DME LIMITED
and subsidiaries

Consolidated Financial Statements
For the Year Ended 31 December 2013

DME LIMITED AND SUBSIDIARIES

TABLE OF CONTENTS

DME LIMITED AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of DME Limited (the "Company") and its subsidiaries (the "Group") as of 31 December 2013, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS 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; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2013 were approved by management on 30 April 2014.

On behalf of management:

Denis Nuzhdin Chief Executive Officer	Olga Korochkina Chief Financial Officer

ZAO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
www.deloitte.ru

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of DME Limited:

We have audited the accompanying consolidated financial statements of DME Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year ended 31 December 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte + Touche

30 April 2014

DME LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

(Amounts in millions of Russian Rubles)

	Notes	2013	2012
Revenue	8	39,924	36,396
Operating expenses, net	9	(27,269)	(25,369)
Operating profit		**12,655**	**11,027**
Interest expense	10	(468)	(138)
Interest income		177	203
Foreign exchange loss, net		(848)	(657)
Profit before income tax		**11,516**	**10,435**
Income tax	11	(2,086)	(1,902)
Profit and comprehensive income for the year		**9,430**	**8,533**
Profit / (loss) attributable to:			
Owners of the Company		9,431	8,502
Non-controlling interests		(1)	31
		9,430	**8,533**

On behalf of management:

Denis Nuzhdin
Chief Executive Officer

Olga Korochkina
Chief Financial Officer

30 April 2014

DME LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2013
(Amounts in millions of Russian Rubles)

	Notes	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	12	49,397	48,609
Investment property	12	1,852	1,909
Advances for acquisition of non-current assets	12	456	1,096
Intangible assets	13	4,029	3,994
Other non-current assets		939	559
Deferred tax asset	11	825	708
Amounts due from grantor under a concession agreement	14	642	737
Long-term finance lease receivable	15	143	128
Total non-current assets		**58,283**	**57,740**
Current assets			
Inventory	17	862	827
Trade and other receivables	18	2,495	2,614
Prepayments and other current assets	19	2,493	1,973
Payments made in connection with uncertain tax positions	5	614	-
Prepaid income tax		554	638
Short-term finance lease receivable	15	108	93
Short-term investments	16	2,108	1,646
Cash and cash equivalents	20	12,210	1,406
Total current assets		**21,444**	**9,197**
TOTAL ASSETS		**79,727**	**66,937**
EQUITY AND LIABILITIES			
Capital			
Share capital	21	11,877	11,877
Retained earnings	21	36,576	31,227
Equity attributable to the owners of the Company		48,453	43,104
Non-controlling interests		14	15
Total equity		**48,467**	**43,119**
Non-current liabilities			
Five-year USD loan participation notes	22	9,720	-
Deferred tax liability	11	5,412	5,421
Amounts due to grantor under a concession agreement, long-term portion	14	3,139	3,139
Other long-term borrowings	23	4,345	6,543
Total non-current liabilities		**22,616**	**15,103**
Current liabilities			
Trade and other payables	24	3,603	3,477
Income tax payable		292	292
Taxes other than income tax payable	25	1,142	1,001
Dividends payable	21	-	2,128
Amounts due to grantor under a concession agreement, short-term portion	14	313	254
Accrued expenses and other current liabilities	26	1,119	1,206
Five-year USD loan participation notes, short-term portion	22	60	-
Other short-term borrowings	22	2,091	62
Provisions		24	295
Total current liabilities		**8,644**	**8,715**
TOTAL EQUITY AND LIABILITIES		**79,727**	**66,937**

On behalf of management:

Denis Nuzhdin
Chief Executive Officer

Olga Korochkina
Chief Financial Officer

30 April 2014

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

DME LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts in millions of Russian Rubles)

	2013	2012
Cash flows from operating activities:		
Profit before income tax	**11,516**	**10,435**
Adjustments for:		
Depreciation and amortization	2,651	2,187
(Gain) / loss on disposal of property, plant and equipment	(13)	13
Change in provision for impairment of accounts receivable and advances to suppliers	132	13
Change in legal provision	(271)	-
Amortization of other non-current assets	202	148
Interest income	(177)	(203)
Interest expense	468	138
Foreign exchange loss, net	848	657
Other non-cash items, net	90	(131)
	15,446	**13,257**
(Increase) / decrease in inventory	(57)	30
Increase in trade and other receivables	(159)	(263)
Increase in prepayments and other current assets	(952)	(428)
Increase in trade and other payables	398	380
Decrease in provisions	-	(510)
Increase in taxes other than income tax payable	141	46
(Decrease) / increase in accrued expenses and other current liabilities	(161)	251
Net cash from operating activities before income tax	**14,656**	**12,763**
Interest paid	(359)	(80)
Income tax paid	(2,130)	(3,004)
Net cash provided by operating activities	**12,167**	**9,679**
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,781)	(7,496)
Purchases of intangible assets and other non-current assets	(875)	(626)
Proceeds from disposal of property, plant and equipment	92	38
Purchases of investments	(2,024)	(1,645)
Proceeds from disposal of investments	1,609	6,269
Proceeds from grantor under a concession agreement	177	69
Interest received	165	165
Net cash used in investing activities	**(3,637)**	**(3,226)**
Cash flows from financing activities:		
Proceeds from borrowings	-	6,419
Proceeds from five-year USD loan participation notes	9,720	-
Repayments of borrowings	(946)	(9)
Dividends paid	(5,425)	(12,672)
Other distribution to shareholders	(959)	(48)
Net cash provided by / (used in) financing activities	**2,390**	**(6,310)**
Net increase in cash and cash equivalents	**10,920**	**143**
Cash and cash equivalents at the beginning of the year	**1,406**	**1,769**
Foreign exchange loss on cash and cash equivalents	(116)	(506)
Cash and cash equivalents at the end of the year	**12,210**	**1,406**

On behalf of management:

Denis Nuzhdin
Chief Executive Officer

Olga Korochkina
Chief Financial Officer

30 April 2014

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

DME LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(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 2012	**-**	**46,812**	**46,812**	**(16)**	**46,796**
Profit and comprehensive income for the year	-	8,502	8,502	31	8,533
Dividends offset against receivables from shareholder (Note 21)	11,877	(11,877)	-	-	-
Dividends (Note 21)	-	(12,162)	(12,162)	-	(12,162)
Other distribution to shareholders (Note 21)	-	(48)	(48)	-	(48)
Balance as of 31 December 2012	**11,877**	**31,227**	**43,104**	**15**	**43,119**
Profit and comprehensive income for the year	-	9,431	9,431	(1)	9,430
Dividends (Note 21)	-	(3,123)	(3,123)	-	(3,123)
Other distribution to shareholders (Note 21)	-	(959)	(959)	-	(959)
Balance as of 31 December 2013	**11,877**	**36,576**	**48,453**	**14**	**48,467**

