DME LIMITED
and subsidiaries

Interim Condensed Consolidated
Financial Information
For the Six-month Period Ended
30 June 2018 (unaudited)

DME LIMITED AND SUBSIDIARIES

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DME LIMITED AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

Management is responsible for the preparation of the interim condensed consolidated financial information that presents the financial position of DME Limited (the "Company") and its subsidiaries (the "Group") as of 30 June 2018 and the consolidated results of its operations, cash flows and changes in equity for the six-month period then ended, in compliance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

In preparing the interim condensed consolidated financial information, 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 are 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;
- 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 interim condensed consolidated financial information of the Group complies with IAS 34;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the companies of the Group operate;
- Taking such steps that are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial information for the six-month period ended 30 June 2018 was approved by management on 2 November 2018.

On behalf of management:

Elena Batsunova	Elena Leonova
Chief Executive Officer	Chief Financial Officer

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REPORT ON REVIEW OF INTERIM CONDENCED CONSOLIDATED FINANCIAL INFORMATION

To: Shareholders of DME Limited

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of DME Limited and its subsidiaries (the "Group") as of 30 June 2018, and the related interim consolidated statements of profit or loss and comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing adopted in Cyprus and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, the consolidated financial position of the Group as of June 30, 2018, and its consolidated financial performance and its consolidated cash flows for the six months then ended in accordance with IAS 34 *Interim Financial Reporting*.

Emphasis of Matter

We draw attention to Note 4 to the financial information which describes restatement of certain information of the Group's interim condensed consolidated financial information as of 30 June 2017. Our opinion is not qualified in respect of this matter.

Deloitte & Touche

Moscow, Russia

2 November 2018

DME LIMITED AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED)

(Amounts in millions of Russian Rubles)

	Notes	2018	2017
Revenue	6	19,777	18,340
Operating expenses, net	7	(15,268)	(13,975)
Operating profit		**4,509**	**4,365**
Interest expense	8	(531)	(175)
Interest income		231	126
Impairment of restricted cash balances	12	(423)	-
Foreign exchange (loss)/gain, net		(2,626)	115
Profit before income tax		**1,160**	**4,431**
Income tax	9	(276)	(958)
Profit and other comprehensive income for the period		**884**	**3,473**
Profit/(loss) and total other comprehensive income/(loss) attributable to:			
Owners of the Company		894	3,499
Non-controlling interests		(10)	(26)
		884	**3,473**

On behalf of management:

Elena Batsunova
Chief Executive Officer

Elena Leonova
Chief Financial Officer

2 November 2018

The accompanying notes form an integral part of this interim condensed consolidated financial information.

DME LIMITED AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 JUNE 2018
(Amounts in millions of Russian Rubles)

	Notes	30 June 2018 (unaudited)	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	10	91,764	81,551
Investment property	10	601	612
Advances for acquisition of non-current assets	10	2,814	2,848
Intangible assets	11	5,448	5,079
Deferred tax asset, net		3,057	2,237
Long-term finance lease receivable	14	274	261
Other non-current assets	12	1,317	48
Total non-current assets		**105,275**	**92,636**
Current assets			
Inventory	16	2,253	1,922
Trade and other receivables	15	3,261	2,682
Prepayments and other current assets	17	4,475	6,077
Prepaid current income tax		1,008	1,107
Short-term finance lease receivable	14	167	157
Cash and cash equivalents	18	24,055	10,270
Total current assets		**35,219**	**22,215**
TOTAL ASSETS		**140,494**	**114,851**
EQUITY AND LIABILITIES			
Capital			
Share capital	19	11,877	11,877
Retained earnings	19	32,129	37,531
Equity attributable to the owners of the Company		44,006	49,408
Non-controlling interests		(64)	(54)
Total equity		**43,942**	**49,354**
Non-current liabilities			
Deferred tax liability, net		5,756	5,401
Amounts due to grantor under a concession agreement, long-term portion	13	3,133	3,134
Debt securities, long-term portion	20	50,494	29,989
Borrowings, long-term portion	21	-	1,594
Total non-current liabilities		**59,383**	**40,118**
Current liabilities			
Trade and other payables	22	6,595	4,441
Current income tax payable		1,239	1,282
Taxes other than income tax payable	23	1,481	1,374
Dividends payable	19	5,401	703
Amounts due to grantor under a concession agreement, short-term portion	13	79	247
Accrued expenses and other current liabilities	24	2,780	2,115
Debt securities, short-term portion	20	14,600	13,016
Borrowings, short-term portion	21	4,994	2,201
Total current liabilities		**37,169**	**25,379**
TOTAL EQUITY AND LIABILITIES		**140,494**	**114,851**

On behalf of management:

Elena Batsunova	Elena Leonova
Chief Executive Officer	Chief Financial Officer

2 November 2018

The accompanying notes form an integral part of this interim condensed consolidated financial information.

