

DME LIMITED **and subsidiaries**

Consolidated Financial Statements
For the Year Ended 31 December 2014

DME LIMITED AND SUBSIDIARIES

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DME LIMITED AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of DME Limited (the "Company") and its subsidiaries (the "Group") as of 31 December 2014, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

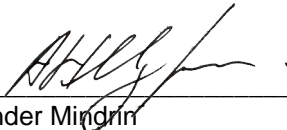
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2014 were approved by management on 24 April 2015.

On behalf of management:



Alexander Mindrin
Chief Executive Officer



Olga Korochkina
Chief Financial Officer

24 April 2015

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of DME Limited:

We have audited the accompanying consolidated financial statements of DME Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year ended 31 December 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility


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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



24 April 2015

DME LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

	Notes	2014	2013
Revenue	8	41,224	39,924
Operating expenses, net	9	(27,419)	(27,269)
Operating profit		13,805	12,655
Interest expense	10	(1,146)	(468)
Interest income		258	177
Loss on disposal of subsidiary	12	(2)	-
Impairment of restricted cash balances		(308)	-
Foreign exchange gain/(loss), net		896	(848)
Profit before income tax		13,503	11,516
Income tax	11	(2,102)	(2,086)
Profit and comprehensive income for the year		11,401	9,430
Profit / (loss) attributable to:			
Owners of the Company		11,316	9,431
Non-controlling interests		85	(1)
		11,401	9,430

On behalf of management:



Alexander Mindrin
Chief Executive Officer

24 April 2015



Olga Korochkina
Chief Financial Officer

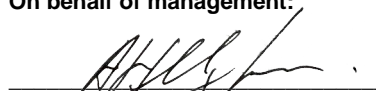
The accompanying notes form an integral part of these consolidated financial statements.


DME LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

	Notes	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	13	51,192	49,397
Investment property	13	1,786	1,852
Advances for acquisition of non-current assets	13	362	456
Intangible assets	14	4,927	5,022
Other non-current assets	15	1,882	1
Deferred tax asset	11	1,621	825
Amounts due from grantor under a concession agreement	16	785	642
Long-term finance lease receivable	17	217	143
Total non-current assets		62,772	58,338
Current assets			
Inventory	19	1,214	862
Trade and other receivables	20	2,835	2,495
Prepayments and other current assets	21	2,274	2,493
Payments made in connection with uncertain tax positions	5	21	614
Prepaid income tax		1,505	554
Short-term finance lease receivable	17	164	108
Short-term investments	18	17,918	2,108
Cash and cash equivalents	22	4,112	12,210
Total current assets		30,043	21,444
TOTAL ASSETS		92,815	79,782
EQUITY AND LIABILITIES			
Capital			
Share capital	23	11,877	11,877
Retained earnings	23	38,081	36,576
Equity attributable to the owners of the Company		49,958	48,453
Non-controlling interests		99	14
Total equity		50,057	48,467
Non-current liabilities			
Five-year USD loan participation notes	24	16,707	9,720
Deferred tax liability	11	6,925	5,412
Amounts due to grantor under a concession agreement, long-term portion	16	3,169	3,189
Long-term borrowings	25	3,596	4,345
Total non-current liabilities		30,397	22,666
Current liabilities			
Trade and other payables	26	3,775	3,684
Income tax payable		37	292
Taxes other than income tax payable	27	1,169	1,142
Dividends payable	23	1,309	-
Amounts due to grantor under a concession agreement, short-term portion	16	364	318
Accrued expenses and other current liabilities	28	2,198	1,038
Five-year USD loan participation notes, short-term portion	24	133	60
Current portion of long-term borrowings	25	3,171	2,091
Provisions	29	205	24
Total current liabilities		12,361	8,649
TOTAL EQUITY AND LIABILITIES		92,815	79,782

On behalf of management:


Alexander Mindrin
Chief Executive Officer


Olga Korochkina
Chief Financial Officer

24 April 2015

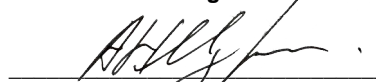
The accompanying notes form an integral part of these consolidated financial statements.


DME LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

	2014	2013
Cash flows from operating activities:		
Profit before income tax	13,503	11,516
Adjustments for:		
Depreciation and amortization	3,024	2,818
Gain on disposal of property, plant and equipment	(7)	(13)
Loss on disposal of intangible assets	39	-
Change in provision for impairment of accounts receivable and advances to suppliers	20	132
Change in legal provision	127	(271)
Loss from disposal of subsidiary	2	-
Interest income	(258)	(177)
Interest expense	1,146	468
Impairment of restricted cash balances	308	-
Foreign exchange (gain) / loss, net	(896)	848
Other non-cash items, net	41	125
	17,049	15,446
Increase in inventory	(361)	(57)
Decrease / (Increase) in trade and other receivables	135	(159)
Decrease / (Increase) in prepayments and other current assets	815	(952)
Increase in trade and other payables	82	398
Increase in taxes other than income tax payable	27	141
Increase / (decrease) in accrued expenses and other current liabilities	1,150	(161)
Net cash from operating activities before income tax	18,897	14,656
Interest paid	(1,284)	(359)
Income tax paid	(2,590)	(2,130)
Net cash provided by operating activities	15,023	12,167
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4,038)	(2,781)
Purchases of intangible assets and other non-current assets	(592)	(875)
Proceeds from disposal of property, plant and equipment	118	92
Purchases of investments	(15,244)	(2,024)
Proceeds from disposal of investments	5,228	1,609
Net cash outflow on disposal of subsidiaries (Note 12)	(1,019)	-
Restricted cash	(2,168)	-
Proceeds from grantor under a concession agreement	141	177
Interest received	183	165
Net cash used in investing activities	(17,391)	(3,637)
Cash flows from financing activities:		
Proceeds from five-year USD loan participation notes	-	9,720
Repayments of borrowings	(2,134)	(946)
Dividends paid	(7,807)	(5,425)
Other distribution to shareholders	-	(959)
Net cash (used in) / provided by financing activities	(9,941)	2,390
Net (decrease) / increase in cash and cash equivalents	(12,309)	10,920
Cash and cash equivalents at the beginning of the year	12,210	1,406
Foreign exchange gain / (loss) on cash and cash equivalents	4,211	(116)
Cash and cash equivalents at the end of the year	4,112	12,210

On behalf of management:


Alexander Mindrin
Chief Executive Officer


Olga Korochkina
Chief Financial Officer

24 April 2015

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

DME LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

	Share capital	Retained earnings	Equity attributable to the owners of the Company	Non- controlling interests	Total
Balance as of 1 January 2013	11,877	31,227	43,104	15	43,119
Profit and comprehensive income for the year	-	9,431	9,431	(1)	9,430
Dividends (Note 23)	-	(3,123)	(3,123)	-	(3,123)
Other distribution to shareholders (Note 23)	-	(959)	(959)	-	(959)
Balance as of 31 December 2013	11,877	36,576	48,453	14	48,467
Profit and comprehensive income for the year	-	11,316	11,316	85	11,401
Dividends (Note 23)	-	(9,811)	(9,811)	-	(9,811)
Balance as of 31 December 2014	11,877	38,081	49,958	99	50,057

