

DME LIMITED

and subsidiaries

Interim Condensed Consolidated Financial Information

For the Six-Month Period Ended
30 June 2016 (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 2016

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 2016 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:

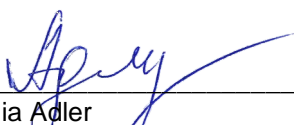
- Designing, implementing and maintaining an effective system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of 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 as 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 2016 was approved by management on 19 October 2016.

On behalf of management:



Elena Batsunova
Chief Executive Officer



Natalia Adler
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To: Shareholders and Board of Directors of DME Limited

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of DME Limited and its subsidiaries (collectively – the "Group") as of 30 June 2016 and the related interim condensed consolidated statements of comprehensive income, cash flows and changes in equity for the six-month period then ended, and a summary of significant accounting policies and other 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 financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Deloitte & Touche

Moscow, Russia

19 October 2016

DME LIMITED AND SUBSIDIARIES


INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

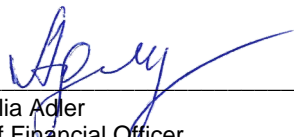
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (UNAUDITED)

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

	Notes	2016	2015
Revenue	6	17,757	18,571
Operating expenses, net	7	(13,085)	(12,890)
Operating profit		4,672	5,681
Interest expense	8	(317)	(539)
Interest income		168	222
Foreign exchange loss, net		(69)	(1,041)
Profit before income tax		4,454	4,323
Income tax	9	(782)	(796)
Profit and comprehensive income for the period		3,672	3,527
Profit and total comprehensive income attributable to:			
Owners of the Company		3,649	3,520
Non-controlling interests		23	7
		3,672	3,527

On behalf of management:


Elena Batsunova
Chief Executive Officer


Natalia Adler
Chief Financial Officer

19 October 2016

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

DME LIMITED AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2016 (UNAUDITED) (Amounts in millions of Russian Rubles)

	Notes	30 June 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	10	59,603	55,163
Investment property	10	557	561
Advances for acquisition of non-current assets	10	2,268	2,327
Intangible assets	11	4,986	5,019
Deferred tax asset		2,515	1,444
Amounts due from grantor under a concession agreement	13	387	576
Long-term finance lease receivable	14	276	294
Long-term investments	15	18	8,557
Other non-current assets	12	1,955	2,258
Total non-current assets		72,565	76,199
Current assets			
Inventory	17	1,196	1,223
Trade and other receivables	16	2,972	2,744
Prepayments and other current assets	18	3,994	3,294
Prepaid income tax		758	1,446
Short-term finance lease receivable	14	163	180
Short-term investments	15	31	11,916
Assets classified as held for sale		11	-
Cash and cash equivalents	19	7,474	4,783
Total current assets		16,599	25,586
TOTAL ASSETS		89,164	101,785
EQUITY AND LIABILITIES			
Capital			
Share capital	20	11,877	11,877
Retained earnings	20	46,208	42,573
Loans to the owners of the Company	20	(8,542)	-
Equity attributable to owners of the Company		49,543	54,450
Non-controlling interests		(26)	101
Total equity		49,517	54,551
Non-current liabilities			
Five-year USD loan participation notes, long-term portion	21	19,083	21,644
Deferred tax liability		6,822	6,658
Amounts due to grantor under a concession agreement, long-term portion	13	3,136	3,147
Borrowings	22	1,565	1,544
Total non-current liabilities		30,606	32,993
Current liabilities			
Trade and other payables	23	4,719	4,215
Accrued expenses and other current liabilities	25	2,333	2,135
Taxes other than income tax payable	24	1,440	1,133
Amounts due to grantor under a concession agreement, short-term portion	13	262	255
Five-year USD loan participation notes, short-term portion	21	205	213
Provisions	26	42	325
Income tax payable		40	61
Dividends payable		-	2,193
Borrowings	22	-	3,711
Total current liabilities		9,041	14,241
TOTAL EQUITY AND LIABILITIES		89,164	101,785

On behalf of management:


Elena Batsunova
Chief Executive Officer


Natalia Adler
Chief Financial Officer

19 October 2016

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

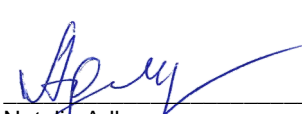
DME LIMITED AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (UNAUDITED) (Amounts in millions of Russian Rubles)