DME LIMITED AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED)
(Amounts in millions of Russian Rubles)

	2018	2017
Cash flows from operating activities:		
Profit before income tax	**1,160**	**4,431**
Adjustments for:		
Depreciation and amortization	1,729	1,720
Change in provision for impairment of accounts receivable, advances to suppliers and advances for acquisition of non-current assets	46	3
Impairment of restricted cash balances	423	-
Interest income	(231)	(126)
Interest expense	531	175
Foreign exchange loss/(gain), net	2,626	(115)
Other non-cash items, net	52	125
	6,336	**6,213**
(Increase)/decrease in inventory	(332)	159
Increase in trade and other receivables	(636)	(426)
(Increase)/ decrease in prepayments and other current assets	(144)	78
Increase/ (decrease) in trade and other payables	863	(57)
Increase in taxes other than income tax payable	107	91
Increase in accrued expenses and other current liabilities	552	122
Net cash from operating activities before income tax	**6,746**	**6,180**
Income tax paid	(621)	(1,188)
Cash provided by operating activities	**6,125**	**4,992**
Cash flows from investing activities:		
Purchases of property, plant and equipment	(8,752)	(5,314)
Purchases of intangible assets	(896)	(204)
Proceeds from disposal of property, plant and equipment	24	29
Purchases of investments	-	(2,486)
Proceeds from disposal of investments	22	18
Proceeds from grantor under a concession agreement	-	50
Interest received	247	104
Net cash used in investing activities	**(9,355)**	**(7,803)**
Cash flows from financing activities:		
Repayments of borrowings	(417)	(599)
Proceeds from borrowings and debt securities	18,472	-
Dividends paid (Note 19)	(1,427)	(925)
Interest paid	(1,727)	(1,199)
Other	-	(6)
Net cash provided by/(used in) financing activities	**14,901**	**(2,729)**
Net increase/(decrease) in cash and cash equivalents	**11,671**	**(5,540)**
Cash and cash equivalents at beginning of the period	**10,270**	**14,306**
Allowance for expected credit losses	(19)	-
Foreign exchange loss/ (gain) on cash and cash equivalents	2,133	(476)
Cash and cash equivalents at end of the period (Note 18)	**24,055**	**8,290**

On behalf of management:

Elena Batsunova
Chief Executive Officer

Elena Leonova
Chief Financial Officer

2 November 2018

The accompanying notes form an integral part of this interim condensed consolidated financial information.

DME LIMITED AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018
(Amounts in millions of Russian Rubles)

	Share capital	Retained earnings	Equity attributable to the owners of the Company	Non-controlling interests	Total
Balance as of 1 January 2017	**11,877**	**33,108**	**44,985**	**(10)**	**44,975**
Profit/ (loss) and comprehensive income for the period	-	3,499	3,499	(26)	3,473
Dividends (Note 19)	-	(2,819)	(2,819)		(2,819)
Balance as of 30 June 2017 (unaudited)	**11,877**	**33,788**	**45,665**	**(36)**	**45,629**
Balance as of 31 December 2017	**11,877**	**37,531**	**49,408**	**(54)**	**49,354**
Adoption of new standards (Note 2)	**-**	(263)	(263)	-	(263)
Balance as of 1 January 2018	**11,877**	**37,268**	**49,145**	**(54)**	**49,091**
Profit/ (loss) and comprehensive income for the period	**-**	894	894	(10)	884
Dividends (Note 19)	-	(6,033)	(6,033)	-	(6,033)
Balance as of 30 June 2018 (unaudited)	**11,877**	**32,129**	**44,006**	**(64)**	**43,942**

On behalf of management:

Elena Batsunova
Chief Executive Officer

Elena Leonova
Chief Financial Officer

2 November 2018

The accompanying notes form an integral part of this interim condensed consolidated financial information.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

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 of 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.

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 interim consolidated financial information of the Group for the six-month period ended 30 June 2018 was authorized for issue by management on 2 November 2018.

2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Statement of compliance

This financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

This financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with The Group's audited annual consolidated financial statements for 2017 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts which have not changed significantly in amount or composition.