On behalf of management:



Alexander Mindrin
Chief Executive Officer



Olga Korochkina
Chief Financial Officer

24 April 2015

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

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

1. NATURE OF THE BUSINESS

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

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

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

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

Company name	Place of incorporation	Principal activity	Percentage held as of	
			31 December 2014	31 December 2013
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 Airport Aviation Security	Russia	Aviation security	100%	100%
Domodedovo Commercial Services	Russia	General agent for Group companies	100%	100%
Domodedovo International Airport	Russia	Take-off and landing services	100%	100%
Domodedovo Slot Allocation	Russia	Aeronautical services	100%	100%
Domodedovo Construction Management	Russia	Capital development	100%	100%
Domodedovo Airport Handling	Russia	Ground handling	100%	100%
Domodedovo Information Technologies Services	Russia	IT services	100%	100%
Domodedovo Fuel Facilities	Russia	Jet fuelling and storage	100%	100%
Hacienda Investments Limited	Cyprus	Group property management	100%	100%
Verulia Investments Limited	Cyprus	Investing and financing activities	100%	100%
Sortenia Ventures Limited	Cyprus	Investing and financing activities	-	100%
Airport Management Company Limited	Isle of Man	Group management company	100%	100%
Ocean Fest Development SA	British Virgin Islands	Investing and financing activities	100%	100%
Domodedovo Training Corporation	Russia	Staff professional trainings and development	100%	100%
Domodedovo Integration	Russia	Software development	100%	100%
Domodedovo Parking Services Limited	British Virgin Islands	Management of car park facilities	-	100%
Domodedovo Non-aviation Sales	Russia	Rent and advertizing services	100%	100%
DME Airport Limited	Ireland	Investing and financing activities	-	-

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

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

During the reporting period the Group disposed of its ownership interests in Sortenia Ventures Limited and Domodedovo Parking Services Limited (see Note 12 for more information on disposal).

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

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

The consolidated financial statements of the Group for the year ended 31 December 2014 were authorized for issue by management on 24 April 2015.

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 "RUR 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, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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.

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 unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

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.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

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

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

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

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

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

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

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

Airport and other related charges

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

Rental income

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

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

Ground handling

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

Jet fuelling and storage services

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

Aviation security

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

Parking fees and other revenue

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

Jet fuel sales

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

Catering

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

Interest income

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

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

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

Group as lessor

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

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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 2014 and 2013 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.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

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

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

Gain or loss on disposal

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

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

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.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

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

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

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

Loans and receivables

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

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

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

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

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

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

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

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

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

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

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

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

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

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

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

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

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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 2014. The effect from 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 2015 or later periods and which the entity has not early adopted:

Standards and Interpretations	Effective for annual periods beginning on or after
IAS 19 – Defined Benefit Plans: Employee contributions (amended)	1 July 2014
IAS 16 Property, Plant and Equipment (amended)	1 January 2016
IAS 27 – Equity Method in Separate Financial Statements (amended)	1 January 2016
IAS 38 Intangible Assets (amended)	1 January 2016
IAS 41 Agriculture : Bearer Plants (amended)	1 January 2016
IFRS 10 Consolidated Financial Statements (amended)	1 January 2016
IFRS 11 – Accounting for Acquisition of Interests in Joint Operations (amended)	1 January 2016
IFRS 14 Regulatory Deferral Accounts	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2017
IFRS 9 Financial Instruments	1 January 2018

Also a number of standards and interpretations were amended by Annual Improvements to IFRSs 2010–2012 Cycle and 2011–2013 Cycle, which become effective for annual periods beginning on or after 1 July 2014 and 2012–2014 Cycle, which become effective for annual periods beginning on or after 1 January 2016. 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 are likely to have an effect on the financial statements of the Group are described in more detail below:

- IFRS 9 “Financial instruments” – Amendments issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

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

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, 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. 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.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Provision for impairment of receivables and advances to suppliers – Management maintains a provision for impairment of receivables and advances to suppliers in the form of an allowance account equal to estimated losses resulting from the inability of customers and other debtors to make required payments. When evaluating the adequacy of this allowance account, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment patterns. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2014 and 2013 the provision for impairment of receivables and advances to suppliers was recognized in the amount of RUR 788 million and RUR 809 million, respectively (see Notes 20, 21).

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.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

Impairment of restricted cash balances – Management assessed a provision for impairment of other non-current assets, represented by restricted cash held with FBME Bank LTD., Cyprus branch (hereinafter FBME bank), in the form of an allowance account equal to estimated losses resulting from the assessing of the current fair value of the restricted cash balance to be recovered by the Group. When evaluating the adequacy of this allowance account, management bases its estimates on the expected timing of the restricted cash balance recovery and estimated charges and losses which could be incurred by the Group when recovering the restricted cash. If the current situation with FBME bank 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.

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

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

Payments made by the Group with respect to such claims for a total amount of RUR 614 million were recognized as an asset in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets" as at 31 December 2013. Most of claims raised based on the results of the tax audits were resolved in favor of the Group during the reporting period. During the year ended 31 December 2014 the amount of RUR 593 million was returned to the Group by tax authorities. The remaining amount of RUR 21 million the Group continued to recognize as an asset as at 31 December 2014.

Recoverability of deferred tax assets – Management of the Group believe that no allowance should be made in respect of deferred tax assets as of the reporting date as it is probable that deferred tax assets will be fully realised. As at 31 December 2014 the carrying value of deferred tax assets was RUR 1,621 million (2013: RUR 825).

6. RECLASSIFICATION

Certain information for the year ended 31 December 2013 has been reclassified for consistency with the method of presentation adopted in the Group's consolidated financial statements for the year ended 31 December 2014. The changes in classification are shown below:

Reclassification of operating expenses

	Before reclassification	After reclassification	Difference
Depreciation and amortization	2,651	2,818	167
Cleaning and waste management	536	543	7
Taxes other than income tax	853	860	7
Certification and licensing	185	18	(167)
Maintenance	1,155	1,148	(7)
Other expenses, net	516	509	(7)
			-

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

Reclassification of other non-current assets

	Before reclassification	After reclassification	Difference
Other non-current assets	939	1	(938)
Other intangible assets (Note 14)	312	1,250	938
			-

Misclassification of property, plant and equipment

In process of preparation of 2014 consolidated financial statements the Group identified a misclassification of a certain class of transportation equipment between "Other" and "Plant and equipment" categories of property, plant and equipment. After the correction of misclassification the net book value of "Plant and equipment" as of 31 December 2013 decreased by RUR 92 million to RUR 3,963 million and net book value of "Other" increased by RUR 92 million to RUR 419 million.