	2016	2015
Cash flows from operating activities:		
Profit before income tax	4,454	4,323
Adjustments for:		
Depreciation and amortization	1,543	1,582
(Gain)/loss on disposal of property, plant and equipment	(8)	48
Loss on disposal of intangible assets	48	34
Change in provision for impairment of accounts receivable, advances to suppliers and advances for acquisition of non-current assets	33	24
Change in legal provision	(1)	(59)
Interest income	(168)	(222)
Interest expense	317	539
Foreign exchange loss, net	69	1,041
Other non-cash items, net	43	71
	6,330	7,381
Decrease in inventory	25	21
Increase in trade and other receivables	(460)	(701)
Increase in prepayments and other current assets	(702)	(604)
Decrease in trade and other payables	(217)	(70)
Increase in taxes other than income tax payable	307	217
Increase/(decrease) in accrued expenses and other current liabilities	158	(77)
	5,441	6,167
Interest paid	(1,190)	(840)
Income tax paid	(1,020)	(582)
	3,231	4,745
Cash provided by operating activities	3,231	4,745
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4,782)	(2,564)
Purchases of intangible assets	(317)	(225)
Proceeds from disposal of property, plant and equipment	345	28
Purchases of investments	(985)	(15,859)
Proceeds from disposal of investments	12,646	14,053
Proceeds from grantor under a concession agreement	139	129
Interest received	94	315
	7,140	(4,123)
Net cash from/(used in) investing activities	7,140	(4,123)
Cash flows from financing activities:		
Repayments of borrowings	(4,103)	(1,422)
Proceeds from borrowings	858	-
Dividends paid (Note 20)	(2,343)	(2,293)
Other distribution to shareholders	(14)	-
	(5,602)	(3,715)
Net cash used in financing activities	(5,602)	(3,715)
Net increase/(decrease) in cash and cash equivalents	4,769	(3,093)
Cash and cash equivalents at the beginning of the period	4,783	4,112
Foreign exchange (gain)/loss on cash and cash equivalents	(2,078)	811
Cash and cash equivalents at the end of the period (Note 19)	7,474	1,830

On behalf of management:


Elena Batsunova
Chief Executive Officer


Natalia Adler
Chief Financial Officer

19 October 2016


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

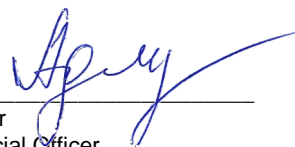
DME LIMITED AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (UNAUDITED) (Amounts in millions of Russian Rubles)

	Share capital	Loans to the owners of the Company	Retained earnings	Equity attributable to the owners of the Company	Non-controlling interests	Total
Balance as of 1 January 2015	11,877	-	38,081	49,958	99	50,057
Profit and comprehensive income for the period	-	-	3,520	3,520	7	3,527
Dividends	-	-	(808)	(808)	-	(808)
Balance as of 30 June 2015	11,877	-	40,793	52,670	106	52,776
Balance as of 1 January 2016	11,877	-	42,573	54,450	101	54,551
Profit and comprehensive income for the period	-	-	3,649	3,649	23	3,672
Loans issued to shareholder (Note 20)	-	(8,542)	-	(8,542)	-	(8,542)
Dividends (Note 20)	-	-	-	-	(150)	(150)
Other distribution to shareholder	-	-	(14)	(14)	-	(14)
Balance as of 30 June 2016	11,877	(8,542)	46,208	49,543	(26)	49,517

On behalf of management:


Elena Batsunova
Chief Executive Officer


Natalia Adler
Chief Financial Officer

19 October 2016

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

DME LIMITED AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (UNAUDITED) (CONTINUED) (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.

The Company’s ownership interest in the controlled subsidiaries is as follow:

Company name	Place of incorporation	Principal activity	Percentage held as of	
			30 June 2016	31 December 2015
Domodedovo Passenger Terminal	Russia	Passenger terminal complex	100%	100%
Domodedovo Cargo	Russia	Cargo terminal complex	100%	100%
Domodedovo Catering	Russia	In-flight catering facility	100%	100%
Domodedovo Asset Management	Russia	Rent and parking services	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 S.A	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 Non-aviation Sales	Russia	Rent and advertising services	100%	100%
DME Airport Limited	Ireland	Investing and financing activities	-	-
Domodedovo Parking	Russia	Management of car park facilities	100%	100%

DME LIMITED AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (UNAUDITED) (CONTINUED) *(Amounts in millions of Russian Rubles, unless otherwise stated below)*

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 Limited 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 into 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 Limited is a company that acts as a corporate vehicle for USD loan participation notes issued on the Irish Stock Exchange.

The immediate parent entity of DME Limited is Alamo Limited, a company registered in the Republic of Malta.

