewards incidental to ownership are transferred to the customers.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Catering

Catering includes sales of pre-packaged in-flight meals. Revenue from catering is recognized when the meal packages are delivered to the aircraft, at which point the risks and rewards of ownership are transferred to the customers.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate.

Leases – The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Group as lessee

Assets under finance leases are recognized as assets at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Payments under operating leases are recognized in the consolidated profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as a liability and a reduction to expense on a straight-line basis. Contingent rentals under operating leases are recognized as an expense in the period in which they are incurred.

Borrowing costs – Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale, and amortized over the useful life of the asset. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Income tax – Income tax on the profit or loss for the year comprises current and deferred tax. Current and deferred income tax are recognized in the consolidated profit or loss except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date. Provisions in respect of uncertain tax positions which relate to income tax are included in current income tax at an amount expected to be payable including penalties, if any.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts of tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are not discounted.

Employee benefits – Remuneration to employees in respect of services rendered during the reporting period is recognized as an expense in that reporting period.

The Group contributes to the Pension Fund of the Russian Federation, a defined contribution plan. The Group's only obligation is to pay contributions to the Fund as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. The Group's contributions to the Russian Federation State Pension Fund are recorded as an expense over the reporting period based on the related employee service rendered. In 2017 and 2016 contributions for each employee vary from 10% to 22%, depending on the annual gross remuneration of each employee.

Property, plant and equipment – At the date of transition to IFRS (1 January 2008) the Group's property, plant and equipment were recognized in the consolidated financial statements at deemed cost.

Property, plant and equipment acquired by the Group subsequent to the date of transition to IFRS are recorded at purchase or construction cost, less accumulated depreciation and accumulated impairment, if any. The costs of day to day servicing of property, plant and equipment, including repairs and maintenance expenditure, are expensed as incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Assets under construction

Assets under construction ("Construction In-Progress" or "CIP") are carried at cost, less any recognized impairment loss. Cost includes capital expenditures directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads including capitalized borrowing costs on qualifying assets. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use. Construction in-progress items are reviewed regularly to determine whether their carrying value is fairly stated.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Advance payments for assets under construction are shown separately in the consolidated statement of financial position and presented as non-current assets.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost. Subsequent measurement is at cost less accumulated depreciation and impairment losses (if any) under IAS 36 "Impairment of assets".

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated profit or loss in the period in which the property is derecognized.

Subsequent costs

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The assets being replaced are written off immediately. All other costs are recognized in the consolidated profit or loss as an expense as incurred.

Depreciation

Depreciation is recognized in consolidated profit or loss so as to write off the cost of assets (other than land and CIP) less their estimated residual values over their economic useful lives, using the straight-line method. Owned land plots are not depreciated.

The estimated useful economic lives for property, plant and equipment are as follows:

	<u>Number of years</u>
Buildings	10-50
Plant and equipment	5-20
Other	2-20

The assets' useful lives and methods are reviewed and adjusted as appropriate at each financial year-end.

Gain or loss on disposal

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Concession arrangements – Where the Group constructs airfield assets under its contract with FGUP "Administration of the Airport Domodedovo", a Russian state-owned enterprise (the "grantor"), and the grantor controls a significant residual interest in the airfield infrastructure assets at the end of the contract, the Group applies IFRIC 12 "Service concession arrangements". In the construction phase, the Group recognizes income by applying an attributable profit margin on the construction costs representing the fair value of construction services and records a receivable in accordance with IAS 39 "Financial instruments: recognition and measurement" or an intangible asset, depending on the nature by which the Group receives consideration from the grantor.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

The Group recognizes an intangible asset related to the right to charge users of the public service instead of an unconditional right to receive cash when the amounts are contingent on the extent to which the public uses the service. The net present value of fees paid to the grantor under the arrangement is also recognized as part of the cost of the intangible asset at its inception, and any subsequent adjustment to the level of fees or the timing of contractual cash flows associated with such payments is reflected as an adjustment to the intangible asset. The intangible asset is amortized on a straight-line basis over the shorter of the contract term or the period for which the Group expects to receive a benefit.

Intangible assets – Intangible assets other than concession intangible assets represent mainly purchased software and licenses and are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to the consolidated profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use.

Useful lives and amortization methods for intangible assets 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 as changes in accounting estimates.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of non-current assets – At each reporting date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in-use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated profit or loss.

Financial assets – Financial assets are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. As at the reporting date the Group had only financial assets classified as loans and receivables.

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 assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest income is recognized by applying the effective interest rate except for short-term receivables when the recognition of interest would be immaterial.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Impairment of financial assets – Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account (provision for impairment of receivables).

If, in a subsequent period, the amount of the impairment loss for assets carried at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Effective interest method – The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount of initial recognition.

Inventory – Inventory is stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventory is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Cash and cash equivalents – Cash and cash equivalents comprise cash on hand, balances with banks, short-term interest-bearing deposits and short-term bank overdrafts with original maturities of not more than three months.

Restricted cash – Cash and cash equivalents that can only be used for a specific purpose or where access is restricted.

Value added tax – Output value added tax ("VAT") related to revenue is payable to tax authorities upon delivery of the goods or services to customers, as well as upon collection of prepayments from customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. Input VAT on capital expenditures can be reclaimed on receipt of VAT invoices for the particular stage of work performed or, if the construction project cannot be broken down into stages, on receipt of VAT invoices upon completion of the contracted work. The tax authorities permit the settlement of VAT on a net basis (except for input VAT related to export services provided which is reclaimable upon confirmation of export). VAT related to sales and purchases is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

Accounts payable and other financial liabilities – Accounts payable and other financial liabilities are initially recognized at cost, which is the fair value of the consideration received, taking into account transaction costs. After initial recognition, financial liabilities are carried at amortized cost, using the effective interest method, with interest expense recognized on an effective yield basis. As normally the expected term of accounts payable is short, the value is stated at the nominal amount without discounting, which corresponds with fair value.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Provisions – Provisions are recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is significant, the amount of a provision is the present value of the cash flows required to settle the obligation.

Share capital – Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

Dividends – Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date by the shareholders at a general meeting. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Contractual commitments – Contractual commitments comprise legally binding trading or purchase agreements with stated amount, price and date or dates in the future. The Group discloses significant contractual commitments in the notes to the consolidated financial statements.

Contingencies – Contingent liabilities are not recognized in the consolidated financial statements unless they arise as a result of a business combination. Contingences attributed to specific events are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS and IFRIC interpretations adopted in the current year

In the current year, the Group has adopted all new and revised standards and interpretations issued by the IASB and the IFRIC of the IASB that are mandatory for adoption in the annual periods beginning on or after 1 January 2017. Their adoption has not resulted in any significant changes to the financial statements of the Group.

New and revised IFRS in issue but not yet effective

At the date of authorization of these consolidated financial statements, the following standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2017 or later periods and which the entity has not early adopted:

Standards and Interpretations	Effective for annual periods beginning on or after
IAS 28 – "Investments in Associates and Joint Ventures" (amended)	1 January 2019
IAS 40 – "Investment Property" (amended)	1 January 2018
IFRS 2 – "Share-based Payment"(amended)	1 January 2018
IFRS 4 – "Insurance Contracts" (amended)	1 January 2018
IFRS 9 – "Financial Instruments" (amended)	1 January 2018
IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 15 – "Revenue from Contracts with Customers"	1 January 2018
IFRS 16 – "Leases"	1 January 2019
IFRS 17 – "Insurance Contracts"	1 January 2021
IFRIC 22 – "Foreign Currency Transactions and Advance Consideration"	1 January 2018
IFRIC 23 – "Uncertainty Over Income Tax Treatments"	1 January 2019

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Also a number of standards and interpretations were amended by Annual Improvements to IFRSs 2014-2016 Cycle and IFRSs 2015-2017 Cycle, which become effective for annual periods beginning on or after 1 January 2018 and 1 January 2019, respectively. These amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in different standards.