Exchange rates for the currencies in which the Group transacts were as follows:

	30 June 2018	31 December 2017
Closing exchange rates – RUB		
1 U.S. Dollar ("USD")	62.76	57.60
1 Euro	72.99	68.87

	30 June 2018	30 June 2017
Average exchange rates for the six months ended – RUB		
1 USD	59.27	57.97
1 Euro	71.78	62.69

Seasonality

The business of the Group is subject to significant seasonal fluctuations in its operations, such as a significant increase in passenger traffic in the summer months and September, typically peaking in August, and a decrease in passenger traffic in the first three months of the calendar year, typically reaching the lowest point in February. Fluctuations in the levels of passenger traffic have a strong correlation with the Group's revenue from current operations. In addition, these fluctuations have an effect on trade and other receivables and cash and cash equivalents, with receivables decreasing in August to September and cash and cash equivalents simultaneously increasing, while the pattern is reversed in January to February when receivables increase, while cash and cash equivalents decrease as airlines often experience shortage of cash to pay for services rendered during these months. In accordance with IFRS, revenue and the related expenses are recognized in the period in which they are realized and incurred, respectively. The Group's results for the interim period do not necessarily reflect a continuing trend which will be reflected in the year-end results.

Going concern

These financial information 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 30 June 2018, the current liabilities of the Group to exceed its current assets by RUB 1,950 million, which was mainly as a result of the reclassification of its long-term borrowings into short-term category for the reason explained below:

- As disclosed in the Note 21 the Group breached one of the financial covenants set out in the long-term loan agreements with Raiffeisen bank and ING Bank resulting in lender's entitlement to request early repayment of the loans. As required by the accounting standards, the Group presented the outstanding balance of the loans as of 30 June 2018 of RUB 3,787 million as short-term borrowings.

However, subsequent to 30 June 2018, the Group received waivers from the banks confirming the lenders would not demand an early repayment of the loans.

Management has determined that the Group has sufficient liquid funds to meet all of its current obligations as they become due and, accordingly, the going concern assumption for the Group remains appropriate as at the date of the approval of these interim condensed consolidated financial information.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements as of 31 December 2017 and for the year then ended, except for the effect on the Group's financial position and performance arising from the adoption of new standards, described below.

Adoption of new and revised standards

The Group has adopted IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers" that are mandatory for financial periods beginning on 1 January 2018.

IFRS 9 "Financial Instruments"

<u>Impact of adoption</u>

The Group has adopted IFRS 9 for reporting periods beginning on and after 1 January 2018. IFRS 9 has replaced IAS 39 "Financial instruments: Recognition and Measurement". The new standard sets out new requirements for the accounting of financial instruments including classification, recognition and measurement of financial assets and liabilities.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

As all financial assets and liabilities of the Group are measured at amortized cost starting from 1 January 2018 the Group continues to classify and measure them on the same bases as it was previously adopted under IAS 39.

Financial assets measured at amortized cost are now subject to the impairment provisions of IFRS 9.

At the date of initial application, the Group has applied modified retrospective approach. Any difference between the previous carrying amount of financial assets and liabilities under IAS 39 "Financial instruments: Recognition and Measurement" and the new carrying amount was recognized in the retained earnings as at 1 January 2018.

Accounting policies effective from 1 January 2018

The Group recognizes financial assets and financial liabilities in the statement of financial position when it becomes a party to the contractual provisions under the instrument. Financial assets and financial liabilities are initially measured at fair value. When the Group recognizes a financial asset or a financial liability, it shall classify it as subsequently measured at amortized cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL).

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses (the "ECL") on cash and cash equivalents, trade and other receivables, prepayments and other financial assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. The Group applies the simplified approach to recognize lifetime ECL for its trade and other receivables, as required or permitted by IFRS 9.

The management has analysed ECL for financial assets as of 31 December 2017 and made appropriate adjustments as of 1 January 2018:

	31 December 2017	**Adjustment due to change in measurement**	**1 January 2018**
Financial assets at amortized cost			
Prepayments and other current assets	6,077	(160)	5,917
Trade and other receivables	2,682	(122)	2,560
Cash and cash equivalents	10,270	(47)	10,223
Deferred tax assets	2,237	66	2,303
Retained earnings	**37,531**	**(263)**	**37,268**

IFRS 15 "Revenue from Contracts with Customers"

The Group adopted IFRS 15 for reporting periods beginning on and after 1 January 2018. IFRS 15 has replaced IAS 18 "Revenue", IAS 11 "Construction contracts" and related interpretations.