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

The interim condensed consolidated financial information of the Group for the six-month period ended 30 June 2016 was authorized for issue by management on 19 October 2016.

2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Statement of compliance

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS"). This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting.

The consolidated statement of financial position as at 31 December 2015, included in this interim condensed consolidated financial information, has been derived from the audited consolidated financial statements of the Group for the year ended 31 December 2015. This interim condensed consolidated financial information should be read in conjunction with the audited annual consolidated financial statements.

This financial information is unaudited and does not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2015 prepared in accordance with IFRS, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequent to the issuance of the Company's annual consolidated financial statements for 2015 prepared in accordance with IFRS.

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

	30 June 2016	31 December 2015
Closing exchange rates – RUB		
1 U.S. Dollar ("USD")	64.26	72.88
1 Euro	71.21	79.70
	30 June 2016	30 June 2015
Average exchange rates for the six months ended – RUB		
1 USD	70.10	57.20
1 Euro	78.25	63.99

DME LIMITED AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (UNAUDITED) (CONTINUED) *(Amounts in millions of Russian Rubles, unless otherwise stated below)*

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 addition, because of fluctuations in the levels of passenger traffic, increases in tariffs by the Federal Tariff Service ("FTS") have a larger impact on revenue when increases in tariffs occur prior to the peak months of the year in terms of passenger traffic (June through September). 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.

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 2015 and for the year then ended.

During the six-month period ended 30 June 2016 there were no changes in the accounting standards that had significant effect on the Group's financial position and performance arising from the adoption of new standards.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

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 2015 prepared in accordance with IFRS.

In addition to those critical accounting judgements and key sources of estimation uncertainty the management of the Group made the following significant judgements:

Reclassification of loans issued to the Group parent company

In June 2016 the Group retrospectively reduced the interest rate stipulated in the main loan agreements with the Parent from 4.9% to 2.1% per annum and changed the term of the loan from 5 to 3 years. Following these changes the management of the Group reassessed the nature of all the loans issued to the parent entity of the Group and reconsidered their classification in the consolidated statement of financial position as in-substance equity distribution. Based on this reassessment as of 30 June 2016 the loans issued to the parent entity were reclassified from long-term investments (Note 15) into equity as a separate line-item "Loans to the owners of the Company".

DME LIMITED AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (UNAUDITED) (CONTINUED) (Amounts in millions of Russian Rubles, unless otherwise stated below)

4. RECLASSIFICATION

Certain information for the six-month period ended 30 June 2015 has been reclassified for consistency with the method of presentation of segment information (Note 5) adopted in the Group's condensed consolidated financial information for the six-month period ended 30 June 2016. The changes in classification are shown below:

Reclassification of segment information

	<u>Before reclassification</u>	<u>After reclassification</u>	<u>Difference</u>
Third-party revenue			
Aviation services	4,875	5,183	308
Auxiliary aviation services	9,852	10,276	424
Commercial services	3,844	3,112	(732)
			-

	<u>Before reclassification</u>	<u>After reclassification</u>	<u>Difference</u>
Operating profit			
Aviation services	1,505	1,813	308
Auxiliary aviation services	1,903	2,327	424
Commercial services	2,273	1,541	(732)
			-

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. Such services are predominantly regulated by FTS.

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 principles.

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.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (UNAUDITED) (CONTINUED) (Amounts in millions of Russian Rubles, unless otherwise stated below)

The key financial information for the Group's segments for the six-month periods ended 30 June 2016 and 2015 is presented below:

		Aviation services	Auxiliary aviation services	Commercial services	Intersegment eliminations	Group
Third-party revenue	2016	5,281	9,711	2,765	-	17,757
	2015	5,183	10,276	3,112	-	18,571
Intersegment revenue	2016	715	104	704	(1,523)	-
	2015	753	88	305	(1,146)	-
Total revenue	2016	5,996	9,815	3,469	(1,523)	17,757
	2015	5,936	10,364	3,417	(1,146)	18,571
Operating profit	2016	1,289	1,733	1,650	-	4,672
	2015	1,813	2,327	1,541	-	5,681
Depreciation and amortization	2016	(736)	(588)	(219)	-	(1,543)
	2015	(754)	(602)	(226)	-	(1,582)
Change in provision for impairment of receivables and advances to suppliers	2016	(1)	46	(78)	-	(33)
	2015	(12)	(12)	-	-	(24)
Change in legal provision	2016	-	1	-	-	1
	2015	17	36	6	-	59