The impact of adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management. The new and revised standards which may have an effect on the financial statements of the Group are described in more detail below:

- IAS 40 "Investment Property" – The amendments are intended to clarify that an entity can only reclassify a property to/ from investment property when, and only when, there is evidence that a change in the use of the property has occurred. The amendments emphasise that a change in management's intentions alone would not be enough to support a transfer of property. The standard has a list of circumstances that evidence a change in use, which is perceived by some as being exhaustive, the amendments make it clear that they are only examples. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply them either retrospectively (if it is possible without the use of hindsight) or prospectively. Management of the Group does expect that the application of these amendments would have a significant impact on the Group's consolidated financial statements.
- IFRS 9 "Financial instruments" – Amendments issued in November 2009 introduced new requirements for the classification and measurement of financial assets and liabilities. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 "Financial Instruments: Recognition and Measurement".

Management of the Group has yet to complete the analysis and currently evaluating the impact of this standard on their consolidated financial statements, including accounting policies and processes.

The Group expects to apply the simplified approach to recognize lifetime expected credit losses for its trade receivables and finance lease receivables as required or permitted by IFRS 9. In general, management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items.

The Group's financial liabilities are not expected to be affected by the application of the new standard, as the new requirements only affect financial liabilities that are designated at fair value through profit or loss, and the Group has no liabilities of this type.

- IFRS 15 "Revenue from Contracts with Customers" – In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

Far more prescriptive guidance has been added on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

The Group's major sources of revenue are disclosed in Note 3. In general, control is transferred to the contractual counterparty and subsequently the Group's performance obligations are met at the time of receipt of the services by the counterparty. Based on the Group's preliminary assessment, apart from providing more extensive disclosures on the Group's revenue transactions, the management does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group.

The Group intends to use the modified retrospective method, which requires the recognition of the cumulative effect of initially applying IFRS 15, as of January 1, 2018, to the retained earnings and not restate prior years. As noted above, IFRS 15 does not significantly change the amount or timing of revenue recognition in 2017 or prior periods, consequently the cumulative adjustment to retained earnings is not expected to be material.

- IFRS 16 "Leases" – brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RUB 3,066 million. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 27. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognize a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognized in the Group's consolidated financial statements and the management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the management completes the review.

In contrast, for finance leases where the Group is a lessor, the application of IFRS 16 will have no impact on the amounts recognized in the Group's consolidated financial statements.

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognized. If there is more than one advance payment or receipt the date of the transaction for each payment or receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively. The management of the Group does not expect that the application of this IFRIC would have a material impact on the Group's consolidated financial statements as the Group currently uses the approach prescribed in IFRIC 22.
- IFRIC 23 "Uncertainty Over Income Tax Treatments" – sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Provision for impairment of receivables and advances to suppliers – Management maintains a provision for impairment of receivables and advances to suppliers in the form of an allowance account equal to estimated losses resulting from the inability of customers and other debtors to make required payments. When evaluating the adequacy of this allowance account, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment patterns. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2017 and 2016 the provision for impairment of receivables and advances to suppliers was recognized in the amount of RUB 2,039 million and RUB 1,525 million, respectively (see Notes 11, 17, 18). The significant portion of impairment provision for trade receivables as of 31 December 2017 relates to receivables from VIM-AVIA (Note 29).

Depreciable lives of property, plant and equipment – The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting policies, changes in accounting estimates and errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Impairment of non-current assets – The Group reviews at each reporting date the carrying amounts of non-current assets to determine whether there is any indication that assets are impaired. This process involves judgment in evaluating the cause for any possible reduction in value, including a number of factors such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists.

Whenever such indications exist management makes an estimate of the asset’s recoverable amount to ensure that it is not less than its carrying value. If the asset’s fair value is not readily determinable or is less than asset’s carrying value plus costs to sell, management necessarily applies its judgment in determining the appropriate cash generating unit to be evaluated, estimating the appropriate discount rate and the timing and value of the relevant cash flows for the value in-use calculation.

Impairment of restricted cash balances – Management assessed a provision for impairment of other non-current assets, represented by restricted cash held with a Cyprus branch of Federal Bank of the Middle East Ltd., (hereinafter “FBME”), in the form of an allowance account equal to estimated losses resulting from the assessing of the current fair value of the restricted cash balance to be recovered by the Group. When evaluating the adequacy of this allowance account, management bases its estimates on the expected timing of the restricted cash balance recovery and estimated charges and losses which could be incurred by the Group when recovering the restricted cash. If the current situation with FBME develops negatively and the expected timing of the recovery is prolonged or estimated charges and losses associated with the recovery are revised upwards, actual write-offs might be significantly higher than currently estimated.

Recoverability of deferred tax assets – Management of the Group believe that deferred tax assets recognized by the Group as of the reporting date will be fully realized. This expectation is based on management’s judgement on the ability of the respective Group entities to generate sufficient taxable profits and reversal of taxable temporary differences in the foreseeable future. As at 31 December 2017 the carrying value of deferred tax assets was RUB 2,237 million (2016: RUB 1,245 million).

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

6. SEGMENT INFORMATION

Information reported to the chief operating decision maker of the Group ("CODM") for the purposes of resource allocation and assessment of segment performance is focused on the nature of services provided.

The Group's reportable segments are as follows:

Aviation services segment – includes aviation services, such as use of terminal, take-off and landing, and aviation security. Federal Antimonopoly Service of the Russian Federation retains the control and oversight functions in the pricing area of such services.

Auxiliary aviation services segment – includes certain passenger-related services, ground handling, fuelling services, in-flight catering and cargo handling.

Commercial services segment – includes retail concessions and advertising, car parking.

Accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3.

The performance of each reportable segment is assessed by the CODM by reference to segment operating profit. Segment operating profit is calculated after headquarters expenses have been allocated between the reportable segments and after elimination intra segment profits and losses.

The key financial information for the Group's segments for the years ended 31 December 2017 and 2016 is presented below:

		Aviation services	Auxiliary aviation services	Commercial services	Inter- segment eliminations	Group
Third-party revenue	2017	12,050	22,570	5,992	-	40,612
	2016	11,242	21,018	5,893	-	38,153
Intersegment revenue	2017	2,480	214	1,389	(4,083)	-
	2016	2,260	204	789	(3,253)	-
Total revenue	2017	14,530	22,784	7,381	(4,083)	40,612
	2016	13,502	21,222	6,682	(3,253)	38,153
Operating profit	2017	3,035	4,653	2,990	-	10,678
	2016	2,633	5,568	3,067	-	11,268
Depreciation and amortization	2017	(1,629)	(1,299)	(453)	-	(3,381)
	2016	(1,473)	(1,194)	(438)	-	(3,105)
Change in provision for impairment of receivables and advances to suppliers (Note 5, 11, 17, 18)	2017	(10)	(495)	(9)	-	(514)
	2016	19	69	(45)	-	43
Change in legal provision	2017	-	-	-	-	-
	2016	3	3	1	-	7

The following is the analysis of the Group's largest customers (comprising 10% or more of total revenue):

	2017		2016	
	Amount	%	Amount	%
S7 Group	6,022	15%	5,879	15%
Aviation services segment	2,003		1,781	
Auxiliary aviation services segment	3,789		3,770	
Commercial services segment	230		328	

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Substantially all assets, management and administrative facilities of the Group are located in the Russian Federation and are not reported to the CODM. Furthermore, all revenue is earned within the Russian Federation. Accordingly, revenue by geographic location and asset information is not presented as part of segment disclosure.

7. REVENUE

	<u>2017</u>	<u>2016</u>
<i>Service revenue</i>		
Ground handling	9,380	9,361
Airport and other related charges	9,035	8,396
Rental income	5,185	5,139
Jet fuelling and storage services	3,027	2,719
Aviation security	2,555	2,488
Parking fees	670	616
Construction revenue	123	133
Other revenue	614	621
Total service revenue	<u>30,589</u>	<u>29,473</u>
<i>Revenue from goods sold</i>		
Jet fuel sales	5,724	4,512
Catering products	4,299	4,168
Total revenue from goods sold	<u>10,023</u>	<u>8,680</u>
Total revenue	<u><u>40,612</u></u>	<u><u>38,153</u></u>

Rental income includes rentals contingent on passenger traffic volume (see Note 27) of RUB 3,912 million and RUB 3,933 million for the years ended 31 December 2017 and 2016, respectively, and rental income from investment property in the amount of RUB 322 million and RUB 346 million for the years ended 31 December 2017 and 2016, respectively.