Reclassification of Trade and other payables and Accrued expenses and other current liabilities

	Before reclassification	After reclassification	Difference
Amounts payable for the acquisition of property, plant and equipment	1,042	924	(118)
Advances received	1,082	1,281	199
Other liabilities	211	130	(81)
			-

Reclassification of segment information

	Before reclassification	After reclassification	Difference
Third-party revenue			
Aviation services	9,207	9,155	(52)
Auxiliary aviation services	23,907	23,921	14
Commercial services	6,810	6,848	38
			-
Total revenue			
Aviation services	10,399	10,347	(52)
Auxiliary aviation services	25,296	25,310	14
Commercial services	7,376	7,414	38
			-
Operating profit			
Aviation services	2,899	2,622	(277)
Auxiliary aviation services	6,573	6,359	(214)
Commercial services	3,183	3,674	491
Inter-segment eliminations			-
			-
Depreciation and amortization			
Aviation services	(939)	(1,226)	(287)
Auxiliary aviation services	(781)	(1,078)	(297)
Commercial services	(931)	(514)	417
			(167)

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

Misclassification of asset and liability in connection with concession arrangement

Under the terms of concession agreement revised in December 2012 the Group was to pay for the right of use of certain property facilities actually used by the Group only after official transfer of those facilities to the Group on the basis of a governmental decree. The payments for these facilities were supposed to be made in the three years following the issue of the governmental decree and to include charges for use of these facilities from the starting date of their actual use by the Group (most of the facilities – from November 2011). The governmental decree was issued in May 2014. Based on this fact the Group revised the payment schedule under the concession agreement to reflect the additional payments for the period from the start of the actual use of these facilities by the Group till December 2012. Accordingly, the present value of the contractual future payments from the date of adoption of revised payment terms in December 2012 was recalculated. The amount of additional intangible asset and financial liability recognized as at 31 December 2013 was RUR 55 million. As of 31 December 2013 the amount of the additional financial liability was divided into a short-term and a long-term portion (RUR 5 million and RUR 50 million, respectively).

After the correction net book value of intangible assets increased from RUR 4,029 million to RUR 4,084 million, amounts due to grantor under a concession agreement, long-term portion, increased from RUR 3,139 million to RUR 3,189 million and amounts due to grantor under a concession agreements, short-term portion, increased from RUR 313 million to RUR 318 million as of 31 December 2013. Effects on amortization charge and interest expense relating to 2013 were immaterial.

7. SEGMENT INFORMATION

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

The Group’s reportable segments are as follows:

Aviation services segment – includes aviation services, such as use of terminal, take-off and landing, and aviation security. Such services are predominantly regulated by FST.

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

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

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

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

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

The key financial information for the Group's segments for the years ended 31 December 2014 and 2013 is presented below:

		Aviation services	Auxiliary aviation services	Commercial services	Inter-segment eliminations	Group
Third-party revenue	2014	10,292	23,111	7,821	-	41,224
	2013	9,155	23,921	6,848	-	39,924
Intersegment revenue	2014	1,522	1,369	536	(3,427)	
	2013	1,192	1,389	566	(3,147)	-
Total revenue	2014	11,814	24,480	8,357	(3,427)	41,224
	2013	10,347	25,310	7,414	(3,147)	39,924
Operating profit	2014	3,147	6,912	3,746	-	13,805
	2013	2,622	6,359	3,674	-	12,655
Depreciation and amortization	2014	(1,415)	(1,145)	(464)	-	(3,024)
	2013	(1,226)	(1,078)	(514)	-	(2,818)
Change in provision for impairment of receivables and advances to suppliers	2014	(3)	(18)	1		(20)
	2013	(27)	(88)	(17)	-	(132)
Change in legal provision	2014	(35)	(80)	(12)	-	(127)
	2013	74	176	21	-	271

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

	2014		2013	
	Amount	%	Amount	%
S7 Group	4,939	12%	4,391	11%
Aviation services segment	1,777		1,642	
Auxiliary aviation services segment	2,896		2,525	
Commercial services segment	266		224	
AK Transaero	3,565	9%	4,117	10%
Aviation services segment	1,285		1,532	
Auxiliary aviation services segment	1,927		2,248	
Commercial services segment	353		337	

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.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

8. REVENUE

	2014	2013
<i>Service revenue</i>		
Ground handling	8,274	7,346
Airport and other related charges	7,770	6,874
Rental income	6,857	6,028
Jet fuelling and storage services	3,162	2,690
Aviation security	2,142	1,938
Parking fees	750	728
Construction revenue	218	178
Other revenue	609	383
Total service revenue	29,782	26,165
<i>Product revenue</i>		
Jet fuel sales	6,019	8,568
Catering	5,423	5,191
Total product revenue	11,442	13,759
Total revenue	41,224	39,924

Rental income includes rentals contingent on passenger traffic volume (see Note 31) of RUR 5,469 million and RUR 4,721 million for the years ended 31 December 2014 and 2013, respectively, and rental income from investment property in the amount of RUR 1,093 million and RUR 649 million for the years ended 31 December 2014 and 2013, respectively.

9. OPERATING EXPENSES, NET

	2014	2013
Payroll and related charges:		
Wages and salaries	9,484	8,499
Social taxes	2,290	2,155
Cost of jet fuel	4,906	7,335
Depreciation and amortization	3,024	2,818
Materials	1,760	1,770
Maintenance	1,488	1,148
Taxes other than income tax	1,147	860
Cleaning and waste management	717	543
Public utilities	443	473
Transport	336	232
Rent	290	374
Staff development and training	285	197
Consulting, audit and other services	242	233
Passenger servicing	152	108
Change in legal provision	127	(271)
Communication services expense	61	80
Certification and licensing	57	18
Advertising expenses	52	43
Change in provision for impairment of receivables and advances to suppliers (Notes 18,19)	20	132
Aircraft servicing	11	13
Other expenses, net	527	509
Total operating expenses, net	27,419	27,269

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

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

During 2013 the court decreed that an amount of RUR 352 million be repaid to the guarantor. Furthermore, management reassessed and reduced the amount of the initial claim by RUR 158 million. As a result the Group repaid a total of RUR 510 million to the guarantor. In October 2013 further legal proceeding with respect to the remaining provision in the amount of RUR 295 million has resulted in final court ruling in favor of the Group. Accordingly, the previously recognized provision of RUR 295 million has been released. The release in provision is shown as a change in legal provision as part of operating expenses in the consolidated profit and loss for the year ended 31 December 2013.

