DME LIMITED
and subsidiaries

Consolidated Financial Statements and
Independent Auditor’s Report
For the Year Ended 31 December 2018

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 2018

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of DME Limited (the "Company") and its subsidiaries (the "Group") as at 31 December 2018 and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by management on 30 April 2019.

On behalf of management:

Elena Batsunova	Elena Leonova
Chief Executive Officer	Chief Financial Officer

30 April 2019

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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of DME Limited:

Opinion

We have audited the consolidated financial statements of DME Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") adopted in Cyprus. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Revenue recognition The most significant revenue streams of the Group relate to aviation services and auxiliary aviation services rendered to airlines. The Group uses self-developed billing system for pricing its services and issuing invoices to customers. Due to the variety of revenue streams and tariffs applied by the Group, we consider this area to be a key audit matter. Refer to the Note 7 to the consolidated financial statements.	Our principal audit procedures included: • Understanding of the Group's key controls in respect of revenue recognition; • Understanding of the Group's IT environment and billing system; • Assessing adequacy of the Group's revenue recognition policy; • Assessing completeness of revenue by performing a reconciliation of flights registration system to billing system and billing system to the general ledger; • Testing revenue by analytical procedures and by performing reconciliations with customers on a sample basis.
Recoverability of financial assets As described in Note 5 of the consolidated financial statements loss allowance for impairment of receivables and restricted cash balances are the key sources of estimation uncertainty for the Group. Significant degree of management judgement is required for assessing the credit risk of counterparties, determine the event of default and default rate for the Group's financial assets. Refer additionally to Notes 13, 17, 18, 19 and 29 (in respect of credit risk) of the financial statements for the related disclosures.	Our principal audit procedures included: • Understanding the Group's processes in respect of recording of financial assets, billing, collectability and management methodology for estimation of expected credit losses, including the process of input data collection and estimation of probability of default; • Understanding nature and substance of related party transactions and balances and how they are expected to be funded and settled; • Reconciling on a sample basis recorded financial asset balances with confirmations obtained from the Group's counterparties and testing post year-end cash receipts; • Analyzing the Group's assessment of allowance for expected credit losses for counterparties based on historical experience of bad debt exposure, changes in the individual counterparty credit risk and other relevant information including independent research of publicly available sources on specific aged balances to identify any indicators of financial difficulty such as notices of liquidation or receivership, actual or threatened legal actions, regulatory findings, etc.; • Testing the aging of receivables using a sample test of invoices and manually recalculating the invoice aging for verification and overdue classification of past due receivables; • Critically accessing the amount of allowance for expected credit losses recognized for restricted cash balances and analyzing further actions planned by the Group in respect of the their recovery by enquiring the Group's management, internal legal counsel and inspecting related documentation; • Assessing the sufficiency of related disclosures in the financial statements.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Alexander Dorofeyev
Engagement partner

30 April 2019

DME LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND TOTAL OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts in millions of Russian Rubles)

	Notes	2018	2017
Revenue	7	42,880	40,612
Operating expenses, net	8	(32,344)	(29,934)
Operating profit		**10,536**	**10,678**
Interest expense	9	(2,849)	(1,011)
Interest income		442	265
Foreign exchange (loss)/gain, net		(7,079)	652
Profit before income tax		**1,050**	**10,584**
Income tax	10	(1,883)	(1,229)
(Loss)/profit and total other comprehensive income for the year		**(833)**	**9,355**
(Loss)/profit and total other comprehensive income for the year attributable to:			
Equity holders of the Company		(798)	9,399
Non-controlling interests		(35)	(44)
		(833)	**9,355**

On behalf of management:

Elena Batsunova
Chief Executive Officer

Elena Leonova
Chief Financial Officer

30 April 2019

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

DME LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2018
(Amounts in millions of Russian Rubles)

	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	11	98,454	81,551
Investment property	11	589	612
Advances for acquisition of non-current assets	11	1,325	2,848
Intangible assets	12	5,393	5,079
Deferred tax asset, net	10	2,389	2,237
Loans issued	26	241	-
Long-term finance lease receivable	15	311	261
Other non-current assets	13	1,935	48
Total non-current assets		**110,637**	**92,636**
Current assets			
Inventory	16	2,362	1,922
Trade and other receivables	17	3,251	2,682
Prepayments and other current assets	18	4,226	6,077
Prepaid current income tax		1,168	1,107
Short-term finance lease receivable	15	183	157
Cash and cash equivalents	19	4,822	10,270
Total current assets		**16,012**	**22,215**
TOTAL ASSETS		**126,649**	**114,851**
EQUITY AND LIABILITIES			
Capital			
Share capital	20	11,877	11,877
Retained earnings	20	30,188	37,531
Equity attributable to the owners of the Company		42,065	49,408
Non-controlling interests		(89)	(54)
Total equity		**41,976**	**49,354**
Non-current liabilities			
Deferred tax liability, net	10	6,304	5,401
Amounts due to grantor under a concession agreement, long-term portion	14	3,133	3,134
Debt securities, long-term portion	21	54,836	29,989
Borrowings, long-term portion	22	3,237	1,594
Total non-current liabilities		**67,510**	**40,118**
Current liabilities			
Trade and other payables	23	6,574	4,441
Current income tax payable		1,233	1,282
Taxes other than income tax payable	24	1,345	1,374
Dividends payable	20	2,902	703
Amounts due to grantor under a concession agreement, short-term portion	14	247	247
Accrued expenses and other current liabilities	25	2,344	2,115
Debt securities, short-term portion	21	753	13,016
Borrowings, short-term portion	22	1,765	2,201
Total current liabilities		**17,163**	**25,379**
TOTAL EQUITY AND LIABILITIES		**126,649**	**114,851**

On behalf of management:

Elena Batsunova
Chief Executive Officer

Elena Leonova
Chief Financial Officer

30 April 2019

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 2018
(Amounts in millions of Russian Rubles)

	2018	2017
Cash flows from operating activities:		
Profit before income tax	**1,050**	**10,584**
Adjustments for:		
Depreciation and amortization	4,070	3,381
Change in allowance for impairment of accounts receivable and advances to suppliers	(1)	514
Interest income	(442)	(265)
Interest expense	2,849	1,011
Foreign exchange loss/(gain), net	7,079	(652)
Other non-cash items, net	9	126
	14,614	**14,699**
Increase in inventory	(439)	(280)
Increase in trade and other receivables	(481)	(622)
Decrease / (increase) in prepayments and other current assets	95	(289)
Increase / (decrease) in trade and other payables	605	(44)
(Decrease) / increase in taxes other than income tax payable	(29)	286
Increase in accrued expenses and other current liabilities	73	73
Net cash from operating activities before income tax	**14,438**	**13,823**
Income tax paid	(1,177)	(2,155)
Net cash provided by operating activities	**13,261**	**11,668**
Cash flows from investing activities:		
Purchases of property, plant and equipment	(15,578)	(18,415)
Purchases of intangible assets and other non-current assets	(1,256)	(700)
Proceeds from disposal of property, plant and equipment	70	50
Loans issued	(230)	-
Purchases of investments	-	(72)
Proceeds from disposal of investments	22	75
Proceeds from grantor under a concession agreement	-	222
Interest received	478	230
Net cash used in investing activities	**(16,494)**	**(18,610)**
Cash flows from financing activities:		
Proceeds from debt securities	17,189	9,975
Proceeds from borrowings	1,515	1,579
Repayments of debt securities	(14,620)	-
Repayments of borrowings	(1,130)	(1,208)
Interest paid	(3,997)	(2,432)
Dividends paid (Note 20)	(4,498)	(4,368)
Net cash (used in) / provided by financing activities	**(5,541)**	**3,546**
Net decrease in cash and cash equivalents	**(8,774)**	**(3,396)**
Cash and cash equivalents at the beginning of the year	**10,270**	**14,306**
Allowance for expected credit losses on cash and cash equivalents	(5)	-
Foreign exchange gain /(loss) on cash and cash equivalents	3,331	(640)
Cash and cash equivalents at the end of the year	**4,822**	**10,270**