On behalf of management:

Denis Nuzhdin
Chief Executive Officer

Olga Korochkina
Chief Financial Officer

30 April 2014

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

(Amounts in millions of Russian Rubles)

1. NATURE OF THE BUSINESS

DME Limited (previously FML Limited, hereinafter the "Company"), is a limited liability company incorporated under the laws of the Isle of Man in February 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 has ownership or control in the following significant entities:

Company name	Place of incorporation	Principal activity	Percentage held as of 31 December 2013	Percentage held as of 31 December 2012
Domodedovo Passenger Terminal	Russia	Passenger terminal complex	100%	100%
Domodedovo Cargo	Russia	Cargo terminal complex	100%	100%
Domodedovo Catering Service	Russia	In-flight catering facility	100%	100%
Domodedovo Asset Management	Russia	Hotel and parking operator	100%	100%
Domodedovo Fuel Services	Russia	Fuel storage and supply facility	100%	100%
Domodedovo Airport Aviation 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%
Sortenia Ventures Limited	Cyprus	Investing and financing activities	100%	100%
Airport Management Company Limited	Isle of Man	Group management company	100%	100%
Ocean Fest Development SA	British Virgin Islands	Investing and financing activities	100%	100%
Domodedovo Training Corporation	Russia	Staff professional trainings and development	100%	100%
Domodedovo Integration	Russia	Software development	100%	100%
Domodedovo Parking Services Limited	British Virgin Islands	Management of car park facilities	100%	100%
Domodedovo Non-aviation Sales	Russia	Rent and advertizing services	100%	100%
DME Airport Limited	Ireland	Investing and financing activities	100%	-

The Russian Federation is the place of operation for all the companies listed above, except for Verulia Investments Limited and Sortenia Ventures Limited for which the place of operation is Cyprus. These entities are involved in treasury activities of the Group, facilitating financing and investing transactions between the Group's individual companies, as well as between the Group and third parties.

During the year ended 31 December 2013 the Group established DME Airport Limited, 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 Republic of Mauritius.

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

The consolidated financial statements of the Group for the year ended 31 December 2013 were authorized for issue by management on 30 April 2014.

2. PRESENTATION OF FINANCIAL STATEMENTS

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

Basis of preparation – These consolidated financial statements are prepared on the basis of standalone financial statements of the Company and its subsidiaries. The entities of the Group maintain their accounting records in accordance with laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered.

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

The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows of the Group in accordance with IFRS.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Control is achieved when the Company:

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

Non-controlling interest in consolidated subsidiaries is identified separately from the Group's equity therein. Total comprehensive income / (loss) is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

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

Functional and presentation currency – The primary economic environment of the Group is the Russian Federation. Therefore, the Russian Ruble ("RUR") is the functional currency of the Company and all subsidiaries of the Group, as well as the Group's presentation currency.

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

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

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

Airport and other related charges

Revenue from airport and other related charges mainly includes fees collected for aircraft landing, runway lighting, aircraft parking, and passenger-related fees. Certain airport charges are regulated. This means, among other things, that the process of fixing the airport charge rates is periodically reviewed by the Federal Tariff Service of the Russian Federation ("FTS"). Revenue from airport and other related charges is recognized in the accounting period in which the services are rendered.

Rental income

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

Ground handling

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

Jet fuelling and storage services

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

Aviation security

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

Hotel revenue, parking fees and other revenue

Hotel revenue is generated from providing hotel accommodation at Domodedovo-Aerotel during 2012 (for details see Note 8). Parking fees consist of fees collected at the passenger terminal's car park. Other revenue consists of auxiliary services provided at the cargo and passenger terminals. Revenue from such services is recognized in the period in which the services are rendered.

Jet fuel sales

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

Catering

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

Interest income

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

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

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

Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Group as lessee

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

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

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

Borrowing costs – Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized and amortized over the useful life of the asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Income tax – Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date. Provisions in respect of uncertain tax positions which relate to income tax are included in current income tax at an amount expected to be payable including penalties, if any.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associates and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the period when the liabilities are settled or the assets realized.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are not discounted.

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

The Group contributes to the Pension Fund of the Russian Federation, a defined contribution plan. The Group's only obligation is to pay contributions to the Fund as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. The Group's contributions to the Russian Federation State Pension Fund are recorded as an expense over the reporting period based on the related employee service rendered. In 2013 and 2012 contributions for each employee vary from 10% to 22%, depending on the annual gross remuneration of each employee.

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

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

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

Assets under construction

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

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

Investment property

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

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

Subsequent costs

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

Depreciation

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

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

	Number of years
Buildings	10-50
Plant and equipment	5-20
Other	2-20

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

Gain or loss on disposal

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated profit or loss.

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

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

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

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

Useful lives and amortization methods for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for as changes in accounting estimates.

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

Recoverable amount is the higher of fair value less costs to sell and value in-use. In assessing value in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest income is recognized by applying the effective interest rate except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets (AFS financial assets)

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets mainly consist of investments in publicly listed state and corporate bonds.

Listed bonds held by the Group that are traded in an active market are stated at their market value. Gains and losses arising from changes in fair value are recognized directly in other comprehensive income in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in the consolidated profit or loss. Where an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investment revaluation reserve is included in the consolidated profit or loss for the period.

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

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

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

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

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

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

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

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

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

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

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

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

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS and IFRIC interpretations adopted in the current year

In the current year, the Group has adopted all new and revised standards and interpretations issued by the IASB and the IFRIC of the IASB that are mandatory for adoption in the annual periods beginning on or after 1 January 2013. The effect from their adoption has not resulted in any significant changes to measurement and presentation of disclosures in the financial statements of the Group.

IFRS and IFRIC interpretations in issue but not yet effective

At the date of authorization of these consolidated financial statements, the following standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2014 or later periods and which the entity has not early adopted:

Standards and Interpretations	**Effective for annual periods beginning on or after**
IAS 19 "Employee benefits" (amended)	1 July 2014
IAS 32 "Financial instruments: presentation" (amended)	1 January 2014
IAS 36 "Impairment of assets" (amended)	1 January 2014
IAS 39 "Financial instruments: recognition and measurement" (amended)	1 January 2014
IFRS 9 "Financial instruments"	1 January 2015
IFRIC 21 "Levies"	1 January 2014

Also a number of standards and interpretations were amended by Annual Improvements to IFRS 2010 – 2012 Cycle and 2011-2013 Cycle issued in December 2013. These amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in different standards. These amendments are mandatory for adoption in the annual periods beginning on or after 1 January 2014.