10. INTEREST EXPENSE

	2014	2013
Interest expense on five-year USD loan participation notes	723	60
Unwinding of discount related to amounts due to grantor under a concession agreement	353	347
Interest expense on bank loans	280	304
	1,356	711
Less: capitalized interest (Note 13)	(210)	(243)
Total interest expense	1,146	468

11. INCOME TAX

	2014	2013
Current income tax expense	(1,589)	(2,212)
Adjustments recognized in the current year in relation to the current tax of prior years	204	-
Deferred income tax (expense) / benefit	(717)	126
Income tax	(2,102)	(2,086)

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

	2014	2013
Profit before income tax	13,503	11,516
Theoretical tax charge at Russian statutory rate of 20%	(2,701)	(2,303)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable foreign exchange differences	2,599	211
Adjustments recognized in the current year in relation to the current tax of prior years	204	-
Non-deductible interest expenses	(278)	(111)
Tax rate differences relating to other jurisdictions	(295)	216
Other non-deductible items	(462)	(99)
Effect of withholding tax on dividends of subsidiaries	(1,169)	-
Income tax	(2,102)	(2,086)

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.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (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 2014	Charged to profit or loss	31 December 2013
Tax losses carry forward	592	339	253
Property, plant and equipment	54	(13)	67
Trade and other receivables	210	36	174
Prepayments and other current assets	116	13	103
Trade and other payables	327	228	99
Accrued expenses and other current liabilities	302	195	107
Intangible assets	4	(2)	6
Other	16	-	16
Deferred tax asset, net	1,621		825
Property, plant and equipment	(5,524)	(170)	(5,354)
Trade and other receivables	(36)	(23)	(13)
Prepayments and other current assets	(5)	2	(7)
Amounts due to grantor under a concession agreement	707	105	602
Trade and other payables	(1,251)	(1,237)	(14)
Intangible assets	(776)	(150)	(626)
Other	(40)	(40)	-
Deferred tax liability, net	(6,925)		(5,412)
		(717)	
	31 December 2013	Charged to profit or loss	31 December 2012
Tax losses carry forward	253	196	57
Property, plant and equipment	67	53	14
Trade and other receivables	174	(203)	377
Prepayments and other current assets	103	(1)	104
Trade and other payables	99	123	(24)
Accrued expenses and other current liabilities	107	(108)	215
Intangible assets	6	6	
Other	16	51	(35)
Deferred tax asset, net	825		708
Property, plant and equipment	(5,354)	(22)	(5,332)
Trade and other receivables	(13)	37	(50)
Prepayments and other current assets	(7)	(17)	10
Amounts due to grantor under a concession agreement	602	(53)	655
Trade and other payables	(14)	(22)	8
Accrued expenses and other current liabilities	-	1	(1)
Intangible assets	(626)	85	(711)
Deferred tax liability, net	(5,412)		(5,421)
		126	

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

	2018	2019	2020	2021	2022	2023	Total
Tax losses carry forward	3	32	15	17	182	343	592

During 2014 a number of the Group's Russian subsidiaries distributed dividends to the parent (DME Limited) for the total amount of RUR 30,298 million. A related withholding tax liability in the amount of RUR 1,169 million was recognized as at 31 December 2014. The Group did not recognize a deferred tax liability related to the remaining undistributed earnings of its subsidiaries as it has not made any decisions regarding future distributions of retained earnings within the Group. Undistributed earnings, in relation to which deferred tax liability was not accrued, amounted to RUR 11,443 million and RUR 18,197 million as of 31 December 2014 and 2013, respectively.

12. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2014 the Group disposed of two subsidiaries.

On 11 December 2014 the Group disposed of Domodedovo Parking Services Ltd. (BVI), which was managing the airport car park facilities operated by the Group. Domodedovo Parking Services Ltd. was sold to a third party for a consideration of 1 US dollar.

On 30 December 2014, the Group disposed of Sortenia Ventures Limited (Cyprus), which carried out certain portion of financing activities of the Group. Sortenia Ventures Limited was sold to a third party for a consideration of 1 euro. As of the date of the disposal the Group had a balance of RUR 70 million receivable from Sortenia which the Group does not intend to call in. The result of the disposal of this company was adjusted to take account of planned forgiveness of this balance.

Domodedovo Parking Services Ltd. was included in the Commercial Services business segment, while Sortenia Ventures Limited was included into the headquarters expenses allocated between the reportable segments of the Group.

Analysis of assets and liabilities disposed over which control was lost by the Group as of the respective dates of disposal is presented below:

Analysis of assets and liabilities disposed of

	Sortenia Ventures Limited	Domodedovo Parking Services Ltd.	Total
Current assets			
Cash and cash equivalents	1,016	2	1,018
Trade and other receivables	1	-	1
	1,017	2	1,019
Current liabilities			
Trade and other payables	(1,087)	-	(1,087)
Taxes payable	(1,087)	-	(1,087)
	(1,087)	-	(1,087)
Net (liabilities)/assets disposed of	(70)	2	(68)

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

The financial result on disposal of the subsidiaries can be calculated as follows:

	Sortenia Ventures Limited	Domodedovo Parking Services Ltd.	Total
Consideration received	-	-	-
Planned forgiveness of receivable from the disposed subsidiary	(70)	-	(70)
Net liabilities/(assets) disposed of	70	(2)	68
Loss on disposal	-	(2)	(2)

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Other	CIP	Total
Cost					
1 January 2013	43,932	7,241	1,145	4,764	57,082
Additions	791	464	66	1,886	3,207
Transfers	792	533	110	(1,435)	-
Disposals	(34)	(41)	(80)	(46)	(201)
Reclassified as investment property	(9)	-	-	-	(9)
31 December 2013	45,472	8,197	1,241	5,169	60,079
Additions	1,922	950	88	1,394	4,354
Transfers	386	191	50	(627)	-
Disposals	(25)	(221)	(88)	(53)	(387)
31 December 2014	47,755	9,117	1,291	5,883	64,046
Accumulated depreciation					
1 January 2013	(4,453)	(3,278)	(742)	-	(8,473)
Depreciation charge	(1,187)	(991)	(153)	-	(2,331)
Disposals	14	35	73	-	122
31 December 2013	(5,626)	(4,234)	(822)	-	(10,682)
Depreciation charge	(1,231)	(1,047)	(172)	-	(2,450)
Disposals	7	186	85	-	278
31 December 2014	(6,850)	(5,095)	(909)	-	(12,854)
Net book value					
31 December 2013	39,846	3,963	419	5,169	49,397
31 December 2014	40,905	4,022	382	5,883	51,192

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

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

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

"Other" consists mainly of administrative equipment and vehicles.

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

During the years ended 31 December 2014 and 2013 the Group capitalized borrowing costs in the amount of RUR 210 million and RUR 243 million, respectively.

The weighted average capitalization rate on borrowed funds was 7% and 6% per annum for the years ended 31 December 2014 and 2013, respectively.

As at 31 December 2014 and 2013 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.

	2014	2013
Cost at the beginning of the year	2,105	2,096
Reclassified from property, plant and equipment (i)	-	9
Cost at the end of the year	2,105	2,105
Accumulated depreciation at the beginning of the year	(253)	(187)
Depreciation charge for the year	(66)	(66)
Accumulated depreciation at the end of the year	(319)	(253)
Net book value at the end of the year	1,786	1,852

- (i) In October 2013, hotel building owned by the Group was leased out to a third party operator, and was reclassified as an investment property.

Fair value of the investment properties as at 31 December 2014 was RUR 3,766 million 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.

Advances for acquisition of non-current assets

As of 31 December 2014 and 2013 advances for acquisition of non-current assets in the amounts of RUR 362 million and RUR 456 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. The amount of impairment of advances for acquisition of non-current assets amounted to RUR 31 mln. as of 31 December 2014 (31 December 2013: nil).