On behalf of management:

Elena Batsunova
Chief Executive Officer

Elena Leonova
Chief Financial Officer

30 April 2019

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts in millions of Russian Rubles)

	Share capital	Retained earnings	Attributable to the equity holders of the Company	Attributable to the non-controlling interests	Total equity
Balance as of 1 January 2017	**11,877**	**33,108**	**44,985**	**(10)**	**44,975**
Profit/(loss) and total other comprehensive income for the year	-	9,399	9,399	(44)	9,355
Dividends (Note 20)	-	(4,976)	(4,976)	-	(4,976)
Balance as of 31 December 2017	**11,877**	**37,531**	**49,408**	**(54)**	**49,354**
Adoption of new standards (Note 4)	-	(263)	(263)	-	(263)
Balance as of 1 January 2018	**11,877**	**37,268**	**49,145**	**(54)**	**49,091**
Loss and total other comprehensive income for the year	-	(798)	(798)	(35)	(833)
Dividends (Note 20)	-	(6,282)	(6,282)	-	(6,282)
Balance as of 31 December 2018	**11,877**	**30,188**	**42,065**	**(89)**	**41,976**

On behalf of management:

Elena Batsunova
Chief Executive Officer

Elena Leonova
Chief Financial Officer

30 April 2019

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 2001. Immediately following the formation of the Company an entity under common control transferred to the Company a number of entities operating as a group since 1996. The assets and liabilities of the entities were transferred to the Company at their previous carrying amounts. In 2012 the Company transferred its registered office and place of domicile to the Republic of Cyprus.

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

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

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

Company name	Place of incorporation	Principal activity	Percentage held as of 31 December 2018	Percentage held as of 31 December 2017
Domodedovo Passenger Terminal	Russia	Passenger terminal complex	100%	100%
Domodedovo Cargo	Russia	Cargo terminal complex	100%	100%
Domodedovo Catering Service	Russia	In-flight catering facility	100%	100%
Domodedovo Asset Management	Russia	Rent and parking operator	100%	100%
Domodedovo Fuel Services	Russia	Fuel storage and supply facility	100%	100%
Domodedovo Security	Russia	Aviation security	100%	100%
Domodedovo Commercial Services	Russia	General agent for Group companies	100%	100%
Domodedovo International Airport	Russia	Take-off and landing services	100%	100%
Domodedovo Slot Allocation	Russia	Aeronautical services	100%	100%
Domodedovo Construction Management	Russia	Capital development	100%	100%
Domodedovo Airport Handling	Russia	Ground handling	100%	100%
Domodedovo Information Technologies Services	Russia	IT services	100%	100%
Domodedovo Fuel Facilities	Russia	Jet fuelling and storage	100%	100%
Hacienda Investments Limited	Cyprus	Group property management	100%	100%
Verulia Investments Limited	Cyprus	Investing and financing activities	100%	100%
Airport Management Company Limited	Isle of Man	Group management company	100%	100%
Ocean Fest Development SA	British Virgin Islands	Investing and financing activities	100%	100%
Domodedovo Training	Russia	Staff professional trainings and development	100%	100%
Domodedovo Integration	Russia	Software development	100%	100%
Domodedovo Parking	Russia	Management of car park facilities	100%	100%
Domodedovo Non-aviation Sales	Russia	Rent and advertizing services	100%	100%
DME Airport Designated Activity Company	Ireland	Investing and financing activities	-	-

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

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

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

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

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorized for issue by management on 30 April 2019.

2. PRESENTATION OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

As of 31 December 2018 the current liabilities of the Group exceed its current assets by RUB 1,151 million. The net loss for 2018 of RUB 833 million has resulted primarily from the foreign exchange loss of RUB 7,079 million on a USD-denominated debt securities (Note 21). The Group is expected to continue generating sufficient operating cash flows to cover its current and future obligations as they become due, and, accordinly, having reviewed the current financial position of the Group, management has concluded that the going concern assumption remains appropriate.

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 full in preparing the consolidated financial statements.

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

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

(Amounts in millions of Russian Rubles)

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

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

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

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

Below are exchange rates as at year end which were used by the Group for the purpose of these consolidated financial statements:

	31 December 2018	**31 December 2017**
Russian Ruble/USD	69.4706	57.6002
Russian Ruble/EUR	79.4605	68.8668

Revenue recognition – The Group's revenue is generated by the provision of services (airport services, rental income, aircraft maintenance , fuel storage services and parking fees), and sale of products (jet fuel and in-flight meals). The Group recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. In general, control is transferred to the contractual counterparty and subsequently the Group's performance obligations are met at the time of receipt of the services by the counterparty. The Group provides most services within one working day. 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.

From 1 January 2018 the Group recognizes revenue from contracts with customers under IFRS 15 "Revenue". The impact of the change in accounting policy is disclosed in Note 4.

Airport and other related charges

Revenue from airport and other related charges mainly includes fees collected for aircraft take-off and landing, runway lighting, aircraft parking, and passenger-related charges for the use of terminal. The Group typically satisfies its performance obligation as the service is provided. Revenue from airport and other related charges is recognized in the accounting period in which the services are rendered.

Rental income

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

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

Ground handling

Ground handling includes a wide range of services related to aircraft maintenance before take-off and after landing, including pre-flight aircraft preparation, towing, cleaning, required technical maintenance before and after flights, luggage handling, passenger check-in, boarding and transportation to and from aircraft. The Group typically satisfies its performance obligation as the service is provided, therefore 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. The Group typically satisfies its performance obligation as the service is provided. Revenue from these services is recognized in the accounting period in which the services are rendered. Storage charge rates are regulated for foreign airline customers and periodically reviewed by the Federal Antimonopoly Service of the Russian Federation.

Aviation security

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

Parking fees and other revenue

Parking fees consist of fees collected at the passenger terminal's car park. Other revenue consists of auxiliary services provided at the cargo and passenger terminals. The Group consideres the performance obligation is satisfied by the provision of the car part space for the each day the car is parked, therefore the revenue from such services is recognized for each day the car is parked.

Jet fuel sales

Jet fuel sales comprise the sales of jet petroleum, lubricants and other specialized liquids. The Group consideres the performance obligation is satisfied when control of the goods or services underlying the particular performance obligation is transferred to the customer, therefore 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. The Group consideres the performance obligation is satisfied when control of the goods or services underlying the particular performance obligation is transferred to the customer, therefore revenue from catering is recognized when the meal packages are delivered to the aircraft, at which point the risks and rewards of ownership are transferred to the customers.

Interest income

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

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

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

Group as lessor

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

Group as lessee

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

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities are not discounted.