8. OPERATING EXPENSES, NET

	<u>2017</u>	<u>2016</u>
Payroll and related charges:		
Wages and salaries	9,354	8,849
Social taxes	2,517	2,427
	<u>11,871</u>	<u>11,276</u>
Cost of jet fuel	5,481	4,255
Depreciation and amortization	3,381	3,105
Maintenance	2,345	1,977
Materials	1,928	1,992
Cleaning and waste management	898	941
Staff development and training	589	272
Public utilities	571	507
Change in provision for impairment of receivables and advances to suppliers (Notes 5,11,17,18)	514	(43)
Transport	458	458
Rent	347	411
Consulting, audit and other services	329	337
Passenger servicing	329	290
Taxes other than income tax	196	369
Certification and licensing	85	46
Charitable donations	80	64
Communication services expense	59	48
Advertising expenses	42	53
Other expenses, net	431	527
Total operating expenses, net	<u><u>29,934</u></u>	<u><u>26,885</u></u>

Operating expenses include direct expenses arising from investment property in the amount of RUB 37 million and RUB 69 million for the years ended 31 December 2017 and 2016, respectively.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

9. INTEREST EXPENSE

	<u>2017</u>	<u>2016</u>
Interest expense on the 2021 LPNs (Note 21)	1,219	176
Interest expense on the 2018 LPNs (Note 21)	799	1,250
Interest expense on five-year RUB debt securities	14	-
Unwinding of discount related to amounts due to grantor under a concession agreement	347	349
Interest expense on bank loans	159	184
Premium for early redemption of the 2018 LPNs (Note 21)	-	253
	<u>2,538</u>	<u>2,212</u>
Less: capitalized interest (Note 11)	<u>(1,527)</u>	<u>(872)</u>
Total interest expense	<u>1,011</u>	<u>1,340</u>

10. INCOME TAX

	<u>2017</u>	<u>2016</u>
Current income tax expense	(2,088)	(3,475)
Adjustments recognized in the current year in relation to the current tax of prior years	6	(102)
Previously unrecognized tax loss of a prior period that is used to reduce current tax expense	33	78
Total current tax expense	<u>(2,049)</u>	<u>(3,499)</u>
Origination and reversal of temporary differences	(37)	547
Deferred tax benefit / (expense) arising from reversal of a write-down (or write-down) of a deferred tax asset relating to tax loss	857	(325)
Total deferred income tax benefit	<u>820</u>	<u>222</u>
Total income tax	<u>(1,229)</u>	<u>(3,277)</u>

Majority of the Group's operating activities are conducted in the Russian Federation. Therefore the reconciliation of the Group's profit before income tax to income tax charge is presented using the statutory income tax rate effective in Russia:

	<u>2017</u>	<u>2016</u>
Profit before income tax	<u>10,584</u>	<u>11,362</u>
Theoretical tax charge at Russian statutory rate of 20%	(2,117)	(2,272)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable/ (non-deductible) foreign exchange gain/ (loss) differences	312	(1,549)
Reversal of a write-down (or write-down) of a deferred tax asset relating to tax loss	857	(325)
Previously unrecognized tax loss of a prior period that is used to reduce current tax expense	33	78
Adjustments recognized in the current year in relation to the current tax of prior years	6	(102)
Tax rate differences relating to other jurisdictions	(60)	1,465
Provision for tax risks	42	(460)
Non-deductible interest expenses	(88)	(158)
Effect of withholding tax on dividends of subsidiaries	-	(40)
Other (non-deductible) / non-taxable items	(214)	87
Income tax	<u>(1,229)</u>	<u>(3,277)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Total accumulated temporary differences that arise between the statutory tax base of assets and liabilities and their carrying amounts in the accompanying consolidated statements of financial position give rise to the following deferred tax effects:

	31 December 2017	Charged to profit or loss	31 December 2016
Tax losses carry forward	1,174	740	434
Property, plant and equipment	(60)	(9)	(51)
Trade and other receivables	231	94	137
Prepayments and other current assets	272	56	216
Trade and other payables	387	68	319
Accrued expenses and other current liabilities	214	32	182
Intangible assets	1	(1)	2
Other	18	12	6
Deferred tax asset, net	<u>2,237</u>		<u>1,245</u>
Property, plant and equipment	(5,266)	(78)	(5,188)
Trade and other receivables	12	6	6
Prepayments and other current assets	4	(17)	21
Amounts due to grantor under a concession agreement	686	9	677
Trade and other payables	(37)	(39)	2
Accrued expenses and other current liabilities	(8)	(16)	8
Intangible assets	(713)	16	(729)
Other	(79)	(53)	(26)
Deferred tax liability, net	<u>(5,401)</u>		<u>(5,229)</u>
		<u>820</u>	
	31 December 2016	Charged to profit or loss	31 December 2015
Tax losses carry forward	434	-	434
Property, plant and equipment	(51)	(17)	(34)
Trade and other receivables	137	(63)	200
Prepayments and other current assets	216	120	96
Trade and other payables	319	2	317
Accrued expenses and other current liabilities	182	(28)	210
Intangible assets	2	(1)	3
Other	6	(14)	20
Deferred tax asset, net	<u>1,245</u>		<u>1,246</u>
Property, plant and equipment	(5,188)	147	(5,335)
Trade and other receivables	6	(3)	9
Prepayments and other current assets	21	43	(22)
Amounts due to grantor under a concession agreement	677	(4)	681
Trade and other payables	2	(40)	42
Accrued expenses and other current liabilities	8	8	-
Intangible assets	(729)	30	(759)
Other	(26)	42	(68)
Deferred tax liability, net	<u>(5,229)</u>		<u>(5,452)</u>
		<u>222</u>	

The Group did not recognize a deferred tax liability related to the remaining undistributed earnings of its subsidiaries as it has not made any decisions regarding future distributions of retained earnings within the Group. Undistributed earnings, in relation to which deferred tax liability was not accrued, amounted to RUB 11,854 million and RUB 6,734 million as of 31 December 2017 and 2016, respectively.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Other</u>	<u>CIP</u>	<u>Total</u>
Cost					
1 January 2016	51,273	9,632	1,319	8,299	70,523
Additions	2,051	620	65	10,052	12,788
Transfers	694	361	53	(1,108)	-
Disposals	(1)	(140)	(61)	(171)	(373)
31 December 2016	54,017	10,473	1,376	17,072	82,938
Additions	2,100	747	132	16,162	19,141
Transfers	548	308	40	(896)	-
Disposals	(3)	(228)	(98)	(26)	(355)
Reclassified as investment property	(107)	-	-	-	(107)
31 December 2017	56,555	11,300	1,450	32,312	101,617
Accumulated depreciation					
1 January 2016	(8,370)	(6,012)	(978)	-	(15,360)
Depreciation charge	(1,389)	(942)	(143)	-	(2,474)
Disposals	12	126	58	-	196
31 December 2016	(9,747)	(6,828)	(1,063)	-	(17,638)
Depreciation charge	(1,608)	(992)	(147)	-	(2,747)
Disposals	-	210	93	-	303
Reclassified as investment property	16	-	-	-	16
31 December 2017	(11,339)	(7,610)	(1,117)	-	(20,066)
Net book value					
31 December 2016	44,270	3,645	313	17,072	65,300
31 December 2017	45,216	3,690	333	32,312	81,551

"Buildings" consist primarily of passenger and cargo terminals, catering facility, hotel building, car park and auxiliary buildings.

"Plant and equipment" mainly consists of baggage-processing systems, aircraft servicing equipment, tow tractors, passenger shuttles, parking equipment, machines for disposition of de-icing liquids, introsopes and other operating equipment.

"Other" consists mainly of administrative equipment and vehicles.

"Construction in-progress" consists mainly of capital expenditures related to the extension of passenger terminal T-1, construction of passenger terminal T-2, multilevel parking and reconstruction and extension of cargo terminal.

During the years ended 31 December 2017 and 2016 the Group capitalized borrowing costs in the amount of RUB 1,527 million and RUB 872 million, respectively.

The weighted average capitalization rate on borrowed funds was 6.5% and 6.4% per annum for the years ended 31 December 2017 and 2016, respectively.

As at 31 December 2017 and 2016 no property, plant and equipment was pledged as collateral for the Group's borrowings.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Investment property

The Group's investment property consists of administrative buildings, which are leased to several airlines, and a hotel building.