14. INTANGIBLE ASSETS

	31 December 2014	31 December 2013
Concession arrangement (Note 16)	3,816	3,772
Other intangible assets	1,111	1,250
Intangible assets	4,927	5,022

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

Other intangible assets as of 31 December 2014 and 2013 are presented below:

	Software	Licences and other	Assets not ready for use	Total
Cost				
1 January 2013	961	529	78	1,568
Additions	9	-	684	693
Transfers	263	33	(296)	-
Disposals	(65)	-	(24)	(89)
31 December 2013	1,168	562	442	2,172
Additions	6	-	397	403
Transfers	227	7	(234)	-
Disposals	(98)	(42)	(159)	(299)
31 December 2014	1,303	527	446	2,276
Accumulated amortization				
1 January 2013	(464)	(191)	-	(655)
Amortization charge	(194)	(108)	-	(302)
Disposals	35	-	-	35
Transfer	7	(7)	-	-
31 December 2013	(616)	(306)	-	(922)
Amortization charge	(249)	(86)	-	(335)
Disposals	69	22	-	91
31 December 2014	(795)	(370)	-	(1,165)
Net book value				
31 December 2013	552	256	442	1,250
31 December 2014	508	157	446	1,111

15. OTHER NON-CURRENT ASSETS

	31 December 2014	31 December 2013
Restricted cash, net of impairment of RUR 308 million	1,860	-
Bank guarantees	22	-
Other	-	1
Other non-current assets	1,882	1

Restricted cash represent cash balances held at FBME Bank by Airport Management Company Ltd., a subsidiary of the Group, which may not be transferred outside of FBME Bank at the discretion of the Group due to restrictions of operations imposed on FBME Bank by the US and Cypriot governmental authorities.

On 15 July 2014 the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN) published a Notice of Finding indicating that FBME Bank Ltd., a bank in which the Group has placed significant amounts of cash, is a Financial Institution of Primary Money Laundering Concern. The published Notice of Finding was effective immediately for all the U.S. financial institutions, which were to take this information into account as part of their overall risk management programs.

On 17 July 2014 FinCEN also published an official release naming FBME Bank Ltd., formerly known as the Federal Bank of the Middle East, as a foreign financial institution of primary money laundering concern pursuant to Section 311 of the USA PATRIOT Act (Section 311).

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 *(Amounts in millions of Russian Rubles)*

On 22 July 2014 FinCEN officially published a Notice of Proposed Rulemaking (NPRM) that, if adopted as a final rule, would prohibit covered U.S. financial institutions from opening or maintaining correspondent or payable-through accounts for FBME Bank itself, and for other foreign banks being used to process transactions involving FBME Bank. The NPRM also proposed to require covered financial institutions to apply special due diligence to their correspondent accounts maintained on behalf of foreign banks to guard against processing any transactions involving FBME Bank.

As a result of the action by FinCEN, the principle correspondent banks of FMBE Bank had frozen and/or closed the USD accounts of the Cyprus Branch of FBME and suspended execution of customer money transfers in that currency, causing also serious difficulties in executing customer money transfers in euro and other currencies.

On 22 September, FBME Bank Ltd. submitted a public comment to FinCEN in which it responded to the concerns outlined by FinCEN in its NPRM dated 15 July 2014 and published in the Federal Register on 22 July 2014. The provided comments are under review of FinCEN.

As of the date when these financial statements were authorized for issue, FinCEN had not provided any formal response to the comments submitted by FBME Bank and had not lifted any of the restrictions imposed by the NPRM.

In response to these official publications the Central Bank of Cyprus (CBC) officially announced on 18 July 2014 that it had assumed management control of the operations of the Branch of FBME Bank Ltd in Cyprus. CBC appointed a Special Administrator of the Branch and imposed temporary restrictions of the Branch's scope of business, including suspension of cash transfers to any bank accounts outside of FBME Bank. As of the date when these financial statements were authorized for issue, the restrictions imposed by CBC had not been lifted.

On 21 July 2014 CBC issued a decree which considered the sale of the business of the Cyprus Branch of FBME Bank Ltd to another credit institution as the appropriate resolution measure, pursuant to applicable Cyprus legislation, in order to, protect depositors and prevent the spreading of risks which would have affected the stability of the banking system in Cyprus. As of the date when these financial statements were authorized for issue, CBC had not officially announced any final decision in respect to the sale of the business of the Cyprus Branch of FBME Bank.

On 28 October 2014, the shareholders of FBME Ltd, the holding company of FBME Bank, filed a request for arbitration at the International Court of Arbitration of the International Chamber of Commerce in Paris (France) against the Republic of Cyprus. The arbitration is pursuant to the Agreement on the Reciprocal Protection of Investments between the Republic of Lebanon and the Republic of Cyprus of 9 April 2001, which entered into force on 19 March 2003. At the arbitration claim they requested the International Court of Arbitration to declare that the Republic of Cyprus had breached its obligations under the above Agreement and to order the Republic of Cyprus to withdraw immediately its Decree for the sale of FBME Bank Cyprus Branch and to compensate in full the claimants for the damages, relating to the breaches under the Agreement, which were estimated as US\$ 500 million. As of the date when these financial statements were authorized for issue, the arbitration proceedings were still in process and it was not possible to assess their potential outcome.

On 22 September 2014 Airport Management Company Ltd., a subsidiary of the Group, filed a legal claim with Nicosia District Court (Cyprus) against FBME Bank and Mr. Dinos Christofides, the external administrator appointed by the Central Bank of Cyprus, requesting the court to authorize immediate withdrawal of the cash owned by the claimant or its transfer to another bank in the whole amount, including accrued interest, and to oblige the defendants to compensate for damages incurred by the claimant. As of the date when these financial statements were authorized for issue, the court proceedings were still in process and it was not possible to assess its potential outcome.

As at 31 December 2014 the Management of the Group assessed and recognized a provision for impairment of the restricted cash balances held with FBME Bank in the amount of RUR 308 million. The provision was to take into account an estimated amount of potential losses and charges to be incurred by the Group in the process of recovery of the restricted cash balances from FBME Bank accounts.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

16. CONCESSION ARRANGEMENT

General

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

The Group is required to make quarterly payments for the right to use the assets during the term of the agreement. Such payments are set to be revised every three years. The most recent revision took place in December 2012, with the next revision due in 2015. The effects and terms of the most recent revision are discussed further in this note.

Amounts due from grantor under a concession agreement

Financial asset related to amounts due from grantor under a concession agreement of RUR 785 million (2013: RUR 642 million) comprise the amount of receivables from grantor for the improvements made to the property used under the concession agreement. Such amounts are settled on demand, however, the Group does not have any agreement on a schedule of future payments and does not expect that any significant settlement will be effected during 2015. Accordingly, the amounts have been classified as non-current assets.

Amounts due to grantor in relation to a concession agreement

Financial liability related to amounts due to grantor in relation to a concession agreement represents the present value of the contractual future payments, discounted at an annual interest rate of 10.6%. The most recent revision of contractual payment terms, which took place in December 2012, resulted in an increase of the future minimum payments and a revised discount rate. The cost of the intangible asset, corresponding to the net present value of the fees payable to the grantor under the arrangement, has been adjusted accordingly.

