State Transport Leasing Company

GTLK Europe DAC

(incorporated as a designated activity company limited by shares under the laws of Ireland)

as issuer of

USD 500,000,000 5.125 per cent Guaranteed Notes due 2024

unconditionally and irrevocably guaranteed by

Public Joint Stock Company "State transport leasing company"

(a joint-stock company incorporated under the Laws of the Russian Federation)

Issue price of Notes: 100 per cent

GTLK Europe DAC (the **Issuer, GTLKE** or the **Company**) incorporated as a designated activity company limited by shares under the laws of Ireland is issuing USD 500,000,000 aggregate principal amount of 5.125 per cent guaranteed notes due 2024 (the **Notes**). The Notes shall be unconditionally and irrevocably guaranteed (the **Guarantee**) by Public Joint Stock Company "State transport leasing company" (the **Guarantor** or **STLC**).

Interest on the Notes will accrue from 31 May 2017 at a rate of 5.125 per cent per annum of their outstanding principal amount payable semi-annually in arrear on 31 May and 30 November of each year, commencing on 30 November 2017. Unless previously redeemed or cancelled the Notes will be redeemed at their principal amount on 31 May 2024. The Notes will be subject to, and have the benefit of, a trust deed between BNY Mellon Corporate Trustee Services Limited as trustee for the holders of the Notes (the **Trustee**), the Issuer and the Guarantor to be dated 31 May 2017 (the **Trust Deed**).

The Notes will be unsecured and unsubordinated obligations of the Issuer and will rank equally in right of payment with the Issuer's existing and future unsecured and unsubordinated obligations. The Guarantee will be an unsecured and unsubordinated obligation of the Guarantor and will rank equally in right of payment with all existing and future unsecured and unsubordinated obligations of the Guarantor.

Payments on the Notes will be made without deduction or withholding for taxes imposed by Ireland or the Russian Federation to the extent described in "*Terms and Conditions of the Notes*" herein. The Notes may be redeemed by the Issuer in whole but not in part at 100 per cent of their principal amount, plus accrued and unpaid interest, if the Issuer becomes obliged to pay certain additional amounts and otherwise as described under "*Terms and Conditions of the Notes*". Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 31 May 2024.

An investment in the Notes involves certain risks. Prospective Investors should have regard to the factors described under the section headed "Risk Factors" beginning on page 9.

Neither this Prospectus nor the information contained herein is an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity, and it does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the **Russian QIs**), and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for "placement" or "circulation" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

The Prospectus has been approved by the Central Bank of Ireland (the **CBI**) as competent authority under the Prospectus Directive. When used in this Prospectus, **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area. The CBI only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list and trading on its regulated market (the **Main Securities Market**). References in this Prospectus to the Notes being "listed" (and all related references) will mean that the Notes have been admitted to the Official List and have been admitted to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. There is no assurance that such listing will be granted or maintained and that a trading market in the Notes will develop or be maintained.

The Guarantor is rated BB- by Standard & Poor's Credit Market Services Europe Limited (**S&**P), Ba2 by Moody's Investors Service Ltd. (**Moody's**) and BB by Fitch Ratings Limited (**Fitch**). The Notes are expected to be rated at issuance Ba3 by Moody's and BB by Fitch and, together with Moody's, the **Rating Agencies**. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, each of the Rating Agencies is established in the European Union and is registered under Regulation (EU) No 1060/2009, as amended (the **CRA Regulation**) and is listed in the list of rating agencies available on the European Securities and Markets Association website.

The Notes and the Guarantee (the **Securities**) have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) and, subject to certain exceptions, may not be offered or sold within the United States. The Securities are being offered and sold outside the United States in reliance on Regulation S. The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States. For a description of these and certain further restrictions, see "*Subscription and Sale*" and "*Transfer Restrictions*".

The Securities will initially be represented by beneficial interests in an unrestricted global certificate (the **Global Certificate**) in registered form, without interest coupons attached, which will be registered in the name of a nominee for and will be deposited with a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, S.A (**Clearstream, Luxembourg**) on or about 31 May 2017 (the **Closing Date**). Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their account holders. Definitive certificates in respect of beneficial interests in the Global Certificate, the (**Definitive Certificates**) will not be issued except as described under "*Summary of the Provisions relating to the Notes in Global Form*".

Joint Global Coordinators

J.P. Morgan **Renaissance Capital**

Joint Lead Managers and Joint Bookrunners

Alfa Capital Markets **Gazprombank** **J.P. Morgan** **Renaissance Capital** **Société Générale Corporate & Investment Banking** **VTB Capital**

Prospectus dated 30 May 2017

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Guarantor, and the Guarantor's consolidated direct and indirect subsidiaries and affiliates (including the Issuer) taken as a whole (the **Group**) and the Securities, which, according to the particular nature of the Issuer, the Guarantor, the Group and the Securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Guarantor and the Group, and the rights attaching to the Securities. The Issuer and the Guarantor each accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is true and accurate in all material respects and is in accordance with the facts and does not omit anything likely to affect the import of such information or which would make misleading any statement in this Prospectus, whether of facts or opinion.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor, the Trustee or any Joint Lead Manager. The information contained in the Prospectus is current as of the date hereof. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the Condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Prospectus.

No representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by any Joint Lead Manager or the Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Securities. Each person receiving this Prospectus acknowledges that such person has not relied on any Joint Lead Manager or the Trustee in connection with its investigation of the accuracy of such information or its investment decision and each person must rely on its own examination of the Issuer, the Guarantor and the Group and the merits and risks involved in investing in the Securities. To the fullest extent permitted by law, none of the Joint Lead Managers or the Trustee accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Issuer, the Guarantor, the Group or the Securities. The Joint Lead Managers and the Trustee accordingly disclaim all and any liability whether arising in tort, contract or otherwise which any of them might otherwise have in respect of this Prospectus or any such statement.

The Issuer reserves the right to withdraw this offering of Securities at any time, and the Issuer and the Joint Lead Managers reserve the right to reject any commitment to subscribe for the Securities in the whole or in part and to allot an investor less than the full amount subscribed by it.

For a more complete description of restrictions on offers, sales and transfers, see "*Subscription and Sale*" and "*Transfer Restrictions*".

This Prospectus does not constitute an offer to sell or an invitation to subscribe for or purchase, by or on behalf of the Issuer, the Guarantor, any Joint Lead Manager, the Trustee or any other person, any of the Securities in any jurisdiction in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offer and sale of the Securities in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus or any of the Securities are delivered are required to inform themselves about and to observe any such restrictions. Each prospective purchaser of the Securities must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Securities or possesses or distributes this Prospectus. In addition, each prospective purchaser must obtain any consent, approval or permission required under the regulations in force in any jurisdiction to which it is subject or in which it purchases, offers or sells the Securities. Neither the Issuer nor the Guarantor shall have any responsibility for obtaining such consent, approval or permission. In particular there are restrictions on the distribution of this Prospectus and the offer or sale of Securities in the United States, the United Kingdom, Ireland and the Russian Federation. For a description of these further restrictions on offers and sales of the Securities and distribution of this Prospectus, see "*Subscription and Sale*".

Any investment in Securities does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the CBI. The Issuer and the Guarantor are not and will not be regulated by the CBI as a result of issuing the Securities.

The Prospectus as approved by the CBI will be filed with the Irish Companies Registration Office in accordance with Regulation 38(1)(b) of Prospectus (Directive 2003/71/EC) Regulations 2005.

NO INCORPORATION OF WEBSITES

The contents of the websites of the Issuer, the Guarantor or any other member of the Group do not form any part of this Prospectus.

STABILISATION

In connection with the issue of the Notes, J.P. Morgan Securities plc (the **Stabilisation Manager**) (or persons acting on behalf of the Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

NOTICE TO RUSSIAN INVESTORS

This Prospectus or information contained therein is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in the Russian Federation to or for the benefit of any Russian person or entity, and does not constitute an advertisement of offering of any securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law no. 39-FZ "On the securities market" dated 22 April 1996, as amended (**Russian QIs**) and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law.

SUITABILITY OF INVESTMENT

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in the Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are forward-looking statements. Forward-looking statements appear in various locations, including, without limitation, under the headings "*Overview*", "*Risk Factors*", "*Operating and Financial Review*" and "*Business*". The Company or the Guarantor may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning the Group's plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, its competitive strengths and weaknesses, its business strategy and the trends the Company or the Guarantor anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information.

Words such as "believes", "anticipates", "estimates", "expects", "intends", "predicts", "projects", "could", "may", "will", "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "*Risk Factors*", as well as those included elsewhere in this Prospectus. Each prospective investor should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

This list of factors is not exhaustive. Some of these factors are discussed in greater detail in this Prospectus, in particular, but not limited to, discussion in "*Risk Factors*". When relying on forward-looking statements, each prospective investor should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, neither the Company nor the Guarantor undertakes any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, unless required to do so by applicable law. Neither the Company nor the Guarantor makes any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

This Prospectus contains:

- the audited consolidated financial statements of the Group as of and for the year ended 31 December 2016 (the **2016 Consolidated Financial Statements**), which include as comparative financial information the audited consolidated financial information of the Group as of and for the year ended 31 December 2015;

- the audited consolidated financial statements of the Group as of and for the year ended 31 December 2015 (together with the 2016 Consolidated Financial Statements, the **Annual Consolidated Financial Statements**), which include as comparative financial information the audited consolidated financial information of the Group as of and for the year ended 31 December 2014;

- the audited consolidated financial statements of the Issuer and its subsidiaries (the **GTLKE Group**) as of and for the year ended 31 December 2016 (the **2016 GTLKE Group Financial Statements**), which include as comparative financial information the audited consolidated financial information of the GTLKE Group as of and for the year ended 31 December 2015;

- the audited consolidated financial statements of the GTLKE Group as of and for the year ended 31 December 2015 (together with the 2016 GTLKE Group Financial Statements, the **GTLKE Group Financial Statements** and the Annual Consolidated Financial Statements and the GTLKE Group Financial Statements together referred to as the **Financial Statements**), which include as comparative financial information the audited consolidated financial information of the GTLKE Group as of and for the year ended 31 December 2014.

The Annual Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards.

The GTLKE Group Financial Statements were prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the EU and as issued by the International Accounting Standards Board (**IASB**).

The underlying financial information stated in local currency has been translated into US dollars on the basis set out in "*Currencies and Exchange Rates*" below.

General Information

In this Prospectus, references to:

- the **Company** or the **Issuer** are to GTLK Europe DAC;
- the **Guarantor** are to Public Joint Stock Company "State transport leasing company"; and
- the **Group** are to the Guarantor together with its consolidated direct and indirect subsidiaries and affiliates (including the Issuer).

In this Prospectus, all references to:

- **Russia** are to the Russian Federation;
- **U.S.** or the **United States** are to the United States of America;
- **United Kingdom** are to the United Kingdom of Great Britain and Northern Ireland;
- **EU** or the **European Union** are to the union formed following ratification of the Maastricht Treaty and currently comprising 28 states; and
- **Europe** are to the geographical region of Europe, including those states which are members of the European Union.

Definitions of certain terminology associated with the Group's business are set forth under "*Glossary of Terms*".

Currencies and Exchange Rates

In this Prospectus, references to **US dollars** or **USD** are to the lawful currency of the United States, references to **Roubles** or **RUB** are to the lawful currency of the Russian Federation and references to **euro** or **EUR** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the Rouble and the US dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation (the **CBR**).

	Roubles per US dollar			
For the period	**High**	**Low**	**Average(1)**	**Period end**
Year ended 31 December 2015	72.88	49.17	60.96	72.88
Year ended 31 December 2016	83.59	60.27	67.19	60.66

Note:

1. The average of the exchange rate for the relevant period, based on the rates in such period for each Russian business day (quoted by the CBR for that day) and each Russian non-business day (which is equal to the rate quoted by the CBR for the preceding Russian business day). It should be noted that the methodology for calculating average rates for a period for the purposes of the Financial Statements is different than the methodology used in this table.

	Roubles per US dollar	
For each month from January 2017 to April 2017	**High**	**Low**
January 2017	60.32	59.15
February 2017	60.31	56.77
March 2017	59.22	56.38
April 2017	57.39	55.85

The exchange rate between the Rouble and the US dollar on 17 May 2017 was 56.26 Roubles per USD 1.00.

No representation is made that amounts presented in a particular currency in this Prospectus could have been converted into such currency at any particular rate or at all. A market exists for the conversion of roubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the rouble. Fluctuations in the exchange rate between the Rouble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of certain information in this Prospectus.

Rounding

Certain amounts that appear in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Reproduction of Information

This Prospectus includes (i) in "*Industry Overview*" and elsewhere, market data that the Company and the Guarantor have obtained from, and attributed to, the Expert Rating Agency **(RAEX)** or such other sources as are indicated therein, and (ii) Russian macroeconomic data obtained from information published by the CBR. The Company and the Guarantor accept responsibility for having correctly reproduced such information, and, as far as the Company and the Guarantor are aware and have been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Other market share information and other statements in this Prospectus regarding the industry in which the Group operates and the position of the Group relative to its competitors are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect the reasonable estimates of the Company and the Guarantor based upon information obtained from trade and business organisations and associations, other contacts within the industry in which the Group operates and from annual reports and information published by other companies operating in the industry in which the Group operates. This information from the internal estimates and surveys of the Group has not been verified by any independent sources.

ENFORCEABILITY OF JUDGMENTS

The Company is incorporated as a designated activity company limited by shares under the laws of Ireland. The Guarantor is a public joint stock company incorporated under the laws of the Russian Federation. Substantially all of the Company's and the Guarantor's assets are located outside the United Kingdom, and may be located outside other jurisdictions in which investors may be located. In addition, most of the Directors and members of the Company's and the Guarantor's senior management are nationals or residents of jurisdictions other than the United Kingdom, and may not be nationals or residents of other jurisdictions in which investors may be located, and all or a substantial portion of their assets are located outside the United Kingdom, and may be located outside other jurisdictions in which investors may be located. In particular, substantially all of the Guarantor's operating assets are located in the Russian Federation, and several of the Directors and members of the Company's and the Guarantor's senior management are nationals or residents of the Russian Federation and all or a substantial portion of their assets are located in the Russian Federation.

It may be difficult for the Noteholders or the Trustee to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English laws. Courts in the Russian Federation will generally recognise judgments rendered by a court in any jurisdiction outside the Russian Federation only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the jurisdiction where the judgment is rendered or a federal law is adopted in the Russian Federation providing for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions, including the United Kingdom, and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation. As a result, new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against the Company or its officers or directors or the Guarantor or its officers or directors. These limitations, as well as the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgments or deprive the Company, the Guarantor and/or the Noteholders of effective legal recourse for claims related to the investment in the Notes.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognised by a Russian court on the basis of reciprocity, if courts of the jurisdiction where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. However, we are also aware of some instances in which Russian courts have recognised and enforced foreign court judgments (including a judgment of an English court), on the basis of the principle of reciprocity and (in case of enforcement of an English court judgment) the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

Accordingly, it may be difficult or impossible for investors to:

- effect service of process within the United Kingdom or other jurisdictions in which investors may be located, on certain Directors or members of the Company's or the Guarantor's senior management;

- enforce judgements obtained in courts in the United Kingdom or other jurisdictions in which investors may be located, against the Company's or the Guarantor's assets, against certain Directors or members of the Company's or the Guarantor's senior management; or

- enforce, in original actions brought in courts in the Russian Federation, liabilities predicated upon the civil liability provisions of the laws of the United Kingdom or the laws of other jurisdictions in which investors may be located.

The above limitations may deprive investors of effective legal recourse for claims related to an investment in the Notes.

Prospective investors should read the entire document and, in particular, the section headed "*Risk Factors*" when considering an investment in the Notes.

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OVERVIEW OF THE GROUP

This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Prospectus, including the more detailed information regarding the Group's business and the financial statements and related notes included elsewhere in this Prospectus. Prospective purchasers of the Notes should also carefully consider the information set forth under the heading "Risk Factors". Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".

OVERVIEW

Public Joint Stock Company "State transport leasing company", a company incorporated under the laws of the Russian Federation, is a leading Russian transportation and equipment leasing company with its head office in Moscow and three regional subdivisions in Omsk, St. Petersburg and Grozny. STLC's registered office is at Office 100, Bld. 73, ul. Respubliki, Salekhard, Yamalo-Nenetsky Avtonomny Okrug, Russian Federation, 629008. It is wholly owned by the Russian Federation and controlled by it through the Ministry of Transport of the Russian Federation. As of 4 February 2009, the Ministry of Transport of the Russian Federation was appointed to execute shareholder rights under Government Decree No. 93. The Ministry of Transport of the Russian Federation also has representation on the Board of Directors of STLC.

The Group provides commercial and non-commercial finance and operating leasing services to both Russian and international private and state-owned enterprises. Its principal customers include: PJSC "Aeroflot", JSC "Yamal Airlines", "Rossiya Airlines" JSC, JSC "Aurora Airlines", "KrasAvia" and Yakutia Airlines in aviation leasing; Rail Garant Group, TGK (EURACORE Group), Vostok1520 (Industrial Investors Group) and PJSC "Central exurban passenger company" (a subsidiary of Russian Railways) in railroad leasing; and BF Tanker, Avonburg Finance and UCLH in maritime leasing. Such leases are principally provided for the leasing of transportation assets in the aviation, maritime and rail sectors, as well as large and high-tech equipment in the transportation infrastructure sector. The Group is currently involved in implementing or developing six key government programmes: (i) the development of operating leasing of Sukhoi Superjet 100 aircraft; (ii) regional programmes to improve energy efficiency in the transportation sector; (iii) financial leasing of passenger rolling stock for local commuter services; (iv) a programme for the development of water transport leasing and ferry services; (v) a programme to support the national helicopter industry; and (vi) a programme for the development of regional small aircraft.

STLC established GTLK Europe Limited, a wholly owned subsidiary incorporated in Ireland, in 2012 in order to facilitate aviation and maritime leasing. In September 2016, GTLK Europe Limited was re-registered pursuant to the Companies Act 2014, as amended (the **Companies Act**) as a "designated activity company limited by shares" (or "DAC limited by shares") under the name GTLK Europe DAC and therefore has the status of a private company limited by shares registered under the Companies Act. GTLK Europe DAC accounts for 29.5 per cent of the Group's total assets as at 31 December 2016 and accounts for 53.7 per cent of the Group's revenues in 2016. GTLKE's main business is further described below (see "*Business – Business*").

The Group is a key player in many of the leasing sectors in Russia in which it operates. For example, according to RAEX, it was the leader of the operating leasing segment in Russia ranking first by volume of new operating leases in 2015 and the Group was the market leader in both aviation and maritime leasing segments in Russia as at 31 December 2015. RAEX ranked the Group as the largest leasing company by volume of new business transactions and the fourth largest by size of leasing portfolio in the Russian Federation as at 31 December 2016.

As at 31 December 2016, the Group had RUB 232,096,904 thousand in total assets (as compared to RUB 185,203,057 thousand as at 31 December 2015); RUB 174,211,887 thousand in total liabilities (as compared to RUB 139,776,355 thousand as at 31 December 2015), RUB 57,885,017 thousand in total equity (as compared to RUB 45,426,702 thousand as at 31 December 2015) and an aggregate lease portfolio of RUB 160,691,310 thousand gross of impairment allowance (as compared to RUB 129,496,968 thousand as at 31 December 2015).

For the year ended 31 December 2016, the Group generated total interest income, being the sum of finance lease interest income and other interest income, of RUB 9,000,016 thousand (as compared to RUB 9,522,671 thousand for the year ended 31 December 2015); interest expense of RUB 13,809,372 thousand as compared to RUB 10,130,745 thousand for the year ended 31 December 2015; non-interest income, being income from operating leases and other operating income, of RUB 13,616,779 thousand (as compared to RUB 8,373,429 thousand for the year ended 31 December 2015); and operating lease expenses of RUB 1,217,758 thousand as compared to RUB 0 for the year ended 31 December 2015. Profit for the year amounted to RUB 205,210 thousand (as compared to RUB 38,906 thousand for the year ended 31 December 2015).

STRATEGY

As a state-owned company, the Group's strategy is influenced by the Ministry of Transport of the Russian Federation and subject to approval by the Prime Minister and Cabinet of Ministers and STLC's strategy is therefore based on its function as a tool for implementing government policy, primarily through STLC's non-commercial leasing programmes to support modernisation in the transport sector and the implementation of anti-crisis measures to support the Russian economy. STLC's strategy for both its commercial and non-commercial operations is as follows:

- implementation of government support of the transportation sector: STLC acts as an agent under several state programmes aimed at the development of the transport sector in the Russian Federation. These include: (i) the development of operating leasing of Sukhoi Superjet 100 aircraft (described in further detail in the next bullet point below); (ii) regional programmes to improve energy efficiency in the transportation sector; (iii) a programme for the development of water transport leasing and ferry services; (iv) a programme to support the national helicopter industry; and (v) a programme for the development of regional small aircraft;

- promotion of Sukhoi Superjet 100 aircraft through the implementation of a large-scale operational lease programme, which is co-financed by the Russian Federation. STLC received two capital contributions of RUB 30,000,000 thousand in 2015 and RUB 4,000,000 thousand in 2016 under this programme, and a further capital injection of RUB 30,000,000 thousand may be contributed in the course of 2017 and 2018;

- attracting non budget financing for the development of the transportation sector: STLC's programmes are developed on a co-financing principle and promote private investments in projects in the transportation sector, backed by governmental support in the form of direct funding which is the most attractive to investors. STLC is also a member of the Russia-China commission on cooperation in the transportation sector, where STLC presents potentially attractive projects to foreign investors and raises international funding for the transportation sector from a broader range of international financial institutions; and

- support of the transport machinery sector in Russia: programmes being implemented by STLC create and enhance demand for Russian transport machinery helping to implement the government's objective of reducing reliance on imports.

Pursuant to the above strategies, the Group intends to consolidate its strong position in the Russian domestic leasing market by:

- further diversifying and expanding its lease portfolio by increasing the volume of lease transactions entered into in the transportation, machinery and industrial equipment sectors (mainly transport infrastructure projects) in order to ensure that the Group is not overly dependent on any one sector, or related sectors, or on a particular client or group of clients, for the continued growth and success of its business;

- continuing to focus on aviation leasing both through the leasing of internationally manufactured aircraft and the Sukhoi Superjet 100 programme. Aviation leases made up 52.3 per cent of the Group's aggregate lease portfolio (gross of impairment allowance) as at 31 December 2016, compared to 59.9 per cent as at 31 December 2015. The decrease in the share of aviation leases of the Group's aggregate lease portfolio (gross of impairment allowance) was largely attributable to the appreciation of the Rouble in 2016 as a significant part of the Group's aviation leasing utilises the US dollar as its functional currency. See "*Business – Business*" for more detailed information on GTLKE leasing operations. The overall dynamics in the segment principally reflect the need for many Russian airlines to modernise their fleets and the desire of the Russian federation to support this and, in particular, to develop the Sukhoi Superjet 100 and the ongoing operations of the Group in the international aviation leasing market;

- increasing the Group's rail and maritime lease portfolio in absolute terms, although their respective shares of the total portfolio is expected to remain substantially unchanged due to the Group's continued focus on aviation operating leases, both through the leasing of internationally manufactured aircraft and the Sukhoi Superjet 100 programme; and

- diversifying its sources of funding and attracting extra-budgetary investment into the development of the transport infrastructure industry by increasing its exposure to the domestic and international capital markets, including through the issue of debt securities such as the Notes, and borrowing from a range of domestic and international banks.

Although STLC's strategy is aligned with the Russian Federation's and the Ministry of Transport's priorities, any such goals do not override STLC's general corporate aims, including the generation of profit and focus on commercial projects. Although higher return levels are not a key priority point for STLC's shareholder, management believes that it is crucial to, and is therefore focused on, maintaining profitable operations. STLC's management also focuses on maintaining the financial stability of STLC while realising its aims as an agent of the Russian Federation. STLC's operations are currently primarily commercial. Its non-commercial operations, as at the date of this Prospectus, consist of (i) the Sukhoi Superjet 100 programme; (ii) a regional programmes to improve energy efficiency in the transportation sector; (iii) a programme for the development of water transport leasing and ferry services; (iv) a programme to support the national helicopter industry; and (v) a programme for the development of regional small aircraft. The latter two programmes are expected to commence later in 2017.

COMPETITIVE STRENGTHS

The Group believes that it enjoys the following key competitive strengths that it believes will enable it to meet its strategic objectives:

- The Group's ownership, support, market recognition and client base: the Group is owned by the Russian Federation and controlled by the Ministry of Transport with input from the Ministry of Industry and Trade. This provides the Group with important management, advisory, financial and staffing support from the Ministry and allows it to benefit strongly from its association with the State, and to provide additional credibility in its implementation of the Russian government's policies for the support of domestic business and the development of the Russian economy and financial system. The Group also benefits from capital support from the State, for example benefiting from a series of capital increases of approximately RUB 49,336,130 thousand in aggregate in 2015-2017 under various state development programmes (see below).

- Leading market position: the Group enjoys a leading position in the Russian leasing market, which the Group believes it can leverage to further grow and develop its business and expand into new leasing markets. The Group enjoys a strong relationship with its key customers being PJSC "Aeroflot", JSC "Yamal Airlines", "Rossiya Airlines" JSC, JSC "Aurora Airlines", "KrasAvia" and Yakutia Airlines in aviation leasing; Rail Garant Group, TGK (EURACORE Group), Vostok1520 (Industrial Investors Group) and PJSC "Central exurban passenger company" (a subsidiary of Russian Railways) in railroad leasing; and BF Tanker, Avonburg Finance and UCLH in maritime leasing which will be increasingly important drivers of the business as the Group focuses on these three key sectors.

- Diversified leasing portfolio with stable credit quality: the Group's leasing portfolio is well diversified across key business segments and asset classes.

- Access to funding: the Group operates in a capital-intensive industry and, accordingly, ease of access to funding is a key strength for its continued growth. The Group has been able to attract competitive funding from third-party domestic and international banks and in the domestic capital markets, which has allowed it to diversify its funding base (see "*Selected Financial Review – Funding"*). The government support means the Group has strong financing potential and has been able to enjoy a relatively stable cost of funding despite difficult market conditions. From January 2015 to March 2017, the Russian Government made a series of contributions to STLC's charter capital in the amount of RUB 49,336,130 thousand in aggregate. According to the Action Plan of the Russian Government aimed at sustainable social and economic development of the Russian Federation in 2016 approved on 1 March 2016, the Russian Federation approved an additional increase in STLC's charter capital of RUB 30,000,000 thousand aimed at the further development of the Sukhoi Superjet 100 programme. This charter capital increase may be contributed over the course of 2017 and 2018. The federal budget of the Russian Federation for 2017 and for the projected period of 2018 and 2019 (Federal Law N 415-FZ dated 19 December 2016) also makes provisions for additional capital injections in the charter capital of STLC aimed at the support of sales of IL-96-400M aircraft. Amounts of up to RUB 4,000,000 thousand and RUB 10,000,000 thousand may be contributed in 2017 and 2018 respectively, subject to dividends paid by JSC "Rosneftegaz" in the federal budget exceeding RUB 136,055,281.6 thousand.

- Strong and experienced senior management: each member of the senior management team of the Group has extensive experience in leasing, banking and finance. Since the Group's establishment, the senior management team has guided STLC through a period of growth and diversification, has dealt with the challenges of the global financial crisis, and has the experience to continue to implement STLC's strategic objectives and strong segment expertise in aviation, railcars and maritime leasing.

- Experience in executing complex leasing transactions: through the experience of STLC's senior management team, and its key employees, together with its experience in executing complex transactions (gained largely as a result of its participation in large-scale infrastructure projects, and equipment acquisitions for large rail companies and airlines), STLC has offered and continues to be in a position to offer its customers a service tailored to their individual leasing requirements.

RISK FACTORS

An investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment decision with respect to the Notes, see ‘‘*Risk Factors*’’

OVERVIEW OF THE OFFERING

The following is an overview of the terms of the Securities. This overview is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. In particular, this overview is derived from, and should be read in conjunction with, the full text of the Terms and Conditions of the Notes (the ***Conditions****) and the Trust Deed constituting the Notes, which prevail to the extent of any inconsistency with the terms set out in this overview. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the relevant Conditions.*

Notes being offered	USD 500,000,000 5.125 per cent guaranteed notes due 2024
Issuer	GTLK Europe DAC
Guarantor	Public Joint Stock Company "State transport leasing company"
Joint Global Coordinators	J.P. Morgan Securities plc and Renaissance Securities (Cyprus) Limited
Joint Lead Managers and Joint Bookrunners	Alfa Capital Holdings (Cyprus) Limited, Bank GPB International S.A (Gazprombank Group), J.P. Morgan Securities plc, Renaissance Securities (Cyprus) Limited, Société Générale and VTB Capital plc
Issue price	100 per cent
Maturity date	31 May 2024
Interest	The Notes will bear interest at the rate of 5.125 per cent per annum from and including the Issue Date.
Interest payment dates	Interest on the Notes will be payable semi-annually in arrear on 31 May and 30 November of each year starting on 30 November 2017.
Ranking of the Notes and the Guarantee	The Notes will constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Issuer and shall at all times rank *pari passu* and rateably without any preference among themselves. The Guarantee will constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Guarantor. Each of the Issuer and the Guarantor shall ensure that at all times the claims of the holders of the Notes against them under the Notes and the Guarantee, respectively, rank in right of payment at least *pari passu* with the claims of all of their other present and future unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law.
Use of proceeds	The Company intends to use the net proceeds of the Notes for the general corporate purposes of the Group, including the refinancing of the Company's existing indebtedness.

Further issues	The Issuer may from time to time, without the consent of the holders of the Notes, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects save for the first payment of interest thereon) so that such further issue shall be consolidated and form a single series with the outstanding Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from a guarantee substantially in the form of the Guarantee. See "*Terms and Conditions of the Notes* ".
Additional amounts	In the event that withholding taxes imposed in any Relevant Jurisdiction (as defined in Condition 20) are required to be withheld or deducted from payments on any of the Notes, the Issuer or the Guarantor under the Guarantee will, subject to certain exceptions described in this Prospectus, pay such additional amounts so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required. See "*Terms and Conditions of the Notes*".
Redemption for tax reasons	The Notes may be redeemed early at the option of the Issuer, in whole but not in part, at any time at 100 per cent of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any, to the date fixed for such early redemption if certain events occur that would require the Issuer to pay additional amounts, as described under "*Terms and Conditions of the Notes*".
Redemption for Change of Control	Upon the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes) the Notes may be redeemed at the option of a Noteholder at 100 per cent of their principal amount together with accrued, but unpaid, interest (if any). *See "Terms and Conditions of the Notes – Redemption and Purchase – Redemption on a Change of Control".*
Form and denomination	The Notes will be in registered form, without interest coupons attached, in denominations of USD 200,000 or multiples of USD 1,000 in excess thereof. The Notes will be issued in the form of the Global Certificate, in registered form without interest coupons. The Global Certificate will be deposited with and registered in the name of a nominee for The Bank of New York Mellon, London Branch, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.
Listing and Trading	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.
Events of Default and certain	The terms and conditions of the Notes contain events of default and

covenants	covenants (including a cross acceleration provision and a negative pledge) as described further in "*Terms and Conditions of the Notes* ".
Trustee	BNY Mellon Corporate Trustee Services Limited
Principal Paying Agent and Transfer Agent	The Bank of New York Mellon, London Branch
Registrar	The Bank of New York Mellon SA/NV, Luxembourg Branch
Governing law	The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection therewith shall be governed by and construed in accordance with English law.
Risk factors	Prospective purchasers of the Notes should consider carefully all of the information set forth in this Prospectus and, in particular, the information set forth under "*Risk Factors*" below before making an investment in the Notes.
Selling restrictions	The Notes are subject to selling restrictions in the United States, the United Kingdom, Ireland and the Russian Federation. See "*Subscription and Sale*".
Security Codes	ISIN: XS1577961516 Common Code: 157796151
Expected Rating of the Notes	Ba3 Moody's, BB Fitch A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, Moody's and Fitch are established in the European Union, are registered under the CRA Regulation and are listed in the list of rating agencies available on the European Securities and Markets Association website. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

RISK FACTORS

An investment in the Notes involves a high degree of risk. Investors should carefully consider the following information about these risks, together with the information contained in this Prospectus, before they decide to buy the Notes. The actual occurrence of any of the following risks could adversely affect the Group's operating results and financial condition. In that case, the value of the Notes could also decline and investors could lose all or part of their investment.

The risks and uncertainties discussed below are those that the Group believes are material, but these risks and uncertainties may not be the only ones that the Group faces. Additional risks and uncertainties, including those of which the Group's management is not currently aware or deems immaterial, may also have an adverse effect on the Group's operating results and financial condition or result in other events that could lead to a decline in the value of the Notes.

Terms used in this section and not otherwise defined shall have the meanings given to them in "Terms and Conditions of the Notes".

RISKS RELATING TO THE GROUP'S BUSINESS AND INDUSTRY

The Group's business and financial performance is dependent upon economic conditions in Russia

A substantial part of the Group's revenue is derived from operations in Russia. As a result, the Group's financial condition and results of operations are substantially affected by the macroeconomic and microeconomic conditions of the Russian economy. Deteriorating economic conditions in the markets where the Group operates tend to decrease new business and leasing volumes and reduce the appetite of the Group's customers to transact business in these markets. See also "*– Risks Relating to the Russian Federation*".

The Russian economy is to a significant degree, dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials.

Russia has experienced deteriorating economic performance in recent years, particularly since early 2014. Gross domestic product (**GDP**) growth in real terms fell from 3.4 per cent in 2012 to 1.3 per cent in 2013 and to 0.6 per cent in 2014, and contracted by 2.8 per cent in 2015 and by 0.2 per cent in 2016, according to RosStat. Inflation grew from 6.5 per cent in 2013 to 11.4 per cent in 2014, reached 12.9 per cent in 2015 and declined to 5.4 per cent in 2016. The Rouble depreciated by 71.9 per cent from RUB 32.73 per USD 1.00 as of 31 December 2013 to RUB 56.26 per USD 1.00 as of 31 December 2014). In 2015, the RUB / USD exchange rate has fluctuated significantly, ranging from RUB 49.18 per USD 1.00 to RUB 72.88 per USD 1.00. In 2016, the RUB / USD exchange rate experienced some stabilisation but remained volatile at certain times, and amounted to RUB 57.12 per USD 1.00 on 12 May 2017. The significant deterioration in these and other leading economic indicators was the result of a combination of macroeconomic and geopolitical factors, including:

- the price of Brent crude oil decreased from USD 110.59 per barrel on 31 December 2013 to USD 55.27 per barrel on 31 December 2014 and continued to decrease to USD 37.28 per barrel on 31 December 2015 though subsequently increased to USD 57.49 per barrel on 31 December 2016;

- economic sanctions which the United States and the EU (as well as other nations, such as Australia, Canada, Japan and Switzerland) imposed against Russian individuals and legal entities in connection with Crimea's accession to the Russian Federation and the armed conflict in Eastern Ukraine. These sanctions have significantly interrupted international business relationships and seriously reduced the ability of Russian companies to access the international capital markets. The escalation of the armed conflict in Eastern Ukraine between the Ukrainian army and local militia, particularly in 2014 and early 2015, destabilised the region and put further pressure on international relations between Russia and Western countries, including the United States and the EU, and has also led to the expansion of sanction programmes in respect of Russian legal entities and individuals;

- economic restrictions which Russia imposed on the United States and the EU as well as certain other countries in August 2014 with respect to the import of certain agricultural products, significantly impacting the Russian consumer's ability to purchase food stuffs and contributing to the increase in inflation;

- net capital outflows amounted to USD 57.5 billion in 2015 and USD 15.4 billion in 2016, according to the CBR as investments decreased and Russian and non-Russian investors sought out other geographies in which to hold capital and make investments; and

- a decrease in Russia's international reserves from USD 509 billion on 31 December 2013 to USD 376 billion on 30 December 2016, according to the CBR, as significant resources were spent in an effort to support the value of the Rouble along with other government initiatives to bolster the economy and support the Russian banking sector.

The World Bank's latest economic outlook for Russia for 2017-2018 projected real GDP to increase by 1.5 per cent in 2017 and by 1.7 per cent in 2018 (this projection assumed an average oil price of USD 55.2 and USD 59.9 per barrel in 2017 and 2018 respectively).

On 1 March 2016, the government of the Russian Federation (the **Russian Government**) approved a one-year anti-crisis plan in the amount of approximately RUB 689.1 billion, which included, among other things, an increase of the charter capital of STLC in connection with the further development of the Sukhoi Superjet 100 programme, other measures aimed at recapitalising STLC, Russian banks and supporting industrial sectors, import substitution measures and support for small businesses. This additional charter capital may be contributed over the course of 2017 and 2018.

In response to high inflation and a depreciating Rouble, the CBR progressively increased its key interest rate from 5.5 per cent to 7.0 per cent in March 2014, to 7.5 per cent in April 2014, to 8.0 per cent in July 2014, to 9.5 per cent in October 2014, to 10.5 per cent and subsequently to 17.0 per cent in December 2014. As a result of the unexpected and significant increase in the CBR's key interest rate in December 2014 as well as the overall decline in the Russian economy, the domestic financial and banking markets have experienced and continue to experience substantial volatility and periodic shortages of liquidity persist in the domestic money market. In particular, in December 2014 the Russian interbank lending rates soared to levels comparable with the levels in early 2009 during the global economic crisis. The key interest rate was reduced from 17.0 per cent to 15.0 per cent in February 2015, to 14.0 per cent in March 2015, to 12.5 per cent in May 2015, to 11.5 per cent in June 2015, to 11.0 per cent in August 2015, to 10.5 per cent in June 2016, and subsequently to 10.0 per cent in September 2016. The CBR further reduced the key interest rate to 9.75 per cent in March 2017 and to 9.25 per cent in April 2017. No assurance can be given that the key interest rate will not be increased by the CBR again.