At the date of initial application, the Group has applied modified retrospective approach. There was no significant impact of IFRS 15 adoption as of 1 January 2018.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for 2017 prepared in accordance with IFRS.

4. RESTATEMENT

Certain information for the period ended 30 June 2017 has been restated to correct certain cut-off errors identified during the current reporting period that related to recognition of operating expenses incurred by the Group.

Restatement of operating expenses

	Before restatement	After restatement	Difference
Maintenance	996	1 127	131
Cleaning and waste management	407	417	10
Transport	258	273	15
Public utilities	248	269	21
Consulting, audit and other services	199	217	18
Rent	170	172	2
Communication services expense	21	27	6
Other expenses, net	11 411	11 473	62
Total	**13,710**	**13,975**	**265**

Restatement of Profit and Loss items

	Before restatement	After restatement	Difference
Profit before tax	4,696	4,431	(265)
Income tax expense/(benefit)	(1,015)	(958)	57
Profit after tax	3,681	3,473	(208)

Restatement of Balance sheet items

	Before restatement	After restatement	Difference
Current assets			
Prepayments and other current assets	3 957	3 976	19
Trade and other receivables	3 011	2 997	(14)
Total current assets			**5**
Current liabilities			
Trade and other payables	5 379	5 649	270
Total current liabilities			**270**

(Amounts in millions of Russian Rubles, unless otherwise stated below)

5. 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, leasing of other commercial properties, car parking and hotel services.

Segment information is prepared based on IFRS measures.

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.

The key financial information for the Group's segments for the six-month periods ended 30 June 2018 and 2017 is presented below:

		Aviation services	**Auxiliary aviation services**	**Commercial services**	**Inter-segment eliminations**	**Group**
Third-party revenue	**6m 2018**	5,551	11,297	2,929	-	19,777
	6m 2017	5,444	10,205	2,691	-	18,340
Intersegment revenue	**6m 2018**	1,536	91	754	(2,381)	**-**
	6m 2017	1,035	106	613	(1,754)	**-**
Total revenue	**6m 2018**	7,087	11,388	3,683	(2,381)	19,777
	6m 2017	6,479	10,311	3,304	(1,754)	18,340
Operating profit	**6m 2018**	**687**	**2,359**	**1,463**	**-**	**4,509**
	6m 2017	**958**	**2,195**	**1,212**	**-**	**4,365**
Depreciation and amortization	**6m 2018**	(827)	(671)	(231)	-	(1,729)
	6m 2017	(815)	(657)	(248)	-	(1,720)
Change in provision for impairment of receivables and advances to suppliers	**6m 2018**	(19)	(22)	(5)	-	(46)
	6m 2017	7	(6)	(4)	-	(3)
Change in legal provision	**6m 2018**	-	-	-	-	-
	6m 2017	-	-	-	-	-

(Amounts in millions of Russian Rubles, unless otherwise stated below)

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

	Six months ended 30 June			
	2018		2017	
	Amount	%	Amount	%
S7 Group	**3,148**	**16%**	**2,876**	**16%**
Auxiliary aviation services segment	2,060		1,781	
Aviation services segment	960		912	
Commercial services segment	128		183	

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

6. REVENUE

	2018	2017
Service revenue		
Ground handling	4,809	4,463
Airport and other related charges	4,152	4,087
Rental income	2,596	2,309
Jet fuelling and storage services	1,349	1,399
Aviation security	1,139	1,192
Parking fees	286	313
Construction revenue	62	20
Other revenue	320	288
Total service revenue	**14,713**	**14,071**
Product revenue		
Jet fuel sales	3,192	2,247
Catering	1,872	2,022
Total product revenue	**5,064**	**4,269**
Total revenue	**19,777**	**18,340**

Rental income includes contingent rentals of RUB 1,874 million and RUB 1,694 million for the six-month periods ended 30 June 2018 and 2017, respectively, and rental income from investment property in the amount of RUB 195 million and RUB 139 million for the six-month periods ended 30 June 2018 and 2017, respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

7. OPERATING EXPENSES, NET

	2018	2017
Payroll and related charges:		
Wages and salaries	4,605	4,563
Social taxes	1,357	1,282
Cost of jet fuel	3,038	2,156
Depreciation and amortization	1,729	1,720
Maintenance	1,107	1,127
Materials	1,061	955
Cleaning and waste management	477	417
Transport	327	273
Staff development and training	321	248
Public utilities	298	269
Consulting, audit and other services	232	217
Passenger servicing	175	151
Rent	174	172
Charity donations	117	-
Taxes other than income tax	75	128
Change in provision for impairment of receivables, advances to suppliers and advances for acquisition of non-current assets	46	3
Certification and licensing	45	50
Communication services expense	29	27
Advertising expenses	14	19
Aircraft servicing	-	3
Other expenses, net	41	195
Total operating expenses, net	**15,268**	**13,975**

Maintenance expenses include direct expenses arising from investment property in the amount of RUB 20 million and RUB 21 million for the six-month periods ended 30 June 2018 and 2017, respectively.