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

- Amendments to IAS 36 “Impairment of assets” - requires disclosure of information about recoverable amounts of non-financial assets. It requires additional disclosures about valuation of assets (or asset groups) that have been impaired provided their recoverable amount was calculated as a fair value less costs to sell. The Amendment is effective for annual periods beginning on or after 1 January 2014.
- IFRS 9 “Financial instruments” – introduces new requirements for classifying and measuring financial assets, as follows:
  - Debt instruments meeting both a “business model” test and a “cash flow characteristics” test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
  - Investments in equity instruments can be designated as “fair value through other comprehensive income” with only dividends being recognized in profit or loss
  - All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss
  - The concept of “embedded derivatives” does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.
- Subsequent changes (in 2010) to IFRS 9 incorporate revised requirements for the classification and measurement of financial liabilities, and carry over the existing derecognition requirements from IAS 39 “Financial instruments: recognition and measurement”. The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.
- IFRIC 21 “Levies” - Provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 “Provisions, contingent liabilities and contingent assets” and those where the timing and amount of the levy is certain. The Interpretation covers the accounting for outflows imposed on entities by governments (including government agencies and similar bodies) in accordance with laws and/or regulations. It does not include income taxes, fines and other penalties, liabilities arizing from emissions trading schemes and outflows within the scope of other Standards.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Provision for impairment of receivables and advances to suppliers – Management maintains a provision for impairment of receivables and advances to suppliers in the form of an allowance account equal to estimated losses resulting from the inability of customers and other debtors to make required payments. When evaluating the adequacy of this allowance account, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment patterns. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2013 and 2012 the provision for impairment of receivables and advances to suppliers was recognized in the amount of RUR 809 million and RUR 1,040 million, respectively (see Notes 18, 19).

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

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

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

Payments made in connection with uncertain tax positions – Compliance with tax legislation, particularly in the Russian Federation, is subject to significant degree of interpretation and can be routinely challenged by the tax authorities. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

During 2012 several of the Group’s subsidiaries were subject to tax audits, during which the Federal Tax Service identified a number of tax positions which could result in potential fines and penalties for the entities concerned. In order to comply with the provisions of tax legislation the Group made due payments to the tax authority with respect to such tax positions.

However, based on the assessment of applicable tax regulations, existing legal precedents and past experience in dealing with similar claims, management is of the opinion that it has complied with all relevant provisions of tax legislation, and that the claims raised based on the results of the tax audits will be resolved in favor of the Group. Accordingly, payments made by the Group with respect to such claims for a total amount of RUR 614 million were recognized as an asset in accordance with IAS 37 “Provisions, contingent liabilities and contingent assets”.

6. RECLASSIFICATION

Certain information for the year ended 31 December 2012 has been reclassified for consistency with the method of presentation adopted in the Group’s consolidated financial statements for the year ended 31 December 2013. The changes in classification are shown below:

Reclassification of operating expenses

	Before reclassification	After reclassification	Difference
Cleaning and waste management	451	476	25
Certification and licensing	170	172	2
Maintenance	597	594	(3)
Public utilities	450	448	(2)
Transport	252	229	(23)
Communication services expenses	-	76	76
Other expenses, net	431	356	(75)
			-

Reclassification of other non-current assets

	Before reclassification	After reclassification	Difference
Other non-current assets	-	554	554
Prepayments and other current assets (Note 19)	2,527	1,973	(554)
Total non-current assets	57,186	57,740	554
Total current assets	9,751	9,197	(554)
			-

Misclassification of capitalized borrowing costs

In process of preparation of 2013 consolidated financial statements the Group identified error resulting in misclassification of capitalized borrowing costs in the amount of RUR 535 million between "Buildings" category of property, plant and equipment and Construction in-progress as of 31 December 2012. These objects were put into operation at the end of December 2012, so no effect on depreciation expense occurred. After the correction of error the net book value of Buildings decreased by RUR 535 million to RUR 39,479 million and net book value of Construction in-progress increased by RUR 535 million to RUR 4,764 million as of 31 December 2012.

7. 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, car parking and hotel services.

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

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

The key financial information for the Group's segments for the years ended 31 December 2013 and 2012 is presented below:

		Aviation services	Auxiliary aviation services	Commercial services	Inter-segment eliminations	Group
Third-party revenue	**2013**	**9,207**	**23,907**	**6,810**	**-**	**39,924**
	2012	**8,222**	**22,217**	**5,957**	**-**	**36,396**
Intersegment revenue	2013	1,192	1,389	566	(3,147)	-
	2012	1,080	1,264	323	(2,667)	-
Total revenue	2013	10,399	25,296	7,376	(3,147)	39,924
	2012	9,302	23,481	6,280	(2,667)	36,396
Operating profit	**2013**	**2,899**	**6,573**	**3,183**	**-**	**12,655**
	2012	**3,026**	**5,322**	**2,679**	**-**	**11,027**
Depreciation and amortization	2013	(939)	(781)	(931)	-	(2,651)
	2012	(782)	(671)	(734)	-	(2,187)
Change in provision for impairment of receivables and advances to suppliers	2013	(27)	(88)	(17)	-	(132)
	2012	8	(28)	7	-	(13)
Change in legal provision	2013	74	176	21	-	271
	2012	-	-	-	-	-

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

	2013		2012	
	Amount	**%**	**Amount**	**%**
AK Transaero	**4,117**	**10%**	**4,615**	**13%**
Aviation services segment	1,532		1,635	
Auxiliary aviation services segment	2,248		2,546	
Commercial services segment	337		434	
S7 Group	**4,391**	**11%**	**3,659**	**10%**
Aviation services segment	1,642		1,445	
Auxiliary aviation services segment	2,525		2,126	
Commercial services segment	224		88	

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

8. REVENUE

	2013	2012
Service revenue		
Ground handling	7,346	6,368
Airport and other related charges	6,874	6,134
Rental income	6,028	4,833
Jet fuelling and storage services	2,690	2,566
Aviation security	1,938	1,735
Parking fees	728	722
Construction revenue	178	191
Hotel revenue (i)	-	388
Other revenue	383	269
Total service revenue	**26,165**	**23,206**
Product revenue		
Jet fuel sales	8,568	8,242
Catering	5,191	4,948
Total product revenue	**13,759**	**13,190**
Total revenue	**39,924**	**36,396**

(i) Until October 2012 the Group was operating a hotel in the airport Domodedovo. From October 2012 the hotel building was rented to a third party hotel operator.