	<u>2017</u>	<u>2016</u>
Cost at the beginning of the year	711	711
Reclassified from property, plant and equipment	107	-
Cost at the end of the year	818	711
Accumulated depreciation at the beginning of the year	(169)	(150)
Depreciation charge for the year	(21)	(19)
Reclassified from property, plant and equipment	(16)	-
Accumulated depreciation at the end of the year	(206)	(169)
Net book value at the end of the year	612	542

Fair value of the investment property as at 31 December 2017 was RUB 7,316 million (RUB 3,757 million as at 31 December 2016) and has been arrived at on the basis of a valuation carried out on this date by an internal professional appraiser with appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation was arrived at by reference to the future cash flows, based on the market evidence for similar properties, discounted at an estimated relevant rate (Level 2 category for determining fair value).

Advances for acquisition of non-current assets

As of 31 December 2017 and 2016 advances for acquisition of non-current assets in the amounts of RUB 2,848 million and RUB 2,663 million, respectively, consisted of amounts paid for construction of the passenger and cargo terminals, multilevel parking and implementation of additional functionalities, modernization of planning and resource management system and irrevocable letters of credit issued by the banks on behalf of the Group for settlements with suppliers of equipment and construction subcontractors. The amount of impairment of advances for acquisition of non-current assets amounted to RUB 28 million as of 31 December 2017 (31 December 2016: RUB 27 million.).

12. INTANGIBLE ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>
Concession arrangement (Note 14)	3,564	3,645
Other intangible assets	1,515	1,396
Intangible assets	5,079	5,041

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Other intangible assets as of 31 December 2017 and 2016 are presented below:

	Software	Licences and other	Assets not ready for use	Total
Cost				
1 January 2016	1,614	605	420	2,639
Additions	312	186	55	553
Transfers	279	2	(281)	-
Disposals	(133)	(14)	-	(147)
31 December 2016	2,072	779	194	3,045
Additions	189	23	374	586
Transfers	19	9	(28)	-
Disposals	(82)	(113)	(6)	(201)
31 December 2017	2,198	698	534	3,430
Accumulated amortization				
1 January 2016	(1,068)	(282)	-	(1,350)
Amortization charge	(314)	(80)	-	(394)
Disposals	86	9	-	95
31 December 2016	(1,296)	(353)	-	(1,649)
Amortization charge	(305)	(104)	-	(409)
Disposals	67	76	-	143
31 December 2017	(1,534)	(381)	-	(1,915)
Net book value				
31 December 2016	776	426	194	1,396
31 December 2017	664	317	534	1,515

13. OTHER NON-CURRENT ASSETS

	31 December 2017	31 December 2016
Restricted cash in FBME (net of impairment: RUB 222 million)	-	1,805
Other non-current receivable	48	61
Other non-current assets	48	1,866

Restricted cash in FBME represents cash balances held by the Group at a Cyprus branch of Federal Bank of the Middle East Ltd. ("FBME"), registered in Tanzania, which may not be transferred outside of FBME at the discretion of the Group due to restrictions of operations imposed on FBME Bank by the US, Cypriot and Tanzanian banking regulators and governmental authorities.

The relevant authorities in Cyprus and Tanzania initiated liquidation process for the bank, however there is a legal uncertainty as to the appropriate sequencing of the liquidation process that affects the timing of expected recovery of the Group's cash balances. The Tanzanian liquidator (Deposit Insurance Board) sent a proposal to the Central Bank of Cyprus to start the joint liquidation of the FBME, but no agreement has yet been reached. A court's decision on the start of liquidation process in Cyprus is imminent but has not yet been announced on the date of approval of these financial statements.

Based on the information available to the Group, it is believed that FBME has sufficient solvent funds to fully honor the bank's obligations. The Group expects that once the legal position is finalized and an appropriate liquidator is established the bank's funds would be released, and the Group would recover most of its cash balances with FBME.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

As at 31 December 2017, the management of the Group assessed and recognized a provision for impairment of the restricted cash balances held with FBME in the amount of RUB 471 million (as of 31 December 2016 - RUB 222 million). The provision was to take into account an estimated amount of potential losses and charges to be incurred by the Group in the process of recovery of the restricted cash balances from FBME accounts.

As at 31 December 201, the outstanding balance of restricted cash in FBME was reclassified to current assets as the Group expects to utilize it within the next twelve month (Note 18).

14. CONCESSION ARRANGEMENT

General

In May 1998 the Group entered into a concession arrangement with FGUP "Administration of the Airport Domodedovo" (a state-owned enterprise) for the use of the airfield and related equipment for a term of 75 years. The airfield includes runways, adjacent taxiways, apron and related navigation equipment. The Group is under obligation to repair and maintain the assets. The Group also has the right, but not the obligation, to incur capital expenditures or make improvements to the infrastructure. The grantor is obligated to compensate the Group for the amount of expenses, incurred in the course of making such improvements provided that they are approved by the grantor. At the end of the agreement the assets under the agreement (including the improvements made by the Group and certified by the grantor) revert to the grantor. The profit earned on the construction services, related to the capital expenditures and improvements made to the assets, represents a market level margin.

The Group is required to make quarterly payments for the right to use the assets during the term of the agreement. Such payments are set to be revised on a regular basis. The most recent revision took place in December 2012, with the next revision expected in 2018.

Amounts due from grantor under a concession agreement

Financial asset related to amounts due from grantor under a concession agreement as at 31 December 2016 of RUB 206 million comprised the amount of receivables from grantor for the improvements made to the property used under the concession agreement. As at 31 December 2017 outstanding amounts were fully settled.

Amounts due to grantor in relation to a concession agreement

Financial liability related to amounts due to grantor in relation to a concession agreement represents the present value of the contractual future payments, discounted at an annual interest rate of 10.6% which represents a discount rate determined at the time of the most recent revision of contractual payment terms, which took place in December 2012.

The contractual future payments are reconciled to their present value as at 31 December 2017 and 2016 as follows:

	Future payments		Present value of future payments	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Due within one year	261	264	247	250
Due after one year but not more than five years	1,391	1,391	1,044	1,044
Due after more than five years	17,567	17,915	2,090	2,091
	19,219	19,570	3,381	3,385
Less future finance charges	(15,838)	(16,185)	-	-
Present value of future payments	3,381	3,385	3,381	3,385

The table in Note 22 details changes in the Group's financial liabilities, including both cash and non-cash changes.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Intangible assets

The movement in the book value and accumulated amortization for the intangible assets related to the concession agreement is as follows:

	<u>2017</u>	<u>2016</u>
Cost at the beginning of the year	4,429	4,296
Other additions	123	133
Cost at the end of the year	<u>4,552</u>	<u>4,429</u>
Accumulated amortization at the beginning of the year	(784)	(566)
Amortization charge	(204)	(218)
Accumulated amortization at the end of the year	<u>(988)</u>	<u>(784)</u>
Net book value	<u>3,564</u>	<u>3,645</u>

15. FINANCE LEASE RECEIVABLE

During the period ended 31 December 2011 a 15-year finance lease agreement for the lease of one of the Group's hangars was concluded between a company of the Group, and LLC "ATB Domodedovo" and LLC "S7 Engineering" (previously LLC "Domodedovo Technique").

Presented below is the reconciliation between the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period.

	<u>31 December 2017</u>		<u>31 December 2016</u>	
	<u>Minimum lease payments receivable</u>	<u>Present value of minimum lease payments receivable</u>	<u>Minimum lease payments receivable</u>	<u>Present value of minimum lease payments receivable</u>
Due within one year	199	157	185	146
Due after one year but not more than five years	798	228	740	211
Due after more than five years	632	33	770	35
Total gross / net investment in the lease	<u>1,629</u>	<u>418</u>	<u>1,695</u>	<u>392</u>
Less unearned finance income	(1,211)	-	(1,303)	-
Present value of minimum lease payments	<u>418</u>	<u>418</u>	<u>392</u>	<u>392</u>

16. INVENTORY

	<u>31 December 2017</u>	<u>31 December 2016</u>
Spare parts	638	544
Supplies	448	259
Jet fuel	341	404
Raw materials	205	191
Other inventory	290	243
Total inventory	<u>1,922</u>	<u>1,641</u>

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

17. TRADE AND OTHER RECEIVABLES

	<u>Outstanding balance, gross</u>	<u>Provision for impairment</u>	<u>Outstanding balance, net</u>
31 December 2017			
Trade receivables	3,751	(1,922)	1,829
Other receivables	930	(77)	853
Total	<u>4,681</u>	<u>(1,999)</u>	<u>2,682</u>
31 December 2016			
Trade receivables	3,385	(1,418)	1,967
Other receivables	787	(64)	723
Total	<u>4,172</u>	<u>(1,482)</u>	<u>2,690</u>

The average credit period for the Group's receivables (other than sales carried out on a prepayment basis) is 32 days.