8. INTEREST EXPENSE

	2018	2017
Interest expense on five-year USD loan participation notes (series 1)	406	395
Interest expense on five-year USD loan participation notes (series 2)	632	611
Interest expense on five-year USD loan participation notes (series 3)	370	-
Interest expense on five-year RUB loan securities	412	-
Unwind of the discount relating to amounts due to grantor under a concession agreement	179	174
Interest expense on bank loans	95	77
	2,094	**1,257**
Less: capitalized borrowing cost (Note 10)	(1,563)	(1,082)
Total interest expense	**531**	**175**

9. INCOME TAX

Interim period income tax is accrued based on the estimated average annual effective income tax rate of 23.86% (2017: 21.61%).

	2018	2017
Current income tax expense	(676)	(1,076)
Deferred income tax benefit	400	118
Income tax	**(276)**	**(958)**

The increase in the annual effective tax rate in 2018 during the six-month period ended 30 June 2018 is mostly attributable to non-taxable forex losses recognized in the reporting period.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Other	CIP	Total
Cost					
1 January 2017	54,017	10,473	1,376	17,072	82,938
Additions	912	372	45	6,175	7,504
Transfers	374	261	16	(651)	-
Disposals	-	(53)	(27)	(10)	(90)
30 June 2017	55,303	11,053	1,410	22,586	90,352
Additions	1,188	375	87	9,987	11,637
Transfers	174	47	24	(245)	-
Disposals	(3)	(175)	(71)	(16)	(265)
Reclassified from investment property	(107)	-	-	-	(107)
31 December 2017	56,555	11,300	1,450	32,312	101,617
Additions	585	712	21	10,269	11,587
Transfers	14,034	375	19	(14,428)	-
Disposals	-	(34)	(23)	(9)	(66)
30 June 2018	**71,174**	**12,353**	**1,467**	**28,144**	**113,138**
Accumulated depreciation					
1 January 2017	(9,747)	(6,828)	(1,063)	-	(17,638)
Depreciation charge	(838)	(483)	(67)	-	(1,388)
Disposals	-	52	21	-	73
30 June 2017	(10,585)	(7,259)	(1,109)	-	(18,953)
Depreciation charge	(770)	(509)	(80)	-	(1,359)
Disposals	-	158	72	-	230
Reclassified from investment property	16	-	-	-	16
31 December 2017	(11,339)	(7,610)	(1,117)	-	(20,066)
Depreciation charge	(741)	(535)	(85)	-	(1,361)
Disposals	-	34	19	-	53
30 June 2018	**(12,080)**	**(8,111)**	**(1,183)**	**-**	**(21,374)**
Net book value					
30 June 2017	**44,718**	**3,794**	**301**	**22,586**	**71,399**
31 December 2017	**45,216**	**3,690**	**333**	**32,312**	**81,551**
30 June 2018	**59,094**	**4,242**	**284**	**28,144**	**91,764**

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

During the six-month period ended 30 June 2018 passenger terminal T-2 and multilevel parking were put into operation.

"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, introscopes and other operating equipment.

During the six-month period ended 30 June 2018 additions mainly relate to equipment of multilevel parking.

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

(Amounts in millions of Russian Rubles, unless otherwise stated below)

During the six-month periods ended 30 June 2018 and 2017 the Group capitalized borrowing costs in the amount of RUB 1,563 million and RUB 1,082 million, respectively.

The weighted average capitalization rate on borrowed funds was 6.4% and 5.9% per annum for the six-month periods ended 30 June 2018 and 2017, respectively.

As at 30 June 2018 there was no Group's property, plant and equipment amounts that was pledged as collateral for the Group's borrowings.

Investment property

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

	30 June 2018	**31 December 2017**
Cost	818	818
Accumulated depreciation	(217)	(206)
Net book value	**601**	**612**

Fair value of the investment properties as at 30 June 2018 was RUB 3,825 million (RUB 7,316 million as at 31 December 2017) and has been arrived at on the basis of a valuation carried out at these dates by a 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 of fair value measurement).