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

The Group contributes to the Pension Fund of the Russian Federation, a defined contribution plan. The Group's only obligation is to pay contributions to the Fund as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. The Group's contributions to the Russian Federation State Pension Fund are recorded as an expense over the reporting period based on the related employee service rendered. In 2018 and 2017 contributions for each employee vary from 10% to 22%, depending on the annual gross remuneration of each employee.

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

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

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

Assets under construction

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial instruments – Financial assets and financial liabilities are recognized in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets – Financial assets are classified into the following categories: cash and cash equivalents, bank deposits, restricted cash, loans and receivables, finance lease receivables and other financial assets. All financial assets are measured subsequently at amortized cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL). As of the reporting date the Group had financial assets measured at amortized cost only. Until 1 January 2018 the Group had only financial assets classified as loans and receivables.

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Impairment of financial assets

From 1 January 2018, the Group recognizes a loss allowance for expected credit losses ("ECL") on cash and cash equivalents, trade and other receivables, restricted cash and other financial assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

The Group assess expected credit loss of trade and other receivables on a collective basis where they possess shared credit risk characteristics they have been grouped based on the sector industry global default rates.

The Group assess expected credit loss of cash and cash equivalents based on the available credit ratings of financial institutions it uses for banking.

For all other financial assets, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower or debtor will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Until 1 January 2018 financial assets were assessed for indicators of impairment at each reporting date. Financial assets were impaired where there was 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 had been impacted. For financial assets carried at amortized cost, the amount of the impairment loss recognized was 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 was reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount was 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 decreased and the decrease was related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss was reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment was reversed did not exceed what the amortized cost would had been had the impairment not been recognized.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Cash and cash equivalents

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

Restricted cash

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

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

Financial liabilities – Financial liabilities are classified into the following categories: accounts payable and other financial liabilities. All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

As of the reporting date the Group had financial liabilities measured at amortized cost only.

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.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method (see above).

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Offsetting

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

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.

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.

(Amounts in millions of Russian Rubles)

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

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

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

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

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

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS and IFRIC interpretations adopted in the current year

In the current year, the Group has adopted all new and revised standards and interpretations issued by the IASB and the IFRIC of the IASB that are mandatory for adoption in the annual periods beginning on or after 1 January 2018. Their adoption has not resulted in any significant changes to the financial statements of the Group.

New and revised IFRS in issue but not yet effective

At the date of authorization of these consolidated financial statements, the following standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2019 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" (plan amendment)	1 January 2019
IAS 28 – "Investments in Associates and Joint Ventures" (amended)	1 January 2019
IFRS 9 – "Financial Instruments" (amended)	1 January 2019
IFRS 1 and IAS 28 (amendments) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 16 – "Leases"	1 January 2019
IFRS 17 – "Insurance Contracts"	1 January 2021
IFRIC 23 – "Uncertainty Over Income Tax Treatments"	1 January 2019

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

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

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

  As at 31 December 2018, the Group has non-cancellable operating lease commitments of RUB 2,978 million. IAS 17 "Leases" does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 27. A preliminary assessment indicates that some of these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will be required to recognize a right-of-use asset and a corresponding liability in respect of such leases unless they represent variable rate leases that are not linked to index or rate, or they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognize a right-of-use asset and a related lease liability may have a significant impact on the amounts recognized in the Group's consolidated financial statements and the management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the management completes the review.

  In contrast, for finance leases where the Group is a lessor, the application of IFRS 16 will have no impact on the amounts recognized in the Group's consolidated financial statements.
- IFRIC 23 "Uncertainty Over Income Tax Treatments" – sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

Amendments to IFRS that are mandatorily effective for the current year

In the current year, the Group has applied IFRS 9 "Financial Instruments" (as revised in July 2014) and IFRS 15 "Revenue from Contracts with Customers" along with the related consequential amendments to other IFRS. Details of these new requirements as well as their impact on the Group's consolidated financial statements and accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods, are described below.

Impact of application of IFRS 9 "Financial Instruments"

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

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

Financial assets measured at amortized cost are now subject to the impairment allowances under IFRS 9.

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

(Amounts in millions of Russian Rubles)

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

	31 December 2017	Adjustment due to change in measurement	1 January 2018
Financial assets at amortized cost			
Prepayments and other current assets	6,077	(160)	5,917
including restricted cash	1,714	(160)	1,554
Trade and other receivables	2,682	(122)	2,560
Cash and cash equivalents	10,270	(47)	10,223
Total financial assets at amortized cost	**20,743**	**(489)**	**20,254**
Deferred tax assets	2,237	66	2,303
Retained earnings	**37,531**	**(263)**	**37,268**

Impact of application of IFRS 15 "Revenue from Contracts with Customers"

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

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

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

The Group's major sources of revenue are disclosed in Note 3. In general, control is transferred to the contractual counterparty and subsequently the Group's performance obligations are met at the time of receipt of the services by the counterparty. The Group adopted IFRS 15 for reporting periods beginning on and after 1 January 2018.

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

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.

Recoverability of restricted cash balances – Based on the information available to it, management makes its best estimate of the recoverable amount of cash held with a Cyprus branch of Federal Bank of the Middle East Ltd., (hereinafter "FBME") (see Note 13). This estimate reflects the expected timing of cash flows from recovery of the restricted cash balance and potential charges and losses which could be incurred by the Group. If the current situation with FBME develops negatively and the expected timing of the recovery is prolonged or estimated charges and losses associated with the recovery are revised upwards, the actual write-offs might be significantly higher than currently envisaged.

Impairment of other financial assets – Management assess expected credit loss on cash and cash equivalents, bank deposits , loans and receivables, finance lease receivables and other financial assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The management makes use of a simplified approach in accounting for impairment of trade and other receivables and recognizes the loss allowance for lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating this amount, the Group uses its historical experience, external indicators, customer creditworthiness and changes in customer payment patterns and other forward-looking information to calculate the expected credit losses. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2018 and 2017 the expected credit loss of receivables was recognized in the amount of RUB 1,834 million and RUB 1,999 million, respectively (see Notes 11, 17, 18). The significant portion of expected credit loss for trade receivables as of 31 December 2018 and 2017 relates to receivables from VIM-AVIA and Transaero (Note 29).

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

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

Whenever such indications exist management makes an estimate of the asset's recoverable amount to ensure that it is not less than its carrying value. If the asset's fair value is not readily determinable or is less than asset's carrying value plus costs to sell, management necessarily applies its judgment in determining the appropriate cash generating unit to be evaluated, estimating the appropriate discount rate and the timing and value of the relevant cash flows for the value-in-use calculation. There were no impairment indicators as of 31 December 2018.

Loss allowance on restricted cash balances – Management assessed loss allowance on other non-current assets, represented by restricted cash held with a Cyprus branch of Federal Bank of the Middle East Ltd., (hereinafter "FBME"), in the form of an allowance account equal to estimated losses resulting from the assessing of the current fair value of the restricted cash balance to be recovered by the Group (see Note 13). When evaluating the adequacy of this allowance account, management bases its estimates on the expected timing of the restricted cash balance recovery and estimated charges and losses which could be incurred by the Group when recovering the restricted cash. If the current situation with FBME develops negatively and the expected timing of the recovery is prolonged or estimated charges and losses associated with the recovery are revised upwards, actual write-offs might be significantly higher than currently estimated.

Recoverability of deferred tax assets – Management of the Group believe that deferred tax assets recognized by the Group as of the reporting date will be fully realized. This expectation is based on management's judgement on the abilily of the respective Group entities to generate sufficient taxable profits and reversal of taxable temporary differences in the foreseeable future. As at 31 December 2018 the carrying value of deferred tax assets was RUB 2,389 million (2017: RUB 2,237 million).