Included in the Group's total trade and other receivables are debtors with carrying amounts of RUB 317 million and RUB 568 million as of 31 December 2017 and 2016, respectively, which are past due at the respective reporting date and which the Group considers to be recoverable (i.e. not impaired). The Group does not hold any collateral over these outstanding balances.

The ageing of past due but not impaired trade and other receivables is as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
30-90 days	50	54
90-180 days	62	118
more than 180 days	205	396
Total past due but not impaired	<u>317</u>	<u>568</u>

The movement in the provision for impairment of trade and other receivables is as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Balance at the beginning of the year	(1,482)	(1,562)
Additional provision recognized in the current year (Note 5)	(545)	(105)
Release of provision	28	135
Use of provision	-	50
Balance at the end of the year	<u>(1,999)</u>	<u>(1,482)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Significant increase of provision for impairment of receivables as of 31 December 2017 related to the deterioration of financial position of a significant customer. During September 2017, VIM-AVIA airline, which was based at the airport Domodedovo, began to experience severe financial difficulties, which resulted in many flights being delayed or cancelled, intervention of a regulator and effective cessation of the company's operations as a business. Management of the Group doesn't expect VIM-AVIA airline receivables as of 31 December 2017 to be recoverable. As of the date of authorization of consolidated financial statements, supervision procedure has been initiated over the airline company.

In determining the recoverability of trade and other receivables the Group considers any change in the credit quality of trade and other receivables from the date credit was initially granted up to the reporting date. Details about concentration of credit risk and related risk management activities are provided in Note 29.

18. PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>
VAT receivable	3,510	3,227
Restricted cash in FBME, net of impairment	1,714	-
Taxes receivable other than income tax and VAT receivable	387	167
Advances to suppliers, net of impairment	267	139
Other current assets	199	244
Total prepayments and other current assets	<u>6,077</u>	<u>3,777</u>

A portion of the Group's 2018 LPNs (Note 21) are held by FBME as of 31 December 2017. The Group expects to utilize these restricted cash balances by settlement of its liability under LPNs held by FBME which mature in November 2018. The movement in the provision for impairment is as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Balance at the beginning of the year	(16)	(16)
Additional provision recognized in the current year	(6)	(7)
Impairment of restricted cash in FBME, reclassified from other non-current assets (Note 13)	(477)	-
Release of provision	10	6
Use of provision	-	1
Balance at the end of the year	<u>(483)</u>	<u>(16)</u>

In determining the recoverability of advances to suppliers the Group considers any change in the credit quality of advances to suppliers from the date credit was initially granted up to the reporting date. Details about concentration of credit risk and related risk management activities are provided in Note 29.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

19. CASH AND CASH EQUIVALENTS

	<u>31 December 2017</u>	<u>31 December 2016</u>
USD-denominated balances with banks	7,587	9,088
EUR-denominated balances with banks	1,092	2,102
Russian Ruble-denominated cash on hand and balances with banks	1,591	690
USD-denominated short-term bank deposits	-	2,426
Total cash and cash equivalents	<u>10,270</u>	<u>14,306</u>

As of 31 December 2017 USD and EUR-denominated balances with banks represent cash accounts with interest rate of 2.5% - 4.5%.

As of 31 December 2016 the Group had a USD-denominated short-term bank deposits with one and two months term placed with UBS AG with an annual interest rate of 0.5-0.6%.

20. EQUITY

Share capital and dividends

Authorized and issued capital as of 31 December 2017 and 31 December 2016 comprises 304,831,519 ordinary shares with par value EUR 1, of which 274,348,367 represent Class A shares and 30,483,152 represent Class B shares. Class A and Class B shares have equal voting rights on liquidation of DME Limited, while Class A shares confer on their holder the exclusive right to receive distributions by way of dividend or return of capital. There have been no changes in the share capital of the Company during the period.

During the year ended 31 December 2017 dividends of USD 50 million and EUR 31.5 million (RUB 4,976 million at the Central Bank of Russia exchange rate as at declaration date) were declared, out of which USD 37.9 million and EUR 31.5 million (RUB 4,368 million at the Central Bank of Russia exchange rate as at payment date) were paid to the shareholders of the Group.

During the year ended 31 December 2016, DME Limited declared dividends of RUB 17,511 million of which RUB 8,186 million were offset against the loans issued in 2015 by the Group entities to Alamo Limited. These loans were recognized in equity. During the year ended 31 December 2016 an amount of RUB 5,483 million was paid to shareholders. The remaining balance of dividends payable was converted to a loan of RUB 6,035 million to Alamo Limited and assigned to one of the Group entities. The Group paid RUB 5,238 million in cash to partially settle the loan; RUB 797 million remains outstanding at 31 December 2016 and included in short-term borrowings.

As of 31 December 2017 the remaining balance of dividends payable is RUB 703 million (as of 31 December 2016: RUB nil).

Dividends of RUB 150 million distributed and paid during the the year ended 31 December 2016 represented distribution to non-controlling shareholders of the Group subsidiaries (nil during the year ended 31 December 2017).

Retained earnings – In accordance with statutory legislation, dividends may only be declared to the shareholders of the Group from accumulated undistributed and unreserved earnings as shown in the Group's individual companies' statutory financial statements. As at 31 December 2017 and 2016 such earnings amounted to RUB 24,941 million and RUB 20,293 million, respectively.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

21. DEBT SECURITIES

	Effective interest rate, %	31 December 2017	31 December 2016
Five-year USD loan participation notes issued in 2013 (the "2018 LPNs") ⁽ⁱ⁾	6.33%	12,819	13,464
Five-year USD loan participation notes issued in 2016 (the "2021 LPNs") ⁽ⁱⁱ⁾	6.04%	20,193	21,255
Five-year RUB debt securities issued in 2017 ⁽ⁱⁱⁱ⁾	8.32%	9,993	-
Total		43,005	34,719
Less: current portion due within twelve months and presented as short-term portion		<u>(13,016)</u>	<u>(384)</u>
Long-term portion of debt securities		<u>29,989</u>	<u>34,335</u>

- (i) In November 2013 the Group issued non-convertible five-year loan participation notes the "2018 LPNs") for the total amount of USD 300 million (RUB 9,872 million at the Central Bank of Russia exchange rate as at the inception date) on the Irish Stock Exchange. Net proceeds from the issuance, after the deduction of related offering costs, amounted to USD 297 million (RUB 9,720 million at the Central Bank of Russia exchange rate as at the inception date). The annual coupon rate of the 2018 LPNs is 6% with interest being paid semi-annually. The 2018 LPNs are guaranteed by certain entities of the Group. The 2018 LPNs mature in November 2018.

In November 2016 the Group redeemed LPNs issued in November 2013 in the total amount of USD 79 million (RUB 5,121 million at the Central Bank of Russia exchange rate as at the repayment date). Premium paid on redemption was up to RUB 253 million.

- (ii) In November 2016 the Group issued non-convertible five-year loan participation notes the "2021 LPNs") for the total amount of USD 350 million (RUB 22,362 million at the Central Bank of Russia exchange rate as at the inception date) on the Irish Stock Exchange. Net proceeds from the issuance, after the deduction of related offering costs, amounted to USD 348 million (RUB 22,210 million at the Central Bank of Russia exchange rate as at the inception date). The annual coupon rate of the 2021 LPNs is 5.875% with interest being paid semi-annually. The Group used net proceeds from the issuance for implementation of the Group's current capital expenditure program and for general corporate purposes. The 2021 LPNs are guaranteed by certain entities of the Group. The 2021 LPNs mature in November 2021.