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

	Six months ended 30 June			
	2016		2015	
	Amount	%	Amount	%
S7 Group	2,749	15%	2,366	13%
Auxiliary aviation services segment	1,774		1,525	
Aviation services segment	887		694	
Commercial services segment	88		147	

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

	2016	2015
Service revenue		
Ground handling	4,416	4,343
Airport and other related charges	3,928	3,990
Rental income	2,426	2,733
Jet fuelling and storage services	1,204	1,220
Aviation security	1,127	1,092
Parking fees	280	309
Construction revenue	85	41
Other revenue	282	258
Total service revenue	13,748	13,986
Product revenue		
Jet fuel sales	2,126	2,321
Catering	1,883	2,264
Total product revenue	4,009	4,585
Total revenue	17,757	18,571

DME LIMITED AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (UNAUDITED) (CONTINUED) (Amounts in millions of Russian Rubles, unless otherwise stated below)

Rental income includes contingent rentals of RUR 1,818 million and RUR 2,009 million for the six-month periods ended 30 June 2016 and 2015, respectively, and rental income from investment property in the amount of RUR 147 million and RUR 344 million for the six-month periods ended 30 June 2016 and 2015, respectively.

7. OPERATING EXPENSES, NET

	<u>2016</u>	<u>2015</u>
Payroll and related charges:		
Wages and salaries	4,445	4,411
Social taxes	1,234	1,223
Cost of jet fuel	1,935	2,249
Depreciation and amortization	1,543	1,582
Materials	815	838
Maintenance	780	780
Taxes other than income tax	664	466
Cleaning and waste management	386	386
Public utilities	289	241
Transport	251	192
Consulting, audit and other services	162	104
Rent	140	170
Passenger servicing	109	67
Staff development and training	103	139
Change in provision for impairment of receivables, advances to suppliers and advances for acquisition of non-current assets	33	24
Communication services expense	19	24
Certification and licensing	16	8
Advertising expenses	9	7
Aircraft servicing	4	4
Charitable donations	-	91
Reimbursement of taxes relating to prior periods (i)	-	(512)
Change in legal provision	(1)	(59)
Other expenses, net	149	455
Total operating expenses, net	<u>13,085</u>	<u>12,890</u>

Reimbursement of taxes relating to prior periods (i)

Income from reimbursement of taxes relating to prior periods for 2015 represents a benefit from reduction of property tax charge for the years ended 31 December 2015, 2014 and 2013, which relates to a property tax exemption for prior periods claimed by the Group during the six-month period ended 30 June 2015.

Maintenance expenses include direct expenses arising from investment property in the amount of RUR 95 million and RUR 218 million for the six-month periods ended 30 June 2016 and 2015, respectively.

8. INTEREST EXPENSE

	<u>2016</u>	<u>2015</u>
Interest expense on five-year USD loan participation notes	638	529
Unwind of the discount relating to amounts due to grantor under a concession agreement	175	176
Interest expense on bank loans	64	127
	<u>877</u>	<u>832</u>
Less: capitalized borrowing cost (Note 10)	<u>(560)</u>	<u>(293)</u>
Total interest expense	<u>317</u>	<u>539</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (UNAUDITED) (CONTINUED) (Amounts in millions of Russian Rubles, unless otherwise stated below)

9. INCOME TAX

Interim period income tax is accrued based on the estimated average annual effective income tax rate of 17.55% (2015: 15.78%).

	2016	2015
Current income tax expense	(1,687)	(934)
Deferred income tax benefit	905	138
Income tax	(782)	(796)