(Amounts in millions of Russian Rubles)

6. SEGMENT INFORMATION

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

The Group's reportable segments are as follows:

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

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

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

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

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

The key financial information for the Group's segments for the years ended 31 December 2018 and 2017 is presented below:

		Aviation services	**Auxiliary aviation services**	**Commercial services**	**Inter-segment eliminations**	**Group**
Third-party revenue	**2018**	**11,935**	**24,264**	**6,681**	**-**	**42,880**
	2017	**12,050**	**22,570**	**5,992**	**-**	**40,612**
Intersegment revenue	2018	3,041	202	1,566	(4,809)	-
	2017	2,480	214	1,389	(4,083)	-
Total revenue	2018	14,976	24,466	8,247	(4,809)	42,880
	2017	14,530	22,784	7,381	(4,083)	40,612
Operating profit	**2018**	**1,962**	**5,259**	**3,315**	**-**	**10,536**
	2017	**2,987**	**4,621**	**3,070**	**-**	**10,678**
Depreciation and amortization	2018	(2,000)	(1,502)	(568)	-	(4,070)
	2017	(1,708)	(1,249)	(424)	-	(3,381)
Change in allowance for impairment of	2018	6	-	(5)	-	1
receivables and advances to suppliers (Note 5, 11, 17, 18)	2017	(10)	(495)	(9)	-	(514)

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

	2018		**2017**	
	Amount	**%**	**Amount**	**%**
S7 Group	**6,902**	**16%**	**6,022**	**15%**
Aviation services segment	2,138		2,003	
Auxiliary aviation services segment	4,468		3,789	
Commercial services segment	296		230	

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

(Amounts in millions of Russian Rubles)

7. REVENUE

	2018	2017
Service revenue		
Ground handling	10,145	9,380
Airport and other related charges	8,934	9,035
Rental income	5,933	5,185
Jet fuelling and storage services	2,889	3,027
Aviation security	2,469	2,555
Parking fees	653	670
Construction revenue	119	123
Other revenue	657	614
Total service revenue	**31,799**	**30,589**
Revenue from goods sold		
Jet fuel sales	7,021	5,724
Catering products	4,060	4,299
Total revenue from goods sold	**11,081**	**10,023**
Total revenue	**42,880**	**40,612**

Rental income includes rentals contingent on passenger traffic volume (see Note 27) of RUB 4,334 million and RUB 3,912 million for the years ended 31 December 2018 and 2017, respectively, and rental income from investment property in the amount of RUB 412 million and RUB 322 million for the years ended 31 December 2018 and 2017, respectively.

8. OPERATING EXPENSES, NET

	2018	2017
Payroll and related charges:		
Wages and salaries	9,578	9,354
Social taxes	2,660	2,517
	12,238	**11,871**
Cost of jet fuel	6,533	5,481
Depreciation and amortization	4,070	3,381
Maintenance	2,274	2,345
Materials	2,102	1,928
Cleaning and waste management	1,000	898
Staff development and training	639	589
Public utilities	629	571
Transport	534	458
Consulting, audit and other services	509	329
Rent	383	347
Passenger servicing	291	329
Charitable donations	237	80
Taxes other than income tax	230	196
Certification and licensing	114	85
Communication services expense	64	59
Advertising expenses	55	42
Change in allowance for impairment of receivables and advances to suppliers (Notes 5,11,17,18)	(1)	514
Other expenses, net	443	431
Total operating expenses, net	**32,344**	**29,934**

Operating expenses include direct expenses arising from investment property in the amount of RUB 42 million and RUB 37 million for the years ended 31 December 2018 and 2017, respectively.

(Amounts in millions of Russian Rubles)

9. INTEREST EXPENSE

	2018	2017
Interest expense on five-year USD loan participation notes (series 1)	773	799
Interest expense on five-year USD loan participation notes (series 2)	1,337	1,219
Interest expense on five-year USD loan participation notes (series 3)	901	-
Interest expense on five-year RUB debt securities	813	14
Unwinding of discount related to amounts due to grantor under a concession agreement	347	347
Interest expense on bank loans	242	159
	4,413	**2,538**
Less: capitalized interest (Note 11)	(1,564)	(1,527)
Total interest expense	**2,849**	**1,011**

10. INCOME TAX

	2018	2017
Current income tax expense	(1,088)	(2,088)
Adjustments recognized in the current year in relation to the current tax of prior years	22	6
Previously unrecognized tax loss of a prior period that is used to reduce current tax expense	-	33
Total current income tax expense	**(1,066)**	**(2,049)**
Origination and reversal of temporary differences	(769)	(37)
Deferred tax benefit / (expense) arising from reversal of a write-down /(write-down) of a deferred tax asset relating to tax loss	(48)	857
Total deferred income tax (expense)/benefit	**(817)**	**820**
Total income tax	**(1,883)**	**(1,229)**

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:

	2018	2017
Profit before income tax	**1,050**	**10,584**
Theoretical tax charge at Russian statutory rate of 20%	(210)	(2,117)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable foreign exchange (loss) / gain differences	(814)	504
Reversal of a write-down of a deferred tax asset relating to tax loss	(48)	857
Previously unrecognized tax loss of a prior period that is used to reduce current tax expense	-	33
Adjustments recognized in the current year in relation to the current tax of prior years	22	6
Tax rate differences relating to other jurisdictions	(679)	(336)
Provision for tax risks	-	42
Non-deductible interest expenses	(2)	(88)
Other non-deductable items	(152)	(130)
Income tax	**(1,883)**	**(1,229)**

(Amounts in millions of Russian Rubles)

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

	31 December 2018	Charged to profit or loss	Application of IFRS 9	31 December 2017
Tax losses carry forward	1,252	78	-	1,174
Property, plant and equipment	4	64	-	(60)
Trade and other receivables (Note 4)	264	(33)	66	231
Prepayments and other current assets	275	3	-	272
Trade and other payables	379	(8)	-	387
Accrued expenses and other current liabilities	213	(1)	-	214
Intangible assets	(22)	(23)	-	1
Other	24	6	-	18
Deferred tax asset, net	**2,389**			**2,237**
Property, plant and equipment	(6,321)	(1,055)	-	(5,266)
Trade and other receivables	91	79	-	12
Prepayments and other current assets	9	5	-	4
Amounts due to grantor under a concession agreement	700	14	-	686
Trade and other payables	(28)	9	-	(37)
Accrued expenses and other current liabilities	9	17	-	(8)
Intangible assets	(698)	15	-	(713)
Other	(66)	13	-	(79)
Deferred tax liability, net	**(6,304)**			**(5,401)**
		(817)	**66**	

	31 December 2017	Charged to profit or loss	31 December 2016
Tax losses carry forward	1,174	740	434
Property, plant and equipment	(60)	(9)	(51)
Trade and other receivables	231	94	137
Prepayments and other current assets	272	56	216
Trade and other payables	387	68	319
Accrued expenses and other current liabilities	214	32	182
Intangible assets	1	(1)	2
Other	18	12	6
Deferred tax asset, net	**2,237**		**1,245**
Property, plant and equipment	(5,266)	(78)	(5,188)
Trade and other receivables	12	6	6
Prepayments and other current assets	4	(17)	21
Amounts due to grantor under a concession agreement	686	9	677
Trade and other payables	(37)	(39)	2
Accrued expenses and other current liabilities	(8)	(16)	8
Intangible assets	(713)	16	(729)
Other	(79)	(53)	(26)
Deferred tax liability, net	**(5,401)**		**(5,229)**
		820	