Rental income includes contingent rentals (see Note 28) of RUR 4,721 million and RUR 3,609 million for the years ended 31 December 2013 and 2012, respectively, and rental income from investment property in the amount of RUR 649 million and RUR 441 million for the years ended 31 December 2013 and 2012, respectively.

9. OPERATING EXPENSES, NET

	2013	2012
Payroll and related charges:		
Wages and salaries	8,499	7,916
Social taxes	2,155	2,028
Cost of jet fuel	7,335	6,967
Depreciation and amortization	2,651	2,187
Materials	1,770	1,838
Maintenance	1,155	594
Taxes other than income tax	853	768
Cleaning and waste management	536	476
Public utilities	473	448
Rent	374	352
Consulting, audit and other services	233	307
Transport	232	229
Staff development and training	197	247
Certification and licensing	185	172
Change in provision for impairment of receivables and advances to suppliers (Notes 18,19)	132	13
Passenger servicing	108	105
Communication services expense	80	76
Advertising expenses	43	88
Aircraft servicing	13	16
Charitable donations	-	186
Change in legal provision	(271)	-
Other expenses, net	516	356
Total operating expenses, net	**27,269**	**25,369**

The Group was involved in litigation with Vnukovo Airport (the “guarantor”), which guaranteed the Group’s receivables from several airlines comprising the Air Union alliance which is currently in bankruptcy. The guarantor previously settled the airlines’ receivable in cash for a total amount of RUR 805 million, but instigated legal proceedings to recover the entire amount from the Group. As at 31 December 2011 the Group recognized a provision for this amount.

During 2012 the court decreed that an amount of RUR 352 million be repaid to the guarantor. Furthermore, management reassessed and reduced the amount of the initial claim by RUR 158 million. As a result the Group repaid a total of RUR 510 million to the guarantor. In October 2013 further legal proceeding with respect to the remaining provision in the amount of RUR 295 million has resulted in final court ruling in favor of the Group. Accordingly, the previously recognized provision of RUR 295 million has been released. The release in provision is shown as a change in legal provision as part of operating expenses in the consolidated profit and loss.

10. INTEREST EXPENSE

	2013	2012
Interest expense on bank loans	304	262
Interest expense on five-year USD loan participation notes	60	-
Unwind of the discount relating to amounts due to grantor under a concession agreement	347	78
	711	**340**
Less: capitalized interest (Note 12)	(243)	(202)
Total interest expense	**468**	**138**

11. INCOME TAX

	2013	2012
Current income tax expense	(2,212)	(2,180)
Deferred income tax benefit	126	278
Income tax	**(2,086)**	**(1,902)**

Profit before income tax for financial reporting purposes is reconciled to income tax charge as follows:

	2013	2012
Profit before income tax	**11,516**	**10,435**
Theoretical tax charge at Russian statutory rate of 20%	(2,303)	(2,087)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax rate differences relating to other jurisdictions	216	337
Non-taxable foreign exchange differences	211	9
Effect of tax on dividends of subsidiaries	-	(250)
Tax credit for charitable donations	-	186
Non-deductible interest expenses	(111)	(128)
Other (non-deductible) / non-taxable items	(99)	31
Income tax	**(2,086)**	**(1,902)**

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

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

	31 December 2013	**Charged to profit or loss**	**31 December 2012**
Tax losses carry forward	253	196	57
Property, plant and equipment	67	53	14
Trade and other receivables	174	(203)	377
Prepayments and other current assets	103	(1)	104
Trade and other payables	99	123	(24)
Accrued expenses and other current liabilities	107	(108)	215
Intangible assets	6	6	-
Other	16	51	(35)
Deferred tax asset, net	**825**		**708**
Property, plant and equipment	(5,354)	(22)	(5,332)
Trade and other receivables	(13)	37	(50)
Prepayments and other current assets	(7)	(17)	10
Amounts due to grantor under a concession agreement	602	(53)	655
Trade and other payables	(14)	(22)	8
Accrued expenses and other current liabilities	-	1	(1)
Intangible assets	(626)	85	(711)
Deferred tax liability, net	**(5,412)**		**(5,421)**
		126	

	31 December 2012	**Charged to profit or loss**	**31 December 2011**
Tax losses carry forward	57	(17)	74
Property, plant and equipment	14	(85)	99
Trade and other receivables	377	(18)	395
Prepayments and other current assets	104	32	72
Trade and other payables	(24)	(76)	52
Accrued expenses and other current liabilities	215	(75)	290
Other	(35)	34	(69)
Deferred tax asset, net	**708**		**913**
Property, plant and equipment	(5,332)	400	(5,732)
Trade and other receivables	(50)	155	(205)
Prepayments and other current assets	10	2	8
Amounts due to grantor under a concession agreement	655	527	128
Trade and other payables	8	(5)	13
Accrued expenses and other current liabilities	(1)	(19)	18
Intangible assets	(711)	(577)	(134)
Deferred tax liability, net	**(5,421)**		**(5,904)**
		278	

The Group's recognized tax losses carry forward expire as follows:

	2019	**2020**	**2021**	**2022**	**2023**	**Total**
Tax losses carry forward	3	31	15	17	187	**253**