The credit rating of the Russian Federation was downgraded by each of Fitch, Moody's and S&P, primarily as a result of the negative impact on the Russian economy of the current political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities, which effects have been further aggravated by a significant decline in global oil prices as a result of Russia's heavy reliance on oil exports. In particular, in October 2014 Moody's downgraded the Russian Federation's sovereign rating to Baa2 with a negative outlook; in January 2015, Moody's downgraded the Russian Federation's sovereign credit rating to Baa3; in February 2015 Moody's further lowered Russian Federation's sovereign credit rating to Ba1; in March 2014, Fitch adjusted its sovereign rating outlook for the Russian Federation from "stable" to "negative"; in January 2015 Fitch downgraded the Russian Federation's long-term sovereign rating to BBB- with a negative outlook; in March 2014, S&P adjusted its sovereign rating outlook for the Russian Federation from "stable" to "negative"; in April 2014, S&P downgraded the Russian Federation's foreign currency long-term sovereign credit rating from BBB to BBB- (negative outlook); in January 2015, S&P further lowered the Russian Federation's foreign currency sovereign credit rating to BB+ and long-term local currency sovereign credit rating to BBB with a negative outlook. In March 2016, S&P affirmed Russia's long-term foreign currency rating at BB+ and long term local currency rating at BBB with a negative outlook. In April 2016, Fitch affirmed the Russian Federation's long-term foreign and local currency issuer default ratings at BBB- with a negative outlook; the issue ratings of Russia's senior unsecured foreign- and local-currency bonds were also affirmed at BBB-. In April 2016, Moody's confirmed Russia's Ba1 government bond and issuer ratings, concluding the review for downgrade that was initiated on 4 March 2016, and assigned a negative rating outlook. In October 2016, Fitch revised the outlook on Russia's Long-Term Foreign and Local Currency Issuer Default Ratings (**IDRs**) to "stable" from "negative" and affirmed them at BBB-. In February 2017, Moody's affirmed Russia's sovereign rating at Ba1 and revised its outlook to "stable" from "negative" due to the increase in oil prices to a level consistent with the Government's budget assumptions, the Russian Government's enactment of a medium-term fiscal consolidation strategy that is expected both to lower the government's dependence on oil and gas revenues and to permit the gradual replenishment of its savings buffers and Russia's economic recovery after a two-year-long recession. In September 2016, S&P revised Russia's sovereign credit outlook to "stable" from "negative" followed by an uplift to "positive" in March 2017 reflecting the expectation that Russia's GDP will increase, averaging about 1.7 per cent in 2017-2020 and the Russian economy will continue to adapt to relatively low oil prices. On 31 March 2017, Fitch affirmed Russia's Long-Term Foreign- and Local-Currency IDRs at BBB- with a "stable" outlook based on a strong sovereign balance sheet, robust external finances and an improved policy framework against weaker macroeconomic performance in relation to peers, structural weaknesses (commodity dependence and governance risks) and geopolitical tensions.

Non-compliance with OFAC, EU and other sanctions programmes, an expansion of these programmes or the Group's dealings with parties subject to sanctions could adversely impact the Group's business, financial condition, results of operations or prospects

In response to the perceived role of the Russian Federation in events in Ukraine and Crimea, the United States and the EU, as well as a number of other countries, have imposed sanctions on certain Russian and Ukrainian persons and entities.

Starting in March 2014, a number of former Ukrainian governmental officials, Russian governmental officials and individuals, several Russian businessmen, several Russian companies and banks, as well as several non-Russian companies holding assets in Russia, were designated as Specially Designated Nationals (**SDN**) by the U.S. Department of the Treasury Office of Foreign Assets Control (**OFAC**). The first designations were made pursuant to two executive orders (Nos.13660 and 13661) signed by the President of the United States on 6 and 16 March 2014, respectively, which targeted former Ukrainian officials and current Russian officials, as well as persons who operate in the arms or related sectors in the Russian Federation. The third executive order (No. 13662), signed by the President of the United States on 20 March 2014, significantly expanded the scope of the prior two executive orders by providing OFAC the authority to block the property of designated persons who operate in certain sectors of Russia's economy, including financial services, energy, metals and mining, engineering, defence and related sectors. Pursuant to these executive orders, OFAC may also block or designate persons that "have materially assisted, sponsored or provided financial, material or technological support for, or goods or services to or in support of" any targeted activity or any person who is blocked on designated thereunder. By operation of law, sanctions under these executive orders also extend to any entity 50 per cent or more owned by blocked or designated persons, either individually or in the aggregate, even if that entity has not been separately designated as a blocked entity.

As a result of these designations, it is unlawful for any U.S. person (meaning any U.S. citizen, permanent resident alien, entity organised under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States) to do business with an SDN. In addition, all property and assets of SDNs in the United States or under the possession or control of a U.S. person are subject to blocking. This blocking also extends to any property that later comes into the United States or into the possession or control of a U.S. person, including any foreign branches of U.S. persons.

In addition to identifying certain persons and entities as SDNs, the United States has imposed prohibitions on transactions by U.S. persons or within the United States with respect to transacting in, providing financing for, or otherwise dealing in debt with a maturity of longer than 30 days (initially 90 days) or equity issued on or after the specified date by, or on behalf of, or for the benefit of, the specified date. In July, August and September 2014, such limitations have been applied to a number of Russian state-controlled banks, including VTB Bank, Vnesheconombank, Sberbank, Rosselkhozbank and Gazprombank, and companies in the oil and gas sector, including Gazpromneft, Lukoil, Surgutneftegas and Rosneft.

With effect from 12 September 2014, the United States has prohibited the provision, exportation, or re-exportation, directly or indirectly, of goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation and that involve any named person in the Russian energy sector, its property, or its interests in property. Moreover, on 1 August 2014 and later on 12 September 2014, the United States announced further export restrictions targeting Russia generally and the Russian oil and gas sector as well as the Russian defence sector in particular. The named persons as of 12 September 2014 in the oil and gas sector include Gazprom, Gazpromneft, Lukoil, Surgutneftegas and Rosneft.

On 18 December 2014, the President of the United States signed into law a bill passed by the U.S. Congress which may extensively widen the scope of U.S. sanctions against Russian entities and persons. Among other things, the legislation authorises the President of the United States to impose significant additional sanctions on Russia’s energy and defence sectors and restrictions on using the U.S. banking system by non-U.S. financial institutions that knowingly facilitate significant financial transactions on behalf of any Russian SDNs. Furthermore, on 19 December 2014, the President of the United States issued Executive Order No.13685 that established a region-specific embargo under U.S. law for Crimea. Under this Executive Order, U.S. persons are prohibited from engaging in or facilitating: (i) new investment in Crimea, (ii) the direct or indirect import of goods, services or technology from Crimea to the United States, (iii) the direct or indirect export, re-export, sale or supply of any goods, services or technology to Crimea, and (iv) facilitating commerce by others with Crimea. The sanctions also apply to non-U.S. persons in respect of their dealings with U.S. persons or through the U.S. financial system.

In September and December 2016, pursuant to Executive Order No. 13685, OFAC expanded the SDN list by adding several Russian entities determined to operate in Crimea or to provide material, financial and technological support to the designated entities. Furthermore, in December 2016, the President of the United States amended Executive Order No. 13694, which authorised the imposition of sanctions on individuals and entities determined to be responsible for or complicit in malicious cyber-enabled activities that result in enumerated harms that are reasonably likely to result in, or have materially contributed to, a significant threat to the national security, foreign policy, or economic health or financial stability of the United States. Pursuant to the amended Executive Order No. 13694 four Russian individuals and five Russian entities (including the Federal Security Service (FSB) and Main Intelligence Directorate (GRU)) were added to the SDN list.

The Council of the EU introduced a similar list of persons that are subject to EU sanctions. The EU's sanctions generally have a similar effect to the U.S. sanctions and involve travel restrictions and the freezing of funds and economic resources of the designated persons located in the EU or controlled by EU persons, as well as export restrictions with respect to equipment and technology for Arctic, deepwater and shale oil projects, and the prohibition on provision of direct or indirect financing to the designated persons. The EU's sanctions are implemented in the member states of the EU, including Ireland.

In June 2014, the EU imposed a general ban on EU imports of goods originating in Crimea and Sevastopol, followed by trade and investment restrictions prohibiting certain new infrastructure investments, investments in the oil, gas and mineral resources industries in Crimea/Sevastopol and the provision of technical assistance or financial services in connection with such investments. Furthermore, in December 2014, the EU introduced a ban on investments in real estate and businesses in Crimea and Sevastopol, on the export of a wide range of goods and technology to Crimean companies or for use in Crimea, and on services related to tourism activities in Crimea and Sevastopol.

In July 2014, the EU imposed a ban on transactions with transferable securities and money market instruments with a maturity exceeding 90 days issued after 1 August 2014 by the largest Russian financial institutions including Sberbank, VTB Bank, Gazprombank, Vnesheconombank and Rosselkhozbank and their affiliates, subsequently lowering the threshold to 30 days for instruments issued after 12 September 2014. In September 2014, the EU imposed an additional ban on transactions in transferable securities and money market instruments with a maturity exceeding 30 days, issued after 12 September 2014 by six Russian defense and energy companies, including OPK Oboronprom, United Aircraft Corporation, Uralvagonzavod, Rosneft, Transneft and Gazprom Neft and their controlled affiliates outside the EU. Furthermore, the EU imposed a ban on the provision of new loans (either directly or indirectly) with a maturity exceeding 30 days to the aforementioned Russian entities and their affiliates after 12 September 2014.

In August–September 2014, the EU imposed restrictions on the transfer of certain technologies for the oil and gas industry in Russia and certain goods and services for deep-water, Arctic or shale oil projects in Russia.

In the course of 2016, the Council of the EU announced that sanctions against Russia will be extended to: (i) 31 July 2017 with respect to sectoral sanctions; (ii) 23 June 2017 with respect to the import, trade and investment restrictions affecting Crimea/Sevastopol; and (iii) 15 September 2017 with respect to individual asset freezes and travel restrictions.

None of the proceeds of the Notes will be used to fund activities or persons that are subject to OFAC or EU sanctions and the Group has no reason to believe that it may be specifically targeted by OFAC or EU sanctions. However, OFAC and EU sanctions that target Russian persons are relatively recent and the application of these sanctions remains subject to interpretations and implementation by various regulators and market participants which may deviate from the Group’s interpretations and application of those sanctions to itself and its counterparts. Additionally, the introduction of any large scale sanctions on the Group or further large scale sanctions on the Russian economy and its banking system may negatively affect its business. For example, the Group’s ability to use international settlement, clearing, payment and information exchange systems may be limited, The Group may be limited in its ability to or unable to: transact in US dollars or Euro with counterparties or raise funding in the international markets, particularly those involving investors from the United States and the EU. In such circumstances, while the Group would consider and, to the extent possible, take measures available to it to discharge its obligations under the Notes, the imposition of sanctions on the Russian financial services sector could negatively affect, among other things, the ability of Noteholders to receive payments under the Notes. Furthermore, should the Group become subject to OFAC or EU related sanctions, there may be significant restrictions or bans imposed on dealings with the Group which may also restrict or prohibit dealings with the Group or the Notes, including their sale, purchase or transfer, which could negatively affect the Noteholders. Any non-compliance with OFAC, EU and other sanctions programmes, could expose the Group to significant fines and penalties and to enforcement measures, which in turn could adversely impact its business, financial condition, results of operations or prospects.

Furthermore, should either OFAC or the Council of the EU expand their respective sanctions programmes to include the Group's existing or future clients, suppliers or other counterparties, a large sector of the Russian economy or otherwise, such an expansion could result in financial difficulties for such persons, The Group's dealings with designated persons could become material or the suspension or potential curtailment of business operations between the Group and the designated persons could occur. The introduction of such large scale sanctions on Russian companies or sectors of the Russian economy, including the Russian financial services sector, may further negatively affect the Russian economy and investment climate and lead to further deterioration of the Russian financial markets. Any of the foregoing could result in a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group currently operates a state-funded transport energy efficiency programme in Crimea

The Group is one of the leading providers of natural gas vehicles (**NGV**) and electric passenger transport leasing in Russia, and since 2012 has been implementing transport energy efficiency programmes in the Russian regions to renovate, expand and modernise the passenger transportation fleet, improve safety and efficiency, diminish environmental impact and develop NGV fuel infrastructure. In January 2015, the Russian Government provided financing (a RUB 4.94 billion increase of STLC's charter capital) aimed at implementing this programme in Crimea between 2015 and 2020 (the **Crimean Programme**). In accordance with the order of the Government of the Russian Federation, the Crimean Programme is to be implemented through direct leasing arrangements between STLC and Crimean transportation providers with contracts entered into on a preferential basis as compared to market interest rates.

The Group plans to further finance the project from the proceeds of RUB 4.9 billion expected to be generated by lease payments under the Crimean Programme (commencing 2017). The Group has no intention to raise non-budget financing in the form of bank loans in 2017 for the Crimean Programme. The Group recovers lease payments under the Crimean Programme by means of government guarantees and budgeted funds of territorial entities and/or state bodies of the Russian Federation which are intended to honour such lease payments (agreements under the Crimean Programme are approved by the Ministry of Transport of the Russian Federation). According to the terms and conditions of the Crimean Programme, the prescribed amount of equipment (i.e. passenger fleet) will be purchased only if 100 per cent of the lease payments are recovered by STLC. No additional sources of funding are stipulated in the Crimean Programme. No proceeds from the issuance of the Notes will be used for any purposes associated with the Crimean Programme.

The Crimean Programme represented approximately 2 per cent of the Group's total assets and 2.9 per cent of the gross aggregate lease portfolio (including gross investment in leases on contracts that have been signed but have not commenced) in 2016. The Group's management does not expect the share of leases under the Crimean Programme in the Group's gross aggregate lease portfolio (including gross investment in leases on contracts that have been signed but have not commence) to exceed 4.0 per cent during the life of the Crimean Programme. Contracts are entered into on a preferential basis set significantly below market rates and the CBR's key rate and the revenues generated by the Crimean Programme are therefore not expected to materially affect the Group's financial results.

The Group does not currently have, and is not planning to set up or acquire, any subsidiaries in Crimea and, save for the Crimean Programme, none of STLC or its subsidiaries is involved in any business activities in Crimea.

Certain operations in Crimea are subject to U.S. and EU sanctions, including investments in transport infrastructure in Crimea in the case of the EU. (See *Non-compliance with OFAC, EU and other sanctions programmes, an expansion of these programmes or the Group's dealings with parties subject to sanctions could adversely impact the Group's business, financial condition, results of operations or prospects*). The Group believes that any such operations of the Group under the Crimea Programme are not material, and none of the proceeds of the Notes will be used to fund any such operations in Crimea. However, the Group's operations in Crimea are not in full compliance with the current economic sanctions which the United States, the EU and other countries have imposed against Russian individuals and legal entities in connection with the events in Crimea, and no assurance can be given that such Crimea sanctions will not be expanded in the future. Any such non-compliance or expansion of the current sanctions regime with respect to Crimea may negatively impact the Group's business, financial condition, results of operations and prospects and may expose Noteholders to sanctioned entities.

The interests of the Group's shareholder may conflict with those of the Noteholders

The Group is wholly owned by the Russian Government and controlled through the Ministry of Transport of the Russian Federation. The Russian Government is therefore able to determine the outcome of all matters concerning the Group that may be decided by shareholders and can appoint and remove the Group's directors and management. Accordingly, the Russian Government could cause the Group to pursue transactions or to make large dividend payments or other distributions or payments to shareholders that are designed to implement the policy of the Russian Government rather than benefit the Group, even though such transactions may involve increased risk for the Group and, consequently, for the Noteholders. Historically, dividend payments by the Group have been equal to 25 per cent of STLC's net profit, based on statutory accounting records, which have been distributed in accordance with the Government's orders. In 2015 and 2014, the Group declared and paid RUB 34,979 thousand and RUB 79,258 thousand of dividends for the 2014 and 2015 financial years, respectively. In 2016, the Group distributed 100 per cent of STLC's net profit (less statutory reserves and the Audit Committee remuneration) for the 2015 financial year based on statutory accounting records as dividends in accordance with a decree of the Ministry of Transport. The Board of Directors approved this net profit distribution on 31 May 2016. RUB 35,064 thousand of dividends was declared at the General Shareholder's meeting held on 30 June 2016. STLC's statutory accounts for the 2016 financial year prepared on a stand-alone basis showed a net loss which exceeded retained earnings shown in such statutory accounting records, and Russian legislation does not allow any distribution of dividends in such circumstances. Therefore, no dividends are expected to be declared for the 2016 financial year.

The Group's operations are primarily commercial. Its non-commercial operations are, as at the date of this Prospectus, focused on the Sukhoi Superjet 100 programme and certain infrastructure (transport energy efficiency, maritime ferry lines operations, and regional air transportation projects) as further described in "*Business – Business*". Although the Group retains autonomy to determine day-to-day commercial matters, its overall strategy and, therefore, indirectly the focus of its lease portfolio is prescribed by the Russian Government. The Group's strategic priorities, and therefore its lease portfolio concentrations, may not necessarily reflect the priorities of the Group's competitors. For example, one of the Russian Government's aims has been the implementation of a large-scale transportation infrastructure investment programme to increase demand for domestic industry and attract private sector investment and thus to boost the economy and facilitate growth; the Group is the state's 'launching pad' for initiating such large-scale infrastructure projects and to attract private investment to the transport industry. The influence of the Russian Government is thus exercised through the adoption of further support programmes for the transportation infrastructure and equipment leasing sector. This may mean that the Group does not and will not focus primarily on profit and leases relating to Russian Government priorities may be offered below market rates. Certain of the projects the Group undertakes or finances, and to which the Group provides leasing, may not therefore be projects that other banks or leasing companies would consider commercially viable and may therefore involve increased risks for the Group in terms of both credit and net profit. The Russian Government may reduce such support programmes over time which would have an impact on the level of business and capital support of the Group. In addition, the Group enters into lease agreements with various state-owned bodies, which may originate from the fact that the Group is itself state-owned and may be on terms that may not be the same as the market may give on account of the above strategic priorities of the Group. All of these factors may mean that the Group may not make commercial returns on such activities which may affect its financial condition and results of operations.

The interests of the Group's management may, in some circumstances, conflict with the interests of Noteholders and any such conflict could have a material adverse effect on a Noteholder's investment in the Notes. In addition, any change in the Group's status, particularly in relation to the provision of funding by the Russian Government, or the referral of leasing transactions, or its ownership, or a failure by the Group to source alternative funding, or a shift in government policy towards the Group resulting in the loss of state-owned customers; together with the risks inherent in providing finance leasing in relation to development projects which may not be considered commercially viable, could have a material adverse effect on the Group's business, financial conditions and results of operations and the value of the Notes.

The Group and some of its customers would be adversely affected if it did not continue to receive capital support from the Russian Government

In terms of both funding and revenues, the Group has (and some of its customers, including Aeroflot, have) historically been, and continue to be, reliant on the Russian Government to a significant extent. The Russian Government is a significant source of the Group's funding and of funding and subsidies/grants for some of the Group's customers. In January 2015, STLC received a contribution from the Russian Government as its shareholder to the share capital in the amount of RUB 4,944,410 thousand. In October 2015, STLC received a further contribution from the Russian Government as its shareholder to the share capital in the amount of RUB 30,000,000 thousand. On 1 March 2016, the Russian Government approved a one-year anti-crisis plan worth approximately RUB 689.1 billion which included, among other things, an increase of the charter capital of STLC in connection with the further development of the Sukhoi Superjet 100 programme. This injection may be contributed over the course of 2017 and 2018. On 15 March 2017, the Government of the Russian Federation injected RUB 1,978,340 thousand in STLC's equity as part of the Federal Programme for the development of Russian transport system (2010-2020) which was the second tranche of an aggregate RUB 5,544,000 thousand federal budget investment to co-finance the construction of two new auto-railway ferries at the Vanino-Kholmsk line. The capital injection followed a series of equity investments from the Russian Government at the end of 2016 in the aggregate amount of RUB 12,413,380 thousand, including RUB 5,000,000 thousand to support regional aircraft leasing (SSJ-100 and LET L-410 aircraft), RUB 3,847,720 thousand to develop the operating lease of helicopters (Mi-8 and Ansat), and RUB 3,565,660 thousand which was the first tranche of the aforementioned federal budget investment to co-finance the construction of two new auto-railway ferries at the Vanino-Kholmsk line. The federal budget of the Russian Federation for 2017 and for the projected period of 2018 and 2019 (Federal Law N 415-FZ dated 19 December 2016) makes provisions for additional capital injections in the charter capital of STLC aimed at the support of sales of IL-96-400M aircraft in the total amount of up to RUB 14,000,000 thousand which may be received over the course of 2017 and 2018. However, the Russian Government is not providing any guarantees in connection with the Notes. As such, to date the Group has received substantial capital support of over RUB 59 billion from the Russian Government to develop its non-commercial leasing programmes and were the Russian Government to reduce or cease its funding of the Group in the future or not make any of the anticipated capital injections discussed above, there may be a material adverse effect on the Group's business and financial position. Similarly any reduction in state funding of, or a reduction in subsidies or grants given to, any of the Group's customers could result in a fall in lease volumes or a failure of such lessees meeting their obligations under outstanding leases (see *"If a lessee defaults on its lease, the Group could incur losses*", below). This would also have a negative effect on the Group's business and financial position.

The continued expansion of the Group's lease portfolio depends to an increasing extent upon its ability to obtain adequate and affordable funding

The Group operates with a high degree of leverage and its continued growth depends, in part, on its ability to obtain adequate funding from a variety of sources. The Group is increasingly reliant on alternative sources of funding other than capital injections obtained from the Russian Government. Such capital injections are provided through state programmes which are implemented on a co-funding basis which supports STLC's further raising of funds from third party sources.[1] In addition, access to the capital markets is set to become an important source of funding for the Group as an alternative to bank loans. STLC issued its first debt capital markets instruments, being interest bearing non-convertible bonds in an aggregate principal amount of RUB 20 billion, in the Russian domestic market in 2013, with further issues following in subsequent years. In August 2016, STLC registered the multi-currency perpetual RUB 151,000,000,000 Exchange Bond Programme at the Moscow Exchange. As of the date of this Prospectus, STLC has placed three exchange bond issues of RUB 21.3 billion in aggregate amount. As at 31 December 2016 the Group had an aggregate principal amount of RUB 56.848 billion of outstanding domestic bonds (including bonds which are held by companies of the Group). In 2013, the Group obtained a USD 800 million credit line from ICBC Financial Leasing (**ICBCL**). In addition, the procurement of five Airbus A321s and three Boeing 777-300ERs for PJSC "Aeroflot" is financed in conjunction with ICBCL. In 2016, the Group obtained a USD 323 million credit line from CMB Financial Leasing Co., Ltd. **(CMBFL)**, a subsidiary of China Merchants Bank. The procurement of seven Airbus A320-214 for PJSC "Aeroflot" was financed in conjunction with CMBFL. Such funding structures will be needed in the future if the Group is to continue to expand its leasing portfolio. In July 2016, GTLKE placed its debut Regulation S USD 500,000 thousand Eurobond due 2021 with a coupon rate of 5.95 per cent per annum. The issue was rated Ba3 by Moody's and BB- by Fitch. The bonds are listed on the Irish Stock Exchange. The Group cannot, however, provide any assurance that it will be able to continue to source debt financing from third party financial institutions or access the domestic or international capital markets to issue new debt or refinance its current borrowings, on favourable terms, or at all. In addition, if the Group's debt levels increase, the Group may find it more challenging to meet payments under such debts to comply with the covenants imposed by such debt and may find it harder to raise required funds.

Certain Russian entities and persons are subject to sanctions (see "*Risks Relating to the Group's Business and Industry – The Group's business and financial performance is dependent upon economic conditions in Russia*" and "*Non-compliance with OFAC, EU and other sanctions programmes, an expansion of these programmes or the Group's dealings with parties subject to sanctions could adversely impact the Group's business, financial condition, results of operations or prospects*"). Any expansion of the existing sanctions regime may negatively impact the Group, and the Russian Government's ability to obtain funds which in turn could reduce the funds available to Group, and may also limit the ability of Russian companies, including STLC, to access the international capital markets.

If the Group is not able to source the funding it needs, then to the extent that it is not otherwise able to source funding from the Russian Government, it may be unable to increase the size of its lease

[1] The 'co-funding principle' in governmental projects means that whenever STLC implements such projects it should have received sufficient support from the shareholder (by way of direct capital injections) which both supports STLC's liquidity and capitalisation and allows STLC to seek additional non-budget funding from other sources (bank loans, etc.). Such funds are invested (and further re-invested) along with borrowed money thus attracting funding in projects which otherwise might be impossible to fund solely on market terms.

portfolio and grow its business, which could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the Notes.

The availability of credit to emerging markets borrowers is also significantly influenced by investor confidence in such markets as a whole. Consequently, any factors that impact market confidence – for example, a decrease in credit ratings, or state or central bank intervention in one market – could affect the price or availability of funding for entities within all emerging markets. Accordingly, any decrease in investor confidence within the emerging markets could have a negative effect on the price or availability of funding within such markets. Any deterioration in economic conditions in the Russian Federation or internationally, or decrease in investor confidence, could result in reduced liquidity and increased costs of funding, which, in turn, could affect the continued expansion of the Group's lease portfolio, which would be likely to have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

The Group uses the funding it receives to purchase assets for the purposes of leasing. If the Group's cost of funding increases and the Group cannot raise its lease yields to match this then the credit spread, being the difference between the Group's cost of funding and the yield on its leases, may narrow. This is likely to have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group may fail to properly manage its growth

The Group's operations have experienced significant growth in recent years with an increasing focus on operating leases and aviation leases, and whilst current plans are for the Group to grow organically, the Group also intends to develop the operational leasing of Sukhoi Superjet 100 aircraft internationally and may make significant acquisitions in the future, including acquisitions of lease portfolios. Such continued growth, whether organic or by acquisition, would require significant allocation of capital and, depending on the nature of the acquisition, management resources, further development of the Group's financial, internal controls and information technology systems, continued upgrading and streamlining of its risk management systems and additional training and recruitment of management and other key personnel. The Group must maintain a consistent level of customer services and current operations to avoid loss of business or damage to its reputation. There can be no assurance that the Group will be able to sustain its current levels of growth in the future, or that the Russian Government will continue to provide the necessary funding and capital support to enable it to do so, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

The Group has some very significant client concentrations and the nature of the Group's business and the industry lessee and client concentrations in the Group's lease portfolio make it vulnerable to volatility and to downturns in certain sectors and with respect to certain clients

The nature of lease transactions, which tend to relate to the financing of big-ticket assets which customers will not necessarily acquire on a regular basis, means that the Group's assets, revenues and ultimately net profit are subject to significant volatility from one period to the next. One of the Group's key projects is the supply of the Sukhoi Superjet 100 which, in the future, is expected to constitute a significant part of the Group's assets under leases. There are certain risks associated with the fact that there is currently no developed market for Sukhoi Superjet 100 aircraft. There are a number of uncertainties in connection with technological and logistical support from the manufacturer of the aircraft, and the appropriate network for spare parts supplies and maintenance still needs to be developed, especially with the plans to expand this internationally. The Group uses its best endeavours to mitigate such risks by performing the function of spare parts procurement agent for its clients and liaising with the manufacturer of the aircraft to have pre-agreed servicing programmes in place. However, there remain significant risks in the actual performance and operation of Sukhoi Superjet 100 aircraft for the carriers which may adversely affect the market share attributed to Sukhoi

Superjet 100 aircraft in comparison with other established types of aircraft. This can affect the ability of the relevant assets to produce sustainable cash flows for the Group and thus affect the efficiency of its operations. The Group's lease portfolio also has relatively high industry concentrations. As at 31 December 2016 the aviation, rail and maritime transport sectors accounted for approximately 52.3 per cent, 26.6 per cent and 11.0 per cent, respectively, of the Group's aggregate lease portfolio (gross of impairment allowance) as described in "*Business – Business*". Furthermore, as at 31 December 2016, the Group's largest lessee, being the Aeroflot group represented 31 per cent of the Group's aggregate lease portfolio, with the second-largest lessee, being JSC "Yamal Airlines", representing 12 per cent of the Group's aggregate lease portfolio (gross of impairment allowance, see table on pages 69 and 74 of "*Business – Business*" below for a breakdown of the Group's aggregate lease portfolio. The Group's financial condition is therefore extremely sensitive to downturns in the transportation and transportation infrastructure sectors and the financial condition of the Group's largest customers, especially the Aeroflot group. Although the Group continues to take measures to diversify its lease portfolio, including increasing focus on operating leasing alongside finance leasing, there can be no assurance that it will be able to achieve or maintain a greater level of diversification in its lease portfolio, and a failure to do so could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

If leased equipment or assets are not properly maintained, their residual value may be less than expected

If a lessee fails to maintain leased equipment or assets in accordance with the terms of its lease, the Group may have to make unanticipated expenditures to repair the equipment in order to protect its investment. In addition, some of the equipment the Group purchases may be used equipment. While the Group inspects used equipment prior to purchase, there can be no assurance that such inspection will reveal any or all defects and problems with the equipment that may occur after it is acquired by the Group.

The Group seeks to obtain representations from the suppliers and lessees of used equipment, including that:

- the equipment has been maintained in compliance with the terms of their agreements with the Group;
- neither the supplier, nor the lessee, is in violation of any material terms of such agreements; and
- the equipment is in good operating condition and repair, and that, in the case of a lessee, it has no defences to the non-payment of rent for equipment as a result of its condition. See "*Business – Terms of Finance Lease Agreements*".

The Group has a right to make claims against the supplier of the equipment for any losses arising from a breach of representations made to the Group, and against the lessee for a default under the lease. However, the Group cannot offer any assurance that these rights would make the Group whole with respect to its entire investment in the equipment in question, or the Group's expected returns on equipment, including legal costs, costs of repair and lost revenue from the delay in being able to sell or re-lease the equipment due to undetected problems or issues, and, as such, this could result in a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

The increased focus by the Group on operating leases will increase these risks as with an operating lease, the Group retains all ownership interests in the asset as well as responsibility for the asset and its upkeep and any defect, impairment or failure to maintain properly the asset will directly impact the value of such asset to the Group. While the lessee shall in any case be held liable for the maintenance of the leased equipment to keep it in good operating condition as per the requirements set out in the operating lease agreements and the operating lease agreements do not grant the lessees any defences to liabilities in respect of the leased asset and its upkeep, the risks arising from that, as described above, and any required expenditure are more likely to be borne by the Group.

If a lessee defaults on its lease, the Group could incur losses

If a lessee does not make lease payments to the Group when due, or violates the terms of its lease in another material way, the Group may terminate the lease and attempt to recover the leased asset. If the Group terminates a finance lease early due to the lessee's default, the portion of the Group's net investment in leases representing the terminated finance lease is derecognised and recognised in the preceding carrying amount of the respective line of the consolidated statement of financial position, depending on the Group's intent in respect of the equipment received back from the finance lease: Property and equipment (if the Group plans to use such equipment in operating leasing); Equipment purchased for leasing purposes (if the Group plans to use such equipment in finance leasing); or Inventories held for sale (if the Group plans to sell such equipment). Upon termination of an operating lease the relevant assets are recognised on a similar basis. If such asset is subsequently sold, the Group may reflect the gain or loss from the sale in its consolidated income statement and record the receipt of cash or other receivables in its consolidated statement of financial position. Upon recovery of the asset, the Group may not be able to arrange for a new lease or to sell the asset immediately, if at all. The Group would then be exposed to lost lease revenues and might not be able to recover the entire amount, or any, of its original investment in the equipment. The costs of recovering an asset upon a lessee's default, enforcing the lessee's obligations under the lease, and transporting, storing, repairing and finding a new lessee or purchaser for the asset may be high, may negatively affect the value of the Group's investment in the equipment, and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes. See "*Risk Management – Credit Risk Analysis* and "*Business – Defaults*". Moreover, it may sometimes be impossible to re-negotiate the lease on the terms similar to those of the original defaulting transaction. As economic conditions may change over time, the Group is then exposed to risks associated with market lease rates. The Group may therefore sometimes attempt to re-negotiate finance leases on terms similar to those of operating leases, as it did in 2015 in relation to finance leases relating to approximately RUB 13 billion in book value (before renegotiation and taking into account accumulated impairment allowances) of railcars leased out by the Group (see "*Business – Business – Rail Transportation"*). This may require the Group to build up specific expertise in monitoring, maintenance and value protection of such assets which may put an increased burden on the Group and adversely affect its operational efficiency. If a lessee files for bankruptcy, the Group may have difficulty enforcing the terms of the lease and may incur losses. If a lessee files for bankruptcy, the remaining term of the lease could be shortened or the lease could be rejected by the bankruptcy court, which could result in, among other things, any unpaid pre- bankruptcy lease payments being cancelled as part of the bankruptcy proceedings. If a lease is rejected in a bankruptcy, the Group would bear the cost of retrieving and storing the asset, and then have to re-sell or re-lease the asset in order to mitigate its losses. In such circumstances, the Group may not be able to arrange for a new lease or to sell the asset immediately, if at all and this risk is compounded by the fact that many leased assets (particularly in the energy and manufacturing sectors) are non-liquid assets that have been designed to meet a specific customer's requirements. The Group would then lose the expected lease revenues and might not be able to recover the entire amount, or any, of its original investment in the equipment. This is a particular issue in relation to finance leasing where the Group does not expect to retain the asset. Such situations could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

The Group may not be able to obtain insurance for certain risks and would have to bear the cost of losses from non-insurable risks

Leased assets may be damaged or lost. Fire, weather, accidents, theft or other events can cause damage or loss. The Group usually arranges for insurance coverage, whether a finance lease or an operating lease, based on the full value of the funds invested in such asset prior to its delivery to the lessee (with the cost of such insurance being factored into the lease payments due from the lessee), with certain assets (particularly aircraft and ships) insured by the lessee at its own expense (as is typical for such sectors, with such insurance being a legal requirement to operate the asset). However, some losses, such as from acts of war, terrorism or earthquakes may either be uninsurable or not economically feasible to insure. Not all possible liability claims or contingencies affecting equipment can be anticipated or insured against, and, if insured, the insurance proceeds may not be sufficient to cover a loss. If such damage or loss occurs, the Group could suffer a total loss of any investment in the affected asset. Furthermore, insurance coverage may not be available in the Russian Federation at levels comparable to those customary in other countries for such assets. In particular, the concept of residual value is still relatively new in the Russian Federation and is yet to be properly understood by insurance companies, and so the Group has to insure based on the value of the funds invested in the asset, rather than on the basis of residual value or the credit profile of the lessee.

In leasing some types of assets the Group may be exposed to environmental liability. Although the Group uses its best efforts to minimise the possibility and exposure of such liability, no assurance can be given that its assets are fully protected against any such claims, and losses arising as a result could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

The Group could suffer losses from failure to maintain equipment registration and from unexpected regulatory compliance costs

Many types of energy, heavy industry and transportation assets are subject to registration requirements by Russian governmental agencies, in particular aircraft and shipping vessels. Failing to register the asset, or losing the registration, could result in substantial penalties, forced liquidation of the asset and/or inability to operate and lease the asset. Governmental agencies may also require changes or improvements to assets, and the Group may have to spend its own funds to comply if the lessee of the asset is not required to do so under the lease. These changes could force the asset to be removed from service for a period of time. The terms of leases may provide for rent reductions if the asset must remain out of service for an extended period of time or is removed from service. If the Group does not have the funds to make a required change, it might be required to sell the affected asset. In these circumstances, the Group could suffer a loss on its investment, lose future revenues and experience adverse tax consequences, all of which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

There is a lack of reliable credit quality information about lessees in the Russian Federation which could result in the Group being unable to properly assess the risk of some of its leases

Due to a lack of frequent and reliable information on lessees in the Russian Federation, the Group historically has had to rely, to a large extent, on statutory financial statements of its lessees (which are not prepared under IFRS or other international GAAP) to evaluate their financial performance and monitor credit quality. The limited scope of the assessment and monitoring procedures based on such statutory financial statements, together with insufficient internal coordination of the collection of information from lessees and the analysis of such information by the Group and between the relevant departments within the Group as well as weaknesses in the Group's risk management systems, internal models and expertise could result in the Group not being aware of events of default or potential events of default under a lessee's other financial commitments on a timely basis and of the risks posed by a particular lessee. The Group has taken, and continues to take, steps to coordinate and accelerate data collection and analysis to prevent such deficiencies in the future, however, the general limitations of frequent and reliable information about lessees in the Russian Federation may result in the Group not being able to undertake a full credit analysis of each of its lessees which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

The further impairment of leases and loans and receivable could negatively impact the Group's profitability

The Group reviews its loans and receivables (including receivables under finance lease) to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that an event (or events) has had an impact on the estimated future cash flows of the loan or receivable that can be reliably estimated.If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the lease or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the lease or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss. The Group does not have a meaningful measure of actual delinquency. Signs of impairment include, but are not limited to, delinquency and thus the share of delinquent leases does not exceed that of the impaired ones. The Group believes that its delinquent leases are notably lower than its impaired ones. For a discussion of the impairment of the Group's Net Investment in Leases and Receivables on Cancelled Lease Agreements and other Receivables, see "Credit Risk" in Note 25 to the 2016 Consolidated Financial Statements.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Recovery of provision for impairment losses on interest bearing assets amounted to RUB 1,572,493 thousand in 2016 as compared to impairment losses on interest bearing assets of RUB 1,871,927 thousand in 2015 and was one of the key factors behind the improved financial performance of the Group in 2016. The improvement of the Group's impairment position in 2016 against 2015 had been primarily due to the deterioration in the Russian economy in 2014 and 2015 which had adversely affected the creditworthiness of some of the Group's lessees, especially in the Group's rail car leasing business and benefitted from modification to the Group's internal model for estimating impairment allowances as discussed below. If a lease is renegotiated from a finance leasing transaction to an operating lease (as the Group has done in its railcar leasing business in 2015), the Group recognises the difference between the portion of the Group's net investment in leases representing the terminated finance lease and the market value of the underlying asset as an impairment loss. Such an increase in impairment losses on interest-earning assets was a material contributor to the 2015 impairment losses , as there was a renegotiation of finance leases in 2015 relating to approximately RUB 13 billion in book value (before renegotiation and taking into account accumulated impairment allowances) of railcars leased out by the Group into operating leases following worsening market conditions in the rail transportation sector in Russia (see "*Business – Business – Rail Transportation*"). As conditions have improved the trend has abated, thus leading to a recovery of previously recognised impairment allowances in 2016. The Group furthermore benefited from the implementation of an improved internal model used to estimate impairment allowances in 2016. The Group's previous model to estimate the impairment of net investment in leases did not take several objective macroeconomic factors into account, and if this model had been continued to be used in 2016 then as at 31 December 2016 it would have instead resulted in an increase of the impairment allowance estimate of RUB 1,177,000 thousand and the recovery of impairment losses would have been RUB 1,177,000 thousand less than indicated in the financial results for the year ended 31 December 2016 under such circumstances. Notwithstanding the significant decrease in the balances of impairment allowances as at 31 December 2016, any further increase in impairment losses on interest-earning assets could materially negatively impact the Group's profitability (see *"Selected Financial Review – Impairment losses on interest-earning assets"*).

Instability and uncertainty in the Russian leasing sector create an uncertain environment for the Group's business activity

The Russian leasing market is relatively young, having emerged in the late 1990s. It grew steadily between 2001 and 2011, in terms of the aggregate value of lease portfolios and is now the sixteenth largest leasing market in the world by new business volume according to the White Clark Group Global Leasing Report for 2017. Largely as a result of the global economic slowdown and the unstable economic situation, the previously rapid development of the Russian leasing market has slowed in the period from 2012 up to 2016. However according to RAEX, the Russian leasing market (in terms of new business volume) has witnessed a significant increase by approximately 36 per cent in 2016, and there are grounds to expect that it will grow further in 2017. The material increase of the Russian leasing market in 2016 was driven by increasing amounts of regional and large-scale lease transactions in railroad, aviation and maritime leasing. According to RAEX, in 2016 the aggregate value of lease portfolios totalled approximately RUB 3,200 billion, as compared to RUB 3,100 billion for 2015, an increase of 3.1 per cent. The volume of new business (in terms of value of property) in 2016 was RUB 742 billion, as compared to RUB 545 billion for 2015, an increase of 36.1 per cent and the volume of lease payments was RUB 790 billion in 2016, as compared to RUB 750 billion in 2015, an increase of 5.3 per cent.