The increase in the annual effective tax rate in 2016 and in current tax expense during the six-month period ended 30 June 2016 is mostly attributable to lower amount of non-taxable forex differences recognized in the reporting period comparing to the six-month period ended 30 June 2015.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Other	CIP	Total
Cost					
1 January 2015	47,755	9,117	1,291	5,883	64,046
Additions	791	71	40	1,128	2,030
Transfers	333	283	26	(642)	-
Disposals	(2)	(69)	(65)	(75)	(211)
Reclassified from investment property	37	-	-	-	37
30 June 2015	48,914	9,402	1,292	6,294	65,902
Additions	890	142	47	2,283	3,362
Transfers	116	97	28	(241)	-
Disposals	(4)	(9)	(48)	(37)	(98)
Reclassified from investment property	1,357	-	-	-	37
31 December 2015	51,273	9,632	1,319	8,299	70,523
Additions	468	205	18	5,326	6,017
Transfers	630	257	31	(918)	-
Disposals	(6)	(57)	(56)	(331)	(450)
Reclassified to investment property	(5)	-	-	-	(5)
30 June 2016	52,360	10,037	1,312	12,376	76,085
Accumulated depreciation					
1 January 2015	(6,850)	(5,095)	(909)	-	(12,854)
Depreciation charge	(654)	(501)	(93)	-	(1,248)
Disposals	1	68	66	-	135
Reclassified from investment property	(5)	-	-	-	(5)
30 June 2015	(7,508)	(5,528)	(936)	-	(13,972)
Depreciation charge	(632)	(490)	(83)	-	(1,205)
Disposals	-	6	41	-	47
Reclassified from investment property	(230)	-	-	-	(230)
31 December 2015	(8,370)	(6,012)	(978)	-	(15,360)
Depreciation charge	(686)	(473)	(77)	-	(1,236)
Disposals	1	59	54	-	114
30 June 2016	(9,055)	(6,426)	(1,001)	-	(16,482)
Net book value					
30 June 2015	41,406	3,874	356	6,294	51,930
31 December 2015	42,903	3,620	341	8,299	55,163
30 June 2016	43,305	3,611	311	12,376	59,603

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

Construction in-progress ("CIP") consists mainly of capital expenditures related to the construction of passenger terminals T-1 and T-2.

During the six-month periods ended 30 June 2016 and 2015 the Group capitalized borrowing costs in the amount of RUR 560 million and RUR 293 million, respectively.

The weighted average capitalization rate on borrowed funds was 5.8% and 6.6% per annum for the six-month periods ended 30 June 2016 and 2015, respectively.

As at 30 June 2016 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.

	<u>30 June 2016</u>	<u>31 December 2015</u>
Cost	716	711
Accumulated depreciation	<u>(159)</u>	<u>(150)</u>
Net book value	<u>557</u>	<u>561</u>

Fair value of the investment properties as at 30 June 2016 and 31 December 2015 was RUR 2,341 million and RUR 2,353 million, respectively, 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. Fair value measurement was categorized within Level 3 of the fair value hierarchy.

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.

Advances for acquisition of non-current assets

As of 30 June 2016 and 31 December 2015 advances for acquisition of non-current assets in the amounts of RUR 2,268 million and RUR 2,327 million, respectively, consisted of amounts paid for construction of the passenger terminals and purchases of network servers and baggage-processing systems. The amount of impairment of advances for acquisition of non-current assets amounted to RUR 41 million as of 30 June 2016 and 31 December 2015.

11. INTANGIBLE ASSETS

	<u>30 June 2016</u>	<u>31 December 2015</u>
Concession arrangement (Note 13)	3,705	3,730
Other intangible assets	<u>1,281</u>	<u>1,289</u>
Intangible assets	<u>4,986</u>	<u>5,019</u>

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12. OTHER NON-CURRENT ASSETS

	<u>30 June 2016</u>	<u>31 December 2015</u>
Restricted cash in FBME bank, net of impairment of RUR 346 million (31 December 2015: RUR 355 million)	1,912	2,168
Other non-current receivable	43	-
Other loans, net of allowance of RUR 152 million recognized as of 31 December 2015 (30 June 2016: nil)	-	90
Other non-current assets	<u>1,955</u>	<u>2,258</u>

Restricted cash in FBME bank represents cash balances held by the Group at FBME Bank Ltd., which may not be transferred outside of FBME Bank Ltd. at the discretion of the Group due to restrictions of operations imposed on FBME Bank Ltd. by the US and Cypriot governmental authorities.

There was no major developments in relation to the situation with FBME Bank Ltd. in addition to the information disclosed in the Group's annual consolidated financial statements for 2015. As of the date when this interim condensed consolidated financial information was authorized for issuance the bank was in the process of its liquidation by the Central Bank of Cyprus.

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 profit earned on the construction services (Note 6), 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 2017. The effects and terms of the most recent revision are discussed further in this note.

Amounts due from grantor under a concession agreement

Financial asset related to amounts due from grantor under a concession agreement of RUR 387 million (2015: RUR 576 million) comprise the amount of receivables from grantor for the improvements made to the property used under the concession agreement. Such amounts are settled on demand, however, the Group does not expect that any significant settlement will be effected within 12 months from the reporting date. Accordingly, the amounts have been classified as non-current assets.

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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% . The most recent revision of contractual payment terms, which took place in December 2012, resulted in an increase of the future minimum payments and a revised discount rate. The cost of the intangible asset, corresponding to the net present value of the fees payable to the grantor under the arrangement, has been adjusted accordingly (see below). The next revision of contractual term is due in 2017.