(Amounts in millions of Russian Rubles)

The Group did not recognize a deferred tax liability related to the remaining undistributed earnings of its subsidiaries as it has not made any decisions regarding future distributions of retained earnings within the Group. Undistributed earnings, in relation to which deferred tax liability was not accrued, amounted to RUB 15,789 million and RUB 11,854 million as of 31 December 2018 and 2017, respectively.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

	Buildings	Plant and equipment	Other	CIP	Total
Cost					
1 January 2017	**54,017**	**10,473**	**1,376**	**17,072**	**82,938**
Additions	2,100	747	132	16,162	19,141
Transfers	548	308	40	(896)	-
Disposals	(3)	(228)	(98)	(26)	(355)
Reclassified to investment property	(107)	-	-	-	(107)
31 December 2017	**56,555**	**11,300**	**1,450**	**32,312**	**101,617**
Additions	2,204	1,487	144	16,199	20,034
Transfers	22,664	382	46	(23,092)	-
Disposals	(1)	(123)	(34)	(24)	(182)
31 December 2018	**81,422**	**13,046**	**1,606**	**25,395**	**121, 469**
Accumulated depreciation					
1 January 2017	**(9,747)**	**(6,828)**	**(1,063)**	-	**(17,638)**
Depreciation charge	(1,608)	(992)	(147)	-	(2,747)
Disposals	-	210	93	-	303
Reclassified to investment property	16	-	-	-	16
31 December 2017	**(11,339)**	**(7,610)**	**(1,117)**	**-**	**(20,066)**
Depreciation charge	(1,830)	(1,121)	(150)	-	(3,101)
Disposals	1	122	29	-	152
31 December 2018	**(13,168)**	**(8,609)**	**(1,238)**	**-**	**(23,015)**
Net book value					
31 December 2017	**45,216**	**3,690**	**333**	**32,312**	**81,551**
31 December 2018	**68,254**	**4,437**	**368**	**25,395**	**98,454**

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

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

"Other" consists mainly of administrative equipment and vehicles.

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

During the years ended 31 December 2018 and 2017 the Group capitalized borrowing costs in the amount of RUB 1,564 million and RUB 1,527 million, respectively.

(Amounts in millions of Russian Rubles)

The weighted average capitalization rate on borrowed funds was 6.8% and 6.5% per annum for the years ended 31 December 2018 and 2017, respectively.

As at 31 December 2018 and 2017 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.

	2018	2017
Cost at the beginning of the year	**818**	**711**
Reclassified from property, plant and equipment	-	107
Cost at the end of the year	**818**	**818**
Accumulated depreciation at the beginning of the year	**(206)**	**(169)**
Depreciation charge for the year	(23)	(21)
Reclassified from property, plant and equipment	-	(16)
Accumulated depreciation at the end of the year	**(229)**	**(206)**
Net book value at the end of the year	**589**	**612**

Fair value of the investment property as at 31 December 2018 was RUB 7,999 million (RUB 7,316 million as at 31 December 2017) and has been arrived at on the basis of a valuation carried out on this date by an internal professional appraiser with appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation was arrived at by reference to the future cash flows, based on the market evidence for similar properties, discounted at an estimated relevant rate (Level 2 category for determing fair value).

Advances for acquisition of non-current assets

As of 31 December 2018 and 2017 advances for acquisition of non-current assets in the amounts of RUB 1,325 million and RUB 2,848 million, respectively, consisted of amounts paid for construction of the passenger and cargo terminals and implementation of additional functionalities, modernization of planning and resource management system and irrevocable letters of credit issued by the banks on behalf of the Group for settlements with suppliers of equipment and construction subcontractors. The amount of impairment of advances for acquisition of non-current assets amounted to RUB 29 million as of 31 December 2018 (31 December 2017: RUB 28 million).

12. INTANGIBLE ASSETS

	31 December 2018	31 December 2017
Concession arrangement (Note 14)	3,507	3,564
Other intangible assets	1,886	1,515
Intangible assets	**5,393**	**5,079**

(Amounts in millions of Russian Rubles)

Other intangible assets as of 31 December 2018 and 2017 are presented below:

	Software	Licences and other	Software in development	Total
Cost				
1 January 2017	**2,072**	**779**	**194**	**3,045**
Additions	189	23	374	586
Transfers	19	9	(28)	-
Disposals	(82)	(113)	(6)	(201)
31 December 2017	**2,198**	**698**	**534**	**3,430**
Additions	560	444	137	1,141
Transfers	76	20	(96)	-
Disposals	(243)	(386)	-	(629)
31 December 2018	**2,591**	**776**	**575**	**3,942**
Accumulated amortization				
1 January 2017	**(1,296)**	**(353)**	**-**	**(1,649)**
Amortization charge	(305)	(104)	-	(409)
Disposals	67	76	-	143
31 December 2017	**(1,534)**	**(381)**	**-**	**(1,915)**
Amortization charge	(414)	(356)	-	(770)
Disposals	243	386	-	629
31 December 2018	**(1,705)**	**(351)**	**-**	**(2,056)**
Net book value				
31 December 2017	**664**	**317**	**534**	**1,515**
31 December 2018	**886**	**425**	**575**	**1,886**

13. OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017
Restricted cash in FBME, net of impairment loss recognized	1,887	-
Other non-current receivable	48	48
Other non-current assets	**1,935**	**48**

Restricted cash in FBME represents cash balances held by the Group at a Cyprus branch of Federal Bank of the Middle East Ltd. ("FBME"), registered in Tanzania, whose banking licence was revoked by the Central Bank of Cyprus on 21 December 2015 after investigation of the U.S. Department of the Treasury's Financial Crimes Enforcement Network into money laundering.

The relevant authorities in Cyprus and Tanzania initiated liquidation process for the bank, however there is a legal uncertainty as to the appropriate sequencing of the liquidation process that affects the timing of expected recovery of the Group's cash balances.

Prior to November 2018, the Group was expecting that it would be possible to recover its cash held by FBME through offset of its liabilities on debt securities which were held by the same bank. As this has not been achieved, the Group now expects to recover this balance though the bank's liquidation process which can normally take a minimum of one to two years to complete. Accordingly, this balance has been reclassified as non-current as of 31 December 2018.

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

(Amounts in millions of Russian Rubles)

The Group reassesses an impairment allowance it holds against these balances at each reporting date based on changes in the management's estimate of the likely amounts to be recovered and timing of their receipt. The total amount of lifetime expected credit losses recognized as at 31 December 2018 was RUB 629 million (as of 31 December 2017 – RUB 471 million). No interest income is accrued on theses balances.

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 Group is required to make quarterly payments for the right to use the assets during the term of the agreement. Such payments are set to be revised on a regular basis. The most recent revision took place in December 2012. In December 2017, the Russian Government issued specific methodology for calculation of the amount of regular payments made by the airports of civil aviation under concession agreements. This revision of contractual payment terms is expected to result in decrease of the future minimum payments of the Group. As of the date of authorization of this consolidated financial statements the agreement with appropriate amendments has not yet been signed.