In May 2014 the Russian Government issued a governmental decree formally transferring to the Group some property facilities relating to the concession agreement which were actually in use by the Group from earlier periods (most of the facilities – from November 2011). Based on this governmental decree and on the provisions of the concession arrangement the Group was obligated to pay for the right for use of these facilities for the period from the start of their actual use. Accordingly, as disclosed in Note 6, the Group revised the present value of the contractual future payments from the date of adoption of revised payment terms (December 2012). The amount of additional intangible asset and liability due to grantor under the concession agreement recognized as of 31 December 2013 was RUR 55 million.

The contractual future payments are reconciled to their present value as at 31 December 2014 and 2013 as follows:

	Future payments		Present value of future payments	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Due within one year	379	333	364	318
Due after one year but not more than five years	1,428	1,453	1,075	1,095
Due after more than five years	18,611	18,958	2,094	2,094
	20,418	20,744	3,533	3,507
Less future finance charges	(16,885)	(17,237)	-	-
Present value of future payments	3,533	3,507	3,533	3,507

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (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:

	2014	2013
Cost at the beginning of the year	3,955	3,778
Increase related to the change in fees payable to the grantor	-	-
Other additions	218	178
Cost at the end of the year	4,173	3,956
Accumulated amortization at the beginning of the year	(184)	(65)
Amortization charge	(173)	(119)
Accumulated amortization at the end of the year	(357)	(184)
Net book value	3,816	3,772

17. 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 2014		31 December 2013	
	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	220	164	145	108
Due after one year but not more than five years	880	195	579	128
Due after more than five years	1,356	22	1,038	15
Total gross / net investment in the lease	2,456	381	1,762	251
Less unearned finance income	(2,075)	-	(1,511)	-
Present value of minimum lease payments	381	381	251	251

	31 December 2014	31 December 2013
Long-term finance lease receivable	217	143
Short-term finance lease receivable	164	108
Total	381	251

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

18. SHORT-TERM INVESTMENTS

	31 December 2014	31 December 2013
Short-term USD-denominated bank deposits	8,473	1,146
Short-term EUR-denominated bank deposits	8,248	899
Available-for-sale debt securities	-	52
Other loans, net of allowance of RUR 83 million	1,197	11
Total short-term investments	17,918	2,108

As of 31 December 2014 the Group had USD and EUR-denominated bank deposits placed with Raiffeisen Bank International AG, Austria with interest rates ranging from 0.41-0.62% per annum.

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

19. INVENTORY

	31 December 2014	31 December 2013
Jet fuel	369	311
Spare parts	366	204
Raw materials	157	133
Supplies	157	107
Other inventory	165	107
Total inventory	1,214	862

20. TRADE AND OTHER RECEIVABLES

	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
31 December 2014			
Trade receivables	2,831	(671)	2,160
Other receivables	724	(49)	675
Total	3,555	(720)	2,835
31 December 2013			
Trade receivables	2,492	(708)	1,784
Other receivables	768	(57)	711
Total	3,260	(765)	2,495

The average credit period for the Group's receivables (other than sales carried out on a prepayment basis) is 24 days.

Included in the Group's total trade and other receivables are debtors with carrying amounts of RUR 624 million and RUR 754 million as of 31 December 2014 and 2013, 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.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

	31 December 2014	31 December 2013
30-90 days	33	74
90-180 days	149	35
More than 180 days	442	645
Total past due but not impaired	624	754

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

	31 December 2014	31 December 2013
Balance at the beginning of the year	(765)	(1,006)
Additional provision recognized in the current year	(17)	(131)
Release of provision	23	9
Use of provision	39	363
Balance at the end of the year	(720)	(765)

As of 31 December 2014 and 2013, impairment provision for trade receivables of RUR 148 million relates to receivables from customers, which were declared bankrupt in September 2008. During 2013 a portion of such receivables in the amount of RUR 358 million was written off against the related provision, due to the expiration of the applicable statute of limitations.

In determining the recoverability of trade and other receivables the Group considers any change in the credit quality of trade and other receivables from the date credit was initially granted up to the reporting date. Details about concentration of credit risk and related risk management activities are provided in Note 33.

21. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2014	31 December 2013
VAT receivable	1,380	1,419
Irrevocable letters of credit	532	808
Advances to suppliers, net of impairment	199	114
Other current assets	163	152
Total prepayments and other current assets	2,274	2,493

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

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

	31 December 2014	31 December 2013
Balance at the beginning of the year	(44)	(34)
Additional provision recognized in the current year	(8)	(20)
Release of provision	13	10
Use of provision	-	-
Balance at the end of the year	(39)	(44)

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 33.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

22. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
EUR-denominated short-term bank deposits	1,982	450
Other foreign currency denominated balances with banks	1,657	573
Russian Rouble denominated cash on hand and balances with banks	473	519
USD-denominated short-term bank deposits	-	9,655
AUD denominated short-term bank deposits	-	1,013
Total cash and cash equivalents	4,112	12,210

As of 31 December 2014 the terms of EUR-denominated short-term bank deposits is three months, with an annual interest rate of 0.27% to 0.28%.

As of 31 December 2013 the Group had USD, EUR and AUD-denominated short-term bank deposits from 15 days to three months, with an annual interest rate of 0.5% to 1.75%.

23. EQUITY

Share capital and dividends – Authorized and issued capital as at 31 December 2014 comprises 304,779,519 ordinary shares (as at 31 December 2013: 304,831,519) with par value EUR 1.

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

During the period ended 31 December 2014 dividends of RUR 10,770 million were approved by the shareholders for distribution, out of which an amount of RUR 959 million had already been distributed to shareholders during the year ended 31 December 2013 and reported as other distributions to shareholders at the respective year end.

An amount of RUR 7,807 million was paid to shareholders during the year ended 31 December 2014 and an amount of RUR 1,309 million was outstanding as at 31 December 2014.

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 2014 and 2013 such earnings amounted to RUR 2,860 million and RUR 22,396 million, respectively.

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

24. FIVE-YEAR USD LOAN PARTICIPATION NOTES

	Interest rate, %	31 December 2014	31 December 2013
Five-year USD loan participation notes	6%	16,840	9,780
Total		16,840	9,780
Less: current portion due within twelve months and presented as short-term portion		(133)	(60)
Long-term portion of five-year USD loan participation notes		16,707	9,720

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

In November 2013 the Group issued non-convertible five-year loan participation notes ("LPN") for the total amount of USD 300 million (RUR 9,872 million at the Central Bank of Russia exchange rate as at the inception date) on the Irish Stock Exchange. Net proceeds from the issuance, after the deduction of related offering costs, amounted to USD 297 million (RUR 9,720 million at the Central Bank of Russia exchange rate as at the inception date). The annual coupon rate of the LPN is 6% with interest being paid semi-annually. The Group used net proceeds from the issuance for implementation of the Group's current capital expenditure program and for general corporate purposes. The LPN are guaranteed by certain entities of the Group.

The effective interest rate (including the effect of amortizing the transaction costs) is 6.33% per annum. The LPN mature in November 2018.