- (iii) In December 2017 the Group issued non-convertible five-year loan securities for the total amount of RUB 10,000 million on the Moscow Stock Exchange. Net proceeds from the issuance, after the deduction of related offering costs, amounted to RUB 9,979 million. The annual coupon rate of the loan securities is 8.1% with interest being paid semi-annually. The loan securities mature in December 2022.

The table in Note 22 details changes in the Group's financial liabilities, including both cash and non-cash changes.

Covenants

In accordance with the terms of the 2018 and 2021 LPNs, the Group is subject to certain covenants, which are calculated on the basis of consolidated financial statements of the Group, prepared in accordance with IFRS. Such financial covenants mainly consist of limitations on the Consolidated Net Debt to Consolidated EBITDA ratio, Consolidated Equity to Consolidated Total Assets ratio and Obligor Cover ratios.

As of 31 December 2017 the Group was in compliance with these covenants.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

22. BORROWINGS

	Effective interest rate, %	31 December 2017	31 December 2016
Loan from Raiffeisen Bank	6.34%	2,195	2,375
Loan from ING Bank	3.06%	1,600	-
Loan from Alamo Limited	2.1%	-	797
Total		3,795	3,172
Less: current portion due within twelve months and presented as short-term borrowings		<u>(2,201)</u>	<u>(1,155)</u>
Long-term borrowings		<u>1,594</u>	<u>2,017</u>

In September 2015 the Group entered into a EUR-denominated five-year loan facility agreement for a total amount of EUR 38 million (RUB 2,914 million at the Central Bank of Russia exchange rate as at the inception date) provided by Raiffeisen Bank International AG ("Raiffeisen Bank") to finance design and construction of a parking terminal PM-2.1. The loan is guaranteed by certain Group companies and is at fixed rate of 5% per annum. As of 31 December 2017 the loan facility was fully utilized.

In May 2017 the Group entered into a EUR-denominated eight-year loan facility agreement for the total amount of EUR 59 million (RUB 4,102 million at the Central Bank of Russia exchange rate ruling at the inception date) provided by International Netherlands Group N.V. Bank ("ING Bank") at a variable rate of EURIBOR +1.2% to finance the installation of a baggage handling system in the new segment of Terminal 2. As of 31 December 2017 the outstanding balance of the loan facility was EUR 32 million.

Covenants

In accordance with the terms of the loan facility agreements with Raiffeisen Bank International AG and ING Bank, the Group is subject to certain covenants, which are calculated on the basis of consolidated financial statements of the Group, prepared in accordance with IFRS. Such financial covenants mainly consist of limitations on the Consolidated Total Debt to Consolidated EBITDA ratio, Consolidated Net Debt to Consolidated EBITDA ratio, Consolidated Equity to Consolidated Total Assets ratio and Obligor Cover ratios.

As of 31 December 2017, the Group was in breach of the Consolidated Total Debt to Consolidated EBITDA covenant under the loan arrangement with Raiffeisen Bank. As the Group did not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, it reclassified the outstanding balance of the loan into short-term borrowings. Subsequent to the year end, the Group received a waiver from the bank confirming that the bank will not exercise its right to demand early repayment of the loan. The Group was in compliance with other financial covenants as at 31 December 2017.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	31 December 2016	Financing cash flows (i)	Non-cash flow changes Effect of exchange rate changes on the balance	Other changes (ii)	31 December 2017
Borrowings	3,172	371	213	39	3,795
Debt securities (Note 22)	34,719	9,975	(1,757)	68	43,005
Amounts due to grantor under a concession agreement (Note 14)	3,385	-	-	(4)	3,381
	41,276	10,346	(1,544)	103	50,181

- (i) The cash flows from bank loans and debt securities represents the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.
- (ii) Other changes include accrual of interest, net of capitalised interest expenses and payments (Note 9).

23. TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016
Amounts payable for the acquisition of property, plant and equipment	1,588	1,949
Advances received	1,139	1,235
Trade payables	939	968
Rent deposits received	775	767
Total trade and other payables	4,441	4,919

24. TAXES OTHER THAN INCOME TAX PAYABLE

	31 December 2017	31 December 2016
Value added tax	960	733
Social insurance tax	389	299
Property tax	11	13
Other taxes	14	43
Total taxes other than income tax payable	1,374	1,088

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25. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>31 December 2017</u>	<u>31 December 2016</u>
Accrued employee expenses	1,787	1,638
Other liabilities	<u>328</u>	<u>265</u>
Total accrued expenses and other current liabilities	<u>2,115</u>	<u>1,903</u>

Accrued employee expenses as of 31 December 2017 and 2016 comprised accrued salaries and bonuses of RUB 1,291 million and RUB 1,223 million, respectively, and an accrual for unused vacation of RUB 496 million and RUB 415 million, respectively.

26. TRANSACTIONS WITH RELATED PARTIES

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

All related parties, with whom the Group entered into significant transactions during the years ended 31 December 2017 and 2016 or had significant balances outstanding as of 31 December 2017 and 2016, are considered to be entities under common control.

The following tables provide the total amount of transactions, which have been entered into with related parties during the years ended 31 December 2017 and 2016 as well as year-end balances:

	<u>31 December 2017</u>		<u>31 December 2016</u>	
	<u>Amounts owed by related parties</u>	<u>Amounts owed to related parties</u>	<u>Amounts owed by related parties</u>	<u>Amounts owed to related parties</u>
Entities under common control	907	33	795	853

	<u>2017</u>			<u>2016</u>		
	<u>Sales to related parties</u>	<u>Purchases from related parties</u>	<u>Interest income</u>	<u>Sales to related parties</u>	<u>Purchases from related parties</u>	<u>Interest income</u>
Entities under common control	65	125	15	71	1	1

Compensation of key management personnel

Key management comprised 8 and 9 persons as at 31 December 2017 and 2016, respectively. Total gross compensation (including mandatory pension and other payroll related contributions to state funds) and before withholding of personal income tax) to those individuals included in payroll and related charges in the consolidated profit or loss amounted to RUB 471 million (including social insurance tax of RUB 65 million) and RUB 584 million (including social insurance tax of RUB 63 million) for the years ended 31 December 2017 and 2016, respectively. The outstanding balances due to key management personnel amounted to RUB 794 million and RUB 741 million as at 31 December 2017 and 2016, respectively, and comprised accrued salaries, bonuses and accrual for unused vacation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

27. OPERATING LEASES ARRANGEMENTS

The Group as Lessee

The Group leases buildings, certain objects of movable property and land (including the land on which the airfield is located and which the Group leases from the Moscow Region government). The term of the lease of land is 49 years from the inception of lease agreement in May 1998. The amount of lease payments is fixed, however they are adjusted by the lessor from time to time.

Future minimum lease payments under contracted operating leases are as follows:

	<u>2017</u>	<u>2016</u>
Within one year	127	185
In two to five years	394	391
After five years	<u>2,545</u>	<u>2,646</u>
Total minimum lease payments	<u>3,066</u>	<u>3,222</u>

Included in minimum lease payments within one year are amounts of RUB 15 million and RUB 71 million as of 31 December 2017 and 2016, respectively, which represent the value of lease payments under lease agreements for the current lease term automatically extended for an indefinite term in accordance with the provisions in these agreements. These agreements can be terminated by either lessor or lessee by notification of the other party one month before termination.

The Group as Lessor

Operating lease agreements consist mainly of short-term contracts for the lease of the Group's trading space and catering areas. The lease payments consist of a fixed amount, and a variable part that is contingent on sales levels and certain other performance indicators, achieved by the lessees. Lessees are selected based on the results of tenders. Contracts with the selected lessees are signed for a term of less than one year, and contain an automatic extension clause. The contracts are automatically extended for the subsequent period, unless one of the parties exercises, in due time, its option not to extend the rental period. The lessees do not have an option to purchase the property at the end of the lease period.

Rental income earned by the Group is set out in Note 7.

The future minimum lease payments representing fixed part of the rentals under contracted operating leases for the year 2018 amount to RUB 1,322 million.

28. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

The Group's contracted capital commitments, related to construction of passenger and cargo terminals and modernization of existing assets as of 31 December 2017 and 2016, consisted of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Reconstruction and expansion of passenger terminal	22,165	25,782
Construction of multilevel parking	389	1,720
Reconstruction and expansion of cargo terminal	256	1,703
Reconstruction of office buildings	235	75
Construction of warehousing facilities	17	30
Reconstruction of fuel storage facilities	11	43
Construction of electric power plant	4	2
Construction of aircraft maintenance hangar	-	50
Other	<u>351</u>	<u>582</u>
Total capital commitments	<u>23,428</u>	<u>29,987</u>

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Operating environment of the Group – Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

The government of the Russian Federation directly affects the Group's operations through regulation of certain operating activities of the airports in Russia. According to current Russian legislation, certain infrastructure items may not be privately owned and must remain federal property. With respect to the Group, which operates under a long-term concession arrangement (see Note 14), such infrastructure items include the airfield, runways, adjacent taxiways, apron and certain navigation equipment. The contractual agreement regulating the relationship between the government and operators of such infrastructure items in Russia may not be as detailed and comprehensive as the contractual agreements governing similar infrastructure assets in more developed countries. Terms of contractual agreements between the government and infrastructure operators are not standardized, and may vary substantially from one arrangement to another. As laws and regulations evolve, develop or otherwise change in the future, the lease agreement between the Group and the government may change significantly.

In addition, because of its importance to the public, the airport attracts a significant amount of political attention. The Group is subject to a high level of scrutiny from public officials and may from time to time be subject to government reviews, public commentary and investigations. Furthermore, the overall legal environment for private business in the Russian Federation is such that there exists a possibility that government bodies and regulatory agencies may take differing views on whether or not a given private business has complied with the relevant laws and regulations. Effects of such non-compliance may vary from administrative penalties and fines to criminal prosecution. The Group's management believes that it has properly complied with all relevant regulations and applicable laws.

Taxation - Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events 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. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation was amended starting from January 1, 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses may have more than one interpretation, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

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Starting 2015, the Russian “de-offshorization law” came into force introducing several new rules and concepts and amending others, which may have an impact on the Group’s tax obligations, including taxation of profit of controlled foreign companies, the concept of beneficial ownership and the broader rules for determining the tax residency of legal entities. According to these changes, the undistributed profits of the Group foreign subsidiaries, considered as controlled foreign companies, may result in an increase of the tax base of the controlling entities, and the benefits of enjoying reduced tax rates to the income paid to foreign entities under double tax treaties (“DTTs”) may come under additional scrutiny.

Current withholding tax and DTTs administration practice in Russia require foreign tax residents to demonstrate and substantiate with documents their beneficial ownership rights to the Russian-sourced income received in order to obtain a tax exemption or apply a reduced withholding tax rate under an applicable double tax treaty. The criteria to establish beneficial ownership rights are evolving with the development of court practice in Russia. Although the practice is still in its early stage of development, it is clear that in many cases foreign tax residents receiving income from Russian sources are disallowed DTTs benefits due to inability to confirm their beneficial ownership rights to the income received. The Group relies on the application of DTTs in its cross-border activities and treats its foreign tax resident companies as beneficial owners of the income received. As determination of the beneficial owner requires significant judgement and is frequently challenged by the tax authorities, the Group faces a risk of not being qualified to apply the DTTs. If crystalized, this risk would result in significantly increased withholding tax liabilities in Russia.

Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. Where uncertainty exists, the Group has accrued tax liabilities as management’s best estimate of the probable outflow of resources which will be required to settle such liabilities. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant. Management’s estimate of the possible exposure in relation the imposition of additional income tax and other taxes (e.g. VAT), including penalties and other charges, that is more than remote, but for which no liability is required to be recognized under IFRS is not disclosed as in the management’s view such disclosure may prejudice the Group’s position in any possible future dispute with the tax authorities. This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group’s future tax liability.

Environmental matters – The enforcement of environmental regulation in the Russian Federation is continually evolving. The Group periodically evaluates its obligations under environmental regulations. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that the Group has met the government’s federal and regional requirements concerning environmental matters. Therefore, there are no significant liabilities for environmental damage or remediation.

Legal proceedings – During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which management believes could have a material effect on the result of operations or financial position of the Group, other than those for which provision has been made in these consolidated financial statements.

Insurance – The Group’s insurance program is designed to cover a majority of risks inherent in airport operation without any substantial gaps in coverage. The main operational risks of the Group are covered by property damage policy and airport civil liability policy while other insurance contracts are designed to cover minor losses or to provide additional benefits for employees and to meet current legislation requirements without any major influence to airport business.

Property and civil liability of the Group are insured by well known Russian insurance companies. The full coverage insurance value of property is RUB 8,292 million. Third party liability of DME Limited and its subsidiaries is insured for the amount of RUB 28,800 million.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

29. RISK MANAGEMENT ACTIVITIES

The Group's senior management oversees the risk management process and ensures that appropriate policies and procedures are designed and implemented, and that financial risks are timely identified, measured and managed in accordance with approved policies. Such policies are summarized below.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to the equity holder through the optimization of the debt and equity balance. The capital structure of the Group consists of long-term borrowings, including bank loans, amounts due to grantor under a concession agreement and equity, consisting of share capital and retained earnings.

Management of the Group regularly reviews its gearing ratio, calculated as proportion of net debt to equity, to ensure that it is in line with the Group's adopted policy on debt management. During 2017 the Group complied with all external capital requirements, except as described in Note 22.

Major categories of financial instruments

The Group's financial assets include short- and long-term investments, amounts due from grantor under a concession agreement, lease receivable, trade and other receivables and cash and cash equivalents. All financial assets fall into loans and receivables and available-for-sale categories under IAS 39 "Financial instruments: recognition and measurement".

	<u>31 December 2017</u>	<u>31 December 2016</u>
Financial assets		
Cash and cash equivalents	10,270	14,306
Trade and other receivables	2,682	2,690
Lease receivable	418	392
Short-term investments	40	27
Amounts due from grantor under a concession agreement	-	206
Other non-current assets	48	1,866
Total financial assets	<u>13,458</u>	<u>19,487</u>

The Group's principal financial liabilities are trade and other payables, borrowings, debt securities, accruals and amounts due to grantor under a concession agreement. All financial liabilities are carried at amortized cost.

	<u>31 December 2017</u>	<u>31 December 2016</u>
Financial liabilities		
Debt securities	43,005	34,719
Amounts due to grantor under a concession agreement	3,381	3,385
Trade and other payables	3,302	3,684
Accrued expenses and other current liabilities	2,155	1,903
Short-term borrowings	2,201	1,155
Long-term borrowings	1,594	2,017
Total financial liabilities	<u>55,598</u>	<u>46,863</u>

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Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed by the treasury function. Management controls current liquidity based on expected cash flows and revenue receipts through establishing and maintaining a cash fund sufficient to cover its contractual obligations for the period of three to six upcoming months. Such funds are normally kept as highly liquid short-term bank deposits, and are available on demand. In addition, the Group's policy is to continually maintain a diversified portfolio of open credit lines with reputable banks, which serve to secure for the Group a stable ad hoc borrowing capability.

The Group has both interest bearing and non-interest bearing financial liabilities. The interest bearing liabilities consist of amounts due to grantor under a concession agreement, borrowings and the debt securities. The non-interest bearing liabilities include trade and other payables, accrued expenses and other current liabilities.

The following tables detail the Group's remaining contractual maturity for financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Effective interest rate, %	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Over 5 years	Total
31 December 2017							
Non-interest bearing liabilities		3,454	1,022	67	683	175	5,401
Loans and borrowings	3.06%-8.32%	429	247	17,406	36,609	1,775	56,466
Amounts due to grantor under a concession agreement	10.6%	-	-	261	1,391	17,567	19,219
Total		3,883	1,269	17,734	38,683	19,517	81,086
31 December 2016							
Non-interest bearing liabilities		3,423	1,145	130	734	155	5,587
Loans and borrowings	6.04%-6.3%	-	22	4,008	42,702	-	46,732
Amounts due to grantor under a concession agreement	10.6%	-	-	264	1,391	17,915	19,570
Total		3,423	1,167	4,402	44,827	18,070	71,889

The following tables detail the Group's expected maturity for its financial assets, except for cash and cash equivalents. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets, including interest that will be earned on those.