Nonetheless, in comparison to leasing industries in North America or Western Europe, the Russian leasing industry is relatively young and undeveloped, the legal framework is not without inconsistency, and there cannot be any assurance that the substantial growth experienced in recent years will be sustained or maintained. Furthermore the Russian Government is developing the Russian leasing market regulation. In particular, in 2017, the Ministry of Finance of the Russian Federation and the CBR have developed a draft federal law implementing changes to the Russian legislation on leasing companies (the **Draft Law**) which can stabilise the Russian leasing sector. The key purpose of the Draft Law is to make activity of the leasing companies more transparent and to improve their financial, risk-management and corporate governance systems (see "*Russian Finance Leasing Regulation – Prospective Reform of the Leasing Companies Activity*"). As at the date of this Prospectus, the Draft Law is subject to further discussion. Both the implementation of the proposed changes to the regulations and timing of the enactment of the Draft Law remain subject to a high degree of uncertainty.

The development of the leasing market remains tied to demand from core sectors of the economy. During the worldwide financial downturn, certain industries which were traditionally key demand sectors for the Russian leasing market, such as the construction industry, suffered significant downturns, from which they have yet to recover. Although the Group has diversified its portfolio to reduce its exposure to any one industry – with air, rail, and maritime transport services representing 52.3 per cent, 26.6 per cent and 11.0 per cent, respectively, of the Group's aggregate lease portfolio (gross of impairment allowance) as at 31 December 2016 – a significant market downturn affecting most of these sectors, or other sectors in which the Group is active, or the Russian economy as a whole, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes. Furthermore, although the Group is insulated to a certain extent from the effects of downturns as a result of its position as wholly owned by the Russian Federation and controlled through the Ministry of Transport of the Russian Federation and thus a strategic vehicle through which the Russian Government can pursue its economic stabilisation and development polices, if the Group were to have its role diminished or the Russian Government significantly changed its policies in this regard it could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes (see "*The interests of the Group's shareholder may conflict with those of the Noteholders*" above).

Movements in Foreign currency may negatively impact the Group

A significant portion of the Group's lease portfolio is denominated in foreign currencies in particular its aviation assets which are sourced internationally and often purchased in US dollars. These are likely to be an increasing part of the portfolio in the future. Foreign currency risk arises where Group assets denominated in a foreign currency are either greater or lesser than its liabilities in that currency. Although the Group typically funds itself on a matched basis and seeks to mitigate imbalances in the foreign currency structure of its assets and liabilities through contractual provisions in its lease agreements allowing the Group to change the currency of payment, a significant change in the Group's foreign currency assets or liabilities as against its Rouble denominated assets or liabilities could materially adversely affect the Group's business, financial condition, results of operations and prospects and the value of the Notes.

Increasing competition in the Russian financial and leasing sectors may affect the Group's business and its ability to execute its strategy for expansion

Despite the development of the Russian leasing market over the last years, barriers to entry for new players are low, which has resulted in the appearance of new, aggressive, fast-growing participants in the sector, including leasing companies with foreign ownership. As a result, the leasing sector is rapidly undergoing a process of consolidation. The Russian market for financial and leasing services remains highly competitive and is characterised by factors that vary based upon product and geographic region. It is expected to become increasingly competitive as a result of continued financial sector reform and improvements in the quality of management at many Russian banks and leasing companies. Lessees are also placing increased demands on lease transactions. However, not all leasing companies can adjust to the changing market conditions and remain competitive. At present a key factor for the leasing market development is the search for long-term financing for further growth of the leasing companies' business. In addition, competition is based on pricing, terms and structure. The Group's main peers include top Russian leasing companies such as Sberbank Leasing and VTB Leasing that belong to their respective banking groups (for a discussion of the relative market shares of such competitors, see "*Business – Key Competitors*"). To the extent not affected by sanctions these companies therefore enjoy the access to the funding they may receive from their parent banking structures on favourable terms which may be unavailable to the Group and can offer a wide range of banking services, which the Group cannot.

To the extent that the Group's competitors compete aggressively on any combination of these factors, the Group could fail to achieve its expansion objectives. Furthermore, although major players in the leasing market, such as the Group, currently demonstrate substantial growth and expand their customer base, a failure to attract adequate financing on the Group's part or to successfully execute its strategy for expansion could have a material adverse effect on its business, financial condition, results of operations and prospects and the value of the Notes.

The Group has made significant advances to a number of major suppliers, any failure by a major supplier to deliver under its contract would have a negative financial impact on the Group

As part of the lease arrangements entered into with lessees, the Group may agree to advance payment to an equipment supplier ahead of construction of an asset to be leased. Advances to suppliers (of leasing assets and fixed assets) were RUB 39,653,900 thousand as at 31 December 2016, an increase of 22 per cent as compared to RUB 32,544,252 thousand as at 31 December 2015, driven by, *inter alia,* the implementation of several non-commercial projects funded by the Government of the Russian Federation through direct capital contribution to STLC's charter capital. In particular, as at 31 December 2016, the Group has made the following advance payments to:

- "Sukhoi Civil Aircraft" JSC (SCA) in the amount of RUB 9,006,605 thousand in connection with a contract to supply Sukhoi Superjet 100s pursuant to the Sukhoi Superjet 100 Programme;
- JSC "Amur Shipyard" in the amount of RUB 3,565,660 thousand in connection with a contract to supply two auto-railway ferries at the Vanino-Kholmsk line pursuant to the programme for the development of water transport leasing and ferry services;
- JSC "Russian Helicopters" in the amount of RUB 3,260,780 thousand in connection with a contract to supply 29 Ansat and Mi-8 helicopters pursuant to the programme to support the national helicopter industry; and
- JSC "Ural Works of Civil Aviation" in the amount of RUB 847,458 thousand in connection with a contract to supply LET L-410 aircraft pursuant to the programme for the development of regional small aircraft.

Companies to which the funds were advanced are in receipt of support from the Russian Federation and the Group therefore thinks it unlikely that it would fail to deliver under such contract or any future such contract in respect of further advances. Payments advanced to the aforementioned suppliers are funded by the Group's capital received from the Government, so the Group does not incur interest expenses during the assets' construction period. However, a failure by the vendors to deliver under any such contract could lead to the recognition by the Group of a significant impairment allowance which could adversely affect its financial position.

The Group may be unable to recruit or retain experienced and/or qualified personnel

The Group's continued growth depends, in part, on its ability to continue to attract, retain and motivate qualified and experienced leasing and management personnel in the Russian Federation and Ireland. In particular, the Group's increasing focus on operating leases means that it needs to attract relevant experts to oversee those assets. Competition in the Russian Federation and Ireland for personnel with relevant expertise is intense, due to the relatively small number of available qualified individuals. To recruit qualified and experienced employees and to minimise the possibility of their departure to other companies, the Group provides compensation packages consistent with evolving standards in the Russian and Irish labour market (see "*Management – Employees*"). However, the inability to recruit and retain qualified and experienced personnel in the Russian Federation and Ireland or manage the Group's current personnel successfully could have a material adverse effect on the Group's business, financial condition, results of operations or prospects and the value of the Notes.

Some interested party transactions within the Group require the approval of disinterested directors or disinterested shareholders

Russian law requires a joint stock company that enters into transactions with certain related persons that are referred to as "interested party transactions" to comply with special approval procedures. Under Russian law, an "interested party" includes: (1) any member of the board of directors or the collegiate executive body of a company, (2) its chief executive officer (including a managing organisation or hired manager), (3) any person who, together with its affiliates, owns at least 20 per cent of a company's voting shares or (4) a person who has the legal right to give mandatory instructions to a company, if any of the above listed persons, or a close relative or affiliate of any such person, is, in each case:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- the owner of at least 20 per cent of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- a member of a governing body of a company that is a party to a transaction with the company, whether directly or as a representative, intermediary, or a beneficiary of the transaction or an officer of the managing organisation of such company; or
- in other cases, stipulated by law or the company's charter.

Under applicable Russian law, interested party transactions require approval by a majority of the disinterested directors or disinterested shareholders of the company. A majority vote of the disinterested shareholders of the company is required if (1) the number of disinterested directors is less than the required quorum for board of directors (supervisory council) meetings, (2) the value of the transaction (or of a number of interrelated transactions) is equal to or exceeds 2 per cent of the balance sheet value of the company's assets (determined under RAS according to its latest balance sheet) or (3) the transaction (or a number of interrelated transactions) involves the issuance or sale by the company of ordinary shares or securities convertible into such shares, in an amount exceeding 2 per cent of the company's issued ordinary shares. Failure to obtain the appropriate approval for a transaction may result in it being declared invalid upon a claim by the company or any of its shareholders.

Net assets being less than the charter capital could have an adverse effect on operations of the Group

In accordance with Russian legislation, in the event that a Russian company's net assets at the end of its second or any subsequent financial year, as stated in its annual balance sheet prepared under RAS, fall below its charter capital and remain below its charter capital at the end of the following financial year, the company must, within six months after the end of such following year, either increase its net assets or decrease its charter capital to that level or liquidate. If a joint stock company fails to comply with either of the requirements stated above, its creditors may accelerate their claims or demand early performance of obligations to them and claim damages, and governmental authorities may seek involuntary liquidation of the company. A court though may refuse to satisfy a claim of a creditor of a company, if that company proves that as a result of net assets falling below its charter capital, the rights of such creditor are not affected. As at 31 December 2016 the Guarantor's net assets were less than its charter capital according to RAS due to a series of capital increases and due to the fact that the Issuer's assets, according to RAS, are accounted for in the Guarantor's net assets based on their nominal value, rather than the market value. Although it is a technical issue that may be addressed through increasing the Guarantor's net assets (including by means of revaluation of assets in accordance with RAS), if at the end of 31 December 2017, the Guarantor's net assets remain below its charter capital, then by 30 June 2018 the Guarantor must decrease its charter capital to the level of its net assets or liquidate. If the Guarantor fails to address this issue, its creditors will be entitled to accelerate their claims or demand performance of the Guarantor's obligation to them. However, there is no existing Russian court practice that has ordered a Russian company to decrease its charter capital to the level of net assets or to liquidate (except in circumstances where net assets were less than the minimum charter capital required by law). Therefore, the Guarantor estimates the probability of occurrence of such a risk as low. If this risk materialises, this may affect the possibility of the Group to make payments under the Notes and the overall creditworthiness of the Group.

RISKS RELATING TO THE RUSSIAN FEDERATION

Investors in entities operating in emerging markets such as Russia should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Investors should also note that such emerging and frontier economies are subject to rapid change and that the information set out in this Prospectus may become out-dated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investing in emerging and frontier markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

A substantial part of the Group's revenue is derived from operations in Russia. There are certain risks associated with Russia, including those set out below.

Political instability in Russia may have a material adverse effect on the Group's business, results of operations, financial condition and prospects

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a market-oriented economy. Political conditions in Russia were highly volatile in the 1990s, which negatively affected the Russian Federation's business and investment climate. The Russian political system, though more stable than in the 1990s, remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian Government has, at times, been unstable. However, over the period from 2000 to 2008, President Vladimir Putin achieved and generally maintained political and governmental stability in the country which accelerated the reform process and made the political and economic situation in Russia more conducive to investment. In March 2008, Mr. Dmitry Medvedev was elected as the President of Russia, and a significant degree of continuity has been maintained, due in large part, to the appointment by President Medvedev of Vladimir Putin as the Russian Prime Minister, and, following Mr. Putin's election as President of Russia in March 2012, the subsequent appointment of Mr. Medvedev as Prime Minister. It is possible, however, that future Presidents may take a different approach to reforms and to the state's foreign and domestic policies in the future. Moreover, in 2011 and 2012, there were public protests alleging voting irregularities in federal parliamentary and presidential elections and demanding political reform. Any significant further increases in political instability could have a material adverse impact on the value of investments relating to the Russian Federation, and the Notes in particular, as well as on STLC's business, results of operations, financial condition and prospects.

The involvement of the Russian Federation in any future domestic or foreign conflicts could adversely affect the Group's business

The Russian Federation is a federation of 85 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts, some of which exercise considerable autonomy in their internal affairs pursuant to agreements with the federal government and in accordance with applicable laws. In certain areas, the division of authority between federal and regional governmental authorities remains uncertain. The lack of consensus between local and regional authorities and the federal governmental authorities may result in political instability and may have a material adverse effect on the Group's business, financial condition, prospects or ability to fulfil its financial obligations. The Russian federal and regional electoral legislation is subject on-going revision and amendment. The amendments made to such legislation in 2004, whereby heads of regions are nominated by the President of the Russian Federation and appointed by regional legislatures (instead of direct election by the population) were designed to minimise conflict between federal and regional authorities and secure stability across the Russian Federation. In January 2012, the then President, Dmitry Medvedev, submitted to the Russian parliament, the State Duma, a draft law restoring direct popular elections of regional governors to terms of up to five years, which law entered into force on 1 June 2012. However, on 23 January 2013, the State Duma approved a new draft law, which allows the federal subjects to choose their own process of electing the regional governors. This new act law entered into force in April 2013. According to this law, each region can choose whether to proceed with direct elections of regional governors or to submit to the President a list of candidates for the position of governor from which the President shall choose three candidates. The deputies of the legislative assembly would then appoint one candidate for the post of regional governor from such list.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, both internally and with other countries. Russian military and paramilitary forces have been engaged in the Chechen Republic in the recent past and continue to maintain a visible presence there. Moreover, in August 2008, Russia and Georgia were involved in an armed conflict. The conflict ended with Russian recognition of the independence of South Ossetia and Abkhazia. Russian stock exchanges experienced heightened volatility, significant overall price declines and capital outflow following these events and the international capital markets temporarily closed to Russia. Furthermore, differing views on the Georgia conflict, as well as the on-going armed conflict in Eastern Ukraine, have had an impact on the relationship between the Russian Federation, the EU, the United States and certain former Soviet Union countries and, if prolonged, could adversely affect business relationships among these countries and adversely affect the Russian economy.

The Russian Law "On Special Economic Measures" grants the President of Russia, acting only upon recommendation of the Russian Security Council, authority to both (i) impose restrictions or prohibit dealings with foreign states and/or foreign citizens and (ii) impose obligations to perform specific activities in furtherance of adopted economic measures. If Russia were to adopt a similar embargo or adopt any of the restrictive economic measures contemplated by the Law "On Special Economic Measures" with respect to the countries within which the Group currently operates or plans to operate in the future, the Group's business, financial condition and results of operations could be materially adversely affected. Similarly, if other countries were to impose similar measures on Russia, including, for example, restrictions on financing transactions, it could have a material adverse effect on the Group's business, financial condition or results of operations.

The risks associated with these uncertainties, tensions and conflicts could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could adversely affect the Group's business, results of operations, financial condition and prospects.

The armed conflict in Eastern Ukraine and the international reaction to Russia's actions in connection with Crimea create significant political and economic uncertainty which could adversely impact the Group's financial condition

The recent significant civil unrest and political instability in Ukraine and the on-going armed conflict in Eastern Ukraine has affected the relations between the Russian Federation and Ukraine. In March 2014, a referendum on the status of Crimea was held which resulted in a majority of votes in favour of seceding from Ukraine and joining the Russian Federation as a federal constituent entity. On 18 March 2014, Russia and Crimea signed an agreement on the accession of the Republic of Crimea to the Russian Federation. On 21 March 2014, including import and travel restrictions, against the Russian parliament passed legislation extending the effect of Russian laws and operation of governmental authorities to the territory of Crimea. This has had in the past, and may continue to have in the future, an adverse effect on the Russian economy and demand for commodities.

The events in Ukraine and Crimea have brought about a negative reaction from the EU, the United States and certain other countries (including Canada, Australia and Norway). A number of countries imposed various sanctions against Russia and refused to recognise the referendum in Crimea as legal. The United States and the EU have imposed sanctions on a number of Russian officials and individuals, former Ukrainian officials, and several Russian companies, banks and businessmen (see "*Risk Factors – The Group's business and financial performance is dependent upon economic conditions in Russia"* and "*Risk Factors – Non-compliance with OFAC, EU and other sanctions programmes, an expansion of these programmes or the Group's dealings with parties subject to sanctions could adversely impact the Group's business, financial condition, results of operations or prospects*").

The impact of any escalation in tensions between Russia and Ukraine could negatively affect the Russian economy. This, in turn, could result in a general lack of confidence among international investors in the region's economic and political stability and in Russian investments generally. Such a lack of confidence could result in reduced liquidity, trading volatility and significant declines in the price of listed securities of companies with significant operations in Russia, and in the Group's inability to raise debt or equity capital in the international capital markets, which may materially adversely affect its business, financial condition, results of operations and prospects.

In 2017, Ukraine's political situation remained unstable resulting in uncertain economic outlook and investment environment. The conflict in Ukraine is ongoing and could continue or escalate. A significant escalation in hostilities between Ukraine and Russia would likely cause substantial economic disruption to both countries. There would also likely be calls from the West for a comprehensive sanction regime that would seek to isolate Russia from the world economy. If no resolution of the current level of ongoing civil insurrection in eastern Ukraine is forthcoming and Russia is continued to be perceived as acting inimically, there may well be further strengthening and broadening of sanctions against Russian persons. For example, there have been proposals to cut off Russia from the international SWIFT payment system, which would disrupt ordinary banking services in Russia and any cross-border trade. The continued impact of these events and any continuing or escalating military action in Eastern Ukraine, public protests, unrest, political instability or further sanctions could have a further adverse effect on the Ukrainian and Russian economies and consequently, a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Instability in the Russian economy could materially and adversely affect the investment environment and overall entrepreneurial confidence in Russia, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations or prospects

Since the dissolution of the Soviet Union in the early 1990s, Russia's society and economy have, at various times, experienced:

- significant declines in GDP;
- hyperinflation or high levels of inflation;
- unstable currency;
- high levels of state debt relative to GDP;
- weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- widespread tax evasion;
- growth of a black and grey market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment;
- weakness in the banking sector, limiting the ability of banks to provide liquidity to Russian corporate and individual borrowers;
- widespread use of barter transactions and/or promissory notes to settle commercial transactions;
- political and social instability;
- ethnic and religious tensions;
- lack of consensus between federal and local governments;
- over-dependence of the economy on the export of commodities;
- significant declines and volatility in the stock market;
- out-dated and deteriorating physical infrastructure;
- declining population and short life-expectancy; and
- impoverishment of a large proportion of the Russian population.

While the situation globally has to a certain extent stabilised since the global financial and economic crisis, the Russian economy began to experience a new slowdown in 2013. GDP growth fell from 3.4 per cent in 2012 to 1.3 per cent in 2013 and amounted to 0.6 per cent in 2014 and contracted by 2.8 per cent in 2015 and by 0.2 per cent in 2016, according to RosStat. The conditions and outlook for the Russian economy deteriorated significantly during 2014 as a result of the sharp decline in oil prices and continued to worsen in 2015 following further depression in oil prices and the imposition of economic sanctions by the United States and the EU. In 2014, the net capital outflows increased to USD 151.5 billion, according to the CBR. Net capital outflows amounted to USD 57.5 billion in 2015 and USD 15.4 billion in 2016, according to the CBR. Inflation grew from 6.5 per cent in 2013 to 11.4 per cent in 2014, reached 12.9 per cent in 2015 and declined to 5.4 per cent in 2016, and the Rouble depreciated significantly against a number of currencies, including the US dollar during 2014 and 2015. In December 2016, the CBR forecasted that with an average price of USD 40 per barrel of Urals oil in 2017, Russia's GDP will increase by 0.5 up to 1.0 per cent and net capital outflow in Russia will amount to USD 13 billion in 2017 as compared to USD 15.4 billion in 2016.

Russia produces and exports large quantities of crude oil, natural gas and other mineral resources, which makes the Russian economy particularly vulnerable to world markets' prices of commodities. There was a dramatic decrease in the price of oil from when it reached its peak in the summer of 2008, resulting in sharp decreases in state revenues, which in turn had a significant negative impact on the Russian economy. The price of Brent crude oil has been particularly volatile in recent years reaching a peak in March 2012 and significantly decreasing in the second half of 2014 from USD 112.36 per barrel on 30 June 2014 to USD 55.27 per barrel on 31 December 2014 and continued to decrease to USD 37.28 per barrel on 31 December 2015 before subsequently increasing to USD 57.49 per barrel on 31 December 2016. Any significant disruptions of major exploration and development projects in the Russian oil and gas sector as a result of technological failures, restrictions on obtaining necessary technologies or services from foreign suppliers as a result of sanctions or insufficient funding may result in decreased productivity, reductions in output of such commodities and may ultimately lead to lower federal budget revenues. These developments could have a material adverse effect on the Russian Government's ability to provide financial support to Russian companies, and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Any deterioration in the general economic conditions in Russia could adversely influence the level of demand for various products, including those provided by the Group, and therefore could have a material adverse effect on the Group's business, financial condition, results of operations and future prospects.

Inflation may result in decreased demand for the Group's products and services

The exchange rate of the Rouble against the US dollar remained volatile in the recent years. On 31 December 2013 the Rouble to US dollar exchange rate was RUB 32.73 per USD 1.00. Throughout 2014, the Rouble depreciated significantly against the US dollar, reaching RUB 67.78 per USD 1.00 on 18 December 2014, mainly as a result of falling oil prices, the slowdown of the Russian economy, capital outflows and deterioration of the geopolitical environment, including as a result of the events in Ukraine and the introduction of sanctions by Western countries on certain Russian individuals and legal entities. The RUB/USD exchange rate continued to decline in 2015, with the exchange rate amounting to RUB 72.88 per USD 1.00 as at 31 December 2015. In 2016, the RUB/USD exchange rate experienced some stabilisation but remained volatile at certain times, and amounted to RUB 57.12 per USD 1.00 on 12 May 2017. The Rouble is generally not convertible outside of the Russian Federation. A market exists within the Russian Federation for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. Although Russia's current foreign currency and gold reserves may be sufficient to sustain the domestic currency market in the short term, there can be no assurance that the currency market will not further deteriorate in the medium or long-term due to the lack of foreign currency funding available in the global markets. There can be no assurance that a stable market for conversion of Roubles will be available and a lack of growth of the Rouble currency market may hamper the development of the Group's business.

Although most of the previously existing currency control restrictions are no longer in effect, any future change to the currently existing currency control regime may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The high inflation in Russia could lead to market instability, financial crises, reductions in consumer purchasing power and erosion of consumer and investor confidence. Any one of these events could lead to decreased demand for the Group's products and services.

Fluctuations in the global economy and any prolonged decline in commodities prices may have an adverse effect on the Russian economy and, accordingly, on the Group's business, financial condition, results of operations and prospects

Russia produces and exports large quantities of crude oil, natural gas and other mineral resources, which makes the Russian economy particularly vulnerable to fluctuations in the world markets' prices of commodities. There was a dramatic decrease in the price of oil from when it reached its peak in the summer of 2008, resulting in sharp decreases in state revenues, which in turn had a significant negative impact on the Russian economy. The price of oil has been particularly volatile in the recent years reaching a peak in March 2012 and significantly decreasing in the second half of 2014 from USD 112.36 per barrel of Brent crude oil on 30 June 2014 to USD 55.27 per barrel on 31 December 2014. During 2015, the price of oil remained substantially depressed compared to the average prices in 2013 and the first half of 2014, dropping to USD 37.72 per barrel on 31 December 2015 before subsequently increasing to USD 57.49 per barrel on 31 December 2016. In December 2016, the CBR forecasted that with an average price of USD 40 per barrel of Urals oil in 2017, Russia's GDP will increase by 0.5 up to 1.0 per cent in 2017. Any significant disruptions of major exploration and development projects in the Russian oil and gas sector as a result of technological failures, restrictions on obtaining necessary technologies or services from foreign suppliers as a result of sanctions or insufficient funding may result in decreased productivity, reductions in output of such commodities and ultimately lead to lower federal budget revenues. These developments could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition, military conflicts, international terrorist activity and natural disasters have had a significant effect on international finance and commodity markets. Any future military conflicts, acts of terrorism or natural disasters could have an adverse effect on the international financial and commodities markets and the global economy. As Russia produces and exports large amounts of crude oil and gas, any acts of terrorism or armed conflicts, or politically motivated acts of Russian Government, causing disruption of Russian oil and gas exports could negatively affect the Russian economy and thereby adversely affect the Group's business, results of operations, financial condition and prospects.

Crime and corruption could harm the Group's ability to conduct its business and may adversely affect its business, results of operations, financial condition and prospects

The political and economic changes in the Russian Federation since the early 1990s have resulted in reduced policing of society and increased lawlessness. The Russian and international press have reported high levels of organised criminal activity and corruption of officials in the Russian Federation and other countries of the former Soviet Union. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further commercial interests of select constituencies. Additionally, published reports indicate that a significant proportion of the Russian media regularly publishes biased articles in return for payment. The Group's business, results of operations, financial condition and prospects could be materially adversely affected by illegal activities, corruption or by claims alleging involvement in illegal activities.

Social instability in the Russian Federation, coupled with difficult economic conditions, the failure of the state and large private enterprises to make full and timely payment of salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Such unrest may lead to labour stoppages and social protests. Such labour and social unrest may have political, social and economic consequences, such as an increased support for a renewal of centralised authority, increased nationalism, restrictions on foreign involvement in the economy, and increased violence. Any of these could materially adversely affect the Group's business, results of operations, financial condition and prospects.

The Russian legal system and Russian legislation are at a developmental stage and this may create an uncertain environment for investment and for business activity

Russia is still developing the legal framework required by a market economy. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the Constitution of the Russian Federation, by the Civil Code of the Russian Federation (the **Civil Code**), by other federal laws and by decrees, orders and regulations issued by the President, the Government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap or contradict one another. Several fundamental Russian laws have only become effective within the past five to ten years while they are continuing to change as the Russian legal system develops. The recent nature of much Russian legislation and the rapid evolution of the Russian legal system impact the enforceability of laws and can result in ambiguities, inconsistencies in legal interpretations and other anomalies. In addition, Russian legislation sometimes leaves substantial gaps in the regulatory infrastructure. Among the possible risks of the current Russian legal system are:

- inconsistencies among (1) federal laws, (2) decrees, orders and regulations issued by the president, the Government, federal ministries and regulatory authorities, and (3) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- limited court personnel with the ability to interpret new principles of Russian legislation, particularly business and corporate law;
- gaps in the regulatory structure due to delay in legislation or absence of implementing legislation;
- high degree of discretion on the part of governmental authorities; and
- the inadequacy of bankruptcy procedures and certain violations in bankruptcy proceedings.

All of these weaknesses could affect the Group's ability to enforce its rights under contracts, or to defend against claims by others.

Furthermore, Russian laws regulating ownership, bankruptcy and the corporate governance of Russian companies are relatively new and, by and large, have not yet been tested in the courts. Disclosure and reporting requirements do not guarantee that material information will always be available, and anti-fraud legislation is generally rudimentary. The concept of fiduciary duties on the part of the management or directors to their companies or the shareholders is not well developed.

The Group may have difficulty enforcing its contractual and other legal rights in Russian courts due to weaknesses related to Russian law and enforcement.

The independence of the judicial system and its immunity from economic, political and social influences in the Russian Federation remains uncertain and the court system is generally understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Russian judicial system can be unpredictably slow or swift. All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Furthermore, court judgments are not always enforced or followed by law enforcement agencies. Finally, although the Russian Federation is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (as successor to the Soviet Union) and therefore arbitration awards obtained in another signatory state should be recognised by a Russian court, in practice, reliance on international treaties may meet resistance or lack of understanding. These factors introduce an element of delay and unpredictability into the process of enforcing any foreign arbitration award in the Russian Federation. If any redress is sought with Russian legal authorities, any of these factors could adversely affect the ability of the Issuer to make payments of principal, interest and additional amounts (if any) in respect of the Notes.

The current status of the Russian legal system makes it uncertain whether the Group would be able to enforce its rights in disputes with any of its contractual counterparties. Furthermore, the dispersion of regulatory power among a number of Government agencies in the Russian Federation has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Government's rapid introduction of laws and regulations in an effort to make the Russian economy more market-oriented has resulted in substantial gaps in the regulatory infrastructure and overlapping or contradictory legal frameworks. No assurance can be given that federal, regional or local laws and regulations will become stable in the future. The Group's ability to operate in the Russian Federation could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to federal, regional and local laws and regulations. Furthermore, its ability to protect and enforce such rights is dependent on the Russian courts, which are underdeveloped, inefficient and, in places, corrupt. Judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court orders can in practice be very difficult in the Russian Federation. Additionally, court orders are not always enforced or followed by law enforcement agencies.

The Russian banking system remains underdeveloped, and another banking crisis in Russia could place severe liquidity constraints on, and negatively impact the Group's business

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications.

There are currently a limited number of creditworthy Russian banks, most of which are headquartered in Moscow. Although the CBR has the mandate and authority to suspend banking licences of insolvent banks, many insolvent banks still operate. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet internationally accepted norms.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to the current worldwide credit market downturn and economic slowdown. For example, during the financial and economic crisis in 2008 and 2009, Russian banks suffered from a deterioration in the credit quality of borrowers and their assets and a lack of liquidity which resulted in intervention by the Russian government and the central bank (as occurred in many other jurisdictions throughout the world) so as to stabilise the sector and prevent the occurrence of a banking crisis. A prolonged or serious banking crisis or the bankruptcy of a number of Russian banks could, should they occur in the future, have a material adverse effect on the Group's business and its ability to complete banking transactions in Russia.

Furthermore, the Group relies to a significant extent on debt financing from Russian banks. Accordingly, if a prolonged or serious banking crisis were to occur in Russia, its ability to access this source of financing may be limited, which in turn, could have a material adverse effect on the Group's business, results of operations or financial condition.

Failure to comply with existing laws and regulations could result in substantial additional compliance costs or various sanctions

The Group's operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licences, permits, approvals and authorisations, as well as with on-going compliance with existing laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licences, permits, approvals and authorisations and in monitoring licensees' compliance with the terms thereof. In this environment, the Group's competitors may receive preferential treatment from certain governmental authorities, which could give the Group's competitors a competitive advantage. Unlawful, selective or arbitrary government action, if directed at the Group's operations, could have a material adverse effect on its business, results of operations or financial condition.

The Group's failure to comply with existing laws and regulations or to obtain all approvals, authorisations and permits required for its operations or findings of governmental inspections, may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of the Group's licences, permits, approvals and authorisations or in requirements that the Group ceases certain of its business activities, or in criminal and administrative penalties applicable to its officers. Any such decisions, requirements or sanctions could increase the Group's costs and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the price of the Notes.

RISKS RELATING TO TAXATION

The Russian taxation system is relatively underdeveloped

The Russian Government is constantly reforming the tax system by redrafting parts of the Tax Code of the Russian Federation (the **Russian Tax Code**). These changes have resulted in some improvement in the tax climate. As of 1 January 2009 the corporate profits tax rate was reduced to 20 per cent. For individuals who are tax residents in the Russian Federation the current personal income tax rate is 13 per cent. The general rate of VAT is 18 per cent. The total of charges to the pension fund equals 22 per cent of the taxable base up to RUB 876,000 of an employee's annual remuneration and 10 per cent of the amount exceeding RUB 876,000. Charges to the social security fund equal 2.9 per cent of the taxable base up to RUB 755,000 of an employee's annual remuneration and are not paid on amounts exceeding RUB 755,000. Charges to the medical insurance fund equal 5.1 per cent of an employee's annual remuneration. In addition, the new Russian transfer pricing legislation has been in force since 1 January 2012.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. In accordance with the Constitution of the Russian Federation, laws that introduce new taxes or worsen a taxpayer's position cannot be applied retroactively. Nonetheless, there have been several instances when such laws have been introduced and applied retroactively.

Despite the Russian Government having taken steps to reduce the overall tax burden in recent years in line with its objectives, there is a possibility that the Russian Federation could impose arbitrary or onerous taxes and penalties in the future.

These conditions complicate tax planning and related business decisions. These uncertainties could possibly expose the Group to significant fines and penalties and potentially severe enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden. This, in turn, could have a material adverse effect on the Group's business, results of operations and financial condition or prospects.

Tax audits or inspections may result in additional costs to the Group, in particular if the relevant tax authorities conclude that the Group did not satisfy its tax obligations in any given year. Such audits or inspections may also impose additional burdens on the Group by diverting the attention of management.

In October 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued a ruling concerning judicial practice with respect to unjustified tax benefits. In this context, a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction of the tax base, the receipt of a tax deduction or tax concession or the application of a lower tax rate, and the receipt of a right to a refund (offset) or reimbursement of tax. The ruling provides that where the true economic intent of business operations is inconsistent with the manner in which they have been taken into account for tax purposes, a tax benefit may be deemed to be unjustified. The same conclusion may apply when an operation lacks a reasonable economic or business rationale. As a result, a tax benefit cannot be regarded as a business objective in its own right. On the other hand, the fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unjustified. Moreover, there are no rules and little practice for distinguishing between lawful tax optimisation and tax avoidance or evasion. The tax authorities have actively sought to apply this ruling of the Supreme Arbitrazh Court when challenging tax positions taken by taxpayers in court, and are anticipated to expand this trend in the future. Although the intention of this ruling was to combat tax abuses, in practice there can be no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitrazh Court.

As a result of these rules, it is possible that despite the best efforts of the Group to comply with Russian tax laws and regulations, certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden, exposure to significant fines and penalties and potentially severe enforcement measures for the Group.

Recent developments show that the Russian tax authorities are scrutinising various tax planning and mitigation techniques used by taxpayers, including international tax planning. In particular, the Russian Federation introduced "controlled foreign companies (CFC)" rules, the concept of "tax residency for legal entities", "beneficial ownership" concept and is in the process of ratifying of international tax information exchange agreements (including country-by-country reporting standards developed by OECD).

It is currently unclear how the Russian tax authorities will interpret and apply the new tax provisions and what will be the possible impact on the Group. Therefore, it cannot be excluded that the Group might be subject to additional tax liabilities because these changes are applied to transactions carried out by the Group.

Furthermore, Russian tax legislation is consistently becoming more sophisticated. It is possible that new revenue-raising measures could be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that no additional tax exposures will arise for the Group.

All the aforesaid evolving tax conditions create tax risks in the Russian Federation that are greater than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on the Group's operations, including management's resources. Furthermore, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group's business, results of operations, financial condition, its ability to service its payment obligations under the Guarantee and the Issuer's ability to make payments under, or the trading price, of the Notes.

Payments under the Guarantee may be subject to Russian withholding tax or Russian personal income tax, as applicable.

Payments following enforcement of the Guarantee to be made by the Guarantor to the non-resident Noteholders relating to interest on the Notes are likely to be characterised as Russian-source income. Accordingly, there is a risk that such payments may be subject to withholding tax at a rate of 20 per cent in the event that a payment under the Guarantee is made to a non-resident Noteholder that is a legal entity or organisation which in each case is not organised under Russian law and which holds the Notes otherwise than through a permanent establishment in the Russian Federation. In the event a payment under the Guarantee is made to a non-resident individual, there is a risk that such payment may be subject to withholding tax at a rate of 30 per cent. If tax is not withheld at source by the Guarantor which is a Russian legal entity, non-resident Noteholders that are individuals may be obliged to pay Russian personal income tax on their own on the basis of a personal income tax return. Such tax, if it arises, would not be in any way indemnified by the Issuer and/or the Guarantor. We cannot offer any assurance that such withholding tax would not be imposed on the full amount of the payment under the Guarantee, including with respect to the principal amount of the Notes. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See "*Taxation – The Russian Federation*".

Under the gross-up provisions for the Notes, if payments made under the Guarantee are subject to any withholding taxes for any reason (as a result of which the Guarantor would be obliged to reduce the payments to be made under the Guarantee by the amount of such taxes to be withheld), the Guarantor is required to increase the payments as necessary so that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. It is unclear whether a tax gross-up clause such as that contained in the Prospectus is enforceable in the Russian Federation. There is a risk that the tax gross-up for withholding tax will not take place and that the full amount of the payments made by the Guarantor, which is a Russian legal entity, will be reduced by Russian withholding income tax at a rate of 20 per cent (or potentially, 30 per cent in respect of individual Noteholders). See "*Taxation – The Russian Federation*".

Tax might be withheld on disposals of the Notes in the Russian Federation, thereby reducing their value

If a non-resident Noteholder that is a legal entity or organisation, which in each case is not organised under Russian law and which holds and disposes of the Notes otherwise than through a permanent establishment in Russia, sells the Notes and receives proceeds from a source within the Russian Federation, there is a risk that any part of the payment that represents accrued interest may be subject to a 20 per cent Russian withholding tax (even if a disposal is performed at a loss). The foreign Noteholder may be entitled to a reduction of such Russian withholding tax under an applicable double tax treaty.

Where proceeds from a disposal of the Notes are received from a source within the Russian Federation by a non-resident Noteholder that is an individual, there is a risk that Russian withholding tax would be charged at a rate of 30 per cent on gross proceeds from such disposal of the Notes less any available documented costs (including the acquisition cost of the Notes).

Although such tax may be reduced or eliminated under an applicable double tax treaty, subject to compliance with the treaty clearance formalities, in practice individuals would not be able to obtain advance treaty relief in relation to proceeds from a source within the Russian Federation. Obtaining a refund of taxes withheld can be extremely difficult, if not impossible. The imposition or possibility of imposition of the withholding tax could adversely affect the value of the Notes. See "*Taxation – The Russian Federation*".

Payments under the Notes may be subject to Russian withholding tax

Payments under the Notes may be subject to Russian withholding tax if the Issuer is treated as a Russian tax resident or if the Issuer's activities lead to creation of a permanent establishment for the Issuer in the Russian Federation. In these cases payments of interest under the Notes made by the Issuer to the Non-Resident Noteholders could be recognised by Russian tax authorities as subject to Russian withholding tax at a rate of 20 per cent (or 30 per cent in respect of Individual Non-Resident Noteholders).

However, the Russian Tax Code provides an exemption from the obligation to withhold tax from interest paid by a Russian organisation to Legal Entity Non-Resident Noteholders under the "quoted bonds" issued in accordance with the legislation of the foreign jurisdiction (this exemption is also applicable to the foreign organisations, which are either recognised as Russian tax residents, or as those organisations, which activities lead to creation of a permanent establishment in the Russian Federation). Based on the professional advice received, the Issuer believes that the Notes should be recognised as "quoted bonds" for purposes of the Russian Tax Code. For details, see *"Taxation–The Russian Federation".*

Based on the above, the Issuer should be released from the obligation to withhold the Russian withholding tax from interest payments made to the Legal Entity Non-Resident Noteholders under the Notes provided that the Notes continue to be recognised as "quoted bonds" for the purposes of the Russian Tax Code as outlined above.

If the Issuer is treated as a Russian tax resident, or the Issuer's activities lead to creation of a permanent establishment for the Issuer in the Russian Federation, the payments under the Notes (including interest and principal amounts under the Notes) made by the Issuer to Individual Non-Resident Noteholders less any available cost deduction could be subject to Russian taxation at a rate of 30 per cent subject to any available double tax treaty relief (for details see *"Double Tax Treaty Relief"*).