During 2012 a number of the Group's Russian subsidiaries distributed dividends to the parent (DME Limited) for the total amount of RUR 4,400 million. A related withholding tax liability in the amount of RUR 250 million was recognized as at 31 December 2012. The Group did not recognize a deferred tax liability related to the remaining undistributed earnings of its subsidiaries as it has not made any decisions regarding future distributions of retained earnings within the Group. Undistributed earnings, in relation to which deferred tax liability was not accrued, amounted to RUR 18,197 million and RUR 14,153 million as of 31 December 2013 and 2012, respectively.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Other	CIP	Total
Cost					
1 January 2012	**40,086**	**4,811**	**970**	**3,886**	**49,753**
Additions	2,750	1,869	266	2,837	7,722
Transfers	1,391	497	31	(1,919)	-
Disposals	(8)	(30)	(28)	(40)	(106)
Reclassified as investment property	(287)	-	-	-	(287)
31 December 2012	**43,932**	**7,147**	**1,239**	**4,764**	**57,082**
Additions	791	464	66	1,886	3,207
Transfers	792	627	16	(1,435)	-
Disposals	(34)	(41)	(80)	(46)	(201)
Reclassified as investment property	(9)	-	-	-	(9)
31 December 2013	**45,472**	**8,197**	**1,241**	**5,169**	**60,079**
Accumulated depreciation					
1 January 2012	**(3,426)**	**(2,365)**	**(772)**	**-**	**(6,563)**
Depreciation charge	(1,070)	(849)	(88)	-	(2,007)
Disposals	1	28	26	-	55
Reclassified as investment property	42	-	-	-	42
31 December 2012	**(4,453)**	**(3,186)**	**(834)**	**-**	**(8,473)**
Depreciation charge	(1,187)	(991)	(153)	-	(2,331)
Disposals	14	35	73	-	122
31 December 2013	**(5,626)**	**(4,142)**	**(914)**	**-**	**(10,682)**
Net book value					
31 December 2012	**39,479**	**3,961**	**405**	**4,764**	**48,609**
31 December 2013	**39,846**	**4,055**	**327**	**5,169**	**49,397**

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

"Plant and equipment" mainly consists of baggage-processing systems, aircraft servicing equipment, tow tractors, passenger shuttles, parking equipment, de-icing vehicles, full-body security scanners and other operating equipment.

"Other" consists mainly of administrative equipment and vehicles.

Construction in-progress ("CIP") consists mainly of capital expenditures related to the construction of passenger and cargo terminals and electric power plant, as well as uninstalled equipment, including full-body security scanners and fire engines.

During the years ended 31 December 2013 and 2012 the Group capitalized borrowing costs in the amount of RUR 243 million and RUR 202 million, respectively.

The weighted average capitalization rate on borrowed funds was 6% and 5% per annum for the years ended 31 December 2013 and 2012, respectively.

As at 31 December 2013 and 2012 no property, plant and equipment 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.

	2013	2012
Cost at the beginning of the year	**2,096**	**1,809**
Reclassified from property, plant and equipment (i)	9	287
Cost at the end of the year	**2,105**	**2,096**
Accumulated depreciation at the beginning of the year	**(187)**	**(86)**
Reclassified from property, plant and equipment	-	(42)
Depreciation charge for the year	(66)	(59)
Accumulated depreciation at the end of the year	**(253)**	**(187)**
Net book value at the end of the year	**1,852**	**1,909**

(ii) In October 2012, hotel building owned by the Group was leased out to a third party operator, and thus was reclassified as an investment property.

Fair value of the investment properties as at 31 December 2013 was RUR 4,279 million and has been arrived at on the basis of a valuation carried out on this date 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.

Advances for acquisition of non-current assets

As of 31 December 2013 and 2012 advances for acquisition of non-current assets in the amounts of RUR 456 million and RUR 1,096 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.

13. INTANGIBLE ASSETS

	31 December 2013	31 December 2012
Concession arrangement (Note 14)	3,717	3,658
Other intangible assets	312	336
Intangible assets	**4,029**	**3,994**

Other intangible assets as of 31 December 2013 and 2012 are presented below:

	Software	Licences and other	Assets not ready for use	Total
Cost				
1 January 2012	**325**	**38**	**114**	**477**
Additions	155	39	-	194
Transfers	53	-	(53)	-
Disposals	(2)	(1)	(19)	(22)
31 December 2012	**531**	**76**	**42**	**649**
Additions	9	2	101	112
Transfers	61	-	(61)	-
Disposals	(17)	-	(1)	(18)
31 December 2013	**584**	**78**	**81**	**743**
Accumulated amortization				
1 January 2012	**(170)**	**(35)**	**-**	**(205)**
Amortization charge	(106)	(2)	-	(108)
31 December 2012	**(276)**	**(37)**	**-**	**(313)**
Amortization charge	(114)	(21)	-	(135)
Disposals	17	-	-	17
31 December 2013	**(373)**	**(58)**	**-**	**(431)**
Net book value				
31 December 2012	**255**	**39**	**42**	**336**
31 December 2013	**211**	**20**	**81**	**312**

14. CONCESSION ARRANGEMENT

General

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

The Group is required to make quarterly payments for the right to use the assets during the term of the agreement. Such payments are set to be revised every three years. The most recent revision took place in December 2012, with the next revision due in 2015. 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 642 million (2012: RUR 737 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 have any agreement on a schedule of future payments and does not expect that any significant settlement will be effected during 2014. Accordingly, the amounts have been classified as non-current assets.

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% (2012: 13%). 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 contractual future payments are reconciled to their present value as at 31 December 2013 and 2012 as follows:

	Future payments		**Present value of future payments**	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Due within one year	328	267	313	254
Due after one year but not more than five years	1,391	1,391	1,044	1,044
Due after more than five years	18,958	19,307	2,095	2,095
	20,677	20,965	3,452	3,393
Less future finance charges	(17,225)	(17,572)	-	-
Present value of future payments	**3,452**	**3,393**	**3,452**	**3,393**

Intangible assets

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

	2013	**2012**
Cost at the beginning of the year	3,723	734
Increase related to the change in fees payable to the grantor	-	2,798
Other additions	178	191
Cost at the end of the year	**3,901**	**3,723**
Accumulated amortization at the beginning of the year	(65)	(52)
Amortization charge	(119)	(13)
Accumulated amortization at the end of the year	**(184)**	**(65)**
Net book value	**3,717**	**3,658**

15. FINANCE LEASE RECEIVABLE

During the period ended 31 December 2011 a 15-year finance lease agreement for the lease of one of the Group's hangars was concluded between a company of the Group, and LLC "ATB Domodedovo" and LLC "S7 Engineering" (previously LLC "Domodedovo Technique"). Presented below is the reconciliation between the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period.

	31 December 2013		**31 December 2012**	
	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	145	108	125	93
Due after one year but not more than five years	579	128	518	115
Due after more than five years	1,038	15	1,058	13
Total gross / net investment in the lease	1,762	251	1,701	221
Less unearned finance income	(1,511)	-	(1,480)	-
Present value of minimum lease payments	**251**	**251**	**221**	**221**

16. SHORT-TERM INVESTMENTS

	31 December 2013	31 December 2012
Short-term USD-denominated bank deposits	1,146	-
Short-term EUR-denominated bank deposits	899	483
Available-for-sale debt securities	52	49
Short-term AUD-denominated bank deposits	-	1,109
Other loans	11	5
Total short-term investments	**2,108**	**1,646**

As of 31 December 2013 the Group had USD-denominated bank deposits placed with FBME Bank Ltd for a three-month period with interest rate of 0.75% per annum.