Amounts due to grantor in relation to a concession agreement

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

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

	Future payments		**Present value of future payments**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Due within one year	261	261	247	247
Due after one year but not more than five years	1,391	1,391	1,044	1,044
Due after more than five years	17,219	17,567	2,089	2,090
	18,871	**19,219**	**3,380**	**3,381**
Less future finance charges	(15,491)	(15,838)	-	-
Present value of future payments	**3,380**	**3,381**	**3,380**	**3,381**

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

(Amounts in millions of Russian Rubles)

Intangible assets

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

	2018	2017
Cost at the beginning of the year	4,552	4,429
Other additions	119	123
Cost at the end of the year	**4,671**	**4,552**
Accumulated amortization at the beginning of the year	(988)	(784)
Amortization charge	(176)	(204)
Accumulated amortization at the end of the year	**(1,164)**	**(988)**
Net book value	**3,507**	**3,564**

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 2018		31 December 2017	
	Minimum lease payments receivable	Present value of minimum lease payments receivable	Minimum lease payments receivable	Present value of minimum lease payments receivable
Due within one year	230	183	199	157
Due after one year but not more than five years	921	275	798	228
Due after more than five years	499	36	632	33
Total gross / net investment in the lease	**1,650**	**494**	**1,629**	**418**
Less unearned finance income	(1,156)	-	(1,211)	-
Present value of minimum lease payments	**494**	**494**	**418**	**418**

16. INVENTORY

	31 December 2018	31 December 2017
Supplies	677	448
Spare parts	648	638
Jet fuel	511	341
Raw materials	236	205
Other inventory	290	290
Total inventory	**2,362**	**1,922**

(Amounts in millions of Russian Rubles)

17. TRADE AND OTHER RECEIVABLES

	Outstanding balance, gross	Impairment allowance	Outstanding balance, net
31 December 2018			
Trade receivables	4,367	(1,757)	2,610
Other receivables	718	(77)	641
Total	**5,085**	**(1,834)**	**3,251**
31 December 2017			
Trade receivables	3,751	(1,922)	1,829
Other receivables	930	(77)	853
Total	**4,681**	**(1,999)**	**2,682**

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

Included in the Group's total trade and other receivables are debtors with carrying amounts of RUB 857 million and RUB 458 million as of 31 December 2018 and 2017, 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.

Analysis of trade and other receivables by quantity of days overdue is as follows:

		Trade and other receivables – past due				
31 December 2018	**Not passed due**	**less than 90 days**	**90-180 days**	**more than 180 days**	**Credit - impaired**	**Total**
Trade and other receivables	2,454	288	114	519	1,710	5,085
Allowance for expected credit losses	(60)	(6)	(1)	(57)	(1,710)	(1,834)
						3,251

		Trade and other receivables – past due				
31 December 2017	**Not passed due**	**less than 90 days**	**90-180 days**	**more than 180 days**	**Credit - impaired**	**Total**
Trade and other receivables	2,230	161	61	443	1,786	4,681
Allowance for impairment	(6)	-	-	(207)	(1,786)	(1,999)
						2,682

The movement in the impairment allowance on trade and other receivables is as follows:

	31 December 2018	31 December 2017
Balance at the beginning of the year	**(1,999)**	**(1,482)**
Adoption of IFRS 9 (Note 4)	(122)	-
Additional allowance recognized in the current year (Note 5)	(71)	(545)
Release of allowance	23	28
Use of allowance	335	-
Balance at the end of the year	**(1,834)**	**(1,999)**

(Amounts in millions of Russian Rubles)

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

In determining the recoverability of trade and other receivables the Group considers any change in the credit quality of trade and other receivables from the date credit was initially granted up to the reporting date. Details about concentration of credit risk and related risk management activities are provided in Note 29. The above comparative for impairment allowance refers to the IAS 39 measurement basis which applied an incurred loss model, whereas the current year applies IFRS 9 which is an expected credit loss model.

18. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2018	31 December 2017
VAT receivable	3,447	3,510
Advances to suppliers, net of impairment	417	267
Taxes receivable other then income tax and VAT receivable	179	387
Restricted cash in FBME, net of impairment	-	1,714
Other current assets	183	199
Total prepayments and other current assets	**4,226**	**6,077**

Restricted cash was reclassified to Other non-current assets (Note 13).

The movement in the allowance for impairment is as follows:

	31 December 2018	31 December 2017
Balance at the beginning of the year	**(483)**	**(16)**
Additional allowance recognized in the current year	(1)	(6)
Loss allowance on restricted cash in FBME, reclassified to / (from) other non-current assets (Note 13)	471	(471)
Release of allowance	6	10
Use of allowance	1	-
Balance at the end of the year	**(6)**	**(483)**

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

(Amounts in millions of Russian Rubles)

19. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
USD-denominated balances with banks	212	7,587
EUR-denominated balances with banks	3	1,092
Russian Ruble-denominated cash on hand and balances with banks	425	1,591
USD-denominated short-term bank deposits	4,184	-
Allowance for expected credit losses	(2)	-
Total cash and cash equivalents	**4,822**	**10,270**

As of 31 December 2018 USD-denominated balances with banks represent cash accounts with interest rate of 2.06% per annum.

20. EQUITY

Share capital and dividends

Authorized and issued capital as of 31 December 2018 and 31 December 2017 comprises 304,831,519 ordinary shares with par value EUR 1, of which 274,348,367 represent Class A shares and 30,483,152 represent Class B shares. Class A and Class B shares have equal voting rights on liquidation of DME Limited, while Class A shares confer on their holder the exclusive right to receive distributions by way of dividend or return of capital.

There have been no changes in the share capital of the Company during the period.

During the year ended 31 December 2018 dividends of USD 100.6 million (RUB 6,282 million at the Central Bank of Russia exchange rate as at the declaration date) were declared, out of which EUR 16.6 million and USD 39.7 million (RUB 3,762 million at the Central Bank of Russia exchange rate as at the payment date) were paid to the shareholders of the Group. Additionally, the Group paid USD 6 million and EUR 5 million (total of RUB 736 million at the Central Bank of Russia exchange rate as at the payment date) of dividends declared prior to 1 January 2018.

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

As of 31 December 2018 the remaining balance of dividends payable is RUB 2,902 million (as of 31 December 2017: RUB 703 million).

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 2018 and 2017 such earnings amounted to RUB 18,180 million and RUB 24,941 million, respectively.

(Amounts in millions of Russian Rubles)

21. DEBT SECURITIES

	Effective interest rate, %	31 December 2018	31 December 2017
Five-year USD loan participation notes issued in 2013 (the "2018 LPNs")(i)	6.33%	-	12,819
Five-year USD loan participation notes issued in 2016 (the "2021 LPNs") (ii)	6.04%	24,405	20,193
Five-year USD loan participation notes issued in 2018 (the "2023 LPNs") (iii)	5.26%	21,186	-
Five-year RUB debt securities issued in 2017 (iv)	8.32%	9,998	9,993
Total		**55,589**	**43,005**
Less: current portion due within twelve months and presented as short-term portion		(753)	(13,016)
Long-term portion of debt securities		**54,836**	**29,989**

(i) As of 31 December 2018 the Group fully repaid the outstanding balance of non-convertible five-year loan participation notes issued in 2013 (the "2018 LPNs").