Also, if the Issuer is treated as a Russian tax resident, or if the Issuer's activities lead to creation of a permanent establishment in the Russian Federation, the Issuer will be fully subject to all applicable Russian taxes in accordance with the Russian tax law and will be exposed to all of the risks and implications associated with the Russian tax system. Such Russian tax consequences could have a material adverse effect on the Issuer's business, financial condition and results of operations and the Issuer's ability to make payments under, or the trading price, of the Notes.

RISKS RELATING TO THE NOTES

The Notes may be redeemed at the option of the Issuer in certain circumstances

The Issuer may at its option redeem the Notes if, as a result of certain changes affecting taxation in any Relevant Jurisdiction (as defined in "*Terms and Conditions of the Notes*" which are announced, enacted or become effective on or after the date of this Prospectus, the Issuer becomes obliged to pay additional amounts so that the net payment made after deduction or withholding for any taxes imposed by any Relevant Jurisdiction is not less than the full amount then due and payable. If the Issuer redeems the Notes in such circumstances, the redemption price will be equal to 100 per cent of the principal amount of the Notes plus any interest and additional amounts due.

The lack of a public market for the Notes could reduce the value of an investment in the Notes

If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. In addition, stock markets in recent years and, in particular, in recent months, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities were traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

Payments are effectively subordinated to secured indebtedness of the Group

A portion of the Group's indebtedness is secured by assets or rights to lease agreements of the Group. Accordingly, a portion of the assets of the Group is encumbered by liens securing such indebtedness. The secured creditors of the Group will have priority over the Noteholder's with respect to claims against such assets in the event of a default or event of bankruptcy, liquidation or insolvency.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's and its competitors' operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes or other securities and other factors. In addition, securities markets, in recent periods, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited

Except in limited circumstances, the Notes will be issued only in global form with interests therein held through the facilities of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear and Clearstream, Luxembourg can only act on behalf of their participants, which in turn act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear or Clearstream, Luxembourg or systems may be impaired.

The Notes are subject to risks relating to exchange rate and exchange controls

The Issuer will pay principal and interest on the Notes in US dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or current unit (the **Investor's Currency**) other than the US dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the US dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the US dollar would decrease (i) the Investor Currency's equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

Changes to the credit rating of the Group or the Notes may adversely affect the value of the Notes

The Notes are expected to be rated Ba3 by Moody's and BB by Fitch. The foregoing credit ratings do not mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The rating does not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The rating does not address the marketability of the Notes or any market price. The significance of the rating should be analysed independently from any other rating. Ratings provided by other rating agencies may be different. Any changes in the credit rating of the Group or the Notes could adversely affect the value of the Notes and the price that a subsequent purchaser will be willing to pay for the Notes.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or to the review by, or regulation of, certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments to it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

The Issuer is subject to risks relating to the location of its centre of main interest ("COMI"), the appointment of examiners and the claims of preferred creditors under Irish law

COMI

The Issuer has its registered office in Ireland. As a result, there is a rebuttable presumption that its COMI is in Ireland and, consequently, that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice (the **ECJ**) in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of 29 May 2000 on Insolvency Proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if 'factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect. As the Issuer has its registered office in Ireland, the majority of its directors are tax resident in Ireland and it is registered for tax in Ireland, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it is asked to make that decision. If the Issuer's COMI is not in Ireland, and is held to be in a different jurisdiction within the European Union, main insolvency proceedings may not be opened in Ireland.

Examinership

Examinership is a court moratorium/protection procedure which is available under Irish company law to facilitate the survival of Irish companies in financial difficulties. Where a company, which has its COMI in Ireland is, or is likely to be, unable to pay its debts, an examiner may be appointed on a petition to the relevant Irish court under Section 509 of the Companies Act 2014. The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions by or on behalf of the company after his appointment, and, in certain circumstances, a negative pledge given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the relevant Irish court when (i) a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals, (ii) the relevant Irish court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and (iii) the proposals are not unfairly prejudicial to any interested party.

If an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

- the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and

- a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

- the examiner may set aside the negative pledge in the Notes prohibiting the creation of security or the incurrence of borrowings by the Issuer to enable the examiner to borrow to fund the Issuer during the protection period;

- in the event that a scheme of arrangement is not approved and the Issuer subsequently goes into liquidation, both the examiner's and liquidator's remuneration and expenses (including certain borrowings incurred by the examiner on behalf of the Issuer and approved by the relevant Irish Court) will take priority over the monies and liabilities which from time to time are or may become due, owing or payable by the Issuer to the Noteholders under the Notes or the transaction documents in connection therewith.

- while a company is under the protection of the relevant Irish court, no action can be taken to enforce guarantees against persons who have guaranteed the debts of the company. Whether this prohibition under Irish law would be effective in the pursuit of a foreign guarantee is a matter of the governing law of the guarantee and/or the guarantor's residence; and

- where a creditor receives notice of a meeting of creditors convened by the examiner to consider and vote on his proposals for a scheme of arrangement and that creditor's debt is guaranteed by a third party, then the creditor must, within very tight deadlines, offer the guarantor the opportunity to attend and vote at the meeting in place of the creditor. If this offer is not made in writing within the statutory time period, the creditor loses its right to pursue the guarantor pursuant to the guarantee.

Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular, under Irish law, the claims of unsecured creditors of the Issuer rank behind other creditors (including fees, costs and expenses of any examiner appointed, certain capital gains tax liabilities and claims of the Irish Revenue Commissioners for certain unpaid taxes).

USE OF PROCEEDS

The net proceeds to the Company from the issue of the Notes are expected to be USD 495,566,560.32 which the Company intends to use for the general corporate purposes of the Group, including the refinancing of the Company's existing indebtedness.

The Company and the Guarantor will not directly or indirectly use the proceeds of the offering of the Notes, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity (i) to fund or facilitate any activities of or business with any person that, at the time of such funding or facilitation, is the subject or the target of EU or U.S. sanctions, (ii) to fund or facilitate any activities of or business in any country or territory that is the subject or target of EU or U.S. sanctions, in each case with respect to (i) or (ii) above, if such funding, facilitation, activity or business, as the case may be, would result in violation of EU or U.S. sanctions if it were carried out by an EU or U.S. person or (iii) in any other manner that will result in a violation by any person (including any person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of EU or U.S. sanctions.

SELECTED FINANCIAL REVIEW

The following selected financial review covers the years ended 31 December 2016 and 2015. Unless otherwise specified, the financial information presented in this discussion has been extracted or derived from the Annual Consolidated Financial Statements without material adjustment. This section should be read in conjunction with the Annual Consolidated Financial Statements and the notes thereto, and the other financial information included elsewhere in this Prospectus.

This discussion contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements". Actual results could differ materially from those anticipated in such forward- looking statements as a result of a variety of factors, including the risks discussed in the ''Risk Factors'' section of this Prospectus.

Overview

The Group is a leading Russian transportation and equipment finance and operating leasing company offering leasing services to both Russian and international private and state-owned enterprises, such as PJSC "Aeroflot", JSC "Yamal Airlines", "Rossiya Airlines" JSC, JSC "Aurora Airlines", "KrasAvia" and Yakutia Airlines in aviation leasing; Rail Garant Group, TGK (EURACORE Group), Vostok1520 (Industrial Investors Group) and PJSC "Central exurban passenger company" (a subsidiary of Russian Railways) in railroad leasing; and BF Tanker, Avonburg Finance and UCLH in maritime leasing. Such leases are principally provided for the leasing of transportation assets in the aviation, maritime and rail sectors, as well as large and high-tech equipment in the transportation infrastructure sector.

As at 31 December 2016, the Group had RUB 232,096,904 thousand in total assets (as compared to RUB 185,203,057 thousand as at 31 December 2015); RUB 174,211,887 thousand in total liabilities (as compared to RUB 139,776,355 thousand as at 31 December 2015), RUB 57,885,017 thousand in total equity (as compared to RUB 45,426,702 thousand as at 31 December 2015) and an aggregate lease portfolio of RUB 160,691,310 thousand gross of impairment allowance (as compared to RUB 129,496,968 thousand as at 31 December 2015), see table on pages 69 and 74 of "Business – *Business*" below for a breakdown of the Group's aggregate lease portfolio.

For the year ended 31 December 2016, the Group generated total interest income, being the sum of finance lease interest income and other interest income, of RUB 9,000,016 thousand (as compared to RUB 9,522,671 thousand for the year ended 31 December 2015); interest expense of RUB 13,809,372 thousand as compared to RUB 10,130,745 thousand for the year ended 31 December 2015; non-interest income, being income from operating leases and other operating income, of RUB 13,616,779 thousand (as compared to RUB 8,373,429 thousand for the year ended 31 December 2015); and operating lease expenses of RUB 1,217,758 thousand as compared to RUB 0 for the year ended 31 December 2015. Profit for the year amounted to RUB 205,210 thousand (as compared to RUB 38,906 thousand for the year ended 31 December 2015).

Key Factors affecting the Results of Operations

Operating Environment: Availability of Credit and Customer Demand

The majority of the Group's assets and investments in leases and all of its significant customers are located in, or have businesses related to, the Russian Federation. Furthermore, the Group is wholly owned by the Russian Federation and controlled by it through the Ministry of Transport of the Russian Federation. As such, the Group is significantly affected by the macroeconomic and microeconomic conditions of the Russian economy and its legal and business operating environment (see "*Risk Factors – Risks Relating to the Russian Federation*").

Russia has experienced deteriorating economic performance in recent years, particularly since 2014 during which time GDP has contracted, inflation has risen and the Rouble has significantly depreciated against a number of currencies (including the US dollar). The worsening of these and other economic indicators is the result of a combination of macro-economic and geopolitical factors. The Russian economy is to a significant degree dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials. The price of Brent Crude oil (and other commodities) has fallen since 2013 which has resulted in sharp decreases in the revenues of the Russian government and of privately held Russian companies operating in these sectors, which in turn had a severely negative effect on the Russian economy overall. At the same time, economic sanctions imposed by the United States and the EU (as well as other nations) against certain Russian individuals and legal entities (as well as retaliatory sanctions imposed by the Russian government) in connection with Crimea's accession to the Russian Federation and the armed conflict in Eastern Ukraine have significantly interrupted international business relationships and seriously reduced the ability of Russian companies to access the international capital markets. This has contributed to an increase in net capital outflows as investments decreased and Russian and non-Russian investors sought out other geographies in which to hold capital and make investments and, in turn a decrease in Russia's international reserves as significant resources were spent in an effort to support the value of the Rouble along with other government initiatives to bolster the economy and support the Russian banking sector.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation and resulted in increased economic uncertainty which in turn has contributed to a significant tightening in the availability of credit. In particular, some Russian entities, including leasing companies, may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The lack of liquidity and available credit at rates attractive to businesses, or at all, has curtailed the capital expenditure of many companies, including state-owned enterprises, which, however, had no significant impact on the Group's access to credit to fund its operations and the volume of new business the Group was able to attract in 2016.

The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. the Group's management believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment however there continues to be uncertainty regarding further economic growth and access to and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects (see "*Risk Factors – The Group's business and financial performance is dependent upon economic conditions in Russia*).

Growth of Lease Portfolio

During the year ended 31 December 2016, the Group's net investment in leases net of impairment allowance increased by 67 per cent to RUB 70,891,502 thousand as at 31 December 2016, as compared to RUB 42,349,750 thousand as at 31 December 2015. This increase was mainly driven by the following sectors: rail transportation, maritime transportation and cargo and passenger motor transportation. See "*Business – Business"* for a more detailed discussion on the Group's growth of lease portfolio by sector. An increasing focus on the aviation sector, driven by the strong relationship with the Aeroflot group, focus on international aviation assets and the Sukhoi Superjet 100 programme, in which long-term operating leases prevail has led to an increase in Assets leased out under operating leases of 5 per cent to RUB 88,140,320 thousand as at 31 December 2016 to RUB 83,915,237 thousand as at 31 December 2015. Growth in this segment was affected by the appreciation of the Rouble throughout 2016, as a significant part of operating lease operations of the Group is carried out by GTLK Europe DAC group, for which the US dollar is the functional currency. See "*Business – Business*" for more detailed information on GTLKE leasing operations. As a result of these factors the aggregate lease portfolio including both finance leases (net of impairment allowance) and operating leases has risen to RUB 159,031,822 thousand at 31 December 2016 from RUB 126,264,987 thousand at 31 December 2015 or 26 per cent.

Impairment losses on interest-earning assets

Recovery of provision for impairment on interest bearing assets amounted to RUB 1,572,493 thousand in 2016 compared to impairment losses on interest bearing assets of RUB 1,872,927 thousand in 2015. This was primarily attributable to a stabilisation in the Russian economy in 2016 and a recovery in the railway rolling stock sector which improved the creditworthiness of some of the Group's largest lessees and benefitted from modifications to the Group's internal model for estimating impairment allowances as discussed below. In 2015 the Group underwent a process whereby many of its finance leases were renegotiated into operating leases, which drove impairment losses in that year. When a lease is renegotiated from a finance leasing transaction to an operating lease (as the Group has done in its railcar leasing business in 2015, where finance leases relating to approximately RUB 13 billion in book value (before renegotiation and taking into account accumulated impairment allowances) of railcars leased out by the Group have been renegotiated into operating leases), the Group recognises the difference between the portion of the Group's net investment in leases representing the terminated finance lease and the market value of the underlying asset as an impairment loss. Such an increase in impairment losses on interest-earning assets was a material contributor to the RUB 226,000 thousand decline in profit in 2015 when compared to 2014. That trend has been reversed in 2016 which is reflected in the change described above, which was one of the key factors behind the improved financial performance of the Group in 2016. Another significant contributor to the impairment allowances recovery was the improvement of credit quality assessment in respect of the Group's investments not related to its core transportation segment. These investments are primarily represented by industrial assets leasing. Furthermore, in 2016 the Group modified its internal model utilised to estimate the impairment allowances. The application of the previous model to estimate the impairment of net investment in leases as at 31 December 2016 would have resulted in an increase of the impairment allowance estimate of RUB 1,177,000 thousand and the recovery of impairment losses would have been RUB 1,177,000 thousand less than indicated in the financial results for the year ended 31 December 2016 under such circumstances. Any further impairment losses on interest-earning assets could materially negatively impact the Group's profitability. Further discussion on the effect of 2016 macroeconomic and industry-specific inputs, as well as of the impairment assessment model improvement, on the impairment allowance balances as at 31 December 2016 as compared to the balances as at 31 December 2015 is available in the "*Results of Operations for the years ended 31 December 2016 and 2015*" section below.

Significant Accounting Policies

The Group's Significant Accounting Policies are described in Note 3 to the 2016 Consolidated Financial Statements.

Results of Operations for the years ended 31 December 2016 and 2015

The following table sets out the Group's results of operations for the year and the principal components thereof for the two years ended 31 December 2016 and 2015:

	Year ended 31 December	
	2016	**2015**
	(RUB thousand)	
Finance lease interest income	7,826,092	7,914,356
Other interest income	1,173,924	1,608,315
Interest expense	(13,809,372)	(10,130,745)
Operating leases income	13,052,150	7,196,834
Operating leases expenses	(1,217,758)	-
Depreciation of assets leased out under operating leases	(4,898,315)	(3,428,919)
	2,126,721	**3,159,841**
Recovery of provision for impairment losses on interest bearing assets	1,572,493	(1,871,927)
	3,699,214	**1,287,914**
Administrative expenses	(1,496,319)	(1,428,310)
Net income from sales activities	-	18,347
Other operating income	564,629	1,473,751
Other operating expenses	(481,634)	(334,081)
Net foreign exchange translation (loss) gain	(544,416)	2,771,660
Impairment losses on non interest-earning assets	(1,114,181)	(3,213,551)
Gain (loss) from disposal of inventories and their writing down to net realisable value	5,067	(111,436)
Profit before taxation	**632,360**	**167,138**
Income tax expense	(427,150)	(128,232)
Profit for the year	**205,210**	**38,906**
Other comprehensive (loss) income, net of income tax		
Items that are or may be reclassified subsequently to profit or loss:		
Currency translation difference	(125,211)	20,341
Total items that are or may be reclassified subsequently to profit or loss	(125,211)	20,341
Other comprehensive (loss) income, net of income tax	**(125,211)**	**20,341**
Total comprehensive income for the year	**79,999**	**59,247**

Interest income

Interest income for the year ended 31 December 2016, being the sum of Finance lease interest income and other interest income, was RUB 9,000,016 thousand, a 5.5 per cent decrease, as compared to RUB 9,522,671 thousand for the year ended 31 December 2015. This decrease was largely due to a decrease in other interest income of 27 per cent to RUB 1,173,924 thousand for the year ended 31 December 2016, as compared to RUB 1,608,315 thousand for the year ended 31 December 2015. This was interest earned on cash and cash equivalents which decreased in 2016 as compared to 2015 (see "*Cash and cash equivalents*" below). Other factors that affected the interest earned on cash and cash equivalents was the reduction in Rouble interest rates in 2016 and the Treasury's system of allocating and controlling its budget funds. The latter requires all the recipients of budget funds to place any unutilised funds into accounts with the Treasury, which are non-interest bearing in nature. As a result, such unutilised funds do not generate interest income.

Interest expense

Interest expense for the year ended 31 December 2016 was RUB 13,809,372 thousand, a 36 per cent increase, as compared to RUB 10,130,745 thousand for the year ended 31 December 2015. This rise was driven by the increase in the total borrowings of the Group; bonds issued as a percentage of liabilities increased to 49 per cent as at 31 December 2016, as compared to 29 per cent as at 31 December 2015. The Group increased its bonds issued to fund both its growth and adjust the borrowings structure by increasing its unsecured financial indebtedness (see *Liabilities - Bonds issued*"). This approach allowed for an observable decrease in the average weighted borrowing costs. Nonetheless, the absolute amount of interest expenses increased on the back of the significant growth in total liabilities (RUB 174,211,887 thousand as at 31 December 2016, as compared to RUB 139,776,355 thousand as at 31 December 2015).

In 2016, holders of several domestic Russian bonds requested an early redemption of their bonds through put options. While the closing balance of cash and equivalents as at 31 December 2016 did not exceed the corresponding amount as at 31 December 2015, the absolute values in 2016 were higher than in 2015. This was due to the necessity for the Group to accumulate extra liquidity in view of upcoming option dates in order to be able to meet obligations under the options in full. Increased cash balances, in turn, gave rise to increased interest expenses as relevant funds were sourced from the market.

Operating lease income

Income from operating leases increased significantly by 81 per cent to RUB 13,052,150 thousand for the year ended 31 December 2016, as compared to RUB 7,196,834 thousand for the year ended 31 December 2015. This increase was principally due to the increasing growth of the operating lease portfolio, which is driven by the Group's increasing focus on the aviation leasing sector, where operating leases predominate.

Operating lease expense

Operating lease expense in the amount of RUB 1,217,758 thousand are operating expenses in nature and recorded under a separate line (in 2015 there was no operating lease expense). This is attributed to a new lease transaction structure entered into by the Group, under which the Group acquired seven Airbus A320-214 aircrafts on the terms of operational leases and further sub-leased the same to PJSC "Aeroflot".

Depreciation of assets leased out under operating leases and operating lease expenses

Costs related to depreciation of assets leased out under operating leases increased by 43 per cent to RUB 4,898,315 thousand for the year ended 31 December 2016, as compared to RUB 3,428,919 thousand for the year ended 31 December 2015. This increase was primarily attributable to the increasing proportion of operating leases in the portfolio and increasing value of relevant assets leased out under operating leases, which in turn gives rise to depreciation charges. *Results from operations before impairment*

Result from operations before impairment, which is the sum of interest income and income from operating leases less interest expenses, operating lease expenses and depreciation of assets leased out under operating leases has reduced by 33 per cent to RUB 2,126,721 thousand for the year ended 31 December 2016, as compared to RUB 3,159,841 thousand for the year ended 31 December 2015. The aforementioned decrease in this measure is partially explained by the factors discussed above, including the necessity to maintain extra liquidity throughout the time periods where put options in respect of local bond issues occur together with a significant decrease in the Rouble interest rate market. As the Group primarily relies on long-term funding, the decrease in the current interest rates was less likely to positively affect the borrowing costs, while its effect on the short-term funds placement turned out to be significant. Another key factor to affect the results from operations before impairment was the significant appreciation of the Rouble (from RUB 72.88 per USD 1.00 on 31 December 2015 to RUB 60.66 per USD 1.00 on 31 on December 2016). While the Rouble is the functional currency of the Group, a significant portion of lease transactions are structured in such a manner that they generate revenue in foreign currency (primarily USD). Given the Group effectively hedges its balance sheet currency position, the depreciation of USD led to a significant decrease of the Rouble amounts of the Group’s profit generated by such operations nominated in USD. Nominal amounts of profit generated under such operations are denominated in USD and are not subject to currency exchange rate fluctuations.

Impairment losses on interest-earning assets

Reversal recovery of provision for impairment on interest bearing assets for the year ended 31 December 2016 amounted to RUB 1,572,493 thousand, as compared to impairment losses on interest bearing assets of RUB 1,871,927 thousand for the year ended 31 December 2015, primarily reflecting the stabilisation in the Russian economy in 2016 and recovery in the railway rolling stock sector which positively affected the creditworthiness of some of the Group’s largest lessees. The Group has also benefited from modifications to its internal model for estimating impairment allowances as discussed below. In 2015, there was a renegotiation of finance leases to operating leases, especially with respect to railcar leases where finance leases relating to approximately RUB 13 billion in book value (before renegotiation and taking into account accumulated impairment allowances) of railcars leased out by the Group have been renegotiated into operating leases. If a lease is renegotiated from a finance leasing transaction to an operating lease, the Group recognises the difference between the portion of the Group’s net investment in leases representing the terminated finance lease and the market value of the underlying asset as an impairment loss. While the adverse situation in the railroad transportation sector that took place in 2015 is not anticipated to occur in the immediate future, any further increase in impairment losses on interest-earning assets could still materially impact the Group’s profitability.

The significant change in impairment allowance movements for the year ended 31 December 2016 are driven both by allowances estimated on an individual and on a collective basis. Key macroeconomic indicators including Russian GDP dynamics and inflation were better than previously forecast. This improved the Group’s estimates of the creditworthiness of those lessees which have given no signs of impairment. Such leases are estimated on a collective basis whereas the potential credit losses are assumed to be dependent on the general economic situation rather than the financial performance of a particular counterparty. Leases with no signs of impairment represent the majority of the financial lease portfolio of the Group, thus the changes in the collective impairment estimates model, discussed below, had a significant impact on the impairment allowance balances as at 31 December 2016. This reduction in the impairment allowance estimated on a collective basis is primarily driven by the observable macroeconomic factors and was a significant contributor to the impairment allowances recovery in 2016. Application of the unmodified approach that did not take those objective factors into account to estimate the impairment of net investment in leases with no signs of impairment as at 31 December 2016 would have resulted in an increase of the impairment allowance estimate of RUB 1,177,000 thousand and the recovery of impairment losses would have been RUB 1,177,000 thousand less than indicated in the financial results for the year ended 31 December 2016 under such circumstances.

The Group utilises both discounted cash flows and value-in-use approaches to estimate impairment on an individual basis. This is the case for leases with signs of impairment and for lease transactions which are deemed to be individually significant for the Group. The value-in-use test is based on analysis of discounted cashflows, whereas the discount rate is selected in accordance with management's judgement that takes several factors into account. An observable decrease in Rouble interest rates took place in 2016 and a substantial part of the Group's leases are nominated in RUB. The combination of the two factors led to a decrease in the expected return rates applicable to impairment tests, thus reducing the balance of the impairment allowances.

In 2016, the Group also undertook a number of credit enhancement measures in respect of its investments not related to its core transportation segment. These investments are primarily represented by industrial assets leasing. The Group entered into negotiations with third party creditors to such industrial enterprises to seek possible restructuring and/or buyout of such entities' external debts, mitigate the risk of third party creditor processes, litigations and/or unwinding proceedings. The Group estimated the result of the aforementioned protective measures in 2016 as positive, which further allowed for a reduction in risk-adjusted expected return rates applied for the value-in-use tests and hence reduced the final impairment allowance balances in respect of the corresponding investments in leases.

Furthermore, in 2016 the Group modified its internal model utilised to estimate the impairment allowances. The application of the previous model to estimate the impairment of net investment in leases as at 31 December 2016 would have resulted in an increase of the impairment allowance estimate of RUB 1,177,000 thousand and the recovery of impairment losses would have been RUB 1,177,000 thousand less than indicated in the financial results for the year ended 31 December 2016 under such circumstances.

The change in the impairment allowance movements is therefore driven by both general macroeconomic factors observed in 2016 and the Group's proactive policies in respect of its investments aimed at investment recoverability ratio improvement rather than repossession and remarketing of the underlying lease assets. Another significant contributor to the recovery of impairment allowances was the change to the Group's internal model to estimate the impairment allowances of net investment in leases with no signs of impairment, as discussed herein.

Results from operations after impairment of interest-earning assets

The Group's results from operations for the year ended 31 December 2016, after impairment of interest-earning assets, amounted to RUB 3,699,214 thousand as compared to RUB 1,287,914 thousand for the year ended 31 December 2015. This is a combined financial metric dependent both on the operational measures gross of impairment allowance including funds management efficiency and the credit quality of the lease assets. Growth in the results from operations after impairment of interest-earning assets is primarily attributable to the significant improvement of the credit quality of lease assets on the back of a slight reduction in the results before impairment allowances.

Administrative expenses

The Group recorded administrative expenses of RUB 1,496,319 thousand for the year ended 31 December 2016, as compared to RUB 1,428,310 thousand for the year ended 31 December 2015, representing an increase of 5 per cent. This increase was primarily caused by increases in the Group's salary and related social costs which increased by 16.5 per cent from RUB 804,578 thousand for the year ended 31 December 2015 to RUB 937,724 thousand for the year ended 31 December 2016. These increases principally reflected the Group's recruitment of additional experienced leasing and management personnel which is in line with the Group's strategy and increased business volumes.

Other operating income and expenses

Other operating income decreased by 52 per cent to RUB 564,629 thousand for the year ended 31 December 2016 from RUB 1,176,595 thousand for the year ended 31 December 2015. This was driven by a fall in income from charges and penalties from RUB 335,014 thousand in 2015 to RUB 304,106 thousand in 2016 as a well as a significant fall in other income from RUB 841,581 thousand in 2015 to RUB 260,523 thousand in 2016, which primarily resulted from a one-off grant provided by the Russian Federation to subsidise 90 per cent of the spare parts purchased for the Sukhoi Superjet 100 aircraft in 2015. Other operating expense increased by 44 per cent to RUB 481,634 thousand in 2016 from RUB 334,081 thousand in 2015, primarily as a result of an increase in bank charges of RUB 100,005 thousand.

Foreign exchange translation gain

Foreign exchange translation loss amounted to RUB 544,416 thousand for the year ended 31 December 2016, as compared to foreign exchange translation gain of RUB 2,771,660 thousand for the year ended 31 December 2015. This foreign exchange translation loss was primarily driven by the appreciation of the Rouble throughout 2016 that followed a sharp trend reversal in early 2016. The existence of non-Rouble intercompany loans between STLC and the Company which impact foreign exchange differences required that certain actions be taken to hedge the currency position, which required some time to perform. The majority amount of foreign exchange losses are attributable to the first quarter of 2016, during which the Group was entering into a number of hedging transactions.

Impairment losses on non interest-earning assets

For the year ended 31 December 2015, the Group recorded impairment losses on non interest-earning assets of RUB 3,213,551 thousand as compared to RUB 1,114,181 thousand for the year ended 31 December 2016, representing a decrease of 65 per cent. This decrease in impairment losses was primarily a result of decreasing cancellations of certain finance lease agreements that had resulted in increased impairment allowances in respect of receivables under such cancelled agreements. Such receivables represent payments outstanding under finance lease agreements where the relevant assets have been repossessed by the Group and as such are no longer interest-earning. Such outstanding payments are therefore no longer secured by the relevant assets and the Group applies higher impairment allowances in respect of such financial assets. This trend was driven by the deteriorating credit quality of certain customers which was caused by the challenging economic conditions in Russia. As conditions have improved the trend has abated.

Profit before taxation

Reflecting the above factors, the Group generated profit before taxation of RUB 632,360 thousand in 2016 compared with RUB 167,138 thousand for the year ended 31 December 2015 an increase of 278 per cent.

Income tax expense

The Group's income tax expense was RUB 427,150 thousand in 2016 and RUB 128,232 thousand in 2015. Deferred income tax assets and liabilities for STLC are measured at 20 per cent as at 31 December 2016 and 2015. The applicable tax rate for the Company and its subsidiaries is 12.5 per cent. Note 15 to the 2016 Consolidated Financial Statements sets out further information on the Group's tax charge. The significant rise in income tax expense above the theoretical levels of the effective tax rates was due to the recognition of deferred tax assets and liabilities further details of which are contained in Note 15 to the 2016 Consolidated Financial Statements.

Profit for the year

Reflecting the above factors. The Group's profit for the year ended 31 December 2016 was RUB 205,210 thousand, a 427 per cent increase as compared to RUB 38,906 thousand for the year ended 31 December 2015.

Analysis of Financial Condition as at 31 December 2016 and 2015

	Year ended 31 December	
	2016	**2015**
	(*RUB thousand*)	
Assets		
Cash and cash equivalents	9,494,726	19,627,448
Deposits in banks	-	60,119
Net investment in leases	70,891,502	42,349,750
Derivative financial instruments	449,059	
Receivables on cancelled lease agreements and other receivables	8,370,129	2,686,927
Advances to suppliers	39,653,900	32,544,252
Loans granted	254,335	219,929
VAT receivable	6,592,868	1,242,982
Income tax receivable	269,734	39,248
Inventories	1,147,977	1,230,112
Property and equipment	33,259	35,759
Assets leased out under operating leases	88,140,320	83,915,237
Investment property	5,973,555	186,048
Intangible assets	31,933	28,629
Deferred tax asset	793,607	1,036,617
Total assets	**232,096,904**	**185,203,057**
Liabilities		
Loans received	52,323,450	57,561,890
Finance lease liabilities	31,020,933	40,292,797
Bonds issued	86,138,164	40,188,938
Derivative financial instruments	-	116,854
Payables on equipment purchased for leasing purposes	31,517	-
Trade and other payables	3,637,536	805,083
Advances received	944,289	750,162
Income taxes payable	60,533	-
Other than income taxes payable	55,465	60,631
Total liabilities	**174,211,887**	**139,776,355**
Equity		
Share capital	57,358,790	44,945,410
Retained earnings	645,067	474,921
Currency translation difference	(118,840)	6,371
Total equity	**57,885,017**	**45,426,702**
Total liabilities and equity	**232,096,904**	**185,203,057**

Assets

As at 31 December 2016, the Group had total assets of RUB 232,096,904 thousand, an increase of 25 per cent as compared to RUB 185,203,057 thousand as at 31 December 2015.

Cash and cash equivalents

As at 31 December 2016, the Group had cash and cash equivalents of RUB 9,494,726 thousand as compared to RUB 19,627,448 thousand as at 31 December 2015. The Group held greater amounts of cash and cash equivalents in 2015 in order to meet upcoming debt redemptions which have now occurred. A significant portion of cash and cash equivalents represented deposits (RUB 7,280,715 thousand as at 31 December 2016, as compared to RUB 14,298,581 thousand as at 31 December 2015).

Net investment in leases

As at 31 December 2016, the Group had net investment in leases of RUB 70,891,502 thousand, an increase of 67 per cent as compared to RUB 42,349,750 thousand as at 31 December 2015. This increase was driven by an increase in net investment in leases in the following segments: rail transportation, maritime transportation and cargo and passenger motor transportation. As at 31 December 2016 and 2015, certain assets leased out under financial leases and/or future lease payments under such financial lease contracts were pledged to secure loans received. As at 31 December 2016, net investments in leases totalling RUB 28,439,475 thousand were related to assets used to collateralise loans received, compared with RUB 20,130,358 thousand as at 31 December 2015 (see Note 7 to the 2016 Consolidated Financial Statements).

The following tables set out the outstanding contractual maturity profile of gross and net investment in leases as at 31 December 2015 and 2014, respectively:

	Year ended 31 December 2016				
	Gross investment in leases	**Unearned income**	**Net investment in leases gross of impairment allowance**	**Impairment allowance**	**Net investment in leases**
Overdue and less than one month	6,222,481	(832,665)	5,389,816	(757,528)	4,632,288
From one to three months	2,118,154	(1,368,916)	749,238	(18,835)	730,403
From three to six months	3,383,393	(2,181,571)	1,201,822	(45,084)	1,156,738
From six months to one year	6,514,728	(4,271,409)	2,243,319	(95,160)	2,148,159
From one year to five years	53,353,956	(26,883,781)	26,470,175	(355,340)	26,114,835
More than five years	52,662,885	(16,166,265)	36,496,620	(387,541)	36,109,079
Total	124,255,597	(51,704,607)	72,550,990	(1,659,488)	70,891,502

	Year ended 31 December 2015				
	Gross investment in leases	**Unearned income**	**Net investment in leases gross of impairment allowance**	**Impairment allowance**	**Net investment in leases**
Overdue and less than one month	3,510,963	(496,251)	3,014,712	(1,189 917)	1,824,795
From one to three months	1,700,703	(977,812)	722,891	(55,169)	667,722
From three to six months	2,499,913	(1,433,874)	1,066,039	(98,547)	967,492
From six months to one year	5,179,946	(2,747,558)	2,432,388	(210,395)	2,221,993
From one year to five years	32,475,690	(15,479,559)	16,996,131	(921,976)	16,074,155
More than five years	28,865,728	(7,516,158)	21,349,570	(755,977)	20,593,593
Total	**74,232,943**	**(28,651,212)**	**45,581,731**	**(3,231,981)**	**42,349,750**

For a breakdown of the Group's net investment in leases by sector, see "*Business – Business*".

Derivative financial instruments

Derivative Financial Instruments amounted to RUB 449,059 thousand being an asset as at 31 December 2016, as compared to RUB 116,854 thousand being a liability as at 31 December 2015. Derivative financial instrument transactions are entered into by the Group primarily to mitigate the effect of probable foreign exchange rate fluctuations on its financial results. The sharp appreciation of the Rouble in early 2016 led the Group to hedge its currency position because a significant part of its operations is denominated in USD. Derivative Financial Instruments represent the fair value of the relevant financial instruments. Any change in the fair value of the cross-currency derivative instruments is recorded in the statement of profit or loss as effected by exchange rates.

Receivables on cancelled lease agreements and other receivables

Receivables on cancelled lease agreements and other receivables, net of impairments, were RUB 8,370,129 thousand as at 31 December 2016, a 311 per cent increase as compared to RUB 2,686,927 thousand as at 31 December 2015. This increase was primarily due to a 280 per cent increase in other receivables to RUB 3,990,668 thousand as at 31 December 2016 as compared to RUB 1,052,446 thousand as at 31 December 2015. Other receivables represent amounts due payable under the buyout agreements with certain lessees. Buyout agreements were entered into with TGK, a part of EURACORE Group in respect of certain railroad rolling stock units. Under these agreements the title to the relevant assets was passed to the lessee. Payments under the agreements are structured to be received in instalments during a five-year period (2017-2021). The Group has also recorded a deferred lease premium in the amount of RUB 2,247,295 thousand that arose from an operational lease transaction, in respect of seven Airbus A320-214 aircraft, under which the Group acts as the lessee. The increase in receivables on cancelled lease agreements did not exceed 8 per cent in 2016 as compared to the 2015 increase of 117 per cent. The increase in 2015 was a result of the restructuring of railcar leases (see "*Business – Business Transportation*") due to adverse economic conditions in the sector. These conditions have now abated and the trend did not continue in 2016.

Advances to suppliers

As part of the lease arrangements entered into with lessees, the Group may agree to advance payment to an equipment supplier ahead of construction of an asset to be leased. Advances to suppliers (of leasing assets and fixed assets) were RUB 39,653,900 thousand as at 31 December 2016, an increase of 22 per cent as compared to RUB 32,544,252 thousand as at 31 December 2015, primarily driven by the increase in the Group's railroad and aviation business together with the implementation of government-supported projects (see "*Risk Factors – The Group has made significant advances to a number of major suppliers, any failure by a major supplier to deliver under its contract would have a negative financial impact on the Group*") . As at 31 December 2016, advances to four major Russian suppliers represented 79.8 per cent of the total amount, and 23 per cent of total advances related to the Sukhoi Superjet 100 programme and followed the capital injection by the Russian Federation in connection with that. As at 31 December 2015, advances issued to four major Russian suppliers represented 95.9 per cent of the total amount.

As at 31 December 2016 and 2015 there were no signs of impairment of advances to suppliers.

Assets leased out under operating leases

Assets leased out under operating leases are primarily represented by aircraft and railroad rolling stock and amounted to RUB 88,140,320 thousand as at 31 December 2016, an increase of 5 per cent as compared to RUB 83,915,237 thousand as at 31 December 2015. The increase resulted from the Group's strategies of increasing its focus on aviation leasing and increasing its share of operating leases (see "*Business – Strategy*"). The increase was slightly affected by the appreciation of the Rouble throughout 2016 as a significant part of operating lease operations of the Group is carried out by the GTLKE Group, for which the US dollar is the functional currency. See "*Business – Business*" for more detailed information on GTLKE leasing operations.

As at 31 December 2016 assets leased out under operating leases with a total carrying value of RUB 27,014,425 thousand (31 December 2015: RUB 27 956 299 thousand) were pledged to secure loans received.

Investment property

Investment property amounted to RUB 5,973,555 thousand as at 31 December 2016 as compared to RUB 186,048 thousand as at 31 December 2015. Certain assets held by the Group are recorded as investment property as the Group is planning to benefit from growth of the market value of such assets together with the associated operating lease income. Investment property assets are usually leased out under short- to mid-term operating lease agreements.

The significant increase in investment property in 2016, is primarily attributable to the construction of the "TLC Yuzhnouralsky" container terminal financed by the Group. TLC Yuzhnouralsky container terminal, which was commenced in 2013, is the largest infrastructure facility in the Eurasian transport corridor and represents a highly strategic site for the development of the Silk Road Economic Belt. Cargo deliveries from this terminal will be made directly by rail and road. The centre's total area is 180 hectares with 82,000 m2 of Class A warehouse space and it is designed to process 2.5 million tonnes of freight traffic per year or simultaneously store up to 4,000 containers per day. The first stage of the project began operations in May 2015.

Liabilities

As at 31 December 2016, the Group had total liabilities of RUB 174,211,887 thousand, an increase of 25 per cent as compared to RUB 139,776,355 thousand as at 31 December 2015.

Loans received

Bank loans are received by the Group to purchase assets to be leased and are generally collateralised by the assets or rights to lease agreements. Bank loans amounted to RUB 52,323,450 thousand as at 31 December 2016, a decrease of 9 per cent as compared to RUB 57,561,890 thousand as at 31 December 2015.

Finance lease liabilities

Aircraft acquired under finance lease agreements with ICBCL are further leased out under operating leases. Finance lease liabilities amounted to RUB 31,020,933 thousand as at 31 December 2016, as compared to RUB 40,292,797 thousand as at 31 December 2015, a decrease of 23 per cent. As at 31 December 2016 accrued interest under finance leases in the amount of RUB 56,600 thousand were recognised as finance lease liabilities and accrued expenses, as compared to RUB 48,047 thousand as at 31 December 2015. As at 31 December 2016 and 2015 all finance lease liabilities are denominated in USD and bear an average effective interest rate of 4.7 per cent per annum (2015: 4.5 per cent). See "*Funding*" below. The appreciation of the Rouble is a key factor in explaining the decrease in the finance lease liabilities amount, together with amortisation of such finance lease liabilities over time.