The corrected contractual future payments are reconciled to their present value as at 30 June 2016 and 31 December 2015 as follows:

	Future payments		Present value of future payments	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015
Due within one year	276	269	262	255
Due after one year but not more than five years	1,392	1,404	1,044	1,055
Due after more than five years	18,089	18,263	2,092	2,092
	19,757	19,936	3,398	3,402
Less future finance charges	(16,359)	(16,534)	-	-
Present value of future payments	3,398	3,402	3,398	3,402

Intangible assets

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

	30 June 2016	31 December 2015
Cost at the beginning of the period	4,296	4,173
Other additions	84	123
Cost at the end of the period	4,380	4,296
Accumulated amortization at the beginning of the period	(566)	(357)
Amortization charge	(109)	(209)
Accumulated amortization at the end of the period	(675)	(566)
Net book value	3,705	3,730

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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 2016		31 December 2015	
	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	206	163	231	180
Due after one year but not more than five years	825	236	923	253
Due after more than five years	963	40	1,193	41
Total gross / net investment in the lease	1,994	439	2,347	474
Less unearned finance income	(1,555)	-	(1,873)	-
Present value of minimum lease payments	439	439	474	474

15. INVESTMENTS

Long-term investments

	30 June 2016	31 December 2015
Other loans	18	18
Loans granted to Parent entity	-	8,539
Total long-term investments	18	8,557

Following the June 2016 retrospective reduction of the interest rate and the maturity period for the main loan issued to the parent entity, the Group reassessed the nature and substance of the loans issued to the parent entity and as of 30 June 2016 changed the classification of these loans from long-term investments to as in-substance equity distribution (Note 3, 20).

Short-term Investments

	30 June 2016	31 December 2015
Short-term USD-denominated bank deposits	-	11,031
Short-term EUR-denominated bank deposits	-	877
Other loans	31	8
Total short-term investments	31	11,916

As of 30 June 2016 the Group had no USD and EUR-denominated bank deposits. As of 31 December 2015 the Group had USD and EUR-denominated bank deposits placed with UBS AG and Nordea Bank AB Latvia branch with interest rates ranging from 0.14% to 0.26% per annum.

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16. TRADE AND OTHER RECEIVABLES

	<u>30 June 2016</u>	<u>31 December 2015</u>
Trade receivables, gross	3,693	3,536
Other receivables, gross	817	770
Provision for impairment	<u>(1,538)</u>	<u>(1,562)</u>
Total	<u>2,972</u>	<u>2,744</u>

17. INVENTORY

	<u>30 June 2016</u>	<u>31 December 2015</u>
Spare parts	485	456
Jet fuel	158	228
Supplies	226	163
Raw materials	87	158
Other inventory	<u>240</u>	<u>218</u>
Total inventory	<u>1,196</u>	<u>1,223</u>

18. PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>30 June 2016</u>	<u>31 December 2015</u>
VAT receivable	2,317	1,846
Other restricted cash	1,000	-
Irrevocable letters of credit	236	939
Advances to suppliers	132	312
Other current assets	<u>309</u>	<u>197</u>
Total prepayments and other current assets	<u>3,994</u>	<u>3,294</u>

Other restricted cash represents cash funds of the Group, which were arrested by the court statement of the Moscow Basmany District Court dated 22 June 2016 as an interim measure under the criminal case against Mr. Dmitry Kamenshchik, the ultimate controlling party of the Group, one current and two former employees of the Group, who were accused under Article 238, p. 3 of the Criminal Code of Russian Federation "Providing services that do not meet the requirements of safety of life or health of consumers, which negligently caused death of two or more persons" in connection with the terrorist attack that took place in 2011 in Domodedovo airport.

On 21 September 2016 the court arrest in relation to cash funds of the Group included into other restricted cash was removed by the decision issued by the Investigating Committee of the Russian Federation. On the same date the criminal case, described above was discontinued by the decision issued by the Investigating committee of the Russian Federation.

19. CASH AND CASH EQUIVALENTS

	<u>30 June 2016</u>	<u>31 December 2015</u>
Russian Rouble denominated cash on hand and balances with banks	717	523
EUR denominated balances with banks	173	2,710
USD denominated balances with banks	<u>6,584</u>	<u>1,550</u>
Total cash and cash equivalents	<u>7,474</u>	<u>4,783</u>

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20. EQUITY

Share capital and dividends

Authorized and issued capital as at 30 June 2016 and 31 December 2015 comprises 304,831,519 ordinary shares with par value EUR 1.