25. OTHER BORROWINGS

	Interest rate, %	31 December 2014	31 December 2013
Syndicated bank loan	3.98%	6,767	6,436
Total		6,767	6,436
Less: current portion due within twelve months and presented as short-term borrowings		(3,171)	(2,091)
Long-term borrowings		3,596	4,345

In January 2013 the Group entered into a EUR-denominated five-year syndicated loan facility agreement for a total amount of EUR 165 million (RUR 6,513 million at the Central Bank of Russia exchange rate as at the inception date) provided by ING Bank, Rosbank and Raiffeisen Bank with equal contributions of EUR 55 million each. The loan is guaranteed by certain Group companies. In February 2013 the loan was drawn down in full amount at a floating interest rate of EURIBOR + 2.8% per annum. Net proceeds from the borrowings, after the deduction of related commission costs, amounted to EUR 163 million (RUR 6,434 million at the Central Bank of Russia exchange rate as at the inception date). The floating rate was effective until 10 May 2013, after which it was changed to a fixed annual rate of 3.98%. The effective interest rate (including the effect of amortizing the transaction costs) is 4.54% per annum.

Covenants

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

In the event of non-compliance with the specified requirements the Group may be required to repay the loans early. The total amount of liabilities to which the financial covenants are attached as at 31 December 2014 is RUR 6,780 million (31 December 2013: RUR 6,436 million).

As of 31 December 2014 and 2013 the Group was in compliance with these covenants.

26. TRADE AND OTHER PAYABLES

	31 December 2014	31 December 2013
Advances received	1,392	1,281
Amounts payable for the acquisition of property, plant and equipment	880	924
Trade payables	801	751
Rent deposits received	702	728
Total trade and other payables	3,775	3,684

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

27. TAXES OTHER THAN INCOME TAX PAYABLE

	31 December 2014	31 December 2013
Value added tax	851	796
Social insurance tax	256	263
Property tax	54	75
Other taxes	8	8
Total taxes other than income tax payable	1,169	1,142

28. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	31 December 2014	31 December 2013
Accrued employee expenses	1,658	908
Other liabilities	540	130
Total accrued expenses and other current liabilities	2,198	1,038

Accrued employee expenses as of 31 December 2014 and 2013 comprised accrued salaries and bonuses of RUR 1,280 million and RUR 534 million, respectively, and an accrual for unused vacation of RUR 378 million and RUR 374 million, respectively.

29. PROVISIONS

During the year ended 31 December 2014 the Group was involved in litigations with a number of contractors.

Movement in legal provisions is as follows:

	2014	2013
Balance at the beginning of the year	24	295
Additional provision recognized in the current year	151	24
Reclassification of provision related to prepayments	54	-
Release of provision	(24)	(295)
Use of provision	-	-
Balance at the end of the year	205	24

30. 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 2014 and 2013 or had significant balances outstanding as of 31 December 2014 and 2013, are considered to be either entities under common control or key management personnel.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

The following tables provide the total amount of transactions, which have been entered into with related parties during the years ended 31 December 2014 and 2013 as well as year-end balances.

	31 December 2014		31 December 2013	
	Amounts owed by related parties	Amounts owed to related parties	Amounts owed by related parties	Amounts owed to related parties
Parent entity	-	1,309	-	-
Entities under common control	777	180	612	156
Total	777	1,489	612	156

	2014			2013		
	Sales to related parties	Purchases from related parties	Interest income	Sales to related parties	Purchases from related parties	Interest income
Entities under common control	107	194	3	55	80	2

Compensation of key management personnel

Key management comprised 11 and 9 persons as at 31 December 2014 and 2013, respectively. Total gross compensation (including unified social tax and before withholding of personal income tax) to those individuals included in payroll and related charges in the consolidated profit or loss amounted to RUR 1,069 million (including social insurance tax of RUR 40 million) and RUR 461 million (including social insurance tax of RUR 47 million) for the years ended 31 December 2014 and 2013, respectively. The outstanding balances due to key management personnel amounted to RUR 709 million and RUR 69 million as at 31 December 2014 and 2013, respectively and comprised accrued salaries, bonuses and accrual for unused vacation.

31. 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:

	2014	2013
Within one year	228	216
In two to five years	486	463
After five years	3,517	3,455
Total minimum lease payments	4,231	4,134

Included in minimum lease payments within one year are amounts of RUR 104 million and RUR 80 million as of 31 December 2014 and 2013, respectively, which represent the value of lease payments under lease agreements 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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 8.

The future minimum lease payments representing fixed part of the rentals under contracted operating leases for the year 2015 amount to RUR 2,154 million.

32. 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 2014 and 2013, consisted of the following:

	31 December 2014	31 December 2013
Reconstruction and expansion of passenger terminal	7,792	6,289
Reconstruction and expansion of cargo terminal	532	496
Construction of warehousing facilities	140	224
Reconstruction of fuel storage facilities	85	275
Design of multilevel parking	39	124
Reconstruction of office buildings	20	204
Construction of aircraft maintenance hangar	4	18
Construction of electric power plant	-	1,188
Reconstruction of catering facilities	-	102
Other	510	342
Total capital commitments	9,122	9,262

Operating environment of the Group – Emerging markets such as Russian Federation 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 Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. The exchange rate of the Russian Rouble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, further weakening of the Ruble and other negative economic consequences.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

The impact of further political and economic developments in Russia on future operations and financial position of the Group is at this stage difficult to determine.

The government of the Russian Federation directly affects the Group's operations through regulation of airport charges and other operating activities of the airports in Russia. According to current Russian legislation, certain infrastructure items may not be privately owned and must remain federal property. With respect to the Group, which operates under a long-term concession arrangement (see Note 16), such infrastructure items include the airfield, runways, adjacent taxiways, apron and certain navigation equipment. The contractual agreement regulating the relationship between the government and operators of such infrastructure items in Russia may not be as detailed and comprehensive as the contractual agreements governing similar infrastructure assets in more developed countries. Terms of contractual agreements between the government and infrastructure operators are not standardized, and may vary substantially from one arrangement to another. As laws and regulations evolve, develop or otherwise change in the future, the lease agreement between the Group and the government may change significantly.

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

Taxation – The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting business continue to change rapidly. These changes are characterized by unclear wording which leads to different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued for all taxes that are applicable. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

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

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.

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Legal proceedings – During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which management believes could have a material effect on the result of operations or financial position of the Group, other than those for which provision has been made in these consolidated financial statements (Note 29).

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

Property and civil liability of the Group are insured by well known Russian insurance companies. The full coverage insurance value of property is RUR 7,697 million. Third party liability of DME Limited and its subsidiaries is insured for the amount of RUR 50,263 million.

33. RISK MANAGEMENT ACTIVITIES

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

Capital Risk Management

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

Management of the Group regularly reviews its gearing ratio, calculated as proportion of net debt to equity, to ensure that it is in line with the Group's adopted policy on debt management. The current policy assumes a conservative approach to debt leverage in favor of equity financing, and limits the highest acceptable gearing ratio to 40%. During 2014 the Group complied with all external capital requirements.