Bonds issued

Since 2013, the Group has been issuing documentary interest bearing non-convertible bonds in the Russian domestic and international market. Bonds issued amounted to RUB 86,138,164 thousand as at 31 December 2016, as compared to RUB 40,188,938 thousand as at 31 December 2015, representing an increase of 114 per cent.

Trade and other payables

Trade and other payables amounted to RUB 3,637,536 thousand as at 31 December 2016, an increase of 352 per cent as compared to RUB 805,083 thousand as at 31 December 2015. This increase is primarily attributable to the recognition of deferred lease income under certain operating lease arrangements with the leading Russian carrier, under which the Group acts as the lessor. There was also an increase in security deposits of clients and other payables.

Advances received

Advances received amounted to RUB 944,289 thousand as at 31 December 2016, an increase of 26 per cent as compared to RUB 750,162 thousand as at 31 December 2015. These payments represent advance payments required from lessees pursuant to certain types of leases in advance of delivery of the leased assets and therefore the increase was attributable to advances received under several new large lease arrangements entered into with lessees during the year ended 31 December 2016.

Equity

Total equity increased to RUB 57,885,017 thousand as at 31 December 2016, an increase of 27 per cent as compared to RUB 45,426,702 thousand as at 31 December 2015. This increase is attributable to a capital contribution of RUB 12,413,380 thousand from the Russian Federation in its capacity as the sole shareholder of the Group which was paid in December 2016 (see Note 21 to the 2016 Consolidated Financial Statements).

During 2016, the Group declared and paid dividends for the year ended 31 December 2015 in the amount of RUB 6.11 per one share (2015: RUB 12.16 per one share) totalling RUB 35,064 thousand (2015: RUB 34,979 thousand). Dividends per share are calculated on a non-diluted basis taking into account the outstanding amount of the shares as at the relevant reporting date.

Funding

The Group has a diversified funding structure and funds its leasing operations primarily through a combination of credit lines, issued bonds and finance lease liabilities as well as support from its parent, the Russian Federation.

The Group is significantly dependent on financial support provided by the Russian Federation. Between 2009 and 2016, the Russian Federation injected more than RUB 57 billion into the STLC's capital. In the first quarter of 2015, the Russian Federation made a contribution to the STLC's charter capital in the amount of RUB 4,944,410 thousand. In the fourth quarter of 2015 the Russian Federation made a further contribution to the STLC's charter capital in the amount of RUB 30,000,000 thousand. These funds were further paid to "Sukhoi Civil Aircraft" JSC as an advance payment under the Sukhoi Superjet 100 purchase contract. According to the Action Plan of the Government of the Russian Federation which is concerned with achieving sustainable social and economic development in the Russian Federation in 2016 (signed on 1 March 2016), a further RUB 30,000,000 thousand increase of the STLC's charter capital (to be used for further development of the operational lease programme of Sukhoi Superjet 100 programme) may be contributed over the course of 2017 and 2018. On 15 March 2017, the Government of the Russian Federation injected RUB 1,978,340 thousand in STLC's equity as part of the Federal Programme for the development of the Russian transport system (2010-2020) which was the second tranche of an aggregate RUB 5,544,000 thousand federal budget investment to co-finance the construction of two new auto-railway ferries at the Vanino-Kholmsk line. The capital injection followed a series of equity investments from the Russian Government at the end of 2016 in the aggregate amount of RUB 12,413,380 thousand, including RUB 5,000,000 thousand to support regional aircraft leasing (SSJ-100 and LET L-410 aircraft), RUB 3,847,720 thousand to develop the operating lease of helicopters (Mi-8 and Ansat), and

RUB 3,565,660 thousand which was the first tranche of the aforementioned federal budget investment to co-finance the construction of two new auto-railway ferries at the Vanino-Kholmsk line. The federal budget of the Russian Federation for 2017 and the projected period of 2018 and 2019 (Federal Law N 415-FZ dated 19 December 2016) makes provisions for additional capital injections in the charter capital of STLC aimed at the support of sales of IL-96-400M aircraft in the amount of RUB 4,000,000 thousand and RUB 10,000,000 thousand in 2017 and 2018 respectively, subject to dividends paid by JSC "Rosneftegaz" in the federal budget exceeding RUB 136,055,281.6 thousand.

The Group also relies on credit lines to fund its operations and has established strong relationships with major local and international financial institutions for this purpose. The currency structure of the Group's loans received as at 31 December 2016: 24 per cent of loans were denominated in USD and 76 per cent in RUB; 31 December 2015: 48 per cent of loans were denominated in USD and 52 per cent of loans were denominated in RUB. As at 31 December 2016, RUB 52,323,450 thousand was due to credit institutions in respect of bank loans provided for leasing operations (as compared to RUB 57,561,890 thousand as at 31 December 2015). Approximately 20 per cent of total loans outstanding as at 31 December 2016 were granted by Otkritie Bank (the relevant facilities being nominated in RUB), with the remaining RUB loans granted by Gazprombank, VTB, Globexbank, Alfa-Bank, Deutsche Bank AG, Banca Intesa, Zapsibkombank and UniCredit Bank. Approximately 13 per cent of total loans outstanding as at 31 December 2016 were granted by Credit Suisse International (the relevant facilities being nominated in USD) with the remaining USD loans granted by Alfa Capital Holdings and International Investment Bank. The proportion of the Group's total debt funding (sum of loans received, finance lease liabilities and bonds issued) represented by bank loans represented approximately 31 per cent as at 31 December 2016 compared to 42 per cent as at 31 December 2015. As at 31 December 2016 loans received in the amount of RUB 44,030,592 thousand (31 December 2015: RUB 46,103,010 thousand) were collateralised by pledged assets leased out under operating and financial leases and/or future lease payments under lease contracts.

Assets acquired under finance lease agreements are further leased out either under operating or finance leases. The Group uses finance leases as a funding source for aircraft purchases. During the period 2013 to 2015, the Group leased eight Airbus A321 and Boeing 777 aircraft further transferred to PAO "Aeroflot". The lessors under the corresponding financial lease agreements are Sky High XXVI Leasing Company Limited and Sky High XLII Leasing Company Limited, companies for which the ultimate controlling party is ICBCL. Total finance lease liabilities as at 31 December 2016 were RUB 31,020,933 thousand compared to RUB 40,292,797 thousand as at 31 December 2015. As at 31 December 2016 and 31 December 2015 all finance lease liabilities are denominated in USD. The appreciation of the Rouble is a key factor in explaining the decrease in the finance lease liabilities amount, together with amortisation of such finance lease liabilities over time.

Since 2013, the Group has been issuing documentary interest bearing non-convertible bonds in the domestic market. In August 2016, the Group registered a multi-currency perpetual RUB 151,000,000 thousand Exchange Bond Programme at the Moscow Exchange. As at 31 December 2016, RUB 56,848,000 thousand in aggregate principal amount of bonds (including held by the companies of the Group) were outstanding, as compared to RUB 39,875,000 thousand as at 31 December 2015 representing an increase of 43 per cent.

In July 2016, the Group placed its debut Regulation S USD 500,000 thousand Eurobond due 2021 with a coupon rate of 5.95 per cent per annum.

In 2016, the Group continued accessing Asian financial markets and entered into an arrangement with CMBFL with regard to financing seven new Airbus A320-214 aircraft to be further leased out to PJSC "Aeroflot" with total value of the assets to be purchased of USD 323 million.

In March 2016 an amendment agreement was signed with VTB Group, providing for an extension in maturity of the outstanding amounts under the loan facility agreements with VTB Group's banks by five years from 1 April 2016.

In December 2016, the Group entered into a syndicated loan facility agreement of up to RUB 30 billion arranged by Gazprombank for the purposes of financing the acquisition of 32 Sukhoi Superjet 100 aircraft to be further leased out to JSC "Yamal Airlines", Yakutia Airlines, JSC "IrAero" Airlines and Azimut Airlines.

The Group has achieved a diverse funding base which has meant that its cost of funding remained steady in 2015 and 2016 despite volatile debt markets.

Recent Developments

On 15 March 2017, the Government of the Russian Federation injected RUB 1,978,340 thousand into STLC's equity as part of the Federal Programme for the development of the Russian transport system (2010-2020) which was the second tranche of an aggregate RUB 5,544,000 thousand federal budget investment to co-finance the construction of two new auto-railway ferries at the Vanino-Kholmsk line.

On 29 March 2017, ICBC and Russian Regional Development Bank (part of Rosneft group) joined the syndicated loan facility agreement arranged by Gazprombank as lenders with respective commitments of RUB 1.9 billion and RUB 5 billion. Furthermore, on 11 May 2017, Credit Bank of Moscow, Banca Intesa and the Bank of China joined the syndicated loan facility agreement as lenders with commitments of RUB 5.4 billion, RUB 1.35 billion and RUB 1.35 billion, respectively.

On 16 May 2017, Fitch upgraded STLC's long-term IDRs in foreign and local currencies to 'BB' from 'BB- with 'stable' outlook. STLC's Rouble denominated senior unsecured debt ratings as well as GTLKE's guaranteed notes long-term ratings were also upgraded to 'BB' from 'BB-' in line with the IDRs.

INDUSTRY OVERVIEW

The Russian leasing market is still relatively young, having emerged in the late 1990s. It grew steadily between 2001 and 2011, on average by approximately 60 per cent per annum, in terms of the aggregate value of lease portfolios and is now the sixteenth largest leasing market in the world by new business volume according to the White Clark Group Global Leasing Report for 2017. Since 2012 however, largely as a result of the global economic slowdown and the unstable economic situation, the previously rapid development of the Russian leasing market has slowed. According to RAEX in 2016, the total value of the Russian leasing portfolio remained flat at approximately RUB 3.2 trillion (2015: approximately RUB 3.1 trillion), the volume of new business (in terms of value of property) in 2016 grew, totalling RUB 742 billion, as compared to RUB 545 billion for 2015, an increase of 36.1 per cent. The market growth was primarily driven by some large transactions in the fourth quarter of 2016 and the expansion of the automobile leasing industry. The volume of lease payments increased to RUB 790 billion in 2016, as compared to RUB 750 billion in 2015, an increase of 5.3 per cent.

Performance of Russian leasing sector Indicator	2012	2013	2014	2015	2016
New business volume, *billion RUB*	770	783	680	545	742
Growth rate, *per cent*	3.9	1.7	-13.2	-19.9	36.1
Amount of new leasing agreements, *billion RUB*	1,320	1,300	1,000	830	1,150
Growth rate, *per cent*	4	-1.5	-23.1	-17.0	38.6
Amount of lease payments, *billion RUB*	560	650.0	690.0	750	790
Growth rate, *per cent*	4	16.1	6.2	8.6	5.3
Financed amount, *billion RUB*	640	780.0	660.0	590.0	740
Growth rate, *per cent*	13	21.9	-15.4	-10.6	25.4
Aggregate value of lease portfolio of leasing companies, *billion RUB*	2,530	2,900.0	3,200.0	3,100	3,200
Growth rate, *per cent*	36	14.6	10.3	-3.1	3.2
Nominal Russian GDP, *billion RUB* (in constant prices of 2011; source: *Rosstat*)	61,798.3	62,588.9	63,038.4	61,249.4	61,097.5
Share of lease portfolio in GDP, *per cent*	1.2	1.3	1.1	0.9	1.2

Source: RAEX

The development of the Russian leasing market since 2001 has been based largely on the level of demand for renewal of industrial machinery and motor transport (including railway rolling stock), much of which dates from the Soviet era. Increasingly, Russian companies became more active globally, with, for example, companies such as Aeroflot, in the aviation sector, investing heavily in new aircraft (much of which is lease financed) in order to compete effectively for business on the more lucrative international routes. Between 2005 and 2010, the Russian leasing market expanded at a compound annual growth rate of 27.0 per cent according to RAEX, a faster rate of growth than the Russian economy as a whole and faster than the Russian banking sector. Between 2010 and 2016, the Russian leasing market expanded at a compound annual growth rate of 20.2 per cent.

According to RAEX, the volume of new business in the Russian leasing sector as a whole in 2016 increased by 36.1 per cent and reached RUB 742 billion (2015: RUB 545 billion), with the aggregate value of lease portfolios RUB 3,200 billion (2015: RUB 3,100 billion). The recovery of the leasing sector was driven by increasing activity by leasing companies as a result of the stabilisation of the Russian economy and improvement of bank financing terms. The share of leasing business in Russia's GDP reached 1.2 per cent which is close to levels before the financial crises of 2007-2008, for the first time since 2013.

Most leasing business in the Russian Federation is conducted using finance leasing rather than operating leasing, and most of the largest market players are major Russian financial institutions with state ownership and companies owned by large or medium-sized banks. However, the share of operating leasing has been gradually increasing and made up 15 per cent of the leasing market in 2016 as compared to 12 per cent in 2015, according to RAEX.

The outlook for 2017 continues to present challenges with persisting volatility in oil prices and exchange rate fluctuations likely to have a negative impact on the Russian economy. Despite this, economic growth is forecast to be robust at 3.1 per cent per annum over the next 20 years. The Russian leasing market represents an established, strategic and important contributor to Russian economic growth and the Russian government's support of the sector (demonstrated by a number of resolutions which have been adopted to support the leasing sector) continues to be an advantage for the businesses operating within it. According to RAEX's base case scenario of leasing market developments, new business volume will grow by 15 per cent in 2017 to approximately RUB 850 billion, with all key sectors, including railway rolling stock and aircraft, demonstrating positive performance.

Leasing sectors

According to RAEX, in 2016, transport leasing sectors (trucks, railway rolling stock, aircraft and motor vehicles) accounted for 75.7 per cent of new business of Russian leasing companies. The remaining part of the aggregate new business is divided among a large number of industries, of which construction equipment, vessels, energy equipment, metal processing equipment and petroleum production and processing equipment were the largest. The share of new business in maritime, in particular, has increased significantly from 1.5 per cent in 2015 to 7.1 per cent in 2016, whilst new business in aircraft has stabilised at 20.5 per cent (compared to 20.6 per cent in 2015). New business in railway rolling stock has continued to decline from 17.9 per cent in 2015 to 13.0 per cent in 2016, although it has demonstrated growth in absolute terms for the first time since 2012.

Railway Rolling Stock

The Russian rail transport leasing market is concentrated and the main lessors are fully or partly state-owned, including Russian Railways and its subsidiaries. Railway rolling stock leasing transactions in 2016 represented approximately 41 per cent of the Russian leasing market, as compared to 40 per cent for 2015, according to RAEX.

Aircraft

The growth in the aircraft leasing sector has been particularly driven by the urgent need to replace old and out-dated aircraft across the Russian Federation and the CIS with foreign-made aircraft, and in particular for operating international routes. Aircraft leasing transactions in 2016 amounted to approximately 22 per cent of the Russian leasing market, the same level as in 2015 and 2014, according to RAEX.

Maritime

Significant companies in the Russian maritime and shipping leasing market which make use of finance leasing include Sovcomflot, Volgaflot, and others. Maritime and shipping leasing transactions in 2016 represented approximately 4.9 per cent of the Russian leasing market, as compared to 2.7 per cent for 2015, according to RAEX. The increase in the maritime segment was driven by the significant increase in the volume of new business in this segment by STLC and Sberbank Leasing (with their combined share exceeding 75 per cent).

Motor vehicles and trucks

The motor vehicle and truck sector was an important driver of the Russian leasing market recovery in 2016. High liquidity of the underlying assets allowed for stable development in spite of the economic slowdown and the stabilisation of the Russian economy is likely to further promote the development of this type of leasing. Another positive factor is the State automotive leasing subsidising programme (the **Programme**) which was initially adopted by the Russian government in 2015 and then extended for the year 2016. The Programme provides federal budget funding to Russian leasing companies engaged in automotive leasing and participating in the Programme. According to RAEX, the Programme increased demand for commercial motor vehicles manufactured in Russia, including those manufactured under foreign brands. The data set out in the RAEX report indicates that more than 63 thousand motor vehicles were leased within the Programme over the past two years. This contributed to growth in new business volumes in the motor vehicle sector of 18 per cent and 14 per cent in 2015 and 2016, respectively. In addition, the RAEX report noted that in this sector, light commercial vehicles (**LCV**) experienced the most significant increase in demand.

The share of new LCV leasing transactions in 2016 amounted to approximately 36.2 per cent of total sales in the Russian LCV market, as compared to 30.0 per cent in 2015, according to RAEX. Ongoing state support is expected to promote steady growth in the segment thus making it more attractive for the market participants.

Construction and Road Construction Equipment

The equipment leasing sector largely comprises industrial or high-tech equipment leased to companies active in the energy, metal processing, petroleum production and processing and construction markets (though with the latter sector still depressed as a result of the global economic downturn, this market is currently less of a priority for Russian leasing companies generally). The volume of new equipment leasing transactions in 2016 amounted to approximately 7.0 per cent of the Russian leasing market, as compared to 5.8 per cent in 2015, according to RAEX.

Market Participants and Competition

Market Participants

Leasing companies operating in the Russian market can be divided into the following major groups:

- Companies established by banks. This group tends to operate across several leasing sectors and includes VEB-Leasing and other large market participants, such as Sberbank Leasing, VTB Leasing, Alfa Leasing, UniCredit Leasing, Raiffeisen-Leasing, Gazprombank Leasing, CMB-Leasing and RB Leasing.

- Companies established by equipment and transport suppliers. This group tends to target leasing opportunities in its specific sector, and includes SIEMENS Finance (power-generating, industry plant, medical and other special equipment), Volkswagen Group Finanz (motor vehicles and trucks) and KAMAZ-Leasing (trucks) as well as other companies operating in the motor vehicles and truck leasing sectors.

- Independent universal leasing companies. This group includes major players such as Transfin-M (primarily railway rolling stock) and Baltic Leasing (motor vehicles and trucks, power-generating equipment, construction, road construction and other special equipment), but is mostly represented by small regional companies, operating as leasing agents for banks and larger lessors, whose total leasing transactions do not exceed USD 1 million.

- Independent retail leasing companies. This group's importance to leasing industry has been increasing over recent years as certain sectors showing significant growth ratios are typically comprised by retail transactions, as is the case for this sector, which significantly contributes to the overall leasing market recovery. The most significant retail leasing companies operating in this sector include Europlan, CARCADE Leasing and Major Leasing. This allows retail companies to become growth leaders and compete with universal and state-owned market players in certain segments: according to RAEX, Europlan holds the leading position (in terms of new business volume) in the motor vehicles and trucks in 2016, outpacing state-owned VEB-Leasing and VTB Leasing which also operates in the same segments. This group also includes companies that tend to target leasing opportunities in specific sectors, primarily dealing with a specific type of equipment and/or connected to a specific vendor and acting as its financial services subdivision.

- State-sponsored or controlled sector-specific leasing companies. These are leasing companies established by the Russian Government to assist with the reorganisation of certain strategic sectors of the economy and the development of small businesses across the Russian regions, and include Rosagroleasing (agriculture), Ilyushin Finance (aviation), Rosdorleasing (road construction), Goznak-leasing (including aviation, shipping, construction and other equipment) and STLC.

Among these major groups, state leasing companies are dominating the market with their share of the new leasing agreements volume exceeding 50 per cent for the second consecutive year: 51 per cent in 2016 (as compared to 54 per cent and 48 per cent in 2015 and 2014, respectively). A slight decrease of the share in 2016 has mainly been driven by growing activity of non-state players, including leasing companies established by banks and manufacturers, and a decrease of business volume of a number of state leasing companies, including VEB-Leasing and VTB Leasing.

Competition

The Russian leasing market is increasingly competitive, with many new market entrants each year. This increased competition has led to qualitative changes in the characteristics of leasing transactions, increased sophistication in deal structuring and longer maturities, as well as improved costs to lessees. According to RAEX, as at 31 December 2016 more than 130 leasing companies provided leasing services in Russia, and of these, more than 16 companies had lease portfolios exceeding RUB 20 billion. In addition, Russian subsidiaries of major foreign financial institutions have started to provide such services, though direct competition in the Russian financial leasing industry from foreign leasing companies has to date been limited.

Despite the number of Russian leasing companies, lessees have tended to prefer companies that offer the lowest rates and the widest range of additional services, which has led to a move away from smaller lessors to market leaders, such as STLC, Sberbank Leasing, VTB Leasing, Europlan and VEB-Leasing, which for the year ended 31 December 2016 ranked first, second, third, fourth and fifth, respectively, by volume of new business transacted, and fourth, third, second, ninth and first respectively, by aggregate lease portfolio value, in the Russian leasing market, in each case according to RAEX. The top ten leasing companies in the Russian market (including the Group) have a combined market share of 63 per cent in terms of new business volume according to RAEX (as compared to 67 per cent in 2015). For 2016, the Group's share of the Russian leasing market was approximately 16.5 per cent (demonstrating almost a two-fold increase as compared to 8.8 per cent in 2015), Sberbank Leasing's approximately 11.2 per cent (as compared to 10.4 per cent in 2015), VTB Leasing's approximately 10.3 per cent (as compared to 14.3 per cent in 2015), and the VEB-Leasing's approximately 4.5 per cent (as compared to 14.0 per cent in 2015), in each case by new business volume according to RAEX.

Russian Finance Leasing Regulation

General

The general regulatory framework for all finance leasing operations in the Russian Federation is set out in Chapter 34 of the Civil Code of the Russian Federation (the **Civil Code**). Under §6 of Chapter 34 (Articles 665 to 670), a finance lease is distinguished from other leases as a transaction involving three parties whereby a lessor undertakes to purchase certain property identified by the lessee from a seller and to make this property available for the lessee's temporary possession and commercial use in exchange for lease payments to the lessor. In addition to the general provisions of the Civil Code, finance lease transactions are more comprehensively regulated by Federal Law No. 164-FZ "On Financial Leasing" dated 29 October 1998, as amended (the **Finance Leasing Law**). To the extent not covered by the specific regulations contained in §6 of Chapter 34 of the Civil Code and the Finance Leasing Law, the general provisions of Chapter 34 of the Civil Code governing all types of leases in the Russian Federation apply.

Unless a finance leasing contract between the lessor and lessee provides otherwise, it is the lessee who selects the supplier of the leased asset. In this case, the lessor is not liable to the lessee for the supplier's performance under the supply agreement. However, if the supplier breaches its obligations under the supply agreement, the lessor and the lessee will be joint and several creditors of the seller. If the lessor selects the supplier, the lessor must notify the supplier that the relevant asset is intended for leasing to a specific person and the supplier and the lessor will be liable to the lessee for the supplier's non-compliance with the terms of the supply agreement.

The property leased under the finance leasing contract must be clearly determined by the parties, otherwise the contract is considered not concluded. The property subject to a finance lease transaction may include any non-consumable tangible property, other than land plots, other natural objects and certain other restricted types of property. Title to such property may or may not transfer to the lessee at the end of the lease term. The lessor and the lessee may also agree that title transfers prior to the expiration of the finance lease. A finance lease may also be structured as a sale-leaseback transaction where the lessee acts as the seller.

Upon transfer of the leased property by the lessor to the lessee, the latter becomes responsible for maintaining the property and bears all risks of loss and damage of the property unless otherwise provided by the leasing agreement.

The Finance Leasing Law provides for certain additional protections to the lessor in the event of the lessee's default. Lessors under other types of leases, including secured lessors, are not entitled to take possession of pledged property and are only entitled to the proceeds from a public sale of such property. By comparison, the lessor under a finance lease agreement retains the title to the leased property and has the right to reclaim such property from the defaulting lessee. Furthermore, the leased property is immune from claims of third parties with respect to the lessee's obligations.

In addition, if the lessee misses more than two consecutive lease payments, the lessor has the statutory right to attach the lessee's bank account and have funds equal to the amount of any overdue lease payments withdrawn from such bank account without the lessee's consent.

The lessee under a finance lease agreement may sub-lease the property received from the lessor subject to the lessor's written consent. If leased property is subleased, the lessee remains liable to the lessor under the original lease, while the lessee's right of claim against the seller passes to the sub-lessee. Unlike in other types of leases, where the duty to make major repairs is borne by the lessor, all repairs of the property lease under a finance lease are the responsibility of the lessee unless the agreement specifically provides otherwise.

If a finance lease agreement contemplates a buy-out of the leased property by the lessee, the lease payments include the buy-out price. Unless the finance lease agreement provides otherwise, the parties to a finance lease agreement may periodically reconsider the amount of the lease payments. However, the Finance Leasing Law does not allow a change in the amount of lease payments more frequently than once per quarter.

The parties to a finance leasing contract may agree insurance of the leased property against any losses, damage or other risks. The parties may also agree insurance of business risk. In certain cases set forth by Russian law, the lessee must insure the leased property against risk of third-party liability.

In 1998, the Russian Federation acceded to the UNIDROIT Convention on Finance Leasing dated 28 May 1988 (the **Convention**). The Convention applies to leases when (i) the lessor and the lessee have their places of business in two different countries, and (ii) either those two countries (and the country in which the seller has its place of business) are parties to the Convention or both the finance lease agreement and the supply agreement are governed by the law of a country that is a party to the Convention. The Convention applies only to cross-border finance leasing of equipment, excluding equipment used primarily for personal purposes.

When the criteria above are met, the Convention applies to a finance lease agreement unless all of the parties to the transaction agree to exclude its application. If the Convention is applicable, the parties may nonetheless agree to derogate from any provisions of the Convention, with a number of exceptions. The Convention prohibits there being a provision in the agreement that would allow the lessor to recover substantially greater damages than those necessary to place the lessor in the position in which it would have been had the lessee fully performed its obligations. The Convention also prohibits the lessor from enforcing an acceleration clause for payment of future lease payments when the lessor has terminated the finance lease agreement. The Russian Federation, when acceding to the Convention, reserved the right to apply its own civil legislation to a lessor's duty to warrant the lessee's exclusive use of the leased property free from third party claims arising out of intentional or grossly negligent acts of the lessor.

There is no specific regulation relating to operating leases.

Taxation

The provisions of the Finance Leasing Law providing for preferential treatment of finance lease transactions were implemented by amendments to the Tax Code of the Russian Federation (the **Tax Code**) with effect from 1 January 2006.

The most significant advantage of finance leases from a taxation standpoint relates to the accelerated depreciation deduction from income tax. Under the Tax Code, a taxpayer can depreciate leased property for Russian income tax purposes at three times the standard rate of depreciation applicable to that type of property. This benefit is available to either the lessor or the lessee, depending on whose books the property is recorded on. The lessor and the lessee, at their own discretion, may choose which of them will record the leased property on its balance sheet.

The lessee is entitled to deduct its lease payments in determining its income tax liability. If a finance lease specifies that the leased property should be recorded on the lessee's balance sheet, and the lessee therefore takes depreciation deductions on that equipment, the lessee tax deductions for its lease payment expenses must be reduced by the amount of depreciation deductions taken.

Licensing and Registration

Leasing companies were formerly subject to licensing in the Russian Federation under the Federal Law No.158-FZ "On Licensing of Certain Types of Activity" dated 25 September 1998. In 2002, when the Federal Law No.128-FZ "On Licensing of Certain Types of Activity" became effective, finance leasing was excluded from the list of licensed businesses in Russia, and any Russian or foreign company may engage in finance leasing in the Russian Federation unless restricted by such company's constitutive documents. In 2011, the new Federal law No.99-FZ "On Licensing of Certain Types of Activity" became effective and such federal law did not include any licensing required for the leasing companies in the Russian Federation.

From 1 October 2016, Russian lessors must submit information about each finance lease agreement to the Federal Register on the Facts of Activities of Legal Entities by publishing relevant information on the website (www.fedresurs.ru) specifying each finance lease agreement's date and number, the term of a financial lease, the names of the lessor and the lessee with their identifiers (taxpayer's identification number and main state registration number (OGRN), if available) and the leased asset.

Title to, and transactions with, real estate and certain other types of property, such as railway rolling stock, aircraft, sea vessels, power and communications lines, are subject to state registration under Russian law. The lessor and the lessee may determine in the finance lease agreement the party in whose name the leased property will be registered. However, information on both the lessor as owner and the lessee shall be reflected in the registration documents. Upon termination of a leasing contract, the record on the lessee with the relevant register must be revoked. Title to movable property generally does not require registration and transactions, the subject of which is movable property, including finance leasing, are not subject to any registration requirements.

Prospective Reform of the Leasing Companies Activity

The Ministry of Finance of the Russian Federation and the CBR are currently developing the Draft Law. The key purpose of the Draft Law is to make activity of leasing companies more transparent and to improve their financial, risk-management and corporate governance systems. In particular, the Draft Law prescribes implementation of the leasing entities register where all Russian leasing companies, as well as banks and micro-financing institutions conducting leasing activities, must be reordered. The Draft Law also establishes the minimum amount of the leasing companies' capital. The leasing companies' financial statements will be subject to a mandatory audit and filing to the CBR. In addition, each leasing company will have to join a self-regulatory organisation of leasing entities in accordance with Federal law No. 223-FZ "On Self-Regulatory Organisations on Capital Markets" dated 13 July 2015. The Draft Law has not been submitted to the State Duma of the Federal Assembly of Russian Federation and is still under discussion among large market participants, and it is currently unclear whether it will be adopted at all and, if adopted, in which form.

BUSINESS

OVERVIEW

Public Joint Stock Company "State transport leasing company", a company incorporated under the laws of the Russian Federation, is a leading Russian transportation and equipment leasing company with its head office in Moscow and three regional subdivisions in Omsk, St. Petersburg and Grozny. STLC's registered office is at Office 100, Bld. 73, ul. Respubliki, Salekhard, Yamalo-Nenetsky Avtonomny Okrug, Russian Federation, 629008 and its telephone number is +7 34922 474-98 / +7 495 221-00-12. It is wholly owned by the Russian Federation and controlled by it through the Ministry of Transport of the Russian Federation. As of 4 February 2009, the Ministry of Transport of the Russian Federation was appointed to execute shareholder rights under Government Decree No. 93. The Ministry of Transport of the Russian Federation and the Ministry of Industry and Trade also have representation on the Board of Directors of STLC.

The Group provides commercial and non-commercial finance and operating leasing services (see "*Leasing operations of the Group – Finance Leasing – Non-commercial finance leases*" and "*Leasing operations of the Group – Finance Leasing – Commercial finance leases*") to both Russian and international private and state-owned enterprises. Its principal customers include PJSC "Aeroflot", JSC "Yamal Airlines", "Rossiya Airlines" JSC, JSC "Aurora Airlines", "KrasAvia", and Yakutia Airlines in aviation leasing; Rail Garant Group, TGK (EURACORE Group), Vostok1520 (Industrial Investors Group) and PJSC "Central exurban passenger company" (a subsidiary of Russian Railways) in railroad leasing; and BF Tanker, Avonburg Finance and UCLH in maritime leasing. Such leases are principally provided for the leasing of transportation assets in the aviation, maritime and rail sectors, as well as large and high-tech equipment in the transportation infrastructure sector. The Group is currently involved in implementing or developing six key government programmes: (i) the development of operating leasing of Sukhoi Superjet 100 aircraft; (ii) regional programmes to improve energy efficiency in the transportation sector; (iii) financial leasing of passenger rolling stock for local commuter services; (iv) a programme for the development of water transport leasing and ferry services; (v) a programme for the support of the national helicopter industry; and (vi) a programme for the development of regional small aircraft.

STLC established GTLK Europe Limited, a wholly owned subsidiary incorporated in Ireland, in 2012 in order to facilitate aviation and maritime leasing. In September 2016, GTLK Europe Limited was re-registered pursuant to the Companies Act 2014, as amended (the **Companies Act**) as a "designated activity company limited by shares" (or "DAC limited by shares") under the name GTLK Europe DAC and therefore has the status of a private company limited by shares registered under the Companies Act. GTLK Europe DAC accounts for 29.5 per cent of the Group's total assets as at 31 December 2016 and accounts for 53.7 per cent of the Group's revenues in 2016. GTLKE's main business is further described below (see "*Business – Aviation Transportation*").

The Group is a key player in many of the leasing sectors in Russia in which it operates. For example, according to RAEX, it was the leader of the operating leasing segment in Russia ranking first by volume of new operating leases in 2016 and the Group was the market leader in aviation and one of the leaders in maritime leasing segments in Russia as at 31 December 2016. RAEX ranked the Group as the largest leasing company by volume of new business transactions and the fourth largest by size of leasing portfolio in the Russian Federation as at 31 December 2016.

As at 31 December 2016, the Group had RUB 232,096,904 thousand in total assets (as compared to RUB 185,203,057 thousand as at 31 December 2015); RUB 174,211,887 thousand in total liabilities (as compared to RUB 139,776,355 thousand as at 31 December 2015), RUB 57,885,017 thousand in total equity (as compared to RUB 45,426,702 thousand as at 31 December 2015) and an aggregate lease portfolio of RUB 160,691,310 thousand gross of impairment allowance (as compared to RUB 129,496,968 thousand as at 31 December 2015).

For the year ended 31 December 2016, the Group generated total interest income, being the sum of finance lease interest income and other interest income, of RUB 9,000,016 thousand (as compared to RUB 9,522,671 thousand for the year ended 31 December 2015); interest expense of RUB 13,809,372 thousand as compared to RUB 10,130,745 thousand for the year ended 31 December 2015; non-interest income, being income from operating leases and other operating income, of RUB 13,616,779 thousand (as compared to RUB 8,373,429 thousand for the year ended 31 December 2015); and operating lease expenses of RUB 1,217,758 thousand as compared to RUB 0 for the year ended 31 December 2015. Profit for the year amounted to RUB 205,210 thousand (as compared to RUB 38,906 thousand for the year ended 31 December 2015).

History and relationship with the Russian Federation

STLC was incorporated in the Russian Federation as a Closed Joint Stock Company "Leasing Company of Civilian Aviation" on 12 November 2001. On 17 January 2006 STLC was reorganised and renamed as Open Joint Stock Company "State transport leasing company". On 9 February 2015, STLC changed its form of incorporation from Open Joint Stock Company to Public Joint Stock Company in accordance with changes in the laws of the Russian Federation.

Key milestones

- 2009: Vladimir Putin, President of the Russian Federation, ordered the establishment of a single-purpose leasing company to acquire domestic vehicles and road-building machinery and a single-purpose leasing company (meaning that its focus is on the transportation sector) was set up on the basis of STLC with a RUB 10 billion capital injection.

- 2010: the Russian Government pursued a policy of active support for domestic manufacturers as part of its crisis management programme following the 2008 Global Financial Crisis which generated business for STLC. STLC worked with these manufacturers to help the Russian Government implement its crisis management programme. At the same time, STLC began operating commercial leasing programmes financed by domestic bank funding in various sectors of the Russian economy.

- 2011: STLC is ranked in the top five in the leasing companies market having established itself as a leader in the railway, aviation and maritime transport leasing segments. Active development of the railroad equipment sector.

- 2012: development of regional aviation leasing, including a relationship with PJSC "Aeroflot" by STLC. S&P commenced rating STLC. Cumulative investment in programmes of non-commercial leasing as of the end of 2012 exceeded RUB 20 billion.

- 2013: STLC entered Asian debt markets – a USD 800 million credit line was opened with ICBCL. The procurement of five units of Airbus A321 for Aeroflot was financed in conjunction with ICBCL. The Group became the largest aircraft supplier for regional aviation and entered the maritime leasing segment. STLC also began to develop its operating lease segment. Debut domestic bonds of RUB 20 billion issued by STLC.

- 2014: STLC entered the international aircraft leasing market, delivering two aircraft under a leasing agreement with PLL SCAT Air Company (Kazakhstan). STLC continued operations in the maritime segment and entered contracts for building of three multi-product carrier type vessels.

- 2015: Further development of co-operation with ICBCL – the procurement of three units of Boeing 777-300ER for Aeroflot was financed. STLC received two capital injections in the total amount of RUB 34.9 billion from the Government of the Russian Federation. The programme of operational leases of Sukhoi Superjet 100 aircraft is launched. According to RAEX, STLC became the leader of the aviation and one of the leaders in maritime transport leasing segment (by new business volume) and ranked first in the operational leasing sector in Russia. Long-term credit rating of 'B+' (stable outlook) assigned by S&P.

- 2016: The Group continued to access Asian financial markets and entered into an arrangement with CMBFL with regard to financing seven new Airbus A320-214 aircraft which were further leased out to PJSC "Aeroflot" with a total value of USD 323 million. Additional long-term credit ratings were received: 'Ba2' (negative outlook) from Moody's and 'BB-' (stable outlook) from Fitch. The long-term credit rating from S&P was uplifted by one notch to 'BB-' (stable outlook). A five-year USD 500 million debut Eurobond issue was placed and listed on the Irish Stock Exchange. STLC received capital injections in the aggregate amount of RUB 12.4 billion from the Government of the Russian Federation. A RUB 30 billion loan facility was granted to STLC by Gazprombank to finance the programme of operational leases of Sukhoi Superjet 100 aircraft. STLC became the leader of the Russian leasing industry by new business volume and the fourth largest company by size of lease portfolio as of 31 December 2016, according to RAEX.

- 2017: STLC received a capital contribution to the charter capital from the Russian Government in the amount of RUB 1.98 billion. Moody's affirmed STLC's long-term corporate family rating at 'Ba2' and revised its outlook to 'stable' from 'negative'. Fitch upgraded STLC's long-term IDRs in foreign and local currencies to 'BB' from 'BB-' with 'stable' outlook. STLC's Rouble denominated senior unsecured debt ratings as well as GTLKE's guaranteed notes long-term ratings were also upgraded to 'BB' from 'BB-' in line with the IDRs.

As a state-owned company, STLC's corporate governance and risk management practices are controlled by the Ministry of Transport of the Russian Federation. Certain significant leasing transactions entered into by STLC must be approved by the Ministry of Transport in its capacity as the sole shareholder. STLC's strategy is aligned with governmental initiatives but STLC has the ability to make independent decisions on its day-to-day principal business activities.

Strategic control over STLC's strategy and development is also exercised by the two representatives of the Government who sit on the Board of Directors along with three independent directors and three other directors. As at the date of this Prospectus, the Board of Directors of STLC includes a representative of the Ministry of Transport of the Russian Federation – Mr. Ditrich, First Deputy Minister of Transport, demonstrating the increasing significance of STLC to the shareholder and the Russian Government. For a more detailed discussion on STLC's management; see "*Management*".