During six-month period ended 30 June 2016 dividends of RUR 2,193 million were paid to the shareholders of the Group (RUR 2,293 million for the six-month period ended 30 June 2015).

Dividends of RUR 150 million distributed and paid during the six-month period ended 30 June 2016 represented distribution to non-controlling shareholders of the Group subsidiaries.

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 2016 and 31 December 2015 such earnings amounted to RUR 34,375 million and RUR 34,925 million, respectively.

In June 2016 the Group agreed changes to agreement relating to the main loan issued to the parent entity of the Group for retrospective reduction of the interest rate from 4.9% to 2.1% per annum and change of the loan maturity. Based on this change of the main term of the loan agreement, the Management of the Group reassessed the nature and substance of all the loans issued to the parent entity of the Group and reconsidered their appropriate classification. Accordingly, as of 30 June 2016 the loans issued to the parent entity were reclassified from long-term investments (Note 15) into in-substance equity distribution as a separate line-item "Loans to the owners of the Company".

21. FIVE-YEAR USD LOAN PARTICIPATION NOTES

In November 2013 the Group issued non-convertible five-year loan participation notes ("LPN") for the total amount of USD 300 million (RUR 9,872 million at the Central Bank of Russia exchange rate as at the inception date) listed on the Irish Stock Exchange. The LPN are due in 2018. The annual coupon rate of the LPN is 6% with interest being paid semi-annually.

22. BORROWINGS

	Interest rate, %	30 June 2016	31 December 2015
Syndicated bank loan	3.98%	-	4,407
Loan from Raiffeisen bank	5%	1,565	848
Total		1,565	5,255
Less: current portion due within twelve months and presented as short-term borrowings		-	(3,711)
Total borrowings		1,565	1,544

During the six-month period ended 30 June 2016 the Group fully repaid the outstanding balance of syndicated loan.

During the six-month period ended 30 June 2016 the Group borrowed additional funds in amount of EUR 11.2 million (RUR 858 million at the Central Bank of Russia exchange rate as at the inception date) under loan facility agreement with Raiffeisen Bank International AG. The effective interest rate (including the effect of amortizing the transaction costs) is 6.34% per annum.

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Covenants

In accordance with the terms loan facility agreement Raiffeisen Bank International AG and previously the syndicated loan, 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 Equity to Consolidated Total Assets ratio, the Obligor Cover Ratios.

In the event of non-compliance with the specified requirements the Group may be required to repay the loans early. The total amount of liabilities to which financial covenants are attached as at 30 June 2016 is RUR 1,565 million (31 December 2015: RUR 5,255 million).

As of 30 June 2016 and 31 December 2015 the Group was in compliance with these covenants.

23. TRADE AND OTHER PAYABLES

	<u>30 June 2016</u>	<u>31 December 2015</u>
Amounts payable for the acquisition of property, plant and equipment	2,001	1,102
Advances received	1,080	1,474
Trade payables	959	871
Rent deposits received	<u>679</u>	<u>768</u>
Total trade and other payables	<u>4,719</u>	<u>4,215</u>

24. TAXES OTHER THAN INCOME TAX PAYABLE

	<u>30 June 2016</u>	<u>31 December 2015</u>
Value added tax	978	836
Social insurance tax	416	266
Property tax	16	18
Other taxes	<u>30</u>	<u>13</u>
Total taxes other than income tax payable	<u>1,440</u>	<u>1,133</u>

25. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>30 June 2016</u>	<u>31 December 2015</u>
Accrued employee expenses	2,045	1,867
Other liabilities	<u>288</u>	<u>268</u>
Total accrued expenses and other current liabilities	<u>2,333</u>	<u>2,135</u>

Accrued employee expenses as of 30 June 2016 and 31 December 2015 comprised accrued salaries and bonuses of RUR 1,592 million and RUR 1,462 million, respectively, and an accrual for unused vacation of RUR 453 million and RUR 405 million, respectively.

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26. PROVISIONS

During the period ended 30 June 2016 the Group was involved in litigations with a number of contractors.

Movement in legal provisions is as follows:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Balance at the beginning of the year	325	205
Additional provision recognized in the current year	-	63
Reclassification of provision related to prepayments	-	261
Release of provision related to CIP	(276)	(192)
Use of provision	(7)	(12)
Balance at the end of the year	<u>42</u>	<u>325</u>

27. FAIR VALUES

The fair values of financial assets and financial liabilities are determined as described in the Group's annual consolidated financial statements for 2015.