As of 31 December 2013 the EUR-denominated bank deposits are placed with FBME Bank Ltd for a three-month period with interest rate of 0.75% per annum (31 December 2012: interest rates ranging from 1.75% to 1.85%).

As of 31 December 2012 the bank deposits denominated in Australian Dollars ("AUD") are placed with FBME Bank Ltd for five to six month periods with interest rate of 3.25% per annum.

Debt securities consist of publicly traded government bonds and corporate bonds of Russian companies, with maturity ranging from January 2013 to June 2032. Annual coupon rates on the bonds range from 7.6% to 16.7%. Management used publicly quoted prices to determine the bonds' fair value as at 31 December 2013. No significant change in fair value of the bonds has taken place since their acquisition. Coupon income in the amount of RUR 1 million was recognized in the consolidated profit or loss for 2013 and 2012.

17. INVENTORY

	31 December 2013	31 December 2012
Jet fuel	311	278
Spare parts	204	180
Raw materials	133	144
Supplies	107	96
Other inventory	107	129
Total inventory	**862**	**827**

18. TRADE AND OTHER RECEIVABLES

	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
31 December 2013			
Trade receivables	2,492	(708)	1,784
Other receivables	768	(57)	711
Total	**3,260**	**(765)**	**2,495**
31 December 2012			
Trade receivables	2,940	(971)	1,969
Other receivables	680	(35)	645
Total	**3,620**	**(1,006)**	**2,614**

The average credit period for the Group's receivables (other than sales carried out on a prepayment basis) is 23 days.

Included in the Group's total trade and other receivables are debtors with carrying amounts of RUR 754 million and RUR 779 million as of 31 December 2013 and 2012, respectively, which are past due at the respective reporting date and which the Group considers to be recoverable (i.e. not impaired). The Group does not hold any collateral over these outstanding balances.

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

	31 December 2013	31 December 2012
30-90 days	74	170
90-180 days	35	97
more than 180 days	645	512
Total past due but not impaired	**754**	**779**

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

	31 December 2013	31 December 2012
Balance at the beginning of the year	(1,006)	(1,775)
Additional provision recognized in the current year	(131)	(73)
Release of provision	9	61
Use of provision	363	781
Balance at the end of the year	**(765)**	**(1,006)**

As of 31 December 2013 and 2012, impairment provision for trade receivables of RUR 148 million and RUR 505 million, respectively, relates to receivables from customers, which were declared bankrupt in September 2008. During 2013 and 2012 a portion of such receivables in the amount of RUR 358 million and RUR 749 million, respectively, was written off against the related provision, due to the expiration of the applicable statute of limitations.

In determining the recoverability of trade and other receivables the Group considers any change in the credit quality of trade and other receivables from the date credit was initially granted up to the reporting date. Details about concentration of credit risk and related risk management activities are provided in Note 30.

19. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2013	31 December 2012
VAT receivable	1,419	1,473
Irrevocable letters of credit	808	291
Advances to suppliers, net of impairment	114	109
Other current assets	152	100
Total prepayments and other current assets	**2,493**	**1,973**

Irrevocable letters of credit are issued by the banks on behalf of the Group for settlements with suppliers of equipment and subcontractors.

The movement in the provision for impairment of advances to suppliers is as follows:

	31 December 2013	31 December 2012
Balance at the beginning of the year	(34)	(43)
Additional provision recognized in the current year	(20)	(26)
Release of provision	10	25
Use of provision	-	10
Balance at the end of the year	**(44)**	**(34)**

In determining the recoverability of advances to suppliers the Group considers any change in the credit quality of advances to suppliers from the date credit was initially granted up to the reporting date. Details about concentration of credit risk and related risk management activities are provided in Note 30.

20. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
USD-denominated short-term bank deposits	9,655	-
AUD denominated short-term bank deposits	1,013	-
Other foreign currency denominated balances with banks	573	415
Russian Rouble denominated cash on hand and balances with banks	519	589
EUR-denominated short-term bank deposits	450	402
Total cash and cash equivalents	**12,210**	**1,406**

The terms of USD- denominated short-term bank deposits are 15 to 90 days, with an annual interest rates of 0.5% - 0.75%

The terms of AUD-denominated deposits are two to three months with an annual interest rate of 1.75%.

The terms of EUR-denominated short-term bank deposits are three months, with an annual interest rate of 0.75%.

21. EQUITY

Share capital and dividends – Authorized and issued capital as at 31 December 2013 and 2012 comprises 304,831,519 ordinary shares with par value EUR 1.

In February 2012 DME Limited transferred its registered office and place of domicile from Isle of Man to the Republic of Cyprus (Note 1), and due to Cypriot statutory requirements shareholders incurred an obligation to pay for the previously issued shares. During the first half of 2012 the shareholders had also approved distribution of dividends in the amount of RUR 52 per share for the total amount of RUR 20,782 million. Dividend liability was subsequently settled partially through offsetting against the receivables from shareholders, with the remainder of the dividend liability paid out in cash in the amount of RUR 8,905 million. Therefore, share capital is shown in the full amount of RUR 11,877 million in these consolidated financial statements.

In addition, during the second half of 2012 dividends of RUR 3,257 million were approved by and paid to the shareholders.

During the period ended 31 December 2013 dividends of RUR 3,123 million were approved by and paid to the shareholders.

As of 31 December 2012 dividends payable amounted to RUR 2,128 million were fully paid in 2013.

Retained earnings – In accordance with statutory legislation, dividends may only be declared to the shareholders of the Group from accumulated undistributed and unreserved earnings as shown in the Group's individual companies' statutory financial statements. As at 31 December 2013 and 2012 such earnings amounted to RUR 22,396 million and RUR 19,374 million, respectively.

Other distribution to shareholders – During the year ended 31 December 2013 the Group made cash payment to its parent entity in the amount of RUR 959 million (RUR 48 million for the year ended 31 December 2012).

22. 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) on the Irish Stock Exchange. Net proceeds from the issuance, after the deduction of related offering costs, amounted to USD 297 million (RUR 9,720 million at the Central Bank of Russia exchange rate as at the inception date). The annual coupon rate of the LPN is 6% with interest being paid semi-annually. The Group intends to use net proceeds from the issuance for implementation of the Group's current capital expenditure program and for the general corporate purposes. The LPN are guaranteed by certain entities of the Group.