Significant Subsidiaries

STLC has a number of subsidiaries incorporated outside of the Russian Federation and held through GTLKE, its wholly-owned subsidiary which was incorporated in Ireland in 2012. These subsidiaries are corporate vehicles through which the Group holds certain of the assets that it leases to customers, including those such as aircraft and maritime vessels, which are largely registered in the jurisdictions in which such subsidiaries are incorporated. GTLKE is the ultimate controlling party of the following companies:

Company Name	**Country of incorporation**	**Date of incorporation**
GTLK 5737 Limited	Ireland	24 January 2013

Company Name	Country of incorporation	Date of incorporation
GTLK AFL Ltd	Bermuda	11 July 2013
GTLK BO1 Ltd	Bermuda	11 July 2013
GTLK BO2 Ltd	Bermuda	11 July 2013
GTLK BO3 Ltd	Bermuda	24 July 2013
STLC Europe One Leasing Limited	Ireland	10 July 2013
STLC Europe Two Leasing Limited	Ireland	10 October 2013
GTLK MALTA Limited	Malta	10 October 2013
GTLK BO4 Ltd	Bermuda	13 February 2014
GTLK BO5 Ltd	Bermuda	14 February 2014
GTLK Lietuva 01 UAB	Republic of Lithuania	21 February 2014
GTLK BO6 Ltd	Bermuda	29 April 2014
STLC Europe Three Leasing Limited	Ireland	10 November 2015
STLC Europe Four Leasing Limited	Ireland	18 November 2015
STLC Europe Five Leasing Limited	Ireland	10 February 2016
GTLK Malta Two Limited	Malta	13 June 2016
GTLK Malta Three Limited	Malta	3 August 2016
STLC Europe Six Leasing Limited	Ireland	3 November 2016
STLC Europe Seven Leasing Limited	Ireland	22 February 2017
STLC Europe Eight Leasing Limited	Ireland	22 February 2017

On 12 May 2015 tax registration of Limited Liability Company “GTLK-Finance”, a 100 per cent subsidiary of STLC incorporated in the Russian Federation, was completed. This company will be used for structuring transactions for Rouble denominated public debt instruments of STLC traded on the Moscow Exchange as well as the management of outstanding public debt.

In 2016, the tax registration of Limited Liability Company "GTLK-Invest" was completed. STLC and English Limited Liability Company "GTLK-Finance" jointly own 100 per cent of the share capital of Limited Liability Company "GTLK-Invest".

In December 2016, the Group acquired a 95 per cent share in Limited Liability Company “Rozana” and a 100 per cent share in Limited Liability Company “Morskoy port “Lavna”. As at the date of this Prospectus, the above companies hold the necessary planning permission and construction documentation in respect of a trading seaport project and the leaseholds of certain land plots, respectively, in the Murmansk region. See “*Marine Transportation*” for further details.

STRATEGY

As a state-owned company, the Group’s strategy is influenced by the Ministry of Transport of the Russian Federation and subject to approval by the Prime Minister and Cabinet of Ministers and STLC’s strategy is therefore based on its function as a tool for implementing government policy, primarily through STLC’s non-commercial leasing programmes to support modernisation in the transport sector and the implementation of anti-crisis measures to support the Russian economy. STLC’s strategy for both its commercial and non-commercial operations is as follows:

- implementation of government support of the transportation sector: STLC acts as an agent under several state programmes aimed at the development of the transport sector in the Russian Federation. These include (i) the development of operating leasing of Sukhoi Superjet 100 aircraft (described in further detail in the next bullet point below); (ii) regional programmes to improve energy efficiency in the transportation sector; (iii) a programme for the development of water transport leasing and ferry services; (iv) a programme for the support of the national helicopter industry; and (v) a programme for the development of regional small aircraft;

- promotion of the Sukhoi Superjet 100 aircraft through the implementation of a large-scale operational lease programme, which is co-financed by the Russian Federation. STLC received two capital contributions of RUB 30,000,000 thousand and RUB 4,000,000 thousand in 2015 and 2016 respectively under this programme, and a further capital injection of RUB 30,000,000 thousand may be contributed over the course of 2017 and 2018;

- attracting non budget financing for the development of the transportation sector: STLC's programmes are developed on a co-financing principle and promote private investments in projects in the transportation sector, backed by governmental support in the form of direct funding which is the most attractive to investors. STLC is also a member of the Russia-China commission on cooperation in the transportation sector, where STLC presents potentially attractive projects to foreign investors and raises international funding for the transportation sector from a broader range of international financial institutions; and

- support of the transport machinery sector in Russia: programmes being implemented by STLC create and enhance demand for Russian transport machinery helping to implement the government's objective of reducing reliance on imports.

Pursuant to the above strategies, the Group intends to consolidate its strong position in the Russian domestic leasing market by:

- further diversifying and expanding its lease portfolio by increasing the volume of lease transactions entered into in the transportation, machinery and industrial equipment sectors (mainly transport infrastructure projects) in order to ensure that the Group is not overly dependent on any one sector, or related sectors, or on a particular client or group of clients, for the continued growth and success of its business;

- continuing to focus on aviation leasing both through the leasing of internationally manufactured aircraft and the Sukhoi Superjet 100 programme. Aviation leases made up 52.3 per cent of the Group's aggregate lease portfolio (gross of impairment allowance) as at 31 December 2016, compared to 59.9 per cent as at 31 December 2015. The decrease in the share of aviation leases of the Group's aggregate lease portfolio (gross of impairment allowance) was largely attributable to the appreciation of the Rouble in 2016 as the Group's aviation leasing utilises the US dollar as its functional currency. See "*Business – Business*" for more detailed information on GTLKE leasing operations. The overall dynamics in the segment principally reflect the need for many Russian airlines to modernise their fleets and the desire of the Russian federation to support this and, in particular, to develop the Sukhoi Superjet 100 and the ongoing operations of the Group in the international aviation leasing market;

- increasing the Group's rail and maritime lease portfolio in absolute terms, although their respective shares of the total portfolio is expected to remain substantially unchanged due to the Group's continued focus on aviation operating leases, both through the leasing of internationally manufactured aircraft and the Sukhoi Superjet 100 programme; and

- diversifying its sources of funding and attracting extra-budgetary investment into the development of the transport infrastructure industry by increasing its exposure to the domestic and international capital markets, including through the issue of debt securities such as the Notes, and borrowing from a range of domestic and international banks.

Although STLC's strategy is aligned with the Russian Federation's and the Ministry of Transport's priorities, any such goals do not override STLC's general corporate aims, including the generation of profit and focus on commercial projects. Although higher return levels are not a key priority point for STLC's shareholder, management believes that it is crucial to, and is therefore focused on, maintaining profitable operations. STLC's management also focuses on maintaining the financial stability of STLC while realising its aims as an agent of the Russian Federation. STLC's operations are currently primarily commercial. Its non-commercial operations, as at the date of this Prospectus, consist of (i) the Sukhoi Superjet 100 programme; (ii) a regional programmes to improve energy efficiency in the transportation sector; (iii) a programme for the development of water transport leasing and ferry services; (iv) a programme for the support of the national helicopter industry; and (v) a programme of the development of regional small aircraft. The latter two programmes are expected to commence later in 2017.

COMPETITIVE STRENGTHS

The Group believes that it enjoys the following key competitive strengths that it believes will enable it to meet its strategic objectives:

- The Group's ownership, support, market recognition and client base: the Group is owned by the Russian Federation and controlled by the Ministry of Transport with input from the Ministry of Industry and Trade. This provides the Group with important management, advisory, financial and staffing support from the Ministry and allows it to benefit strongly from its association with the State, and to provide additional credibility in its implementation of the Russian government's policies for the support of domestic business and the development of the Russian economy and financial system. The Group also benefits from capital support from the State, for example benefiting from a series of capital increases of approximately RUB 49,336,130 thousand in aggregate in 2015-2017 under various state development programmes (see below).

- Leading market position: the Group enjoys a leading position in the Russian leasing market, which the Group believes it can leverage to further grow and develop its business and expand into new leasing markets. The Group enjoys a strong relationship with its key customers being PJSC "Aeroflot", JSC "Yamal Airlines", "Rossiya Airlines" JSC, JSC "Aurora Airlines", "KrasAvia" and Yakutia Airlines in aviation leasing; Rail Garant Group, TGK (EURACORE Group), Vostok1520 (Industrial Investors Group) and PJSC "Central exurban passenger company" (a subsidiary of Russian Railways) in railroad leasing; and BF Tanker, Avonburg Finance and UCLH in maritime leasing which will be increasingly important drivers of the business as the Group focuses on these three key sectors.

- Diversified leasing portfolio with stable credit quality: the Group's leasing portfolio is well diversified across key business segments and asset classes.

- Access to funding: the Group operates in a capital-intensive industry and, accordingly, ease of access to funding is a key strength for its continued growth. The Group has been able to attract competitive funding from third-party domestic and international banks and in the domestic capital markets, which has allowed it to diversify its funding base (see "*Selected Financial Review – Funding*"). The government support means the Group has strong financing potential and has been able to enjoy a relatively stable cost of funding despite difficult market conditions. From January 2015 to March 2017, the Russian Government made a series of contributions to STLC's charter capital in the amount of RUB 49,336,130 thousand in aggregate. According to the Action Plan of the Russian Government aimed at sustainable social and economic development of the Russian Federation in 2016 approved on 1 March 2016, the Russian Federation approved an additional increase in STLC's charter capital of RUB 30,000,000 thousand aimed at the further development of the Sukhoi Superjet

100 programme. This charter capital increase may be contributed over the course of 2017 and 2018. The federal budget of the Russian Federation for 2017 and for the projected period of 2018 and 2019 (Federal Law N 415-FZ dated 19 December 2016) also makes provisions for additional capital injections in the charter capital of STLC aimed at the support of sales of IL-96-400M aircraft. Amounts of up to RUB 4,000,000 thousand and RUB 10,000,000 thousand may be contributed in 2017 and 2018, respectively, subject to dividends paid by JSC "Rosneftegaz" in the federal budget exceeding RUB 136,055,281.6 thousand.

- Strong and experienced senior management: each member of the senior management team of the Group has extensive experience in leasing, banking and finance. Since the Group's establishment, the senior management team has guided STLC through a period of growth and diversification, has dealt with the challenges of the global financial crisis, and has the experience to continue to implement STLC's strategic objectives and strong segment expertise in aviation, railcars and maritime leasing.

- Experience in executing complex leasing transactions: through the experience of STLC's senior management team, and its key employees, together with its experience in executing complex transactions (gained largely as a result of its participation in large-scale infrastructure projects, and equipment acquisitions for large rail companies and airlines), STLC has offered and continues to be in a position to offer its customers a service tailored to their individual leasing requirements.

BUSINESS

The Group's business is the finance and operational leasing of transportation assets, including aircraft, railway rolling stock and maritime vessels and modern industrial equipment, such as that used in the transportation infrastructure industries. The assets leased by the Group are typically produced by leading Russian and international manufacturers, such as Airbus, Boeing and "Sukhoi Civil Aircraft" JSC in the aviation sector, Krasnoye Sormovo shipyard (United Shipbuilding Corporation) and Okskaya Shipyard (Universal Cargo Logistics Holding) in the maritime sector, Ruzkhimmash JSC, JSC "Tikhvin Freight Car Building Plant" in the rail sector and GAZ Group Bus Division, NEFAZ OJSC (KAMAZ Group of Companies), Trolza CJSC in the transportation infrastructure sector. While the Group's operations are primarily commercial, as a leasing group owned by the Russian Federation, the Group is also actively involved in the implementation of a number of government non-commercial leasing programmes as set out in "*Business – Overview*". The Group is also engaged in large-scale projects, which are not typically eligible for finance leasing on terms acceptable to commercial banks and other non-specialist market investors, due largely to the scale and scope of such projects and the tenor of the leases required.

Historically the Group has engaged primarily in finance leasing, with operating lease arrangements constituting only an insignificant part of its revenue and aggregate lease portfolio. In 2012 for example, the Group's leasing portfolio was composed of 100 per cent finance leases. However, over the past four years the Group has increasingly been providing operating leases; as at 31 December 2013 operating leases comprised 20 per cent of the Group's aggregate lease portfolio (net of impairment); this grew to 34 per cent as at 31 December 2014 and 66.5 per cent as at 31 December 2015. This has been driven by an increasing focus on the aviation sector where operating leases are more frequently used and a desire to increase exposure to operating leases because they allow the Group to better monitor and manage the deterioration in assets that occurs over time. In spite of the Group's share of operating leases decreasing to 55.4 per cent of its aggregate lease portfolio (net of impairment allowance) as of 31 December 2016, the Group remained the market leader in the operational leasing sector in Russia for the second consecutive year, according to RAEX. It is expected that this trend will continue.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. The Group's finance leases have the following general characteristics:

- the lessee selects the asset to be purchased, with the Group purchasing such asset and retaining legal title to the asset;
- the lessee has the right of use of the asset during the term of the lease, in return for a series of lease payments;
- the Group recovers all, or a substantial part of the cost of the asset and earns interest over the term of the lease; and
- the lessee has the option to acquire ownership of the asset, usually by way of making a residual payment, at the end of the lease term (failing which the Group has the ability to sell the asset and recover any residual value).

For a more detailed discussion of finance leasing, see "– *Finance Leasing*" below.

By contrast, an operating lease is typically a shorter-term arrangement, whereby a lessee acquires the right to use an asset for a defined period of time in return for rental payments, but without the expectation of ownership at the end of the lease period. The period of time in which the lessee can use the asset is typically shorter than the life of the asset, meaning that any particular asset could have several lessees during its life. A lease is therefore classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the lessee. Such leases are frequently used by airlines. For a more detailed discussion of operating leasing, see "*Operating Leases*" below.

The Group is a key player in the leasing sectors in which it operates. RAEX ranked the Group as the first largest leasing company in new business transactions by volume and the fourth largest by size of lease portfolio in the Russian Federation as at 31 December 2016.

The Group believes that its aggregate lease portfolio, being its net investment in leases for any financial year (being the gross investment in Rouble terms that it makes in assets that are then leased to customers (on the terms of the relevant finance lease entered into with such customer) less unearned finance lease income and before any allowance for impairment) together with its net operational leases (being its operating leases less depreciation of the relevant assets), when broken down by leasing sector provides a useful indicator as to the relative size of each such sector of its aggregate lease portfolio. The following table sets out STLC's aggregate lease portfolio in each of its key leasing sectors for the years ended 31 December 2016 and 2015, together with the percentage share of its aggregate lease portfolio represented by each sector:

	31 December 2016		31 December 2015	
	Net investment in leases / Net operational leases (RUB thousands)	Percentage of aggregate lease portfolio (%)	Net investment in leases / Net operational leases (RUB thousands)	Percentage of aggregate lease portfolio (%)
Sector				
Aircraft industry and transportation and airport services	84,076,020	52.3	77,530,332	59.9
Rail transportation services	42,819,635	26.6	38,280,062	29.6

Maritime transportation and port facilities services	17,630,155	11.0	6,255,766	4.8
Logistics and transportation services	11,303,470	7.0	2,367,607	1.8
Food production	2,455,399	1.5	2,237,908	1.7
Road construction and services	1,013,427	0.6	830,017	0.7
Production of various machinery and equipment	992,851	0.6	797,597	0.6
Other Industries	400,353	0.2	1,197,679	0.9
Aggregate lease portfolio	160,691,310	100	129,496,968	100
Less impairment allowance	(1,659,488)		(3,231,981)	
Aggregate lease portfolio less impairment allowance	159,031,822		126,264,987	
Aggregate net investments in leases net of impairment	70,891,502		42,349,750	
Aggregate assets leased out under operating leases net of impairment	88,140,320		83,915,237	

Aviation Transportation

As a result of the increase in passenger and cargo air traffic over recent years, in combination with the deterioration of existing aircraft fleets in the Russian Federation and the need to replace these with newer and more efficient aircraft, Russian airlines are in the process of modernising their fleets. Accordingly, aircraft leasing has increasingly become a priority business line for the Group, and the Russian leasing market as a whole. The Group leased its first aircraft in 2009 and, since then, the Group's fleet of leased aircraft currently in operation has increased to 71 aircraft including aircraft for regional and general purposes, helicopters and large aircraft. Aviation leases, in terms of portfolio structure based on types of equipment, represents the largest group of assets in the Group's aggregate lease portfolio (including financial and operational leases) comprising RUB 84.1 billion as at 31 December 2016, being 52.3 per cent of the Group's aggregate lease portfolio (gross of impairment allowance), compared with RUB 77.5 billion as at 31 December 2015, being 59.9 per cent. As at 31 December 2016, it comprised 7.4 per cent of the Group's aggregate net investment in leases and 89.3 per cent of assets leased out under operating leases in terms of book value, as compared to 12.1 per cent of Group's net investment in leases and 85.8 per cent of assets leased out under operating leases, as at 31 December 2015. The Group's key customers in this segment include, amongst others, PJSC "Aeroflot", JSC "Yamal Airlines", JSC "Orenburg Airlines", "Rossiya Airlines" JSC, JSC "Yamal Airlines", JSC "Aurora Airlines", "KrasAvia", Red Wings, Yakutia Airlines, TGK, Rail Garant Group, UCLH, BF Tanker, and international private and state-owned enterprises such as PLL SCAT Air Company (Kazakhstan).

The aviation leasing market has grown significantly in the last few years. This is largely a result of the continuing trend for increases in passenger and cargo air traffic but has also been accelerated by the

Russian Federation's state subsidy programme for the leasing of new Russian Sukhoi Superjet 100 aircraft which commenced in 2015.

According to RAEX, the Group ranked first in 2016 by new business volume in the aviation transportation segment with its market share exceeding 50 per cent and fourth among aircraft leasing companies in Russia in terms of leasing portfolio volume with a market share of 13.5 per cent, as of 31 December 2016.

STLC's Non-commercial Aviation Leasing Operations

While the Group's scope of non-commercial aviation leasing programmes was initially limited to the SSJ-100 programme, in 2016 it was extended to cover leasing of domestically built helicopters and regional aircraft.

SSJ-100

As a measure of direct state support under the aforementioned non-commercial programmes, in August 2015 the Russian Government approved a capital injection of RUB 30,000,000 thousand which was received by STLC in the fourth quarter of 2015, and a further RUB 30,000,000 thousand capital injection may be contributed over the course of 2017 and 2018. During the MAKS-2015 international air show, the Group in turn entered into memoranda of understanding in relation to lease agreements for 118 Sukhoi Superjet 100 aircraft (including 60 aircraft that are to be delivered over the next three years) to Red Wings Airlines, Tuva Airlines, Yakutia Airlines, JSC "Yamal Airlines", "Orenburzhye" and PLL SCAT Air Company (Kazakhstan). The Group is not required to deliver all of the above-mentioned 118 aircraft to the lessor's and, considering the number of preliminary contracts for leasing entered into, is free to choose lessors under the programme. In terms of the programme implementation, as of the date of this Prospectus 17 Sukhoi Superjet 100 aircraft have been delivered and leased out by STLC through operating leases. A further 15 aircraft are expected to be delivered throughout 2017. While these aircraft were partially paid for following the capital injection, there are certain payments to be made upon delivery which amount to RUB 27 billion in 2017.

Support of National Helicopter Manufacturing Industry

In December 2016 STLC received a RUB 3,847,720 thousand capital contribution to develop its operating lease business for helicopters (Mi-8 and Ansat) produced by Russian manufacturers. The primary objective of the programme is the improvement of civil flight safety levels by means of replacing obsolete helicopter fleets with newer (Ansat) models and heavily modernised models (Mi-8 MTV/AMT). These measures are expected to decrease the average age of the helicopter fleet in Russia. STLC expects to deliver 23 units of Mi-8 and six units of Ansat helicopters in 2017-2018. These units shall be used for regional passenger transportation and air ambulance services thus improving transport accessibility and social security level in certain regions of the Russian Federation with adverse transport accessibility, in line with the Government policy of regional development. Therefore leases issued in respect of such assets shall often be eligible for certain types of state support. Implementation of the programme shall also promote domestic production of modern types of helicopters on Russian plants and increase the market capacity for helicopter operational leasing both by offering favourable rates under state-supported programmes and increasing the supply of new helicopters at competitive prices as a consequence of the economies of scale associated with the re-development of the helicopter manufacturing industry.

Support of Small Regional Aviation

As a consequence of STLC's operations in the wider segment of aircraft, it has identified potentially strong demand for regional aircraft leasing in Russia. As many regions of one Russian Federation include certain areas with adverse transport accessibility, development of regional aviation transportation network is crucial in terms of the Government policy of regional development. Maintaining constant operation of regional lines may be a challenging task for the carriers several reasons, including unstable passenger load levels which are subject to seasonal fluctuations. In such circumstances STLC believes it is increasingly important to develop a leasing product which could minimise the carriers' cost while allowing for the necessary fleet expansion to promote a developed transportation network. Presidential decrees No. Пр-865 dated 30 April 2015 and No. Пр-735 dated 19 April 2016 set out a number of measures to support local manufacturing of LET L-410 aircraft by Ural Works of Civil Aviation plant under the licence of LET, N.P., Czech Republic. In December 2016, STLC received a RUB 1,000,000 thousand capital contribution and advanced the same to such manufacturer when placing orders under construction contracts. Further development of the project is expected to have a positive impact on the development of the regional air transportation business in Russia, while continuous support of local manufacturing may potentially result in a further decrease of construction costs with minimum sensitivity to foreign exchange rates thus increasing market capacity for small regional aircraft leasing.

STLC's Commercial Aviation Leasing Operations

Aside from GTLKE's commercial leasing operation, details of which are discussed below, STLC's commercial aviation leasing relates primarily to small regional aircraft such as Cessna and LET L-410 (which are also leased on a commercial basis). As at 31 December 2016, their share was limited to no more than 3 per cent of the Group's financial lease portfolio.

Such leases are issued to local carriers and are often eligible for certain type of state support (i.e. state subsidising of lessees' expenses) as a part of a governmental incentive to promote regional aviation transportation network.

GTLKE's Aviation Leasing operations

GTLKE is an important component of the Group's commercial aviation leasing operations. GTLKE's held RUB 67.7 billion lease portfolio made up 29.2 per cent of the Group's total assets as at 31 December 2016. Assets are leased to customers though GTLKE's subsidiaries, particularly aircraft which are largely registered in the jurisdictions in which such subsidiaries are incorporated. The fleet is primarily represented by long-range aircraft, as opposed to STLC's fleet of regional aircraft and helicopters. GTLKE was responsible for 53.7 per cent of the Group's revenues in 2016.

As of the date of this Prospectus, GTLKE leases and manages a fleet of 31 aircraft:

Aircraft	**Quantity**
Airbus A321-200	7
Boeing 737-800	5
Boeing 737-400	2
Airbus A320-214	7
Boeing 777-300ER	3
Airbus A319-111	3
CRJ200LR	2
Boeing 737-700	1
Boeing 767-300	1
Total	**31**

The average age of the aircraft leased by GTLKE is nine years; the average lease term is 8.6 years. Four aircraft GTLKE leased are on finance lease terms; the remainder are leased under operating lease agreements. Acting through GTLKE, the Group's client base includes PJSC "Aeroflot", "Rossiya Airlines" JSC, JSC "Yamal Airlines", PLL SCAT Air Company (Kazakhstan), JSC "Aurora Airlines", UAB "GetJet Airlines" though the Aeroflot group accounts for nearly 50 per cent of GTLKE's business. A typical structure of a lease includes incorporating a GTLKE special purpose vehicle in Ireland for the purposes of acquisition of an asset or assets, with a 'lease-in lease-out' agreement to a Bermudian special purpose vehicle of GTLKE for the purposes of aircraft registration, with a further lease to an airline (aircraft operator).

GTLKE's gained access to funding from the Chinese capital markets in 2013-2016 to fund its commercial aviation leasing operations on behalf of the Group. Industrial and Commercial Bank of China provided long-term funding to purchase a number of Airbus and Boeing aircraft and transfer them to subsidiaries of GTLKE as finance lessees via its leasing subsidiary, ICBCL. Availability of long-term funding issued on favourable conditions and GTLKE's expertise in fleet management allowed it to tailor an attractive lease product for PJSC "Aeroflot" by further transferring the aircraft acquired from ICBCL to them under operating lease agreements. The structure of the leases allows GTLKE to effectively manage the asset-related risks by collecting appropriate maintenance reserves while such a financing structure should make it possible to purchase the aircraft from ICBCL below the future market price by exercising the purchase option embedded in the finance lease from ICBCL.

In 2016 GTLKE expanded its portfolio with PJSC "Aeroflot" by leasing out new Airbus A320-214 aircraft. The purchase of seven aircraft was financed by CMBFL.

Rail Transportation

The largest percentage share, being 46.0 per cent of the Group's net investment in leases as at 31 December 2016, was attributable to railroad transportation services. As at 31 December 2016, this sector comprised 26.6 per cent of the Group's aggregate lease portfolio (gross of impairment allowance), as compared to 29.6 per cent as at 31 December 2015. This decrease is attributable to (i) a decline in the share of new leases of railcars relative to a significant growth in the aviation leasing section, which is in line with the Group's strategic aims and has resulted in railcar leases making up a smaller share of the overall business of the Group and (ii) a decline in the volume of new railcar leases due to an excess of railcars in the railway system. According to RAEX, the Group ranked first in 2016 by new business volume in the rail transportation segment and among rolling stock leasing companies in Russia in terms of the leasing portfolio volume as of 31 December 2016. The size of the portfolio was RUB 42,819,635 thousand with over 23,000 railcars. As of the date of this Prospectus, the Group has further increased its fleet to over 30,800 thousand railroad rolling stock units. The Group's aggregate exposure to this sector currently relates to the finance leasing of freight rolling stock (including gondola cars, tank cars, covered goods wagons, flat wagons and grain hoppers). While STLC does not have any non-commercial leasing arrangements in this segment, a non-commercial passenger rolling stock leasing programme is being developed with the Russian Government with a total expected investment over a 15 year period of RUB 150 billion. This is expected to be allocated toward the purchase and lease of 220 units of passenger rolling stock and will be funded through the issuance of bonds to the domestic market. As of the date of this Prospectus, STLC has issued exchange bonds in the amount of over RUB 4,000,000 thousand to finance the construction of seven units of commuter electric trains for PJSC "Central EPC".

On 17 June 2016, a strategic partnership agreement was signed between STLC and Russian Railways (the **Cooperation Agreement**). The Cooperation Agreement contemplates, *inter alia*, that STLC and Russian Railways shall cooperate in the following areas: (i) renewing passenger rolling stock fleet (local trains); (ii) developing high-speed and ultra high-speed passenger rail projects; (iii) developing locomotive fleet renewal projects; and (iv) implementing innovative solutions in the rail transportation industry.

The Group's current significant lessees of rail rolling stock include TGK, Rail Garant Group, Vostok1520 and Central EPC:

- *Rail Garant Group*: Rail Garant Group is one of the leading Russian transportation groups providing its customers with comprehensive services in all areas of rail freight with the fleet of approximately 37,000 freight railcars and tank containers for transportation of various cargoes. As at 31 December 2016, the Group leased approximately 5,500 gondola cars and railroad tankers to Rail Garant Group.

- *TGK (EURACORE Group)*: TGK is a transportation unit of the EURACORE Group of Companies. It is a multi-profile consortium that includes leading companies in the oil and gas, industrial and civil construction fields that have been active in the market since 1998. It also includes a vertically-integrated business on tube strips and large diameter pipes production and transportation. While TGK takes advantage of EURACORE's cargo base it is also a leading railroad carrier in the special segment of stripes and large diameter pipes. As at 31 December 2016, the Group leased approximately 3,300 freight wagons to TGK.

- *Vostok1520:* Vostok1520 is a transportation division of JSC "First Heavy Load Company" (a part of Industrial Investors Group) and operates extra heavy load railroad rolling stock with the fleet exceeding 17,000 railcars. The company provides freight services for coal, chemical, iron and steel and agribusiness industries in heavy load railcars. As of the date of this Prospectus, the Group leased approximately 7,300 railcars to Vostok1520.

- *Central EPC*: PJSC "Central exurban passenger company" is a subsidiary of Russian Railways. Central EPC is the biggest railroad commuter operator in Russia providing passenger transportation services in 11 regions of Russia with a market share in commuter railroad transportation of 63.7 per cent. The company accounts for more than 90 per cent of the commuter services in the Moscow transportation hub. As of the date of this Prospectus, the Group leased seven commuter electric trains to Central EPC under the programme of financial leasing of passenger rolling stock for local commuter services.

STLC operates the Group's Rail rolling stock business and manages 2 per cent of total freight stock fleet in Russia. Rail rolling stock is generally considered to be a safer asset than other types of leased assets as, given its nature and the rail system on which it is operated, it is not considered to be at great risk of theft or misappropriation, and, in addition, is subject to a strict centralised monitoring system that enables a unit of rolling stock to be precisely located at any time. However, due to a change in market conditions over the course of 2014 and 2015, including an excess of rail cars in the railway system, adverse macro-economic conditions in Russia and a drop in cargo volumes**,** the Group's pricing models and approach to leasing had to adjust in relation to the use of such railcars. The Group has had to renegotiate finance leases relating to approximately RUB 13 billion in book value (after renegotiation and taking into account accumulated impairment allowances) of railcars leased out by the Group into operating leases in 2015 where the price for the leased railcars was below the rate on STLC's finance lease. In such circumstances the Group renegotiated the existing finance lease with the existing lessee (or another lessee, in case the existing lessee is underperforming or shows deteriorating creditworthiness) by adjusting the lease rate to market levels that exclude the lessee's option to purchase the relevant assets and as such converted such lease to an operating lease. The Group has built up an expertise in monitoring and maintaining railcars needed for such operating leases and believes the strategy should allow the Group to benefit from the expected recovery of market values of its rail rolling stock. An operating lease also gives the Group more flexibility in repricing a rolling stock transaction which increases the Group's operational efficiency in volatile market conditions. Following the gradual recovery of the railroad segment from 2016, the Group has resumed its investments in the purchase of railroad rolling stock assets to be leased out on finance lease terms, including transactions with Vostok1520 and Central EPC.

Maritime Transportation

As at 31 December 2016, the Group held a leading position in the maritime transportation leasing sector (together with Sberbank Leasing). According to RAEX, in 2016 STLC ranked second in terms of new business volume, with a new business market share of 23.0 per cent and was the second largest company by overall portfolio size, with an overall lease portfolio market share of 25.3 per cent. As at 31 December 2016, maritime transportation comprised RUB 17.6 billion, being 11.0 per cent of the Group's aggregate lease portfolio (gross of impairment allowance), compared to RUB 6.3 billion and 4.8 per cent as at 31 December 2015, respectively. As at 31 December 2016, the maritime portfolio was 24.3 per cent of the Group's aggregate net investment in leases, as compared to 13.7 per cent as at 31 December 2015. This increase was due to further development of STLC's business activities in this sector in line with the Group's strategy.

A key component of the Russian economy is the oil and gas condensate. Oil and gas producers and refiners require large tankers and super-tankers to transport such products from the Russian Federation. The Group's maritime leasing business however also includes motorboats, yachts, passenger liners, small passenger craft, cargo- and passenger vessels as well as specialised vessels such as tankers. The Group has a 23 per cent share of the maritime leasing market in Russia in terms of new business volume in 2016. The Group has the second largest market (calculated by the size of its lease portfolio as at 31 December 2016) share in the maritime leasing segment in Russia with a market share of 25 per cent. The Group signed its first lease agreement in this sector in 2013. Since then the Group's fleet of ships has increased to 57 units of different types of water craft, including 23 vessels currently under construction. As at the date of this Prospectus, all of the Group's projects in this segment are entered into on a commercial basis and are structured as finance leases.

The Group's material shipping lessees include Balt-Flot Tanker (BF Tanker LLC) which operates a fleet of multi-product carrier type vessels, designed for the transport of petroleum products as well as dry bulk and general-purpose cargo. In 2015 and 2016, the Group concluded delivery contracts for the lease of ten river-sea class multipurpose RST54 and RST27 project vessels for BF Tanker LLC for the purpose of developing the domestic ship building industry and stimulating the process of import substitution.

STLC plans to further develop and strengthen its position in this sector using all available instruments of state support and also undertake non-commercial leasing in this sector. In 2014 and 2015, STLC successfully tailored a leasing product to its clients which was eligible for the receipt of governmental grants under Decree 383 of the Government of the Russian Federation dated 22 May 2008. The lessee being eligible for this form of state support, it is entitled to receive a grant to compensate its leasing expenses. This makes the lease terms more favourable for the lessee at the same time maintaining a favourable lease structure in terms of finance debt redemption profile from the lessor's perspective. Also, as a part of the implementation of the Federal Programme for the development of water transport leasing and ferry services in the Russian Far East and Trans-Baikal regions under order of Ministry of transport of the Russian Federation, STLC is in the process of developing a ferry line in the Sakhalin Region at the Vanino-Kholmsk line and constructing two new ferries to replace the existing fleet. The programme is to be funded by total investment of approximately RUB 10 billion, of which RUB 5.5 billion has been allocated under the Federal Special-Purpose Programme and RUB 4.5 billion from non-budgetary sources (loans with 25 year maturity). The Group is also involved in large port infrastructure projects as part of the Maritime transportation leasing segment, for example with the construction of a trading seaport in the Murmansk region called "Morskoy Port Lavna". This project encompasses the development of a modern, hi-tech coal terminal with a capacity of up to 18 million tonnes per year. The completion of the project is a key part of the Murmansk transportation hub development policy and is supported by both the Ministry of Transport of the Russian Federation and the Murmansk regional government.

GTLKE's Maritime Transportation operations

As of the date of this Prospectus, GTLKE has ten multi-purpose dry cargo ships, 11 bulk carriers and one oil tanker in its portfolio. The multi-purpose dry cargo ships are registered in Malta, chartered to North-Western Shipping Company and sailing under the state flag of the Russian Federation. These vessels are leased to Universal Cargo Logistics Holdings (**UCLH)**, the international transportation group.

The bulk carriers are registered in Malta and chartered to Avonburg Finance Limited. One of the bulk carriers is leased to Pola Rise LLC, a Russian company and is currently undergoing a registration for the right to sail under the flag of the Russian Federation.

The oil tanker is registered in Malta and is sailing under the state flag of the Russian Federation. This vessel is chartered to Elisburg Shipping Limited and is leased to JSC "Rosnefteflot" (Russian Federation).

Infrastructure

One of the Russian Government's aims has been the implementation of a large-scale transportation infrastructure investment programme to increase demand for domestic industry and attract private sector investment and thus to boost the economy and facilitate growth. The Group is the state's 'launching pad' for initiating such large-scale infrastructure projects and to attract private investment to the transport industry and has been a driving force and sponsor for complex investment projects in the area of transportation infrastructure and related areas. Accordingly, the Group's management views this as one of its key strategic sectors to focus on in order to ensure the Group's continued growth.

An example of the Group operating on a large infrastructure project is the construction of the TLC Yuzhnouralsky container terminal. TLC Yuzhnouralsky container terminal, which was commenced in 2013, is the largest infrastructure facility in the Eurasian transport corridor and represents a highly strategic site for the development of the Silk Road Economic Belt. Cargo deliveries from this terminal will be made directly by rail and road. The centre's total area is 180 hectares with 82,000 m2 of Class A warehouse space and it is designed to process 2.5 million tonnes of freight traffic per year or simultaneously store up to 4,000 containers per day. The first stage of the project began operations in May 2015.

In line with the order of the Russian Government No.767 dated 13 May 2013 regulating the area of gas motor fuel and natural gas motor fuel, STLC plans to implement non-commercial leasing programmes in Russian regions with developed or developing gas motor fuel infrastructure. STLC already makes deliveries in the Tula, Chelyabinsk, Sverdlovsk, Samara regions, Yamalo-Nenets Autonomous Okrug, the Republic of Crimea and Sevastopol. See "*Risk Factors – Risks Relating to the Group's Business and Industry – The Group currently operates a state-funded transport energy efficiency programme in Crimea*".

Ferry transportation

A major infrastructure project managed by STLC is the development of Vanino-Kholmsk ferry transportation line. A part of the global project of the Corporation for Development of Sakhalin Region, modernisation of the aforementioned ferry line is of strategic importance for transport accessibility of Sakhalin Island. In December 2016, STLC received a capital contribution of RUB 3,565,660 thousand as the first stage of the programme implementation. The funds were applied towards an advance payment for construction of two new auto-railway ferries. A further capital contribution of RUB 1,978,340 thousand under the programme was received in March 2017.

Other

The Group is also active in other leasing sectors, including, passenger transportation, glass industry equipment, road construction equipment and commercial vehicles. As at 31 December 2016, none of these sectors represented a material proportion of the Group's aggregate net investment in leases or aggregate lease portfolio.

Leasing operations of the Group

Any leasing operations of the Group (regardless of them being financial or operational leases) are carried out in accordance with Group-level standards on requirements as to control and preservation of assets and monitoring of lessees. The Group believes that the main advantage of leasing over other forms of lending is the ability for the Group to reclaim the asset on default as it retains legal and beneficial title, rather than relying exclusively on taking collateral, pledges, guarantees or other security interests over the asset (though depending on the credit profile of a prospective lessee, such additional credit enhancement measures may also be taken). As such, whether the defaulting lessee is in bankruptcy or otherwise, the Group does not rank as a creditor in the same way as a lending bank would (save as to any unpaid interest due under a finance lease or unpaid payments due under an operating lease), as it is entitled to take back possession of the asset it legally owns without any requirement for a court order.

In general, classification of a lease as a financial or an operational one mostly depends on the structure and the economics of the transaction.

VAT

Russian Federation

VAT is payable by STLC at the rate of 18 per cent on all lease payments received by it under its finance lease agreements. Such VAT can be set off against the amounts paid by STLC to counterparties at the rate of 18 per cent, on a quarterly basis. As an alternative, STLC may request that the Russian tax authorities refund VAT eligible for off-setting by having such amount either (i) off-set against future taxes due by STLC; or (ii) refunded to the settlement account of STLC. STLC makes a decision on a regular basis as to which of these alternatives it pursues, taking into account potential delays in the refunding of VAT (as the Russian tax authorities will need to analyse and confirm the request) and whether there are amounts due to counterparties on which the refundable VAT can instead be offset.

Ireland

In accordance with Section 46(1)(b) and Schedule 2 Paragraph 4(2)(b) of the Value-Added Tax Consolidation Act 2010, aircraft used or to be used by a transport undertaking, operating for reward chiefly on international routes are liable to VAT at the Zero rate.

Finance Leasing

Under the Group's typical finance lease agreements, a prospective lessee identifies the asset to be financed and the supplier, with the agreement of STLC. The asset is then purchased by the Group and leased to the lessee for a pre-determined period. While on commencement of the lease the leased asset is physically transferred to the lessee, legal and beneficial title to the leased asset remains with the Group throughout the life of the lease. Risks related to the leased property such as damage and theft are insured. On expiry of the lease term, after the final payment has been made, the lessee has the option (which it is not obliged to exercise) to buy the asset from the Group for a residual sum. If the lessee does not opt to buy the asset, the Group may sell the asset, retaining the sum exceeding the residual value as additional income. The Group provides two types of finance lease products to its customers: non-commercial leases and commercial leases. There are no differences in internal procedures of risk assessment and decision making between these two types of leases; a unified risk management policy is applied to all the leases regardless of their type.