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, 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

	<u>30 June 2016</u>	<u>31 December 2015</u>
Five-year USD loan participation notes	17,450	18,769
Long-term borrowings (syndicated loan)	-	4,192
Total	<u>17,450</u>	<u>22,961</u>

28. 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 2016 and 2015 or had significant balances outstanding as of 30 June 2016 and 31 December 2015, are considered to be entities under common control.

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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 2016 and 2015 as well as closing balances as at 30 June 2016 and 31 December 2015.

	30 June 2016		31 December 2015	
	Amounts owed by related parties	Amounts owed to related parties	Amounts owed by related parties	Amounts owed to related parties
Parent entity (Note 15)	-	-	8,540	-
Entities under common control	581	23	645	109
Total	581	23	9,185	109

As of 30 June 2016 the Group reclassified the loans issued to the parent entity from long-term investments (Note 15) into in-substance equity distribution (Note 20).

	2016			2015		
	Sales to related parties	Purchases from related parties	Interest income	Sales to related parties	Purchases from related parties	Interest income
Parent entity	-	-	86	-	-	62
Entities under common control	27	81	-	19	40	-

During the six-month period ended 30 June 2016 the Parent company purchased LPN issued by the Group (Note 21) in nominal amount of USD 2 million (RUR 137 million at the date of purchasing). Total LPN held by the Parent company as of 30 June 2016 amounted to USD 10 million.

Compensation of key management personnel

Key management comprised 9 persons as at 30 June 2016 and 31 December 2015. Total gross compensation (including social insurance tax and before withholding of personal income tax) to those individuals included in payroll and related charges in the consolidated profit or loss amounted to RUR 308 million (including social insurance tax of RUR 32 million) and RUR 302 million (including social insurance tax of RUR 30 million) for the six-month periods ended 30 June 2016 and 2015, respectively. The outstanding balances due to key management personnel amounted to RUR 950 million and RUR 888 million as at 30 June 2016 and 31 December 2015, respectively, and comprised accrued salaries, bonuses, accrual for unused vacation and other monetary benefits.

29. 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 2016	31 December 2015
Within one year	172	215
In two to five years	476	486
After five years	3,266	3,392
Total minimum lease payments	3,914	4,093

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Included in minimum lease payments within one year are amounts of RUR 46 million and RUR 84 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 2016 and 31 December 2015, 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 2016 amount to RUR 1,296 million.

30. 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 2016 and 31 December 2015 consisted of the following:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Reconstruction and expansion of passenger terminal	30,298	34,884
Design of multilevel parking	2,131	2,137
Reconstruction and expansion of cargo terminal	1,795	1,909
Reconstruction of office buildings	633	648
Reconstruction of fuel storage facilities	61	68
Construction of aircraft maintenance hangar	48	4
Construction of warehousing facilities	32	155
Construction of electric power plant	15	21
Other	593	621
Total capital commitments	<u>35,606</u>	<u>40,447</u>

Due to the delay of the start of construction work on the reconstruction and expansion of the passenger terminal as of 30 June 2016 the Group retains significant capital commitments.

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. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

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

In the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

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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 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

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting business continue to change rapidly. These changes are characterized by unclear wording which leads to different interpretations and arbitrary application by the authorities. 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 within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods 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. Management believes that it has accrued for all taxes that are applicable. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

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.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (UNAUDITED) (CONTINUED) *(Amounts in millions of Russian Rubles, unless otherwise stated below)*

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 (Note 26).

31. SUBSEQUENT EVENTS

Update regarding criminal case over the ultimate controlling party of the Group – On 1 July 2016 Moscow court presidium canceled house arrest of Mr. Dmitry Kamenshchik, the ultimate controlling party of the Group. Mr. Dmitry Kamenshchik was put under house arrest on 18 February 2016 after he was accused together with one current and two former employees of the Group under Article 238, p. 3 of the Criminal Code of Russian Federation «Providing services that do not meet the requirements of safety of life or health of consumers, which negligently caused death of two or more persons» in connection with the terrorist attack that took place in 2011 in Domodedovo airport.

On 21 September 2016 the criminal case, described above was discontinued by the decision issued by the Investigating Committee of the Russian Federation.

Removal of arrest of the cash funds of the Group - On 21 September 2016 the court arrest in relation to cash funds of the Group (Note 18) was removed by the decision issued by the Investigating Committee of the Russian Federation.

Additional loans issued to the Group's Parent entity - In July through October 2016 the Group issued additional loans to the Parent entity in total amount of RUR 6,701 million with interest rates mostly ranging from 0.5% to 2.1% per annum. The loan is repayable in 3 years after receipt of the full amount of the loan.