Advances for acquisition of non-current assets

As of 30 June 2018 and 31 December 2017 advances for acquisition of non-current assets in the amounts of RUB 2,814 million and RUB 2,848 million, respectively, consisted of amounts paid for construction of the passenger and cargo terminals 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 29 million as of 30 June 2018 (31 December 2017: RUB 28 million).

11. INTANGIBLE ASSETS

	30 June 2018	**31 December 2017**
Concession arrangement (Note 13)	3,539	3,564
Other intangible assets	1,909	1,515
Intangible assets	**5,448**	**5,079**

12. OTHER NON-CURRENT ASSETS

	30 June 2018	**31 December 2017**
Restricted cash in FBME bank, net of impairment	1,269	-
Other non-current receivable	48	48
Other non-current assets	**1,317**	**48**

Restricted cash in FBME represents cash balances denominated in EUR and USD 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.

Based on the information available to the Group, management believes that FBME has sufficient solvent funds to honor all or nearly all of 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 substantial portion its cash balances with FBME.

As at 30 June 2018, the Group reassessed an impairment provision it holds against these balances based on changes in the management's estimate of the likely amounts to be recovered and timing of their receipt, and recognized an additional impairment loss of RUB 423 million. The total amount of impairment provision recognized as at 30 June 2018 was RUB 1,043 million (as of 31 December 2017 – RUB 471 million).

13. 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 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. 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 this interim condensed consolidated financial information the agreement with appropriate amendments has not yet been finalized.

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.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

The contractual future payments are reconciled to their present value as at 30 June 2018 and 31 December 2017 as follows:

	Future payments		Present value of future payments	
	30 June 2018	**31 December 2017**	**30 June 2018**	**31 December 2017**
Due within one year	86	261	79	247
Due after one year but not more than five years	1,391	1,391	1,044	1,044
Due after more than five years	17,393	17,567	2,089	2,090
	18,870	19,219	3,212	3,381
Less future finance charges	(15,658)	(15,838)	-	-
Present value of future payments	**3,212**	**3,381**	**3,212**	**3,381**

14. FINANCE LEASE RECEIVABLE

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.

	30 June 2018		31 December 2017	
	Minimum lease payments receivable	**Present value of minimum lease payments receivable**	**Minimum lease payments receivable**	**Present value of minimum lease payments receivable**
Due within one year	212	167	199	157
Due after one year but not more than five years	846	241	798	228
Due after more than five years	564	33	632	33
Total gross / net investment in the lease	1,622	441	1,629	418
Less unearned finance income	(1,181)	-	(1,211)	-
Present value of minimum lease payments	**441**	**441**	**418**	**418**

15. TRADE AND OTHER RECEIVABLES

	30 June 2018	**31 December 2017**
Trade receivables, gross	4,324	3,751
Other receivables, gross	807	930
Provision for impairment	(1,870)	(1,999)
Total	**3,261**	**2,682**

16. INVENTORY

	30 June 2018	**31 December 2017**
Spare parts	658	638
Supplies	569	448
Jet fuel	562	341
Raw materials	121	205
Other inventory	343	290
Total inventory	**2,253**	**1,922**

(Amounts in millions of Russian Rubles, unless otherwise stated below)

17. PREPAYMENTS AND OTHER CURRENT ASSETS

	30 June 2018	31 December 2017
VAT receivable	3,639	3,510
Restricted cash in FBME, net of impairment	-	1,714
Advances to suppliers, net of impairment	473	267
Taxes receivable (other than income tax and VAT receivable)	194	387
Other current assets	169	199
Total prepayments and other current assets	**4,475**	**6,077**

Restricted cash was reclassified to Non-current assets (Note 12).

18. CASH AND CASH EQUIVALENTS

	30 June 2018	31 December 2017
USD-denominated short-term bank deposits	20,292	-
Russian Ruble denominated cash on hand and balances with banks	1,788	1,591
EUR-denominated balances with banks	1,043	1,092
USD-denominated balances with banks	932	7,587
Total cash and cash equivalents	**24,055**	**10,270**

19. EQUITY

Share capital and dividends

Authorized and issued capital as at 30 June 2018 and 31 December 2017 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 and 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 six-month period ended 30 June 2018 dividends of USD 97 million (RUB 6,033 million at the Central Bank of Russia exchange rate as at the declaration date) were declared, out of which EUR 9 million (RUB 691 million at the Central Bank of Russia exchange rate as at the payment date) were paid to the shareholders of the Group. Additionally, the Group paid USD 6 million and EUR 5 million (total of RUB 736 million at the Central Bank of Russia exchange rate as at the payment date) of dividends declared prior to 1 January 2018 were paid to the shareholders of the Group.