Non-commercial finance leases

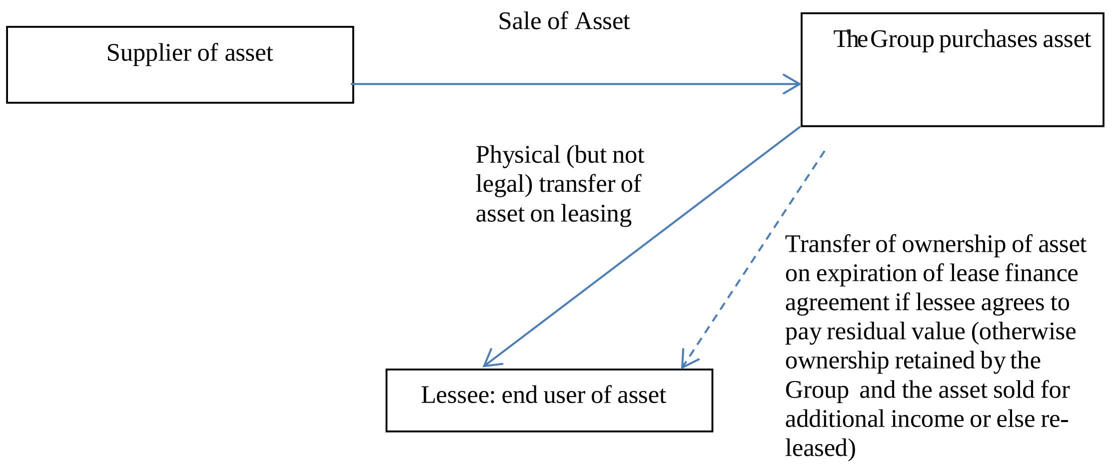
Non-commercial finance leases are a specific lease product under which finance leases are issued at favourable interest rates as they are funded by the charter capital of the Group. The Russian Government programmes pursuant to which such non-commercial finance leases are made contain certain requirements relating to lessees eligible for such programmes. The Group's non-commercial finance lease operations comprise (i) regional programmes to improve energy efficiency in the transportation sector, (ii) a programme for the development of water transport leasing and ferry services, (iii) a programme for the support of the national helicopter industry, and (iv) a programme for the development of regional small aircraft. The latter two programmes are expected to commence in the second half of 2017.

Commercial finance leases

Commercial finance leases are a standard finance lease programme under which finance leases are issued on market terms. The Group's commercial finance leases programme has no specific requirements to lessees except that they must meet the Group's requirements on their financial position and creditworthiness. There are no specific requirements related to the type of leased assets. These types of finance lease agreements are funded by the Group with borrowings from third parties. The lease term under commercial finance leases normally varies from three to ten years. The initial payment amount varies from 5 per cent to 30 per cent of the initial price of leased asset. Lease payments are normally made on a monthly basis.

Structure

The following diagram illustrates a typical finance leasing transaction:



Sub-leasing of the asset by the lessee to a third party may be permitted under the terms of the finance lease agreement. If it is permitted, it will be subject to the Group's prior written consent (the Group reviews any such requests on a case-by-case basis, including undertaking additional credit checks on the potential sub-lessee, and may require guarantees, sureties or pledges before it gives such consent). Prior consent means that the Group can ensure that the sub-lease arrangements do not alter its risk profile, or the insurance the Group has put in place in relation to the asset (or, in the case of aircraft and certain other assets, the insurance that the lessee has arranged as part of the finance lease arrangements and its legal obligations as an aircraft operator) (see "*Insurance*" below).

Advantages of Finance Leasing

Leasing transactions in the Russian Federation offer various advantages to the lessee as compared to secured borrowings, including:

- lease payments are typically tax-deductible in full and therefore decrease a lessee's income tax base;

- assets under a finance lease agreement may be depreciated in a way that is more favourable to the lessee when compared to assets purchased outright by the lessee. Depreciation of leased assets may be accelerated by up to three times, and as property tax in the Russian Federation is payable on the value of the asset less depreciation, the lessee is liable to pay less property tax. Accelerated depreciation also gives rise to additional income tax benefits as it boosts tax-deductible depreciation expenses. Accelerated depreciation is, however, not mandatory, and the Group can use depreciation in other ways as part of the structuring of its finance lease agreements, to achieve maximum tax efficiency for the lessee;

- since a lease is not a loan, any borrowing limit contained in the lessee's charter or any loan agreement to which it is party, will not affect the lessee's ability to enter into a lease, whereas a borrowing limit may affect the lessee's ability to enter into a loan. Finance leasing can also provide an alternative, cheaper source of funding for the lessee to conventional bank lending.

Lease Negotiation and Asset Procurement

In negotiations on a typical finance lease transaction, the supplier of the asset to be leased, together with the price, technical parameters and key characteristics are proposed by the lessee. If the asset is still to be constructed and contractor services are to be used in connection with the asset, the price, scope of service and other parameters are also proposed by the lessee. The Group then carries out an analysis of the lessee's proposed terms, based on the Group's internal procurement and credit analysis procedures and applicable law. In respect of certain significant transactions, specific approval from the Ministry of Transport may also be required. The Group then proposes amendments to the terms proposed by the lessee as needed, and sets out the Group's proposal for finance lease arrangements (including the tenor, interest payments, and residual payment to be made by the lessee to purchase the asset on expiration of the finance lease).

Following agreement on the proposed transaction terms between the Group and lessee, the Group works with the asset supplier and/or contractors and the lessee in order to prepare and agree transaction documentation based on the agreed terms of the transaction. This may include payment guarantees, performance guarantees, and surety or pledges by third parties in favour of the Group (see *"Finance Leasing – Terms of Finance Lease Agreements"* below). Once the transaction documentation has been completed, the Group purchases the asset from the supplier and/or pays the contractor and ensures that the asset, once constructed if not already in existence, is supplied to the lessee.

Terms of Finance Lease Agreements

As described above, accelerated depreciation is often key to determining the length of a finance lease agreement. The payment schedule varies from lessee to lessee. The leasing payments are made up of principal, interest, margin and taxes. The interest rate payable by the lessee will depend on the margin, which, in turn, is dependent on the Group's expenses incurred in connection with the finance lease agreement and the credit quality of the lessee. Often, finance leases entered into by the Group will also include provisions for payment guarantees, performance guarantees and sureties or pledges by third parties in favour of the Group.

The majority of assets purchased by the Group must be prepaid in full before the supplier will effect delivery. As such, in order to ensure that it is covered against any rise in the price of the asset that may occur between initial prepayment and delivery, the Group always retains the right to recalculate the payments that the lessee will be obliged to pay under the lease until the leased asset is actually delivered to the lessee.

The interest rate is determined on the basis of the particular lessee rather than the sector in which the lessee operates. Interest may be fixed rate or three-month or six-month LIBOR floating rate. All floating rate finance lease agreements are reviewed regularly by the Group's Credit Risk Department, and the interest rate may be changed once per quarter in accordance with Russian leasing laws. For commercial leasing and non-commercial leasing not financed through the Russian Federation budget, the Group also retains its right to review fixed rates under certain circumstances: although the Group typically secures financing to meet its obligations under a finance lease ahead of signing the agreement, the typical finance lease includes provisions to unilaterally amend the interest rate within agreed parameters and subject to certain conditions if, for example, the Group's cost of financing increases or interest rates or market conditions change, in order to protect its margin on such lease agreement.

In case of delay in delivery of leased assets by the seller to the lessee, under standard finance lease agreements concluded by STLC (as a Russian entity), the term of delivery is extended and the timetable for lease payments is adjusted accordingly. Under standard finance lease agreements concluded by foreign entities of the Group, the term of delivery is extended, however, the timetable for lease payments does not change and is not adjusted in case of late delivery. Any fines for late delivery are considered by STLC on case-by-case basis.

The development of the Russian leasing market in recent years has led to qualitative changes in the characteristics of leasing transactions, including increased sophistication in deal structuring and longer maturities. See "*Selected Financial Review – Analysis of Financial Condition as at 31 December 2016 and 2015 – Assets – Net investment in leases*" for a breakdown of the maturity profile of the Group's gross and net investment in leases as at 31 December 2016 and 2015.

The Group maintains an actively managed capital base to cover risks inherent in its business. Collateral and other credit enhancements may be sought by the Group in respect of a particular lessee dependent on the credit risk associated with such lessee. See "*Business – Credit Risk – Collateral and other credit enhancements*".

Defaults

On a default of a finance lease, the Group would expect to take possession of the asset and sell the asset at the best price achievable (and retain the proceeds of such sale), so as to cover its costs and all outstanding payments due to it under the relevant finance lease agreement, or, alternatively (to the extent that the Group has an alternative customer that would satisfy its credit procedures and is willing to lease such asset) to re-lease it. Since the asset is legally and beneficially owned by the Group until all lease payments due under the finance lease agreement have been paid by the lessee, all amounts recovered on the sale of the asset can be retained by the Group. However, some assets are less liquid than others (such as bespoke industrial equipment designed for a specific lessee), which may make it difficult for the Group to sell or re-lease such asset (see "*Risk Factors – If a lessee defaults on its lease, the Group could incur losses*").

Operating Leases

Operating leases are an increasingly important part of the Group's portfolio. In these contracts, which have a length of one to 12 years, the leased asset remains on the balance sheet of the Group whilst the utilisation risk is transferred to the lessee and the Group retains the title and exposure to the residual value at the end of the lease. Given these characteristics, the product has proven popular with clients who wish to preserve their debt capacity and equity capital while guaranteeing the availability of assets essential for their needs. Assets are selected by the lessees but independent confirmation of such asset's price is sought to ensure it is in line with the market. Over the past 20 years, the world's airlines have increasingly turned to operating leases to meet their aircraft needs. Substantially all of the Group's operating lease contracts have daily lease rates indexed to USD.

The Group's operating leases provide clients with:

- the ability to lock in a significant portion of their costs over an extended period, thereby avoiding volatility from the short term lease market;
- flexible management of their fleet;
- ability to secure capacity whilst preserving capital for investment in core activities; and
- access to the newest assets in the market, for example the Sukhoi Superjet 100.

The Group's current operating leases have initial terms ranging in length from approximately one year to 15 years. By varying the lease terms, the Group mitigates the effects of changes in cyclical market conditions at the time the asset becomes eligible for re-lease. In periods of strong demand, the Group seeks to enter into medium and long-term leases to lock-in the generally higher market lease rates during those periods, while in periods of low demand the Group seeks to enter into short-term leases to mitigate the effects of the generally lower market lease rates during those periods.

Structure

The Group uses operating lease transactions both as a measure to deal with underperforming or defaulting finance lease assets, especially railcars (See "*Business – Rail Transportation*"), and to structure new leasing projects for its clients. STLC does impose, however, some important limitations on its new business structured as operating leases: (i) the leased asset must be a first-class asset which is capable of retaining its value over longer periods of time and for which there are established mechanisms to monitor and/or control its value (for example, bluebooks, maintenance reserve models, aviation registry requirements and inspections etc. for aircraft assets); (ii) STLC only purchases new assets to lease out under operating leases and underwrites such leases to first-class clients; and (iii) the initial term of lease, during which the lease is non-cancellable, must cover a significant part of the asset's lifetime.

Commercial and non-commercial operating leases

The vast majority of the Group's operating leases are entered into on a commercial basis, on market terms. As at the date of this Prospectus, the Sukhoi Superjet 100 programme represents the Group's sole non-commercial operating lease arrangement.

Remarketing and Extension of Lease Contracts

Where possible, the Group seeks to have its current clients extend their operating lease contracts at market rates as they mature. The Group's lessees must provide the Group with 60 days' notice to extend their lease contracts, in order to provide the Group's management with enough time to examine alternative deployment of the asset, if needed. If a lessee fails to provide the Group with such notice, the operating lease will automatically expire at the end of the term, and the lessee will be required to return the asset pursuant to the lease terms. The Group's operating leases contain detailed provisions regarding the required condition of the asset and its components upon re-delivery at the end of the operating lease term. In the case of returning an asset to the Group, the client is obliged to compensate the Group up to 50 per cent of the tariff for delivering the asset from its current location to the Group, which creates substantial switching costs for the Group's clients—an additional incentive for them to renew their leases.

The quality of the Group's assets as well as its portfolio of long-term operational leases have enabled the Group to maintain high utilisation rates close to 100 per cent.

During the period in which an asset is in between leases, the Group typically performs routine inspections and performs the maintenance necessary to place the asset in the required condition for delivery and, in some cases, make modifications requested by the next lessee.

Maintenance

All of the Group's lessees are responsible for their maintenance costs during the lease term. Based on the credit quality of the lessee, the Group requires some lessees to pay supplemental maintenance rent to cover scheduled major component maintenance costs. If a lessee pays the supplemental maintenance rent, the Group reimburses them for their maintenance costs up to the amount of their supplemental maintenance rent payments. Under the terms of the Group's leases, at lease expiration, to the extent that a lessee has paid more supplemental maintenance rent than has been reimbursed to them for their maintenance costs, the Group retains the excess rent. In most lease contracts not requiring the payment of supplemental rents, the lessee is required to redeliver the asset in a similar maintenance condition as when accepted under the lease. To the extent that the redelivery condition is different from the acceptance condition, there is normally an end of lease compensation adjustment for the difference at re-delivery. Whether a lessee pays supplemental maintenance rent or not, the Group usually agrees to compensate a lessee for scheduled maintenance related to the prior use of the asset. For this prior use, the Group has normally received cash compensation from prior lessees of the asset, which was recognised as income at the end of the prior lease.

Defaults

On a default of an operating lease, the Group would expect to take possession of the asset and sell the asset at the best price achievable (and retain the proceeds of such sale), so as to cover its costs and all outstanding payments due to it under the relevant operating lease agreement, or, alternatively (to the extent that the Group has an alternative customer that would satisfy its credit procedures and is willing to lease such asset) to re-lease it. (See "*Risk Factors – If a lessee defaults on its lease, the Group could incur losses*").

Enforcement and Collection Procedures

The procedures the Group follows for the collection of overdue payments and/or seizure of the leased asset include:

- active weekly monitoring of a lessee's account during the first month payments are overdue, in order to determine whether payment of the overdue amount has been made;

- imposition of a penalty interest rate on overdue payments, typically 0.1 per cent for STLC and 2 per cent for GTLKE of the value of the overdue payment per day until payment is made, as typically provided for in the Group's finance lease agreements;

- procurement of a direct debit order in order for the Group to collect overdue payments from the debtor lessee's account, as typically provided for in the Group's lease agreements;

- attempts to procure an out-of-court settlement with the debtor lessee, usually involving the early purchase of the leased property by the lessee;

- where an out-of-court settlement is not possible, initiation of court proceedings against the debtor lessee for repossession of the leased asset and, following receipt of court order for repossession of the asset (to which the Group retains legal and beneficial ownership), use of bailiff services if needed in order to physically obtain such asset.

Where assets are located outside of the Russian Federation, such as aircraft or sea/river vessels, the Group would follow standard international procedure, such as notification of the registry at which such asset in registered and/or currently located, in order to ensure its arrest at the relevant airport or seaport, and subsequent return to the Group's control.

KEY COMPETITORS

According to RAEX, as at 31 December 2016 more than 130 companies provided leasing services in the Russian Federation and, of these 16 had lease portfolios exceeding RUB 20 billion. However, the Russian domestic leasing market in which the Group is principally active is dominated by a few large companies. The top ten leasing companies in the Russian market (including STLC) have a combined market share of over 63 per cent in terms of new business volume according to RAEX.

STLC's main competitors are major Russian financial institutions with state ownership (both state banks and other state corporations); the Group regards VEB-Leasing, VTB Leasing, Sberbank Leasing and, Transfin-M to be its key competitors.

As at 31 December 2016, the Group's Russian domestic leasing market share by volume of new business was 16.5 per cent (demonstrating almost a two-fold increase as compared to 8.8 per cent as at 31 December 2015), Sberbank Leasing's 11.2 per cent, VTB Leasing's 10.3 per cent, European's 5.1 per cent and VEB-Leasing's 4.5 per cent, in each case according to RAEX. As at 31 December 2016, the Group was ranked by RAEX as the fourth largest Russian leasing company by portfolio size overall with the market share of 10.6 per cent (with VEB-Leasing first (16.4 per cent), VTB Leasing second (11.9 per cent) and Sberbank Leasing third (11.7 per cent)). According to RAEX as at 31 December 2016 in breakdown by segment, the Group was ranked as the first largest Russian leasing company by market share in the rail transportation leasing sector (with Gazprombank Leasing second and Transfin-M third); first in the air transportation leasing sector (with VTB Leasing second, CMB-Leasing third and Sberbank Leasing fourth); second in the maritime transportation leasing sector (with Sberbank Leasing first and Goznak-Leasing third); and first in the real property (buildings and facilities) (with Sistema Leasing 24 first and CMB-Leasing second).

INSURANCE

The assets leased under finance and operating leases by the Group to its customers are always covered by insurance policies, the terms of which are dependent on the type of leased asset. As a rule, such insurance policies are entered into by the Group itself rather than by its customers and the Group pays the insurance premiums, which are factored into the pricing of the related finance lease agreement. The beneficiary under the insurance policy on the vast majority of the lease agreements is the Group. In relation to aircraft or certain sea/river vessels, the lessee is more commonly required to arrange comprehensive insurance, as such insurance is typically a legal requirement of the operation of such asset (especially internationally) and provided by insurers outside of the Russian Federation. The Group ensures that failure to arrange or maintain such insurance will always be an event of default under the appropriate lease agreement.

However, the Group, or its leased assets, may not carry insurance coverage at levels comparable to those customary in other countries for a company of its size and nature and, under some circumstances, its insurance coverage may prove insufficient. The same is true of many Russian companies, as the Russian insurance sector is not fully developed and insurance is not widely relied upon to manage operational risk. This is particularly the case in the leasing sector, where the concept of residual value is still relatively new and yet to be properly understood by insurance companies. The Group therefore insures its assets based on 100 per cent of the invested funds (amortised on a straight line basis) in those assets rather than on the basis of residual value or the credit profile of the lessee. STLC's insurance policy covers all and any leasing assets and its Insurance Department maintains day-to-day control and management of insurance coverage.

INFORMATION TECHNOLOGY

The Group has information technology (**IT**) systems which fully support its leasing operations in the Russian Federation. The systems mainly operate on the basis of the Microsoft Windows operating system and is currently being upgraded.

To protect against unauthorised access to the Group's IT systems, the Group has put in place detailed IT security policies and operates industry standard firewalls and other IT security devices.

The Group believes that its current IT platform is sufficient to meet the needs of its business, and is comparable with peers in the Russian leasing market.

LITIGATION

In the ordinary course of its business, the Group is subject to legal action and complaints. As at the date of this Prospectus the Group is not party to, or the subject of, any material litigation.

RISK MANAGEMENT

Risk is an integral element of STLC's activities. STLC has implemented a continuous risk management process in order to control the level of risks and restrict losses resulting from financial and non-financial risks. The risk management system is based on an integrated approach of on-going identification, assessment, monitoring and control of risks accepted by STLC. The risk management policies and procedures are subject to continuous improvement and are implemented to comply with legal requirements and prudential norms, best practices and standards and the internal regulations of the STLC. STLC believes that risk management is crucial to mitigating the impact of risk exposures on STLC's financial stability.

Credit risk, liquidity risk, market risk (subdivided into interest rate and currency risk) and operational risk are the principal categories of risk to which STLC is exposed.

Detailed below is a description of the risk management structure and analysis of each of the risk categories and a description of the applicable control and monitoring activities.

Risk Management Structure

STLC has a defined risk management structure to help manage STLC's risks systematically. The Board of Directors performs supervisory functions, provides overall assurance over the risk management process and is ultimately responsible for identifying and controlling risks as well as for defining the overall risk management approach and for approving the risk strategies and principles.

A number of committees and departments are established to coordinate day-to-day risk management. Risk management on a firm-wide level is overseen by the Leasing Council which ensures the implementation of strategy, approves the risk management policy, allocates the risk management functions between the governance bodies and business units of the Group and controls their performance. The responsibilities of the Leasing Council include the approval of total risk limits by type of risk and type of business. The Leasing Council reviews risk level reports on a regular basis and reallocates the risk limits where necessary to maintain the pre-set strategic risk profile. In order to ensure the efficient operation of the risk management system, the Leasing Council delegates the risk limits to other collegial bodies, individual business units and employees.

- *The Budgeting and Economic Department* ensures the implementation of policies related to the management of structural risks of the consolidated statement of financial position, including foreign currency risk, interest rate risk and liquidity risk.

- *The Risk Management Department* performs centralised risk management tasks and is responsible for the development of risk management policies and procedures and for identification and assessment of risks. It also controls the compliance with such policies and procedures. The Risk Management Department reports directly to STLC's CEO. A separate designated unit within the Risk Management Department is responsible for the implementation of the credit policy pertaining to lease financing. Further details of the credit-decision making process are described under "*Credit Risk*" below.

- *The Treasury Department* of STLC oversees the day-to-day monitoring and management of foreign currency risk and liquidity risk within the limits of roles delegated by the Budgeting and Economic Department.

- *The Security Department* assesses non-credit risks such as reputational risks or any information relating to the unreliability of a client.

Business divisions participate in STLC's risk management within the functional duties specified in the internal regulating documents.

Risk management processes throughout STLC are audited annually by the Internal Audit Department which examines both the adequacy of the procedures and STLC's compliance with the procedures, both in respect of the risk management system taken as a whole and in individual business areas. The internal control function discusses the results of all assessments with management and presents its findings and recommendations to the General Director and the Board of Directors of STLC.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Risk concentrations reflect the relative sensitivity of STLC's performance to developments affecting a particular industry or geography. In order to avoid excessive concentrations of risk, STLC's policies and procedures include specific guidelines that focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit Risk

STLC is exposed to credit risk, being the risk of financial loss if a counterparty fails to meet its contractual obligations. STLC's credit risk exposures arise principally from its finance leasing activities. STLC structures the levels of credit risk it undertakes by placing limits on the amount of exposure in relation to a single counterparty or groups of counterparties, and in relation to the size of any individual leasing transaction. In addition, STLC monitors credit risk by analysing the financial position of counterparties. Credit risk management also involves regular monitoring of the ability of counterparties to pay amounts in full when due, analysis of the financial position of lessees and monitoring of the condition of leased-out equipment. Such risks are monitored on a revolving basis and subject to quarterly or more frequent review.

In relation to financial leases the maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the STLC's Financial Statements and the disclosed financial commitments. This varies for operating leases which may also be subject to impairment on the basis of their market price and use or deterioration. These impairment risks are different in nature for operating leases as the credit risk exposure under operating leases is limited to the total amount of current payments due but outstanding on an operating lease, as the Group accepts risks in respect of the asset as a leased asset rather than as a financial asset.

Credit Risk Analysis

A key component of the approval of any proposed leasing transaction is the credit analysis carried out in respect of each customer and STLC has detailed credit risk assessment procedures to minimise the credit risk of any such transactions.

The credit analysis procedures employed by STLC for managing credit risk include the following:

- expert pre-screening of any proposed leasing transaction before approval;
- use of credit risk limits in respect of any particular customer or sector;
- on-going control and monitoring of the financial condition of all lessees to enable any potential defaults to be detected early;

- monitoring of credit risks of major lessees and concentrations of risk; and
- analysis of potential risk increases in respect of any individual or group of assets and lessees.

Credit-related commitments risks

Credit risk is the risk that the Group will incur a financial loss because its counterparties fail to discharge their financial obligations in full or in part when due. With respect to commitments related to providing lease equipment, STLC is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the finance lease agreements.

For details of maximum exposure to credit risk for the components of statement of financial position, including derivatives, of STLC, please refer to Note 26 of the 2016 Consolidated Financial Statements for the year ended 31 December 2016.

Credit quality per class of financial assets

The credit quality of financial assets is managed through STLC's system of categorising risk per client. It is STLC's policy to maintain accurate and consistent risk ratings across the lease portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All risk ratings are tailored to the various categories and are derived in accordance with STLC's rating policy. The attributable risk ratings are assessed and updated regularly.

The high grade is assigned to a borrower whose financial position can be evaluated as good and where a due diligence review of the borrower's production, financial and business operations and other information, including that on operating environment, indicate that the borrower's production, profitability and solvency are sustained and there are no adverse developments (trends) which may affect the borrower's future financial stability.

The standard grade is assigned to a borrower where a due diligence review of the borrower's production, financial and business operations and/or other information indicate that, although there is no direct threat to the borrower's current financial position, the borrower's business is subject to adverse developments (trends) which may give rise to financial difficulties in the foreseeable future (within a year or sooner) if the borrower does not take steps to improve the situation.

The substandard grade is assigned to a borrower where there is evidence of critical adverse developments (trends) which are likely to result in the borrower's partial insolvency.

For additional information and tables showing the credit quality by quality category of asset for respective lines on the statement of financial position, please refer to Note 26 of the 2016 Consolidated Financial Statements for the year ended 31 December 2016.

Impairment assessment

Financial assets carried at amortised cost consist principally of net investment in leases, deposits with banks and other receivables. The Group reviews its leases and receivables to assess impairment on a regular basis. A lease or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the lease or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for leases and receivables that are individually significant, and individually or collectively for leases and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed lease or receivable, whether significant or not, it includes the lease in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Leases and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a lease or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a lessee is in financial difficulties and there is little available historical data relating to similar lessee. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of leases and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a lease or receivable is uncollectable, it is written off against the related allowance for impairment. The Group writes off a lease or receivable balance (and any related allowances for credit losses) when management determines that the outstanding amounts are uncollectible and when all necessary steps to collect such amounts are completed.

Collateral and other credit enhancements

For net investments in leases, STLC holds the title to the leased property during the lease term and may transfer it to the lessee only at the end of the lease term providing all obligations under the finance lease agreements were successfully fulfilled by the lessee.

The amount and type of additional collateral (if any) depends on an assessment of the credit risk of the counterparty. The parameters of additional collateral are subject to approval of the Leasing Council along with terms and conditions of the underlying lease agreement. Collateral is taken to enhance an acceptable lease agreement proposal, rather than being used as the sole rationale for any lease agreement approval. Where facilities are approved against security, full details including the type, value, and the frequency of review of the security must be detailed in the application for lease agreement form. Where practical, the account officer must have seen evidence of the existence of the collateral offered and wherever possible seen the actual collateral for themselves.

STLC management monitors the market value of collateral, requests additional collateral in accordance with the terms of the underlying finance lease agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Repossessed lease equipment is recorded under "Equipment and vehicles repossessed after the termination of lease agreements" of the 2016 Consolidated Financial Statements. As at 31 December 2016 repossessed collateral amounted to RUB 595,819 thousand as compared to RUB 708,333 thousand as at 31 December 2015. For more detailed information, please refer to Note 10 of the 2016 Consolidated Financial Statements for the year ended 31 December 2016.

The valuation placed on collateral will vary with individual circumstances. As a general guide, where STLC takes collateral it will ensure that an adequate margin is obtained and maintained throughout the term of the facility lease agreement.

Risks related to leased properties and other collateral (being primarily the leased asset) such as damage and theft are generally insured (or are provided for to be insured by the lessees in accordance with the relevant lease arrangements, whereby the fact of such insurance being in place is controlled by STLC on a constant basis) on lease agreements.

Asset and Equipment Risks

STLC faces certain risks inherent in owning large portfolios of assets, which are minimised as much as possible in its finance and operating lease agreements, through a combination of insurance, security and undertakings by the lessees. The following are the primary such risks and the steps taken by STLC to minimise them:

- *Risk that the market value of the leased asset in the event of a default will be less than the remaining amount due under the lease*. In order to minimise this risk, STLC structures payments due under a finance lease, and the residual final payment, based on accelerated depreciation of the leased asset, with the intention that, if there were a default, the market value of the leased asset will in general be higher than the depreciated book value of the asset and the unearned finance lease income.

- *Risk of loss, misappropriation, equipment failure and improper operation of equipment*. This risk is minimised, in most cases, by STLC insuring the asset at the full value of its investment prior to delivery to the lessee (with the cost of such insurance built into the payments due under the lease) or, in the case of certain assets such as aircraft, by requiring the lessee to insure the asset in accordance with stringent international legal standards required for the operation of such assets (see *"Insurance"*), and by regular monitoring of assets and equipment by STLC.

- *Risk of non-delivery, or late or incomplete delivery*. This risk is minimised by STLC procuring bank guarantees, letters of credit and surety guarantees from suppliers as part of the negotiations to purchase the asset.

- *Risk that a lessee lacks required permits to operate the equipment or asset*. This risk is minimised by ensuring that failure to obtain necessary approvals and permits is an event of default under the finance lease agreement and, if necessary, procuring that additional security, such as share pledges or surety guarantees are provided by the lessee.

- *Risk of incomplete equipment or asset certification*. This risk is minimised by STLC only paying the balance due for the equipment or asset to the supplier after final delivery, upon presentation of the required certification and once the equipment has been thoroughly checked (often an initial down-payment is required by suppliers when the asset is first purchased).

- *Risks that the lessee lacks qualified personnel to operate the equipment*. This risk is minimised by undertakings from the lessee to properly train its employees in the use of the equipment. In addition, STLC will perform due diligence procedures in respect of the potential clients along with respective credit analysis. STLC's risk department deals with required permits, personnel and competences on the lessees' side during such procedures.

Liquidity Risk and Funding Management

Liquidity risk is the risk that STLC will be unable to meet its payment obligations when they fall due under normal and stress circumstances. STLC's liquidity position is carefully monitored and managed and STLC has in place a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations. To limit this risk, the management of STLC arranges various funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

STLC manages its liquidity risk at the following three levels:

- STLC and each of its subsidiaries manages its liquidity both on a stand-alone basis so that it is able to meet its obligations and to comply with regulatory requirements applicable to it and also through the United Treasury at Group level;

- STLC manages the Group's liquidity by re-allocating funds across the Group through intercompany loans; and

- the Leasing Council manages STLC's strategy for medium- and long-term financing.

Liquidity risks are therefore limited because STLC typically funds itself on a matched basis.

STLC uses contractual maturity analysis and a forecast of cash flow as basic tools for mitigation and management of liquidity risks. It also sets internal limits, confining the minimum level of highly liquid assets to cover short-term obligations, maturity mismatch limits, concentration of liability financing base and maximum funding volume subject to the current liquidity level. STLC manages its liquidity so that in each interval the gap in liquidity in view of planned operations does not exceed a certain internal limit.

United Treasury

The United Treasury of the Group was formed based on decisions of the Board of Directors of STLC No. 56/2015 of 19 February 2015, No. 57/2015 of 30 March 2015, and No. 59/2015 of 29 May 2015 for the following purposes of centralisation of management of the financial flows of the Group, minimisation of financial risks and operating expenses as related to treasury functions, and maximisation of income from investment of free financial resources.

The United Treasury has the following key objectives:

- organisation of the system of relations with banks, ensuring the streamlining of the bank account structure, minimisation of costs on the operating expenses of banks and interest on loans with the maximum possible benefit for the Group companies, and an annual stocktake of the settlement account structure;

- operational planning and optimisation of cash flows, including the drafting of a set of planned assignments for financial support of the activity of the Group, distribution of resources between the Group, and investment of free cash flows;

- control, including control over execution of the cash flow budget and established limits, control over the proper performance of payments and timely receipt of proceeds, ongoing monitoring and control over accounts payable and accounts receivable;

- management of financial risks, including the hedging (insurance) of interest, currency, price and volumetric risks, the drafting and control over limits on various expense items (in particular, the formation of a payment calendar and control over its implementation); and

- construction (development) of the information infrastructure ensuring the automation of the extended functions of the United Treasury, integration of treasury decisions with the production and accounting systems of neighbouring blocks at the level of the corporate centre of the Group.

The United Treasury is represented by the Treasury Department of STLC and the financial divisions of its subsidiaries, performing the following functions:

- debt financing;

- payment processing;

- liquidity management;

- corporate dealing;

- intragroup financing;

- relations with banks;

- monitoring and forecasting of accounts payable and accounts receivable; and

- management of currency and interest risks, controlling.

STLC's Treasury Department is responsible for the timely and proper performance of the treasury functions at STLC, whereas financial divisions are responsible for the timely and proper performance of the treasury functions at the corresponding subsidiaries. A unified reporting system for the monitoring of and control over the performance of treasury operations has been introduced within the United Treasury. The Treasury Department of STLC performs monitoring (for foreign subsidiaries) and exercises control (for Russian subsidiaries), and financial divisions are responsible for the timely provision to the Treasury Department of the reports.

For detailed analysis of financial liabilities as of 31 December 2016 based on contractual discounted repayment obligations, please refer to Note 25 of the 2016 Consolidated Financial Statements for the year ended 31 December 2016.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The market risk results in the impairment of fair value or future payment flows of financial instruments owned by the Group.

Foreign currency risk

Foreign currency risk is the risk that that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. STLC's exposure to the risk of changes in foreign exchange rates relates primarily to operating activities (when revenues or expenses are denominated in a different currency from the functional currency). Currency rate positions are currently managed and monitored using other sensitivity analysis. STLC has no significant concentration of market risk and currently uses appropriate hedging instruments to mitigate foreign exchange risks of its operations.

To mitigate and manage the market risk the Board of Directors and Budgeting and Economic Department establish limits on potential losses, and the Budgeting and Economic Department monitors compliance with such limits. Limits on securities are approved by the Budgeting and Economic Department and Board of Directors based on analysis performed by the Budgeting and Economic Department. STLC is currently not involved in trading operations due to the nature of its core business.

Interest rate risk

Interest rate risk is the risk that interest income could decrease or interest expense could increase based on changes in market interest rates, which could adversely affect the fair value of future cash flows generated by financial instruments. The exposure of STLC to the interest risk rate is insignificant. In accordance with the standard provisions of finance lease agreements, STLC is entitled to unilaterally reconsider leasing payments if adverse changes of funding conditions, including interest rate increase, occur. STLC is therefore able to shift the interest rate risk to the customer.

Prepayment Risk

Prepayment risk is the risk that STLC will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected. In its standard finance lease agreement, STLC prescribes prepayment mechanics designed to compensate STLC for all losses it would otherwise incur due to the prepayment, including expected profit. In addition, early repaid finance lease receivables are not significant as a percentage of the total volume of finance leases granted.

Operational Risk

Operational risk is the risk of losses arising from inadequate internal operating procedures, including failures, defects or errors of information, resulting from either human error or technological failings. STLC manages the operational risk through precise regulation of all business processes, employing a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment procedures as well as assessment processes, including the use of Operational Control Department which reports to the Board of Directors. Key tasks of this department include the day-to-day control over compliance with internal regulations governing the sequence of business processes in lease transactions, control over correct compilation of information bases by the employees of regional branches, control over the client's payment discipline and correct preparation of data regarding the impaired/potentially impaired debt by the employees of regional branches. In addition, the Operational Control Department controls compliance with an obligation to insure the leased assets, documentation and filing procedures.

MANAGEMENT

Introduction

In accordance with STLC's charter and Russian legislation governing joint stock companies, including the Civil Code of the Russian Federation (the **Civil Code**) and Federal Law No. 208-FZ of 26 December 1995 "On Joint-Stock Companies" (the **Joint Stock Companies Law**), STLC is governed by its shareholders through their annual and extraordinary meetings (each a **General Shareholders Meeting**), its board of directors (the **Board of Directors**) and the general director, who acts as the chief executive officer (the **General Director**).

As a state-owned company, the Group's strategy is influenced by the Ministry of Transport of the Russian Federation and subject to approval by the Prime Minister and Cabinet of Ministers. The Ministry of Transport exercises its control through corporate governance procedures acting as the sole shareholder of STLC. The Board of Directors also includes the representative of the Ministry of Transport of the Russian Federation. STLC's Long-Term Development Programme is subject to review and final approval by the Russian Government.

Although STLC's strategy is aligned with the Russian Federation's and the Ministry of Transport's priorities, any such goals do not override STLC's general corporate aims, including the generation of profit. STLC has the power to determine its approach regarding the realisation of governmental initiatives, except where such programmes are financed through a direct capital injection from the Russian Federation. Any forms of governmental control over the Group's operations are executed under due corporate governance procedures. STLC's Board of Directors includes a number of independent directors and assigns a number of special committees which allow the board to make strategic decisions in line with best management standards and business development needs.

General Shareholders Meeting

On the basis of the Civil Code, Joint Stock Companies Law and STLC's charter, the General Shareholders Meeting is STLC's highest governance body. An Annual General Shareholders Meeting must be held every year between 1 March and 30 June and extraordinary General Shareholders Meetings may be called by the Board of Directors on its own initiative or at the request of STLC's independent auditor, the Internal Audit Committee, or shareholders holding in the aggregate not less than 10 per cent of the issued ordinary shares of STLC. Each ordinary share of STLC carries the right to cast one vote at any General Shareholders Meeting.

The following summarises certain key decisions that must be taken by STLC's General Shareholders Meeting:

- any change to STLC's charter;
- any change to the size and composition of STLC's authorised share capital;
- the election and early termination of powers of the members of the Board of Directors;
- the approval of certain major transactions and interested party transactions;
- the reorganisation or liquidation of STLC;
- the approval of STLC's independent auditor;
- the approval of STLC's statutory annual reports and financial statements;

- the approval of dividends; and
- certain other matters provided for by law and STLC's charter.

However, as of the date of this Prospectus, the sole shareholder of STLC is the Russian Federation (see *"Principal Shareholders"*). Because the sole shareholder of STLC is the Russian Federation, all the powers of the general meeting of shareholders are exercised by the Ministry of Transport of the Russian Federation acting on behalf of the Russian Federation. Generally under Russian law, if the Russian Federation is the sole shareholder in a company, the decisions of the sole shareholder will be made in the form of a decree of the Federal Agency for the Management of State Property (*Rosimuschestvo*). However Regulation No. 93 dated 4 February 2009 issued by the Government specifically provides that the Ministry of Transport of the Russian Federation exercises the rights of the sole shareholder of STLC. Accordingly, all decisions of the sole shareholder of STLC are taken in the form of regulations and decrees of the Ministry of Transport of the Russian Federation.

Board of Directors

The Board of Directors is responsible for STLC's general management, excluding matters that are the exclusive responsibility of the General Shareholders' Meeting. Members of the Board of Directors are elected by the General Shareholders' Meeting and serve until the next annual General Shareholders' Meeting, and may be re-elected an unlimited number of times. STLC currently has seven members on its Board of Directors.

A meeting of the Board of Directors may be called by the chairman of the Board of Directors at his own initiative or at the demand of a member of the Board of Directors, STLC's independent auditor, the Internal Audit Committee, the General Director or shareholders holding in the aggregate not less than 10 per cent of the issued ordinary shares of STLC. The Board of Directors meets when required.

The current members of the Board of Directors were elected by the decree of the Ministry of Transport of the Russian Federation No. ЕД-85-р dated 30 June 2016. The name, first year of appointment and position for each member of the Board of Directors are set out below:

Name	**Year of appointment**	**Position**
Y.M. Medvedev	2011	Chairman of the Board of Directors
A.I. Boginskiy	2015	Member of the Board of Directors
F.A. Borisov	2014	Member of the Board of Directors
S.V. Zemlyansky	2014	Member of the Board of Directors
E.A. Serper	2015	Member of the Board of Directors
E.I. Ditrich	2016	Member of the Board of Directors
S.N. Khramagin	2013	Member of the Board of Directors

The business address of the Board of Directors is Bld. 1, 31A, Leningradskiy Prospect, Moscow 125284, Russian Federation.

Y.M. Medvedev has been a member of the Board of Directors of STLC and Chairman of the Board of Directors of STLC since June 2011. Mr Medvedev is also Vice President – Chief of Staff of Closed

Joint Stock Company Saint Petersburg International Mercantile Exchange and a member of the Board of Directors of JSC "Sheremetyevo International Airport", OJSC "Corporation ROSKHIMZASHITA", JSCB "IRS" (JSC), JSC "Concern Oceanpribor". Mr Medvedev was born in 1948.