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

(iii) In February 2018 the Group issued non-convertible five-year loan participation notes (the "2023 LPNs") for the total amount of USD 300 million (RUB 17,277 million at the Central Bank of Russia exchange rate as at the inception date) on the Irish Stock Exchange. Net proceeds from the issuance, after the deduction of related offering costs, amounted to USD 298 million (RUB 17,154 million at the Central Bank of Russia exchange rate as at the inception date). The annual coupon rate of the 2023 LPNs is 5.075% with interest being paid semi-annually. The 2023 LPNs are guaranteed by certain entities of the Group. The 2023 LPNs mature in November 2023.

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

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

Covenants

In accordance with the terms of the 2018, 2021 and 2023 LPNs, the Group is subject to certain covenants, which are calculated on the basis of consolidated financial statements of the Group, prepared in accordance with IFRS. Such financial covenants mainly consist of limitations on the Consolidated Net Debt to Consolidated EBITDA ratio, Consolidated Equity to Consolidated Total Assets ratio and Obligor Cover ratios.

As of 31 December 2018, the Group was in breach of the Consolidated Net Debt to Consolidated EBITDA covenant which lead to additional financial restrictions being placed on the Group until this breach is fully rectified (see also Note 22 for other debt covenants).

(Amounts in millions of Russian Rubles)

22. BORROWINGS

	Effective interest rate, %	31 December 2018	31 December 2017
Loan from ING Bank	3.06%	3,360	1,600
Loan from Raiffeisen Bank	6.34%	1,642	2,195
Total		**5,002**	**3,795**
Less: current portion due within twelve months and presented as short-term borrowings		(1,765)	(2,201)
Long-term borrowings		**3,237**	**1,594**

In September 2015 the Group entered into a EUR-denominated five-year loan facility agreement for a total amount of EUR 38 million (RUB 2,914 million at the Central Bank of Russia exchange rate as at the inception date) provided by Raiffeisen Bank International AG ("Raiffeisen Bank") to finance design and construction of a parking terminal PM-2.1. The loan is guaranteed by certain Group companies and is at fixed rate of 5% per annum. As of 31 December 2018 the loan facility was fully utilized.

In May 2017 the Group entered into a EUR-denominated eight-year loan facility agreement for the total amount of EUR 59 million (RUB 4,102 million at the Central Bank of Russia exchange rate ruling at the inception date) provided by International Netherlands Group N.V. Bank ("ING Bank") at a variable rate of EURIBOR +1.2% to finance the installation of a baggage handling system in the new segment of Terminal 2. As of 31 December 2018 the undrawn amount of the loan facility was EUR 9.85 million.

Reconciliation of liabilities arising from financing activities

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

			Non-cash flow changes		
	31 December 2017	Financing cash flows (i)	Effect of exchange rate changes on the balance	Accrual of interest expense	31 December 2018
Borrowings	3,795	228	734	245	5,002
Debt securities (Note 22)	43,005	(926)	9,686	3,824	55,589
Amounts due to grantor under a concession agreement (Note 14)	3,381	(345)	-	344	3,380
	50,181	**(1,043)**	**10,420**	**4,413**	**63,971**

(i) The cash flows from bank loans and debt securities represents the net amount of proceeds from borrowings and repayments of borrowings and interest in the consolidated statement of cash flows.

(Amounts in millions of Russian Rubles)

Covenants

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

As of 31 December 2018, the Group was in breach of the Consolidated Net Debt to Consolidated EBITDA covenant under the loan arrangements with Raiffeisen Bank and ING Bank. Prior to the reporting date the Group received waivers from the banks confirmning that the banks will not exercise their rights to demand early repayment of the loans. The Group was in compliance with other financial covenants as of 31 December 2018.

23. TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017
Amounts payable for the acquisition of property, plant and equipment	2,981	1,588
Rent deposits received	1,418	775
Trade payables	1,113	939
Advances received	1,062	1,139
Total trade and other payables	**6,574**	**4,441**

24. TAXES OTHER THAN INCOME TAX PAYABLE

	31 December 2018	31 December 2017
Value added tax	895	960
Social insurance tax	417	389
Property tax	4	11
Other taxes	29	14
Total taxes other than income tax payable	**1,345**	**1,374**

25. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	31 December 2018	31 December 2017
Accrued employee expenses	1,978	1,787
Other liabilities	366	328
Total accrued expenses and other current liabilities	**2,344**	**2,115**

Accrued employee expenses as of 31 December 2018 and 2017 comprised accrued salaries and bonuses of RUB 1,394 million and RUB 1,291 million, respectively, and an accrual for unused vacation of RUB 584 million and RUB 496 million, respectively.

(Amounts in millions of Russian Rubles)

26. TRANSACTIONS WITH RELATED PARTIES

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

All related parties, with whom the Group entered into significant transactions during the years ended 31 December 2018 and 2017 or had significant balances outstanding as of 31 December 2018 and 2017, are considered to be entities under common control.

The following tables provide the total amount of transactions, which have been entered into with related parties during the years ended 31 December 2018 and 2017 as well as year-end balances:

	31 December 2018		31 December 2017	
	Amounts owed by related parties	Amounts owed to related parties	Amounts owed by related parties	Amounts owed to related parties
Entities under common control	1,157	26	907	33

During 2018 the Group issued USD 3.5 million five-year loan (RUB 230 million as of the date of issuance) to related party under common control bearing a fixed interest rate of 5% per annum.

	2018			2017		
	Sales to related parties	Purchases from related parties	Interest income	Sales to related parties	Purchases from related parties	Interest income
Entities under common control	73	183	2	65	125	15

Compensation of key management personnel

Key management comprised 7 and 8 persons as at 31 December 2018 and 2017, respectively. Total gross compensation (including mandatory pension and other payroll related contributions to state funds and before withholding of personal income tax) to those individuals included in payroll and related charges in the consolidated profit or loss amounted to RUB 484 million (including social insurance tax of RUB 65 million) and RUB 471 million (including social insurance tax of RUB 63 million) for the years ended 31 December 2018 and 2017, respectively. The outstanding balances due to key management personnel amounted to RUB 903 million and RUB 794 million as at 31 December 2018 and 2017, respectively, and comprised accrued salaries, bonuses and accrual for unused vacation.

27. OPERATING LEASES ARRANGEMENTS

The Group as Lessee

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

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

	2018	2017
Within one year	133	127
In two to five years	398	394
After five years	2,447	2,545
Total minimum lease payments	**2,978**	**3,066**

(Amounts in millions of Russian Rubles)

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

The Group as Lessor

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

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

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

28. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

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

	31 December 2018	**31 December 2017**
Reconstruction and expansion of passenger terminal	13,749	22,165
Reconstruction of office buildings	589	13
Reconstruction of fuel storage facilities	260	233
Construction of multilevel parking	78	389
Reconstruction and expansion of cargo terminal	25	256
Construction of aircraft maintenance hangar	19	-
Construction of warehousing facilities	11	17
Construction of electric power plant	9	4
Other	459	351
Total capital commitments	**15,199**	**23,428**

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

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

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

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

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

Taxation – Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods.

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

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

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

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

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

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

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

Property and civil liability of the Group are insured by well known Russian insurance companies. The full coverage insurance value of property is RUB 8,449 million. Third party liability of DME Limited and its subsidiaries is insured for the amount of RUB 34,735 million.

29. RISK MANAGEMENT ACTIVITIES

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

Capital risk management

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

Management of the Group regularly reviews its gearing ratio, calculated as proportion of net debt to equity, to ensure that it is in line with the Group's adopted policy on debt management. During 2018 the Group complied with all external capital requirements, except as described in Note 22.