During six-month period ended 30 June 2017 dividends of USD 50 million (RUB 2,819 million at the Central Bank of Russia exchange rate as at the declaration date) were declared, USD 16 million (RUB 925 million at the Central Bank of Russia exchange rate as at the payment date) – of which were paid to the shareholders of the Group during the period.

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 30 June 2018 and 31 December 2017 such earnings amounted to RUB 14,959 million and RUB 24,941 million, respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

20. DEBT SECURITIES

	Effective interest rate, %	30 June 2018	31 December 2017
Five-year USD loan participation notes issued in 2013 (the "2018 LPNs") (i)	6.33%	13,967	12,819
Five-year USD loan participation notes issued in 2016 (the "2021 LPNs") (ii)	6.04%	22,031	20,193
Five-year USD loan participation notes issued in 2018 (the "2023 LPNs") (iii)	5.26%	19,096	-
Five-year RUB debt securities issued in 2017 (the "Rusbonds 2017 LPNs") (iv)	8.32%	10,000	9,993
Total		**65,094**	**43,005**
Less: current portion due within twelve months and presented as short-term portion		(14,600)	(13,016)
Long-term portion of debt securities		**50,494**	**29,989**

(i) In November 2013 the Group issued non-convertible five-year loan participation notes 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 a portion of LPNs.

(ii) In November 2016 the Group issued non-convertible five-year loan participation notes 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 2021 LPNs are guaranteed by certain entities of the Group. The 2021 LPNs mature in November 2021.

(iii) In February 2018 the Group issued non-convertible five-year loan participation notes 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 2023 LPNs are guaranteed by certain entities of the Group.

(iv) 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 21 details changes in the Group's financial liabilities, including both cash and non-cash changes.

Covenants

In accordance with the terms of the 2018, 2021 and 2023 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.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

As of 30 June 2018, the Group was in breach of the Consolidated Net Debt to Consolidated EBITDA covenant which lead to additional financial restrictions being placed on the Group until this breach is fully rectified (see also Note 21 for other debt covenants).

21. BORROWINGS

	Effective interest rate, %	30 June 2018	31 December 2017
Loan from ING Bank	3.06%	3,082	1,600
Loan from Raiffeisen bank	6.34%	1,912	2,195
Total		**4,994**	**3,795**
Less: current portion due within twelve months and presented as short-term borrowings		(4,994)	(2,201)
Long-term borrowings		**-**	**1,594**

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 30 June 2018 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 30 June 2018 the undrawn amount of the loan facility was EUR 12.96 million.

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.

			Non-cash flow changes		
	31 December 2017	Financing cash flows (i)	Effect of exchange rate changes on the balance	Other changes (ii)	30 June 2018
Borrowings	3,795	892	284	23	4,994
Debt securities (Note 20)	43,005	17,162	4,581	346	65,094
Amounts due to grantor under a concession agreement (Note 13)	3,381	-	-	(169)	3,212
	50,181	**18,054**	**4,865**	**200**	**73,300**

(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 8).

(Amounts in millions of Russian Rubles, unless otherwise stated below)

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 30 June 2018, the Group was in breach of the Consolidated Net Debt to Consolidated EBITDA covenant under the loan arrangements with Raiffeisen Bank and ING 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 loans into short-term borrowings. Subsequent to the end of the reporting period but before these condensed consolidated financial statements were approved for issue, the Group received waivers from the banks confirming that the banks will not exercise their rights to demand early repayment of the loans. The Group was in compliance with other financial covenants as at 30 June 2018.

22. TRADE AND OTHER PAYABLES

	30 June 2018	31 December 2017
Amounts payable for the acquisition of property, plant and equipment	2,799	1,588
Rent deposits received	1,437	775
Trade payables	1,326	939
Advances received	1,033	1,139
Total trade and other payables	**6,595**	**4,441**

23. TAXES OTHER THAN INCOME TAX PAYABLE

	30 June 2018	31 December 2017
Value added tax	881	960
Social insurance tax	521	389
Property tax	9	11
Other taxes	70	14
Total taxes other than income tax payable	**1,481**	**1,374**

24. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	30 June 2018	31 December 2017
Accrued employee expenses	2,054	1,787
Other liabilities	726	328
Total accrued expenses and other current liabilities	**2,780**	**2,115**

Accrued employee expenses as of 30 June 2018 and 31 December 2017 comprised accrued salaries and bonuses of RUB 1,467 million and RUB 1,291 million, respectively, and an accrual for unused vacation of RUB 587 million and RUB 496 million, respectively.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

25. FAIR VALUES

The fair values of financial assets and financial liabilities are determined as described in the Group's annual consolidated financial statements for 2017.