Major Categories of Financial Instruments

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

	31 December 2014	31 December 2013
Financial assets		
Short-term investments	17,918	2,056
Cash and cash equivalents	4,112	12,210
Trade and other receivables	2,835	2,495
Amounts due from grantor under a concession agreement	785	642
Lease receivable	381	251
Other non-current assets	1,882	1
Available-for-sale securities	-	52
Total financial assets	27,913	17,707

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

	31 December 2014	31 December 2013
Financial liabilities		
Five-year USD loan participation notes	16,840	9,780
Long-term borrowings	3,596	4,345
Amounts due to grantor under a concession agreement	3,533	3,452
Trade and other payables	2,383	2,521
Accrued expenses and other current liabilities	2,198	1,119
Short-term borrowings	3,171	2,091
Total financial liabilities	31,721	23,308

Liquidity Risk

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

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

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

	Effective interest rate, %	Less than 1 month	1-3 months	3 months- 1 year	1-5 years	Over 5 years	Total
31 December 2014							
Non-interest bearing liabilities		2,847	1,268	78	149	239	4,581
Loans and borrowings	4.6%-6.3%	993	-	3,611	23,479	-	28,083
Amounts due to grantor under a concession agreement	10.6%	93	-	286	1,428	18,611	20,418
Total		3,933	1,268	3,975	25,056	18,850	53,082
31 December 2013							
Non-interest bearing liabilities	-	2,456	601	77	415	91	3,640
Loans and borrowings	4.6%-6.3%	679	-	1,728	14,319	-	16,726
Amounts due to grantor under a concession agreement	10.6%	7	-	321	1,391	18,958	20,677
Total		3,142	601	2,126	16,125	19,049	41,043

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

	Effective interest rate, %	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Over 5 years	Total
31 December 2014							
Accounts receivable		2,770	735	108	7	-	3,620
Investments	7-9.75%	8,484	3,801	4,661	2,878	-	19,824
Lease receivable	75%	18	37	165	880	1,355	2,455
Total		11,272	4,573	4,934	3,765	1,355	25,899
31 December 2013							
Accounts receivable	-	2,711	402	11	13	-	3,137
Investments	1.75-9.8%	1	-	2,112	1	-	2,114
Lease receivable	75%	12	24	109	579	1,038	1,762
Total		2,724	426	2,232	593	1,038	7,013

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 Group.

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

For the year ended 31 December 2014 the Russian Ruble depreciated against the US Dollar, EURO, Australian Dollar by 72%, 52%, 59% , respectively (depreciated against the US Dollar, EURO by 8%, 12% and appreciated against Australian Dollar by 8% for the year ended 31 December 2013). The Group does not have or use any formal arrangements (i.e. derivatives) to manage foreign currency risk exposure.

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

	Denominated in AUD		Denominated in USD		Denominated in EUR	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Assets						
Cash and cash equivalents	-	1,022	310	9,789	3,351	880
Amounts due from grantor under a concession agreement	-	-	-	-	785	642
Trade and other receivables	-	-	127	115	708	555
Investments	-	-	9,552	1,146	8,166	899
Lease receivable	-	-	-	-	381	252
Other non-current assets	-	-	-	-	1,827	-
Total assets	-	1,022	9,989	11,050	15,218	3,228
Liabilities						
Loans and borrowings	-	-	16,840	9,780	6,768	6,436
Trade and other payables	-	-	115	71	713	780
Total liabilities	-	-	16,955	9,851	7,481	7,216

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

	AUD – impact		USD – impact		EUR – impact	
	2014	2013	2014	2013	2014	2013
Loss / (gain)	-	102	(697)	120	774	(399)

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

Interest rate risk

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

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

As at 31 December 2014 and 2013 the Group's borrowed funds consisted of the USD loan participation notes, long- and short-term borrowings and amounts due to grantor under a concession agreement.

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

The Group's liabilities under concession agreement bear an inherent interest rate, which is fixed for a period of three years (see Note 16). At the end of each three-year period payments under the agreement are revised, and any changes in the amount of the future payments under the concession agreement may significantly influence the effective interest rate for the related liability, as well as the total amount of the interest expense.

Credit risk

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

As of 31 December 2014, 51% of the total net amount of trade and other receivables and amounts due from grantor under a concession agreement related to the five largest counterparties of the Group (31 December 2013: 54%).

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

	31 December 2014		
	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
FGUP "Administration of the Airport Domodedovo"	785	-	785
S7	555	(1)	554
Transaero	244	-	244
Mera-Invest	138	-	138
SINGAPORE AIRLINES LIMITED	123	-	123
Lufthansa	86	-	86
Emirates	65	-	65
Etihad Airways	56	-	56
Total	2,052	(1)	2,051

	31 December 2013		
	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
FGUP "Administration of the Airport Domodedovo"	642	-	642
S7	536	(27)	509
Transaero	216	-	216
Mera-Invest	140	-	140
Emirates	51	-	51
Lufthansa	46	-	46
SINGAPORE AIRLINES LIMITED	47	-	47
Etihad Airways	21	-	21
Total	1,699	(27)	1,672

As of 31 December 2014, 93% of the total amount of amounts held with the banks related to three banks (31 December 2013: 94%).

Bank deposits and cash balances placed with the largest banks as of 31 December 2014 and 2013 are as follows:

	Credit rating	31 December 2014	31 December 2013
Raiffeisen Bank International AG Austria	A	18,675	5,728
Deutsche Bank AG London	A	1,370	-
FBME BANK LTD(i)	not rated	493	5,251
ING	A	-	2,455
Total		20,538	13,434

(i) Cash balance with FBME bank as of 31 December 2014 in amount of RUR 493 million was not included in Restricted cash because it was used by the Group in 2015 to repay to the parent company the dividend liabilities outstanding as of 31 December 2014. In addition, the amount of RUR 2,168 million held by the Group with FBME bank represented restricted cash and was classified as other non-current assets (Note 15) with the respective impairment allowance in the amount of RUR 308 million recognized as of 31 December 2014.

DME LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014 (Amounts in millions of Russian Rubles)

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

Fair value of financial liabilities

	31 December 2014
Five-year USD loan participation notes	12,475
Long-term borrowings	6,139
Total	18,614

34. SUBSEQUENT EVENTS

Dividends – The liability to the shareholders of the Group for dividends relating to 2014 which was outstanding as of 31 December 2014 in the amount of RUR 1,309 million were repaid by the Group in the first quarter of 2015.

Other distribution to shareholders – On 29 January 2015 the Group made cash payment to its parent entity in the amount of RUR 808 million.

Incorporation of new subsidiary – As of 17 March 2015 the Group established a new subsidiary, Domodedovo Parking. It was registered in the Russian Federation and will manage the car parking facilities at the Group.

Change of legal form – During the first quarter of 2015 13 of the Group's subsidiaries registered in Russia changed their legal forms from a Close Joint Stock Company to a Limited Liability Company.

Transfer of cash funds between the financial institutions – During the first quarter of 2015 Group transferred significant amount of short-term investments, cash and cash equivalents from Raiffeisen Bank International AG Austria to another bank, UBS AG. On 5 February 2015 the Group placed with UBS AG a deposit for amount of USD 151 million (RUR 9,883 million as of the date of placement) and on 6 March 2015 the Group placed with UBS a deposit for EUR 40 million (RUR 2,732 million as of the date of placement). The terms of the deposits are from three months to one year, with an annual interest rate ranging from 0% to 0.26%.