(Amounts in millions of Russian Rubles)

Major categories of financial instruments

The Group's financial assets include bank deposits and loans issued, amounts due from grantor under a concession agreement, finance lease receivable, trade and other receivables and cash and cash equivalents.

	31 December 2018	31 December 2017
Financial assets		
Cash and cash equivalents	4,822	10,270
Trade and other receivables	3,251	2,682
Finance lease receivable	494	418
Loans issued	241	-
Short-term investments	3	40
Restricted cash	1,887	1,714
Total financial assets	**10,698**	**15,124**

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

	31 December 2018	31 December 2017
Financial liabilities		
Debt securities	55,589	43,005
Trade and other payables	5,512	3,302
Amounts due to grantor under a concession agreement	3,380	3,381
Long-term borrowings	3,237	1,594
Short-term borrowings	1,765	2,201
Total financial liabilities	**69,483**	**53,483**

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 or on current bank accounts, and are available on demand. In addition, the Group's policy is to continually maintain a diversified portfolio of open credit lines with reputable banks, which serve to secure for the Group a stable ad hoc borrowing capability.

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

(Amounts in millions of Russian Rubles)

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 2018							
Non-interest bearing liabilities		3,010	497	286	1,536	474	5,803
Loans and borrowings	3.06%-8.32%	111	837	4,867	66,473	230	72,518
Amounts due to grantor under a concession agreement	10.6%	-	-	261	1,391	17,219	18,871
Total		**3,121**	**1,334**	**5,414**	**69,400**	**17,923**	**97,192**
31 December 2017							
Non-interest bearing liabilities		1,666	992	67	683	175	3,583
Loans and borrowings	3.06%-8.32%	429	247	17,406	36,609	1,775	56,466
Amounts due to grantor under a concession agreement	10.6%	-	-	261	1,391	17,567	19,219
Total		**2,095**	**1,239**	**17,734**	**38,683**	**19,517**	**79,268**

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 2018							
Accounts receivable		2,007	542	637	65	-	3,251
Loans issued	5-7%	1	-	-	243	-	244
Finance lease receivable	47%	20	38	172	921	499	1,650
Total		**2,028**	**580**	**809**	**1,229**	**499**	**5,145**
31 December 2017							
Accounts receivable		1,899	747	12	24	-	2,682
Investments	3.2-8%	40	-	-	-	-	40
Finance lease receivable	47%	17	33	149	798	632	1,629
Total		**1,956**	**780**	**161**	**822**	**632**	**4,351**

Currency Risk

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

(Amounts in millions of Russian Rubles)

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 2018 the Russian Ruble appreciated against the US Dollar, EURO by 17%, 13%, respectively (depreciated against the US Dollar, EURO by 15%, 13% for the year ended 31 December 2017). The Group does not have or use any formal arrangements (i.e. derivatives) to manage foreign currency risk exposure.

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

	Denominated in USD		**Denominated in EUR**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Assets				
Cash and cash equivalents	4,396	7,587	3	1,092
Trade and other receivables	1,223	990	138	115
Loans issued	243	-	-	15
Finance lease receivable	-	-	494	418
Restricted cash	1	1	1,861	1,687
Total assets	**5,863**	**8,578**	**2,496**	**3,327**
Liabilities				
Loans and borrowings	45,591	33,012	5,001	3,795
Trade and other payables	1,810	775	232	132
Total liabilities	**47,401**	**33,787**	**5,233**	**3,927**

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

	USD – impact		**EUR – impact**	
	2018	**2017**	**2018**	**2017**
(Gain) / loss	**(4,154)**	**(2,521)**	**(274)**	**(1)**

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.

(Amounts in millions of Russian Rubles)

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 2018 and 2017 the Group's borrowed funds consisted of the USD loan participation notes, RUB loan securities, long- and short-term borrowings and amounts due to grantor under a concession agreement.

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, with emphasis on fixed rates.

The Group's liabilities under concession agreement bear an inherent interest rate, which is revised on a regular basis (see Note 14). 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, lease reseivables, loans issued and receivables in connection with aviation, auxiliary and commercial activities. Credit exposure is managed by establishing credit terms for the most significant customers that are reviewed and approved by management. Credit sales are offered only to foreign customers and most significant customers located within the Commonwealth of Independent States ("CIS") and the Russian Federation with proven credit history. Sales to other customers are made on a prepayment basis. The credit quality of the bank balances and loans issued can be assessed by reference to external credit rating if available or to the working history of the counterparty with the Group. These policies enable the Group to reduce its credit risk significantly.

The carrying amount of cash and cash equivalents, trade and other receivables, lease receivables, restricted cash and other financial assets, net of allowance for expected credit losses, represents the maximum amount exposed to credit risk (Notes 13,17-19). Management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

As of 31 December 2018, 54% of the total net amount of trade and other receivables related to the eight largest counterparties of the Group (31 December 2017: 44%):

	31 December 2018		
	Outstanding balance, gross	**Allowance for expected credit losses**	**Outstanding balance, net**
Transaero	880	(880)	-
S7	762	(10)	752
Vim-avia	504	(504)	-
Forum-Invest	360	(108)	252
Quantico Limited	287	(2)	285
Emirates	171	-	171
Lufthansa	169	-	169
Air Moldova	118	(6)	112
Total	**3,251**	**(1,510)**	**1,741**

(Amounts in millions of Russian Rubles)

	31 December 2017		
	Outstanding balance, gross	**Allowance for expected credit losses**	**Outstanding balance, net**
Transaero	880	(880)	-
S7	588	(1)	587
Vim-avia	504	(504)	-
Forum-Invest	242	-	242
Quantico Limited	105	-	105
Emirates	96	-	96
Priority Pass Ltd	81	-	81
Lufthansa	71	-	71
Total	**2,567**	**(1,385)**	**1,182**

As of 31 December 2018 98 % of the total amount of amounts held with the banks related to four banks (31 December 2017: 98 %). Bank deposits and cash balances placed with the largest banks as of 31 December 2018 and 2017 are as follows:

	Credit rating	**Rating Agency**	**31 December 2018**	**31 December 2017**
Credit Suisse AG	A	Fitch	4,262	-
Rosbank	BBB -	Fitch	355	5,439
OVERSEA CHINESE BANKING CORPORATION LIMITED	AA -	Fitch	58	601
Raiffeisen Bank International AG. Austria	BBB +	S&P	54	4,037
UBS AG	A +	Fitch	-	4
Total			**4,729**	**10,081**

Fair value of financial instruments

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

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

Except as detailed in the following table management of the Group believes that the carrying value of financial instruments such as cash and cash equivalents, short-term receivables and payables, lease receivable, short- and long-term investments, borrowings and liabilities under concession, which classified within Level 2 category of the above hierarchy, approximates their fair value. Restricted cash is classified as Level 3 catigory. 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.

(Amounts in millions of Russian Rubles)

	31 December 2018	
	Fair value of financial liabilities	Carrying value of financial liabilities
2021 LPNs (Note 21)	23,722	24,405
2023 LPNs (Note 21)	19,442	21,186
Five-year RUB debt securities issued in 2017(Note 21)	8,829	9,998
Loan from Raiffeisen bank (Note 22)	1,679	1,642
Loan from ING Bank (Note 22)	4,101	3,360
Total	**57,773**	**60,591**

30. SUBSEQUENT EVENTS

Amendment of financial covenants for debt securities – As of 28 March 2019 the Group obtained a consent solicitation to increase Consolidated Net Debt to Consolidated EBITDA ratio up to 4:1.