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, finance lease receivable, short- and long-term investments, liabilities under concession and borrowings represented by the loan from Raiffeisen bank and ING Bank, which are classified within Level 2 category of the fair value 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.

Fair value of financial liabilities

	30 June 2018	
	Fair value of financial liabilities	**Carrying value of financial liabilities**
2018 LPNs (Note 20)	13,872	13,967
2021 LPNs (Note 20)	21,145	22,031
2023 LPNs (Note 20)	17,276	19,096
Five-year RUB debt securities issued in 2017(Note 20)	9,010	10,000
Loan from Raiffeisen bank (Note 21)	1,675	1,912
Loan from ING Bank (Note 21)	3,079	3,082
Total	**66,057**	**70,088**

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, except for the parent company, with which the Group entered into significant transactions during the six-month periods ended 30 June 2018 and 2017 or had significant balances outstanding as of 30 June 2018 and 31 December 2017, 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 six-month periods ended 30 June 2018 and 2017 as well as closing balances as at 30 June 2018 and 31 December 2017.

	30 June 2018		31 December 2017	
	Amounts owed by related parties	**Amounts owed to related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
Entities under common control	952	10	907	33
Total	**952**	**10**	**907**	**33**

	30 June 2018			30 June 2017		
	Sales to related parties	**Purchases from related parties**	**Interest income**	**Sales to related parties**	**Purchases from related parties**	**Interest income**
Entities under common control	36	66	-	33	61	-

(Amounts in millions of Russian Rubles, unless otherwise stated below)

Compensation of key management personnel

Key management comprised 7 persons as at 30 June 2018 and 8 persons as at 31 December 2017. Total gross compensation (including social insurance tax and before withholding of personal income tax) to those individuals included payroll and related charges in the consolidated profit or loss amounted to RUB 266 million (including social insurance tax of RUB 37 million) and RUB 238 million (including social insurance tax of RUB 34 million) for the six-month periods ended 30 June 2018 and 2017, respectively. The outstanding balances due to key management personnel amounted to RUB 61 million and RUB 794 million as at 30 June 2018 and 31 December 2017, respectively, and comprised accrued salaries, bonuses, accrual for unused vacation and other monetary benefits.

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 it is adjusted by the lessor from time to time.

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

	30 June 2018	**31 December 2017**
Within one year	137	127
In two to five years	392	394
After five years	2,496	2,545
Total minimum lease payments	**3,025**	**3,066**

Included in minimum lease payments within one year are amounts of RUB 9 million and RUB 15 million, which represent the value of lease payments under lease agreements automatically extended for an indefinite term in accordance with the provisions in these agreements as of 30 June 2018 and 31 December 2017, respectively. These agreements can be terminated by either lessor or lessee by notification of the other party one month before termination.

The Group as Lessor

Rental income earned by the Group is set out in Note 6.

The future minimum lease payments representing fixed part of the rentals under contracted operating leases for the year 2018 amount to RUB 1,424 million.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

28. COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Capital commitments

The Group's contracted capital commitments related to construction of passenger and cargo terminals and modernization of existing assets as of 30 June 2018 and 31 December 2017 consisted of the following:

	30 June 2018	31 December 2017
Reconstruction and expansion of passenger terminal	17,270	22,165
Construction of office building	628	4
Construction of multilevel parking	534	389
Reconstruction of fuel station	234	235
Construction of aircraft maintenance hangar	16	17
Reconstruction of fuel storage facilities	11	11
Construction of electric power plant	9	-
Reconstruction and expansion of cargo terminal	1	256
Other	442	351
Total capital commitments	**19,145**	**23,428**

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.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

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. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

The government of the Russian Federation directly affects the Group's operations through regulation of airport charges and other 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 13), 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 proceeding 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.

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-soured 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 six-month period ended 30 June 2018, 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.

29. SUBSEQUENT EVENTS

New tranches under loan facility agreement with ING bank – In July 2018, the Group additionally borrowed EUR 3.1 million under the loan facility arrangement with ING Bank.