The carrying value of the LPN as of 31 December 2013 amounts to RUR 9,780 million. The amount of accrued interest is RUR 60 million, and has been included as the short-term portion of the LPN in the consolidated statement of financial position. The effective interest rate (including the effect of amortizing the transaction costs) is 6.33% per annum. The LPN mature in November 2018.

23. OTHER BORROWINGS

	Interest rate, %	31 December 2013	31 December 2012
Syndicated bank loan	3.98%	6,436	6,605
Total		**6,436**	**6,605**
Less: current portion due within twelve months and presented as short-term borrowings		(2,091)	(62)
Long-term borrowings		**4,345**	**6,543**

In January 2012 the Group entered into a EUR-denominated five-year syndicated loan facility agreement for a total amount of EUR 165 million (RUR 6,513 million at the Central Bank of Russia exchange rate as at the inception date) provided by ING Bank, Rosbank and Raiffeisen Bank with equal contributions of EUR 55 million each. The loan is guaranteed by certain Group companies. In February 2012 the loan was drawn down in full amount at a floating interest rate of EURIBOR + 2.8% per annum. Net proceeds from the borrowings, after the deduction of related commission costs, amounted to EUR 163 million (RUR 6,434 million at the Central Bank of Russia exchange rate as at the inception date). The floating rate was effective until 10 May 2012, after which it was changed to a fixed annual rate of 3.98%. The effective interest rate (including the effect of amortizing the transaction costs) is 4.54% per annum.

Covenants

In accordance with the terms of 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 and 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 the financial covenants are attached as at 31 December 2013 is RUR 6,436 million (31 December 2012: RUR 6,605 million).

As of 31 December 2013 and 2012 the Group was in compliance with these covenants.

24. TRADE AND OTHER PAYABLES

	31 December 2013	31 December 2012
Amounts payable for the acquisition of property, plant and equipment	1,042	1,330
Advances received	1,082	882
Trade payables	751	942
Rent deposits received	728	323
Total trade and other payables	**3,603**	**3,477**

25. TAXES OTHER THAN INCOME TAX PAYABLE

	31 December 2013	31 December 2012
Value added tax	796	595
Social insurance tax	263	319
Property tax	75	79
Other taxes	8	8
Total taxes other than income tax payable	**1,142**	**1,001**

26. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	31 December 2013	31 December 2012
Accrued employee expenses	908	855
Other liabilities	211	351
Total accrued expenses and other current liabilities	**1,119**	**1,206**

Accrued employee expenses as of 31 December 2013 and 2012 comprised accrued salaries and bonuses of RUR 534 million and RUR 565 million, respectively, and an accrual for unused vacation of RUR 374 million and RUR 290 million, respectively.

27. TRANSACTIONS WITH RELATED PARTIES

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

All related parties, with whom the Group entered into significant transactions during years ended 31 December 2013 and 2012 or had significant balance outstanding as of 31 December 2013 and 2012, are considered to be either entities under common control or key management personnel.

The following tables provide the total amount of transactions, which have been entered into with related parties during the years ended 31 December 2013 and 2012 as well as year-end balances.

	31 December 2013		31 December 2012	
	Amounts owed by related parties	Amounts owed to related parties	Amounts owed by related parties	Amounts owed to related parties
Parent entity	-	-	-	2,128
Entities under common control	612	156	637	302
Total	**612**	**156**	**637**	**2,430**

	2013			2012		
	Sales to related parties	Purchases from related parties	Interest income	Sales to related parties	Purchases from related parties	Interest income
Entities under common control	55	80	2	153	241	2

Compensation of key management personnel

Key management comprised 9 and 12 persons as at 31 December 2013 and 2012, respectively. Total gross compensation (including unified social 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 461 million (including social insurance tax of RUR 47 million) and RUR 424 million (including social insurance tax of RUR 37 million) for the years ended 31 December 2013 and 2012, respectively. The outstanding balances due to key management personnel amounted to RUR 69 million and RUR 58 million as at 31 December 2013 and 2012, respectively and comprised accrued salaries, bonuses and accrual for unused vacation.

28. OPERATING LEASES ARRANGEMENTS

The Group as Lessee

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

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

	2013	2012
Within one year	216	220
In two to five years	463	452
After five years	3,455	3,382
Total minimum lease payments	**4,134**	**4,054**

Included in minimum lease payments within one year are amounts of RUR 80 million and RUR 111 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 31 December 2013 and 2012, 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

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

The future minimum lease payments representing fixed part of the rentals under contracted operating leases for the year 2014 amount to RUR 1,859 million.

29. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

The Group's contracted capital commitments, related to construction of passenger and cargo terminals and modernization of existing assets as of 31 December 2013 and 2012, consisted of the following:

	31 December 2013	31 December 2012
Reconstruction and expansion of passenger terminal	6,289	10,207
Construction of electric power plant	1,188	1,195
Reconstruction and expansion of cargo terminal	496	878
Reconstruction of fuel storage facilities	275	82
Construction of warehousing facilities	224	101
Reconstruction of office buildings	204	223
Design of multilevel parking	124	166
Reconstruction of catering facilities	102	123
Construction of aircraft maintenance hangar	18	52
Other	342	313
Total capital commitments	**9,262**	**13,340**

Operating environment of the Group – Risks in emerging markets such as Russia can differ significantly from the risks that are present in more developed markets. Such risks may be economic, political or social as well as legal and legislative. Historically, actual or perceived financial problems or an increase in the perceived risks associated with investing in one emerging economy can adversely affect the investment climate in other emerging economies including the Russian Federation.

Laws and regulations affecting businesses in the Russian Federation can change rapidly. Tax, currency and customs legislation within Russia can be subject to varying interpretations, and other legal and fiscal impediments may contribute to the challenges faced by entities currently operating in Russia. The future economic direction of the Russian Federation is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments as well as external factors such as the price of oil and gas.

In March 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. These official actions, particularly if further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on future operations and financial position of the Company 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 14), such infrastructure items include the airfield, runways, adjacent taxiways, apron and certain navigation equipment. The contractual agreement regulating the relationship between the government and operators of such infrastructure items in Russia may not be as detailed and comprehensive as the contractual agreements governing similar infrastructure assets in more developed countries. Terms of contractual agreements between the government and infrastructure operators are not standardized, and may vary substantially from one arrangement to another. As laws and regulations evolve, develop or otherwise change in the future, the lease agreement between the Group and the government may change significantly.