	Effective interest rate, %	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Over 5 years	Total
31 December 2017							
Accounts receivable		1,899	747	12	24	-	2,682
Investments	3.2-8%	40	-	-	-	-	40
Lease receivable	47%	17	33	149	798	632	1,629
Total		1,956	780	161	822	632	4,351
31 December 2016							
Accounts receivable		1,762	1,100	32	2	-	2,896
Investments	7-8%	22	-	5	-	-	27
Lease receivable	47%	15	31	139	740	770	1,695
Total		1,799	1,131	176	742	770	4,618

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Currency Risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group has export revenue and purchases third-party services, which are denominated in foreign currencies. Certain receivable and payable balances, related primarily to settlements with customers and suppliers and most of loans and borrowings of the Group are denominated in currencies other than the Russian Ruble, the functional currency of the Company and most of the subsidiaries of the Group.

Currency risk is regularly assessed and managed by Financial Assets Management department. The Group's foreign currency position for net current assets is evaluated daily. The consolidated foreign currency position of all of the Group's assets and liabilities is assessed quarterly. The Group mitigates potential negative impact of exchange rate movements primarily through aiming to maintain a balanced structure of foreign currency assets and liabilities. Available cash and cash equivalents are the key instrument used by management to correct an imbalanced foreign currency position. Management also continually monitors market trends in order to appropriately adjust the Group's contractual payment terms to take advantage of favorable changes in exchange rates.

For the year ended 31 December 2017 the Russian Ruble appreciated against the US Dollar, EURO by 15%, 13%, respectively (depreciated against the US Dollar, EURO by 9%, 9% for the year ended 31 December 2016). The Group does not have or use any formal arrangements (i.e. derivatives) to manage foreign currency risk exposure.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at the reporting date are as follows:

	Denominated in USD		Denominated in EUR	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Assets				
Cash and cash equivalents	7,587	11,514	1,092	2,102
Amounts due from grantor under a concession agreement	-	-	-	206
Trade and other receivables	990	893	115	54
Investments	-	-	15	-
Lease receivable	-	-	418	392
Other non-current assets	-	-	-	1,805
Total assets	8,577	12,407	1,640	4,559
Liabilities				
Loans and borrowings	33,012	34,719	3,795	3,172
Trade and other payables	775	946	132	94
Total liabilities	33,787	35,665	3,927	3,266

The table below details the Group's sensitivity to strengthening of the Russian Ruble against the respective foreign currencies by 10%, all other variables being held constant. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	USD - impact		EUR - impact	
	2017	2016	2017	2016
(Gain) / loss	(2,521)	(2,326)	(57)	129

The weakening of the Russian Ruble in relation to the same currencies by the same percentage will produce an equal and opposite effect on the consolidated financial statements of the Group to that shown above.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Interest rate risk

Interest rate risk is the risk that movement in interest rates for borrowed funds will have an adverse effect on the Group's financial performance. In general the Group takes a conservative approach to the use of debt leverage, and tends to finance its operations and expansion through internally generated funds.

Management carefully monitors changes in interest rates and takes steps to mitigate interest rate risk through careful evaluation of contractual terms for new borrowings, as well as continued improvement of its existing debt portfolio. In assessing the quality of its debt portfolio the Group aims to maintain an appropriate mix of floating and fixed interest rate instruments, and to ensure that contractual terms for the borrowings provide for minimal or no early repayment fees, an option to negotiate a decrease in interest rates and an inability of a credit institution to unilaterally increase interest rates without prior notification and granting an early repayment option at no additional charge.

As at 31 December 2017 and 2016 the Group's borrowed funds consisted of the USD loan participation notes, RUB loan securities, long- and short-term borrowings and amounts due to grantor under a concession agreement.

The Group has no significant exposure to interest rate risk as it has no borrowings at floating interest rates.

The Group's liabilities under concession agreement bear an inherent interest rate, which is fixed for a period of three years (see Note 14). At the end of each three-year period payments under the agreement are revised, and any changes in the amount of the future payments under the concession agreement may significantly influence the effective interest rate for the related liability, as well as the total amount of the interest expense.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not hedge its credit risk.

The Group's exposure to credit risk arises primarily with respect to amounts held with the banks, loans issued and receivables in connection with aviation, ground handling and real estate activities. Credit exposure is managed by establishing credit terms for the most significant customers that are reviewed and approved by management. Credit sales are offered only to foreign customers and most significant customers located within the Commonwealth of Independent States ("CIS") and the Russian Federation with proven credit history. Sales to other customers are made on a prepayment basis. The credit quality of the bank balances and loans issued can be assessed by reference to external credit rating if available or to the working history of the counterparty with the Group. These policies enable the Group to reduce its credit risk significantly.

The carrying amount of loans receivable, net of provision for impairment, represents the maximum amount exposed to credit risk (Note 17). Management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

As of 31 December 2017, 47% of the total net amount of trade and other related to the nine largest counterparties of the Group (31 December 2016: 59%):

	31 December 2017		
	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
Transaero	880	(880)	-
S7	588	(1)	587
Vim-avia	504	(504)	-
Quantico Limited	242	-	242
Forum-Invest	105	-	105
Emirates	96	-	96
Priority Pass Ltd	81	-	81
Lufthansa	71	-	71
Svorg	67	-	67
Total	2,634	(1,385)	1,249

	31 December 2016		
	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
Transaero	880	(880)	-
S7	547	(2)	545
Emirates	275	-	275
Forum-Invest	245	-	245
FGUP "Administration of the Airport Domodedovo"	206	-	206
Quantico Limited	182	-	182
Vim-avia	112	-	112
Lufthansa	79	-	79
Mera-Invest	67	(5)	62
Total	2,593	(887)	1,706

As of 31 December 2017 98 % of the total amount of amounts held with the banks related to three banks (31 December 2016: 97 %). Bank deposits and cash balances placed with the largest banks as of 31 December 2017 and 2016 are as follows:

	Credit rating	Rating Scale	31 December 2017	31 December 2016
Rosbank	BBB -	Fitch	5,439	273
Raiffeisen Bank International AG. Austria	BBB +	S&P	4,037	3,673
OVERSEA CHINESE BANKING CORPORATION LIMITED	AA -	Fitch	601	2,750
UBS AG	A +	Fitch	4	7,158
Total			10,081	13,854

Fair value of financial instruments

According to the accounting policy the Group uses the following hierarchy to determine and disclose fair value of financial instruments:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (Amounts in millions of Russian Rubles)

Except as detailed in the following table management of the Group believes that the carrying value of financial instruments such as cash and cash equivalents, short-term receivables and payables, lease receivable, short- and long-term investments, borrowings and liabilities under concession, which classified within Level 2 category of the above hierarchy, approximates their fair value. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments. Certain financial instruments, such as available-for-sale bonds were excluded from fair value analysis either due to their insignificance or due to the fact that the assets were acquired or liabilities incurred close to the reporting dates and management believes that their carrying value either approximates their fair value, or may not significantly differ from each other.

	31 December 2017	
	Fair value of financial liabilities	Carrying value of financial liabilities
2018 LPNs (Note 21)	12,760	12,819
2021 LPNs (Note 21)	19,695	20,193
Loan from Raiffeisen bank (Note 22)	1,872	2,195
Total	34,327	35,207

30. SUBSEQUENT EVENTS

Issue of loan participation notes – In February 2018 the Group issued non-convertible five-year loan participation notes (the "2023 LPNs") for the total amount of USD 300 million (RUB 17,277 million at the Central Bank of Russia exchange rate as at the inception date) on the Irish Stock Exchange. Net proceeds from the issuance, after the deduction of related offering costs, amounted to USD 298 million (RUB 17,154 million at the Central Bank of Russia exchange rate as at the inception date). The annual coupon rate of the 2023 LPNs is 5.075% with interest being paid semi-annually. The Group is going to use net proceeds from the issuance for refinancing the 2018 LPNs and for implementation of the Group's current capital expenditure program as well as for general corporate purposes. The 2023 LPNs are guaranteed by certain entities of the Group.

Concession arrangement – In December 2017 the Russian Government issued specific methodology for calculation of the amount of regular payments made by the airports of civil aviation under concession agreements. This revision of contractual payment terms is expected to result in decrease of the future minimum payments of the Group. As of the date of authorization of these consolidated financial statements the agreement with appropriate amendments has not yet been finalized.

New tranches under loan facility agreement with ING bank - In February, March and April 2018, the Group additionally borrowed EUR 16.9 million under the loan facility arrangement with ING Bank.