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

Transfer pricing – In particular, Russian transfer pricing legislation was amended starting from 1 January 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 of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

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 disclosed in Note 5.

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

Property and civil liability of the Group are insured by well known Russian insurance companies. The full coverage insurance value of property is RUR 3,819 million. Third party liability of DME Limited and its subsidiaries is insured for the amount of RUR 16,364 million.

30. RISK MANAGEMENT ACTIVITIES

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

Capital Risk Management

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

Management of the Group regularly reviews its gearing ratio, calculated as proportion of debt to equity, to ensure that it is in line with the Group's adopted policy on debt management. The current policy assumes a conservative approach to debt leverage in favor of equity financing, and limits the highest acceptable gearing ratio to 40%. During 2013 the Group complied with all external capital requirements.

Major Categories of Financial Instruments

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

	31 December 2013	31 December 2012
Financial assets		
Cash and cash equivalents	12,210	1,406
Trade and other receivables	2,495	2,614
Short-term investments	2,056	1,597
Amounts due from grantor under a concession agreement	642	737
Lease receivable	251	221
Available-for-sale securities	52	49
Total financial assets	**17,706**	**6,624**

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

	31 December 2013	31 December 2012
Financial liabilities		
Five-year USD loan participation notes	9,780	-
Long-term borrowings	4,345	6,543
Amounts due to grantor under a concession agreement	3,452	3,393
Trade and other payables	2,521	2,595
Accrued expenses and other current liabilities	1,119	1,206
Short-term borrowings	2,091	62
Total financial liabilities	**23,308**	**13,799**

Liquidity Risk

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

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

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

	Effective interest rate, %	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Over 5 years	Total
31 December 2013							
Non-interest bearing liabilities	-	2,456	601	77	415	91	3,640
Loans and borrowings	4.6%-6.3%	679	-	1,728	14,319	-	16,726
Amounts due to grantor under a concession agreement	10.6%	7	-	321	1,391	18,958	20,677
Total		**3,142**	**601**	**2,126**	**16,125**	**19,049**	**41,043**
31 December 2012							
Non-interest bearing liabilities	-	2,474	325	142	647	213	3,801
Loans and borrowings	4.6%	-	76	1,079	6,059	-	7,214
Amounts due to grantor under a concession agreement	13%	6	-	261	1,391	19,307	20,965
Total		**2,480**	**401**	**1,482**	**8,097**	**19,520**	**31,980**

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

	Effective interest rate, %	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Over 5 years	Total
31 December 2013							
Accounts receivable	-	2,711	402	11	13	-	3,137
Investments	1.75-9.8%	1	-	2,112	1	-	2,114
Lease receivable	75%	12	24	109	579	1,038	1,762
Total		**2,724**	**426**	**2,232**	**593**	**1,038**	**7,013**
31 December 2012							
Accounts receivable	-	2,598	457	296	-	-	3,351
Investments	1.7-9.8%	56	-	1,615	-	-	1,671
Lease receivable	75%	9	19	97	518	1,058	1,701
Total		**2,663**	**476**	**2,008**	**518**	**1,058**	**6,723**

Currency Risk

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

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

For the year ended 31 December 2013 the Russian Ruble depreciated against the US Dollar, EURO by 8%, 12% and appreciated against AUD Dollar by 8%, respectively (appreciated against the US Dollar, AUD Dollar and EURO by 6%, 3% and 4%, respectively, for the year ended 31 December 2012). The Group does not have or use any formal arrangements (i.e. derivatives) to manage foreign currency risk exposure.

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

	Denominated in AUD		Denominated in USD		Denominated in EUR	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Assets				-		
Cash and cash equivalents	1,022	-	9,789	339	880	478
Amounts due from grantor under a concession agreement	-	-	-	-	642	737
Trade and other receivables	-	-	115	190	555	589
Investments	-	1,109	1,146	-	899	483
Total assets	**1,022**	**1,109**	**11,050**	**529**	**2,976**	**2,287**
Liabilities						
Loans and borrowings	-	-	9,780	-	6,436	6,605
Trade and other payables	-	-	71	116	780	561
Total liabilities	**-**	**-**	**9,851**	**116**	**7,216**	**7,166**

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

	AUD – impact		USD – impact		EUR – impact	
	2013	2012	2013	2012	2013	2012
Loss / (gain)	**(102)**	**(111)**	**(120)**	**(41)**	**424**	**488**

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

Interest rate risk

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

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

As at 31 December 2013 the Group's borrowed funds consisted of the USD loan participation notes, long- and short-term borrowings and amounts due to grantor under a concession agreement (31 December 2012: long- and short-term borrowings and amounts due to grantor under a concession agreement).

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

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

Credit risk

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

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

The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

As of 31 December 2013, 50% of the total net amount of trade and other receivables and amounts due from grantor under a concession agreement related to the five largest counterparties of the Group (31 December 2012: 56%).

The largest receivables outstanding as of the reporting date are as follows:

	31 December 2013		
	Outstanding balance, gross	**Provision for impairment**	**Outstanding balance, net**
FGUP "Administration of the Airport Domodedovo"	642	-	642
S7	536	(27)	509
Transaero	216	-	216
Mera-Invest	140	-	140
Lufthansa	46	-	46
Total	**1,580**	**(27)**	**1,553**

	31 December 2012		
	Outstanding balance, gross	**Provision for impairment**	**Outstanding balance, net**
FGUP "Administration of the Airport Domodedovo"	737	-	737
S7	451	(1)	450
Transaero	423	-	423
Mera-Invest	142	-	142
Lufthansa	137	-	137
Total	**1,890**	**(1)**	**1,889**

As of 31 December 2013, 94% of the total amount of amounts held with the banks related to three largest banks of the Group (31 December 2012: 80%).

Bank deposits and cash balances placed with the largest banks as of 31 December 2013 and 2012 are as follows:

	Credit rating	**31 December 2013**	**31 December 2012**
Raiffeisen Bank International AG Austria	A	5,728	-
FBME BANK LTD	not rated	5,251	2,452
ING	A	2,455	-
Total		**13,434**	**2,452**

Fair value of financial instruments

The Group uses the following hierarchy to determine and disclose fair value of financial instruments:

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

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

31. SUBSEQUENT EVENTS

Dividends – Dividends relating to the 2013 financial results in the amount USD 0.41 per share (RUR 14 per share as at approval date) were approved at a shareholders' meeting on 27 January 2014. A portion of these dividends was paid to shareholders' in 2013 and presented as other distribution to shareholders in the consolidated statement of changes in equity.