A.I. Boginskiy has been a member of the Board of Directors of STLC since November 2015. Until December 2016 Mr Boginskiy was the Deputy minister of the Ministry of Industry and Trade of the Russian Federation. In January 2017 he was appointed the CEO of JSC "Russian Helicopters". Mr Boginskiy was born in 1974.

F.A. Borisov has been a member of the Board of Directors of STLC since June 2014. Mr Borisov is also CEO of the Association of Advertisers and LLC "Transportfoto". He is also the senior research scientist at the Institution of transport and transport policy of National Research University – Higher School of Economics. Mr Borisov was born in 1973.

S.V. Zemlyansky has been a member of the Board of Directors of STLC since June 2014. Mr Zemlyansky is also Deputy Chairman of the Board of Directors of JSCB "Russian Investment Alliance". Mr Zemlyansky was born in 1968.

E.A. Serper has been a member of the Board of Directors of STLC since November 2015. Mr Serper is also the Chairman of the Management Board of investment industrial company "Konstanta Capital". In September 2016 Mr Serper was elected as a deputy to the State Duma of the Federal Assembly of the Russian Federation. Mr Serper was born in 1980.

E.I. Ditrich was appointed a member of the Board of Directors in June 2016. Mr Ditrich is also the First Deputy Minister of Transport of the Russian Federation. Previously he was the Head of Federal Service for Supervision in the Sphere of Transport (Rostransnadzor) (2015), Deputy Director of the Department of Industry and Infrastructure of the Russian Federation (2012-2015), Deputy Head of the Federal Road Agency (2005-2012), and Deputy Director of Department of the Ministry of Economic Development and Trade of the Russian Federation (2004-2005). Mr Ditrich was born in 1973.

S.N. Khramagin has been a member of the Board of Directors of STLC since June 2013. Mr Khramagin has been CEO of STLC since November 2012. He is also the Adviser to the Minister of Transport of the Russian Federation. Previously he was CEO of LLC "Raznoimport Holding" (2007 – 2012) and Advisor to CEO of OJSC "AVIAEXPORT" (2004 – 2007). Mr Khramagin was born in 1965.

General Director

Pursuant to STLC's charter and by-laws on General Director, the General Director is appointed by the Board of Directors for the period of five years.

S.N. Khramagin was appointed as the General Directors of STLC in November 2012. See "*Management – The Board of Directors*" above.

According to the Joint Stock Companies Law and STLC's charter, the General Director shall, in particular:

- operate in the name of STLC, including representing STLC's interests, concluding transactions and signing documents without a power of attorney;
- dispose STLC's assets to carry out a day-to-day activity;
- adopt internal documents of STLC;

- open bank accounts;
- issue powers of attorney;
- sign employment contracts; and
- decide other matters in the normal course of business.

The business address of the General Director is Room 100, B1d. 73, ul. Respubliki, Salekhard, Yamalo-Nenetsky Avtonomny Okrug, Russian Federation, 629008.

Audit Committee

The Audit Committee is a statutory audit commission required under Russian legislation governing joint stock companies. The exact composition of the Internal Audit Committee is determined by a decision of the Annual General Shareholders' Meeting and its members serve until the next Annual General Shareholders' Meeting. Members of the Internal Audit Committee may not also be members of the Board of Directors or the General Directors of STLC. The Audit Committee controls STLC's financial and economic activity and conducts audits on an annual basis.

The current members of the Audit Committee were elected by the decree of the Ministry of Transport of the Russian Federation No. ЕД-85-р dated 30 June 2016 and are set out below:

Name
V.I. Golubev
I.N. Goloub
A.V. Holopov

The business address of the members of the Audit Committee is Bld. 1, 31A, Leningradskiy Prospect, Moscow 125284, Russian Federation.

Internal Committees

As of the date of this Prospectus STLC has three acting committees:

- Internal Audit Committee;
- Strategic Planning Committee; and
- Human Resources and Remuneration Committee.

The committees are formed by the decision of the Board of Directors as advisory and consultative bodies and each committee must be composed of at least three members. The exact composition of the committees is determined by the Board of Directors after each election of the Board of Directors. The committees are non-executive bodies of STLC and are not authorised to act on its behalf. The decisions of the committees serve as guidelines to the Board of Directors.

Internal Audit Committee

The Internal Audit Committee oversees STLC's financial and economic activity.

The following key areas are under ongoing supervision of the Internal Audit Committee:

- internal controls efficiency;
- risk management system;
- corporate governance practices;
- accuracy of financial statements;
- compliance matters and anti-fraud procedures;
- external audit procedures and review of its results; and
- other matters.

The current members of the Internal Audit Committee were appointed at the Board of Directors meeting on 9 December 2016 and are set out below:

Name	**Position**
S.V. Zemlyansky	Chairman of the Internal Audit Committee
F.A. Borisov	Member of the Internal Audit Committee
A.V. Holopov	Member of the Internal Audit Committee

The business address of the members of the Internal Audit Committee is Bld. 1, 31A, Leningradskiy Prospect, Moscow 125284, Russian Federation.

Strategic Planning Committee

The Strategic Planning Committee activity is focused on improving of STLC's long-term development and efficiency and oversees the following key areas:

- determination of priority business development areas;
- evaluation of long-term business efficiency;
- determination of STLC's key strategic objectives, control over implementation of the long-term development programme and advising the Board of Directors on amendments to the existing long-term development programme;
- preliminary consideration and working out of recommendations in relation to STLC's potential acquisition of equity stakes in other companies;
- preliminary review of STLC's annual reports; and
- other matters.

The current members of the Strategic Planning Committee were elected at the Board of Directors meeting on 9 December 2016 and are set out below:

Name	Position
S.N. Khramagin	Chairman of the Strategic Planning Committee
E.I. Ditrich	Member of the Strategic Planning Committee
S.V. Emelyanov	Member of the Strategic Planning Committee

The business address of the members of the Strategic Planning Committee is Bld. 1, 31A, Leningradskiy Prospect, Moscow 125284, Russian Federation.

Human Resources and Remuneration Committee

STLC's Human Resources and Remuneration Committee is formed in order to develop recommendations to the Board of Directors and the shareholder on the matters related to human resources management and transparent and efficient remuneration policies.

The current members of the Human Resources and Remuneration Committee were appointed by the Board of Directors of STLC on 9 December 2016 and are set out below:

Name	Position
F.A. Borisov	Chairman of the Human Resources and Remuneration Committee
A.V. Tikhonov	Member of the Human Resources and Remuneration Committee
A.A. Germanovitch	Member of the Human Resources and Remuneration Committee

The business address of the members of the Human Resources and Remuneration Committee is Bld. 1, 31A, Leningradskiy Prospect, Moscow 125284, Russian Federation.

Interest of Directors and Officers

Certain directors and executive officers of STLC serve as directors and executive officers of the Group's affiliates. The Group engages in transactions with some of these affiliates, including transactions in the ordinary course of business. See "*Related Party Transactions*". As a result, potential conflicts of interest could arise between these directors' and executive officers' duties to the Group's and their private interest or other duties.

Employees

General

The number of employees employed by STLC was 192 as at 31 December 2013, 213 as at 31 December 2014, 214 as at 31 December 2015 and 255 as at 31 December 2016. The average staff number of the Group amounted to 220 employees in 2015 and increased to 243 employees in 2016. Headcount increase was driven by changes in STLC's organisational structure which needed to reflect changes in the Group's new business breakdown and necessity to enhance respective business areas, in particular the effective management of assets within the operating lease business.

Social policy and Employee Benefits

Pursuant to Russian laws and regulations, STLC contributes to a number of government-run employee benefit programmes, including pension insurance, medical insurance, unemployment insurance and maternity insurance.

Pension insurance of STLC's employees is affected in accordance with the public retirement system established in the Russian Federation (forming of funded and investment parts of the state pension). STLC's social policy offers extended list of social benefits for the employees, including private health insurance schemes, financial support of staff members under special circumstances, compensation of expenses on recreation activities (sports, fitness, etc.).

The Group provides extensive training programmes for the employees in accordance with the staff educational plan which is formed on an annual basis and is aimed at acquiring of up-to-date knowledge and improvement of the employees' qualification. The training programmes provide both internal and external professional training for employees at all levels. External shot-term training programmes are provided by a third party and relate to programmes for the improvement of employee's qualifications. Internal trainings and seminars are held for corporate systems utilisation, as well as under the projects with several departments involved.

PRINCIPAL SHAREHOLDERS

STLC is directly owned by the Russian Federation (100 per cent) and is managed through the Ministry of Transport of the Russian Federation.

As at 31 December 2014, registered, issued and fully paid charter capital comprised RUB 10,001,000 thousand. During 2015 STLC increased its charter capital two times on the basis of decisions on additional issuance of shares No. 1-01-32432-H-002D and No. 1-01-32432-H-003D registered with the CBR on 6 November 2014 (report on results of registration published on 31 March 2015) and 20 August 2015, respectively. In January 2015, STLC received a contribution from its shareholder to its share capital in the amount of RUB 4,944,410 thousand. In October 2015, the Russian Government of the Russian Federation made a capital injection to STLC's share capital in the amount of RUB 30,000,000 thousand. In 2017, STLC increased its charter capital in the amount of RUB 14,391,720 thousand on the basis of a decision on additional issuance of shares No. 1-01-32432-H-004D registered with the CBR on 6 December 2016. The shares of these additional issuances were placed through closed subscription with the Russian Federation. As the result of the additional issuances as of the date of this Prospectus registered, issued and fully paid charter capital of STLC comprised RUB 59,337,130 thousand. Further capital injections in the total amount of up to RUB 44,000,000 thousand may be contributed over the course of 2017 and 2018, of which RUB 30,000,000 thousand is in respect of the Sukhoi superjet programme and RUB 14,000,000 thousand is in respect of the IL-96-400M aircraft Programme, subject to dividends paid by JSC "Rosneftegaz" in the federal budget exceeding RUB 136,055,281.6 thousand.

STLC is not aware of any arrangements in existence as at the date of this Prospectus which could reasonably be expected to result in a change of control of STLC.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general shareholders' meetings of STLC. The shares in STLC provide an equal volume of rights.

RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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.

As at the date of this Prospectus, STLC is directly owned by Russian Federation (100 per cent) and controlled by it through the Ministry of Transport of the Russian Federation through the Ministry of Industry and Trade also has representation on the Board of Directors. STLC enters into, and will continue to enter into, transactions with other entities under direct or indirect control of the Russian government and their affiliates and subsidiaries in the ordinary course of its business, including but not limited to lease of assets, rendering and receiving services, depositing and borrowing money, and use of public utilities.

These transactions are conducted in the ordinary cause of business on terms comparable to those with other entities that are not government related.

The Group has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

The table below sets out the value in thousands of Roubles of major transactions entered into by the Group with related parties for the years ended 31 December 2016 and 2015. All such related party transactions are between STLC, other members of the Group, or other entities that are (or were at the time) directly or indirectly owned or controlled by the Russian Government.

	as at 31 December				
	2016			**2015**	
	Key management personnel	**Government owned entities and state bodies**	**Average effective interest rate, per cent**	**Government owned entities and state bodies**	**Average effective interest rate, per cent**
Assets					
Cash and cash equivalents	-	5,729,570	7.3	7,228,217	10.3
Net investment in leases	-	9,120,220	12.7	1,994,894	16.9
Receivables on cancelled lease agreements and other receivables	-	18,998	-	7,613	-

	as at 31 December				
	2016			2015	
	Key management personnel	Government owned entities and state bodies	Average effective interest rate, per cent	Government owned entities and state bodies	Average effective interest rate, per cent
Derivative financial instruments	-	449,059	-	-	-
Advances to suppliers	-	15,833,045	-	23,491,217	-
Liabilities					
Loans received	-	19,759,979	11.8	20,822,671	12.4
Payables on equipment purchased for leasing purposes	-	13,590	-	-	-
Advances received	-	213,108	-	81,327	-
Trade and other payables	36,259	472	-	67,315	-

The table below sets out the value in thousands of Roubles of non-cancellable payments to the suppliers of equipment for leasing purposes entered into by the Group with related parties for the years ended 31 December 2016 and 2015 including VAT. All such payments are made by STLC, other members of the Group in favour of the other entities that are (or were at the time) directly or indirectly owned or controlled by the Russian Government.

	2016	2015
Less than one year	38,850,730	10,823,526
Between one and five years	4,350,000	32,061,116
Total	**43,200,730**	**42,884,642**

All related party transactions which the Group has entered into since 31 December 2015 have been in the ordinary course of business.

THE ISSUER

The Issuer was incorporated in Ireland as a private limited company on 9 May 2012, registered number 512927, under the Companies Act 1963-2009 (as amended) of Ireland, and was subsequently re-registered as a designated activity company under the Companies Act 2014 (the **Companies Act 2014**) on 7 September 2016 where its name changed to GTLK Europe DAC. The Issuer's principal activity is the purchasing and leasing of aircraft and ships. The Issuer is a wholly owned subsidiary of STLC. The registered office of the Issuer is 9 Pembroke Street Upper, Dublin 2, Ireland and its telephone number is +353 1 905 3558.

The authorised share capital of the Issuer is EUR 10,000 divided into 100 ordinary shares of par value EUR 100 each (the **Shares**). The Issuer has issued 100 Shares which are fully paid and held by STLC.

Principal Activities

GTLKE is an Irish-based international company engaged in leasing and trading of a wide range of air and sea vehicles. The Issuer's main activities include leasing, trading, remarketing, asset management as well as consulting on commercial aircraft and ship transactions. As of the date of this Prospectus, the Issuer's portfolio includes 24 narrow and wide body planes, 20 multipurpose dry cargo ships and one oil tanker. Another bulk tanker was acquired by the Issuer in January 2017. As at 31 December 2016, the Issuer leased four aircraft on finance leases and 20 aircraft on operating leases. The Issuer manages a further seven aircraft for a third party on an operating lease basis.

The principal objects of the Issuer are set forth in clause 3 of its Constitution (as currently in effect) and permit the Issuer, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer has incorporated a number of subsidiaries which have, *inter alia*, entered into agreements to purchase assets such as ships and aircraft. The Issuer receives funding from STLC which it has on loan to its subsidiaries (as at 31 December 2016, inter-company loans received by GTLKE from STLC amounted to approximately USD 74 million). The Directors plan to enter into further agreements to purchase additional ships and aircraft. It is expected that these new leases will be profitable and will provide a further cash inflow to the GTLKE Group (as defined below) and the Issuer to support the on-going operations. See "*Business – Aviation Transportation*" for a full discussion of GTLKE's business operations.

As at 31 December 2016, the Issuer had incorporated 20 (2015: 15) subsidiaries (together with the Issuer, the **GTLKE Group**).

Directors and Company Secretary

The Issuer's Constitution provides that the Board of Directors of the Issuer shall consist of at least five Directors.

The Directors of the Issuer are as follows:

- Mikhail Podkhvatilin (Russian national), CEO
- Patrick Flynn
- Declan Fitzpatrick

- Evgenia Reys, CFO
- Anton Borisevich (Russian national)
- The Company Secretary is Patrick Flynn

The registered address of the Directors is 9 Pembroke Street Upper, Dublin 2, Ireland.

The Directors and the Company Secretary do not hold any direct, indirect, beneficial or economic interest in any of the Shares.

No Director of the Issuer has any actual or potential conflict of interest between his duties to the Issuer and his private interests and/or other duties.

Financial Statements

The Issuer maintains its books and prepares its statutory financial statements in USD in accordance with international financial reporting standards (**IFRS**). The financial year of the Issuer ends on 31 December in each year.

Each year, a copy of the audited consolidated financial statements of the GTLKE Group together with a report of the Directors of the Issuer and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The audited consolidated financial statements can be obtained free of charge from the registered office of the Issuer. The Issuer must hold its annual general meetings every 15 months at least and one annual general meeting must be held in each calendar year.

The auditors of the Issuer are "KPMG", Chartered Accountants and Statutory Audit Firm of 1 Harbourmaster Place, International Financial Services Centre, Dublin 1, Ireland who are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

TERMS AND CONDITIONS OF THE NOTES

The U.S.$ 500,000,000 5.125 per cent guaranteed notes due 2024 of GTLK Europe DAC (the "**Issuer**") (the "**Notes**") are unconditionally and irrevocably guaranteed by Public Joint Stock Company "State transport leasing company" (the "**Guarantor**"). The Notes were authorised by a meeting of the board of directors of the Issuer held on 10 May 2017. The Guarantee (as defined below) of the Notes was authorised by a meeting of the board of directors of the Guarantor held on 28 April 2017.

The Notes are constituted by a trust deed dated 31 May 2017 (the "**Trust Deed**") between the Issuer, the Guarantor and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below) of the Notes.

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer and the Guarantor have entered into a paying agency agreement dated 31 May 2017 (the "**Paying Agency Agreement**") with the Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the "**Principal Paying Agent**" and, together with any other paying agents appointed under the Paying Agency Agreement, the "**Paying Agents**"), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**") and Transfer Agents named therein (the "**Transfer Agents**"). The Registrar, Paying Agents and Transfer Agents are together referred to herein as the "**Agents**".

Copies of the Trust Deed and the Paying Agency Agreement are available for inspection during normal business hours at the principal office of the Issuer (being at the date hereof 9 Pembroke Street Upper, Dublin 2, Ireland), the specified office of the Trustee (being at the date hereof One Canada Square, London E14 5AL, United Kingdom), and at the specified offices of the Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Paying Agency Agreement applicable to them. Capitalised terms used but not defined in these Conditions shall have the respective meanings given to them in the Trust Deed.

1 Form and Denomination

The Notes are issued in fully registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Denomination**") without coupons attached.

*The Notes will be initially issued in global, fully registered form, and represented by a Global Certificate (the "**Global Certificate**"), interests in which are to be offered outside the United States to non-U.S. persons within the meaning of, and pursuant to, Regulation S under the Securities Act ("**Regulation S**") which will each be exchangeable for Notes in definitive, fully registered form ("**Definitive Certificates**") in the limited circumstances specified in the Global Certificate and the Paying Agency Agreement.*

2 Guarantee and Status

2.1 Guarantee

The Guarantor has unconditionally and irrevocably guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (the "**Guarantee**").

2.2 Status

The Notes constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Issuer and shall at all times rank *pari passu* and rateably without any preference among themselves. The Guarantee constitutes direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Guarantor.

3 Register, Title and Transfers

3.1 Register

The Registrar shall maintain a Register in respect of the Notes (the "**Register**") outside the United Kingdom at the specified office for the time being of the Registrar in accordance with the provisions of the Paying Agency Agreement and shall record in the Register the names and addresses of the Noteholders, particulars of the Notes and all transfers and redemptions thereof. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

3.2 Title

Title to the Notes will pass by and upon registration in the Register. The Holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Certificate) and no person shall be liable for so treating such Holder.

3.3 Transfers

Subject to Conditions 3.6 and 3.7 below, a Note may be transferred in whole or in part in an Authorised Denomination upon surrender of the relevant Definitive Certificate representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the "**Transfer Form**"), duly completed and executed, at the specified office of a Transfer Agent or of the Registrar, together with such evidence as such Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Certificate are the subject of the transfer, a new Definitive Certificate in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3.4. Neither the part transferred nor the balance not transferred may be less than U.S.$200,000.

3.4 Registration and delivery of Definitive Certificates

Within five business days of the surrender of a Definitive Certificate in accordance with Condition 3.3 above, the Registrar shall register the transfer in question and deliver a new Definitive Certificate to each relevant Holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of a Transfer Agent or (at the request and risk of such relevant Holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

In the case of the transfer of only a part of the Notes represented by a Definitive Certificate, a new Definitive Certificate in respect of the balance of the Notes not transferred will be so delivered at the specified office of the Registrar or (at the request of the transferor) at the specified office of a Transfer Agent or (at the request and risk of such transferor) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such transferor.

In this Condition 3.4 only, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the cities where the Registrar and (if applicable) the relevant Transfer Agent have their specified offices.

3.5 No Charge

The registration of the transfer of a Note shall be effected without charge to the Holder or transferee thereof, but against such indemnity from the Holder or transferee thereof as the Registrar or the Transfer Agent, as applicable, may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 Closed periods

Noteholders may not require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note and (ii) after any Note has been called for redemption.

3.7 Regulations concerning Transfer and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in the Schedule 2 to the Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be available at the specified office of the Registrar and will be sent by the Registrar free of charge to any person who so requests and can confirm that they are a Noteholder to the satisfaction of the Registrar.

4 Covenants

So long as any amount remains outstanding hereunder:

4.1 Negative Pledge

The Guarantor and the Issuer will not, and will not permit any of their respective Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, the Issuer's obligations under the Notes or the Guarantor's obligations under the Guarantee, as the case may be, are, to the satisfaction of the Trustee (a) secured at least equally and rateably with such other Indebtedness or (b) have the benefit of such other security or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

4.2 Transactions with Affiliates

The Guarantor and the Issuer will not, and will not permit any of their respective Subsidiaries to, enter into or permit to exist any transaction or a series of related transactions (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Guarantor, the Issuer or any of their respective Subsidiaries (an "**Affiliate Transaction**") unless:

4.2.1 the terms of the Affiliate Transaction are no less favourable in any material respect to the Guarantor, the Issuer and such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's length dealings with a Person who is not an Affiliate; and

4.2.2 with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.$20 million or its U.S. Dollar Equivalent, such Affiliate Transaction has been approved by a majority of the Disinterested Directors or, in the event that there is only one Disinterested Director, by such Disinterested Director with such approval confirming that such Affiliate Transaction complies with Condition 4.2.1 above.

provided, however, that this provision shall not apply to:

(i) any employment agreement, collective bargaining agreement or employee benefit arrangements with or in respect of any officer or director of the Guarantor or the Issuer or any of their respective Subsidiaries, including under any stock option or stock incentive plans, entered into in the ordinary course of business;

(ii) payment of customary fees and compensation to or in respect of employees, officers, directors, consultants or agents in the ordinary course of business;

(iii) transactions with customers, clients, suppliers, purchasers or sellers of goods or services, in each case, in the ordinary course of business and on terms at least as favourable to the Guarantor or the relevant Subsidiary, as the case may be, as might reasonably be obtained at such time from an unrelated third party;

(iv) sales of Capital Stock (other than Disqualified Stock) of the Guarantor;

(v) to the extent otherwise permitted pursuant to these Conditions, the repurchase by the Guarantor or a Subsidiary of its Capital Stock pursuant to an offer that is made to all holders of such Capital Stock;

(vi) transactions between and among the Guarantor and the Subsidiaries or between and among the Subsidiaries;

(vii) any suretyships, guarantees or indemnities given by the Issuer, the Guarantor or a Subsidiary to a third party in respect of repayment obligations of the Issuer, the Guarantor or a Subsidiary to that third party for monies borrowed (comprising the Indebtedness); or

(viii) sales or other transfers or dispositions of accounts receivable or equipment (whether now existing or arising or acquired in the future) and other related assets customarily transferred in a Qualified Securitisation Transaction for the Fair Market Value thereof.

4.3 Mergers

(i) The Guarantor shall not enter into any reorganisation by way of a merger, accession, division, separation, transformation or liquidation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation, or any analogous transaction in any jurisdiction and (ii) the Guarantor shall ensure that no Material Subsidiary (A) enters into any reorganisation (whether by way of a merger, accession, division, separation, transformation or liquidation as these terms are construed by applicable Russian legislation), or (B) in case of a Material Subsidiary incorporated in a jurisdiction other than Russia participates in any type of corporate reconstruction or other analogous event (as determined under the relevant legislation), if (in the case of either (i) or (ii) above) any such reorganisation or other type of corporate reconstruction could reasonably be expected to result in a Material Adverse Effect, unless the surviving entity will be the Guarantor or the Issuer, as the case may be, or, if different, the surviving entity will succeed to and fully assume the Issuer's obligations under the Notes or the Guarantor's obligations under the Guarantee, as the case may be.

4.4 Disposals

The Guarantor and the Issuer will not, and will not permit any of their respective Subsidiaries to, directly or indirectly, sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not and whether voluntary or involuntary), the whole or any part of its respective assets. This Condition 4.4 does not apply to any sale, lease transfer or other disposal: (i) made in the ordinary course of business of the disposing entity and on an arm's length basis; (ii) such disposal is of an asset not necessary for the ordinary business of the Group, as at the Issue Date, and is made on an arm's-length basis; (iii) made by a Subsidiary to the Guarantor or by the Guarantor or a Subsidiary to a Subsidiary; (iv) such disposal is made on an arms-length basis and the proceeds of such disposal are invested in assets used in the ordinary business of the Group, as at the Issue Date or exchanged for other assets comparable or superior as to type, value or quality; (v) such disposal is of obsolete or worn-out equipment; (vi) made in respect of any Qualified Securitisation Transaction for the Fair Market Value thereof; or (vii) which would not otherwise have a Material Adverse Effect.

4.5 Financial Covenants

The Guarantor shall at all times:

4.5.1 ensure that Net Interest Income shall be greater than zero; and

4.5.2 ensure that Total Equity shall be at least 10 per cent of Total Assets.

4.6 Maintenance of Authorisations

The Guarantor and the Issuer shall, and shall procure that each Material Subsidiary, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of the Guarantor or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and the Guarantor shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of the Guarantee or for the validity or enforceability thereof.

4.7 Maintenance of Property

The Guarantor and the Issuer shall, and shall procure that each Material Subsidiary will, use reasonable endeavours to monitor all property leased pursuant to its or their business to ensure that it is maintained and kept in good condition, repair and working order and supplied with all necessary equipment by the relevant lessees and that the relevant lessees carry out all necessary repairs, renewals, replacements, betterments and improvements thereof in connection therewith. If, in the judgment of the Guarantor or any Material Subsidiary, any leased property is not being maintained to such standard, the Guarantor or such Material Subsidiary, as the case may be, will take such action as may be reasonably necessary and practicable to ensure that such leased property is maintained to such standard, except where a failure to do so would not have a Material Adverse Effect.

4.8 Payment of Taxes and Other Claims

The Guarantor and the Issuer shall, and shall procure that each of their respective Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, the Guarantor and its Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Guarantor or any of its Subsidiaries; provided, however, that none of the Guarantor nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS, as consistently applied or other appropriate provision has been made.

4.9 Maintenance of Insurance

So long as any amount remains outstanding under the Notes, the Guarantor and the Issuer shall, and shall ensure that each Material Subsidiary will, ensure that those of their assets and properties which are of an insurable nature, and which are leased pursuant to the ordinary course of its or their business, are insured with insurers of good standing against loss or damage as would normally be maintained by a prudent company carrying on similar business to that of the Guarantor, the Issuer or such Material Subsidiaries, as the case may be.

4.10 Financial and Other Information

4.10.1 The Guarantor shall as soon as the same become available, but in any event within 150 days after the end of each of its financial years, deliver to the Trustee the Group's IFRS consolidated financial statements for such financial year, audited by the Auditors.

4.10.2 The Guarantor shall as soon as the same become available, but in any event within 120 days after the end of the first half of each of its financial years, deliver to the Trustee the Group's reviewed IFRS consolidated financial statements for such period, as reviewed by the Auditors.

4.10.3 The Guarantor shall, so long as any Notes remain outstanding, deliver to the Trustee, without undue delay, such additional information regarding the financial position or the business of the Guarantor and its Subsidiaries as the Trustee may reasonably request including providing certification to the Trustee pursuant to the Trust Deed of any Material Subsidiary and providing such Officer’s Certificate as the Trustee may request as to the principal amount of the Notes held by any person (including but not limited to the Issuer, the Guarantor or any of their respective Subsidiaries or any Affiliate of the Guarantor) for the benefit of the Guarantor or any of its respective Subsidiaries or Affiliates.

4.10.4 The Guarantor shall ensure that each set of the Group’s IFRS consolidated financial statements delivered by it pursuant to this Condition 4.10 is:

(i) prepared in accordance with IFRS as consistently applied;

(ii) in the case of the statements provided pursuant to Condition 4.10.1, accompanied by a report thereon of the Auditors referred to in Condition 4.10.1; and

(iii) in the case of the statements provided pursuant to Condition 4.10.2, certified by an Authorised Signatory of the Guarantor as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those reviewed IFRS consolidated financial statements of the Group relate and of the results of the Group's operations during such period.

4.10.5 Following the occurrence of any matter or event specified in these Terms and Conditions where these Terms and Conditions provide for the determination of whether such matter or event has or will have a Material Adverse Effect, the Guarantor shall provide the Trustee with an Officer’s Certificate certifying whether or not such matter or event has or will have a Material Adverse Effect and setting out such additional information as may be required to support such determination. The Trustee shall each be entitled, without liability to any person, to rely solely on an Officer’s Certificate from the Guarantor, certifying whether or not such matter has or will have a Material Adverse Effect.

4.10.6 The Guarantor shall deliver within 14 days of any written request by the Trustee an Officer’s Certificate as to any fact or matter prima facie within the knowledge of the Guarantor as sufficient evidence thereof and a like certificate to the effect that any particular dealing or transaction or step or thing is, in the opinion of the person so certifying, expedient, as sufficient evidence that it is expedient and the Trustee shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by its failing so to do and shall be entitled, without liability to any person, to rely solely on such an Officer’s Certificate or like certificate, as the case may be.

4.11 Change of Business

Neither the Guarantor nor the Issuer, shall make any material change to general nature of its business from carried on at the Issue Date.

4.12 Ranking of Claims

Each of the Issuer and the Guarantor shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantee, respectively, rank in right of payment at least *pari passu* with the claims of all their other present and future unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

4.13 Notice of Default

The Issuer shall deliver to the Trustee, promptly after the occurrence thereof, written notice in the form of an Officer's Certificate of any event which is an Event of Default, or a Potential Event of Default, its status and what action the Issuer and/or the Guarantor is taking or proposes to take with respect thereto.

4.14 Covenant Fall-Away

From and after the date on which the Notes have reached Investment Grade Status, the Guarantor, the Issuer and the Material Subsidiaries (if any) will be released from their obligations to comply with Conditions 4.2, 4.4 and 4.5, provided that to the extent that at any time that the Notes subsequently cease to have the Investment Grade Status then upon such occurrence the provisions of this Condition 4.14 will immediately cease to apply unless and until the Notes again reach such Investment Grade Status.

5 Interest

The Notes bear interest from and including the Issue Date at the Rate of Interest, payable semi-annually in arrear no later than 10:00 a.m. (New York City time) on 31 May and 30 November in each year (each an "**Interest Payment Date**"), the first such Interest Payment Date being on 30 November 2017. Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Note shall be calculated per U.S.$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any Interest Period shall be calculated by applying the Rate of Interest to the Calculation Amount, dividing the resulting product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for a period of less than a complete Interest Period, the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of actual days elapsed.

6 Redemption and Purchase

6.1 Final redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed or repaid by the Issuer at 100 per cent of their principal amount thereof together with accrued interest on 31 May 2024 (the "**Maturity Date**"). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

6.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption but otherwise without premium or penalty, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 8.1 as a result of any change in, or amendment to, or clarification of the laws, treaties, protocols, rulings or regulations of any Relevant Jurisdiction, or any change in the published application or official interpretation of such laws, treaties, protocols, rulings or regulations and including the decision of any court governmental agency or tribunal, which change or amendment is announced, enacted or becomes effective on or after 31 May 2017 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (x) an Officer's Certificate stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled without further investigation or enquiry to accept such Officer's Certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment or clarification. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

6.3 Redemption on a Change of Control

If a Change of Control Put Event shall have occurred, the holder of a Note will have the option (the "**Change of Control Put Option**") to require the Issuer to redeem such Note on the Change of Control Put Settlement Date (as defined below) at 100 per cent of its principal amount together with accrued, but unpaid, interest (if any) to, but excluding, the Change of Control Put Settlement Date.

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Condition 16 and to the Trustee, specifying the details relating to the occurrence of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

In order to exercise the Change of Control Put Option, the holder of a Note must deliver no later than 30 days after the Change of Control Put Event Notice is given (the "**Change of Control Put Period**"), to the specified office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent or Paying Agent of such holder's entitlement to such Note and a duly completed put option notice (a "**Change of Control Put Option Notice**") specifying the principal amount of the Notes in respect of which the Change of Control Put Option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day following the end of the Change of Control Put Period, the relevant Paying Agent shall notify the Issuer and the Guarantor in writing of the exercise of the Change of Control Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Change of Control Put Option. Provided that the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent prior to the expiry of the

Change of Control Put Period, then the Issuer shall (as provided in Condition 7) redeem all such Notes on the date falling five Business Days after the expiration of the Change of Control Put Period (the "**Change of Control Put Settlement Date**"). No Change of Control Put Option Notice, once delivered in accordance with this Condition 6.3, may be withdrawn.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Put Event or any event which could lead to the occurrence of a Change of Control Put Event has occurred and will not be responsible or liable to any holder of a Note for any loss arising from any failure by it to do so. The Trustee may assume until notified otherwise pursuant to this Condition 6.3 that no Change of Control Put Event has occurred and shall have no liability to any person for so doing.

6.4 Purchase

The Issuer, the Guarantor and any Subsidiaries of the Issuer may at any time purchase Notes in the open market or otherwise at any price. The Notes so purchased, while held on or behalf of the Issuer, the Guarantor or any of their respective Subsidiaries, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders of for the purposes of Conditions 9 or 12.

6.5 Cancellation

All Notes redeemed or purchased pursuant to this Condition 6 shall be either cancelled forthwith, held or, to the extent permitted by law, resold. Any Notes so cancelled may not be reissued.

7 Payments

7.1 Principal and other amounts

Payment of principal and interest in respect of the Notes will be made to the persons shown as the Holder in the Register at the opening of business on the Record Date (as defined below). Payments of all amounts other than as provided in this Condition 7.1 will be made as provided in these Conditions.

7.2 Payments

Each payment in respect of the Notes pursuant to Condition 7.1 shall be made by transfer to a U.S. dollar account maintained by or on behalf of the payee with a bank in New York City and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of a Transfer Agent. Subject to the Principal Paying Agent receiving written notification of the relevant U.S. dollar account details prior to such time, payment instructions (for value on the due date or, if that is not a business day (as defined below), for value the first following day which is a business day) will be initiated on the business day preceding the due date for payment (for value the next business day).

7.3 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8.

7.4 Payments on business days

A Note may only be presented for payment on a day which is a business day in the place of presentation. If the due date for any payment of principal or interest under this Condition 7 is not a business day, the Holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay.

7.5 Record date

"**Record Date**" means the fifteenth business day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

7.6 Agents

The initial Agents and their initial specified offices are listed below. The Issuer reserves the right to vary or terminate the appointment of all or any of the Agents at any time (with the written approval of the Trustee) and appoint additional or other payment or transfer agents, provided that the Issuer will at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, and (iv) such other agents as may be required by any stock exchange on which the Notes may be listed, in each case, as approved by the Trustee. Notice of any such change will be provided to Noteholders as described in Condition 16.

In acting under the Paying Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and the Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

In this Condition 7 only, "**business day**" means any day on which (i) the London interbank market is open for dealings between the banks generally, and (ii) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, Moscow, London, New York City, and in the city where the specified office of the relevant Paying Agent is located.

8 Taxation

8.1 All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or by the Guarantor under the Guarantee shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amount so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

8.1.1 held by or on behalf of a Holder which is (i) liable to such taxes, duties, assessments or governmental charges in respect of such Note or the Guarantee by reason of its (or its beneficial owners) having some connection with the Relevant Jurisdiction other than the mere holding of such Note or the benefit of the Guarantee or (ii) able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim to the relevant taxing authority; or

8.1.2 where (in the case of a payment of principal or interest on redemption or at maturity) the relevant Definitive Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Certificate on the last day of such period of 30 days; or

8.1.3 held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a member state of the European Union; or

8.1.4 any combination of the above.

8.2 In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received for the account of the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 16.

8.3 Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

9 Events of Default

The Trustee at its discretion may, and if so requested in writing by Noteholders holding not less than 25 per cent of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the "**Trust Deed**") shall (subject in each case to its being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable at their principal amount together with accrued interest if any of the following events occurs and is continuing (each an "**Event of Default**"):

9.1.1 the Issuer fails to pay within five Business Days any amount payable under the Notes as and when such amount becomes payable in the currency and in the manner specified herein; or

9.1.2 the Issuer or the Guarantor, as the case may be, fails to perform any of their respective other obligations under the Notes, the Guarantee or the Trust Deed, as the case may be, provided (except where in any such case that failure is not (in the opinion of the Trustee) capable of remedy when no such notice as in hereinafter mentioned will be required) that failure continues for the period of 30 days (or such longer period as the Trustee may permit) following the submission by the Trustee to the Issuer or the Guarantor, as the case may be, of notice in writing requesting the same to be remedied; or

9.1.3 the Guarantor or any Material Subsidiary fails to pay any of its Indebtedness as and when such Indebtedness becomes payable, taking into account any applicable grace period or (ii) any Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Guarantor or such Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any person or entity entitled to such Indebtedness; provided, that the total amount of such Indebtedness unpaid or becoming due and payable exceeds U.S.$20 million (or its equivalent in another currency); or

9.1.4 (A) in the case of the Guarantor and any of the Material Subsidiaries incorporated in the Russian Federation, the occurrence of any of the following events: (i) any of the Guarantor, or any of the Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of any of the Guarantor, or any of the Material Subsidiaries as the case may be; (ii) the presentation or filing of a petition in respect of any of the Guarantor or the Material Subsidiaries in any court of competent jurisdiction, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Guarantor or the Material Subsidiaries (ignoring any petition that is not accepted by such court or agency for review on its merits), unless such petition is demonstrated to the satisfaction of the court or agency to be vexatious or frivolous or is being contested in good faith and with due diligence and is discharged or struck out within 40 Business Days; (iii) the institution of the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovleniye*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over the Guarantor or any of the Material Subsidiaries, (iv) the entry by the Guarantor or any of the Material Subsidiaries into, or the agreeing by the Guarantor or any of the Material Subsidiaries to enter into, amicable settlement (*mirovoe soglashenie*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October, 2002 (as amended or replaced from time to time); and/or (v) any judicial liquidation in respect of the Guarantor or any of the Material Subsidiaries; and (B) in the case of any Material Subsidiaries incorporated otherwise than in the Russian Federation, the occurrence of any of the following events: (i) any such Material Subsidiary becomes insolvent or is unable to pay its debts generally as they fall due; (ii) one or more administrator(s) or a liquidator of any such Material Subsidiary is appointed over the whole or substantially the whole or (in the opinion of the Trustee) any material part of the undertaking, assets or revenues of any such Material Subsidiary; (iii) any such Material Subsidiary makes a general assignment to, or a general arrangement or general composition with or for the benefit of, all or substantially all of its creditors or declares a moratorium in respect of all or substantially all of its Indebtedness; or (iv) any such Material Subsidiary ceases or threatens to cease to carry on all or substantially all of its business, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation of any such Material Subsidiary, whereby the undertakings and assets of any such Material Subsidiary are transferred to or otherwise vested in such Material Subsidiary; or

9.1.5 the Guarantor or any Material Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; provided that in the case of a Material Subsidiary the same could have a Material Adverse Effect; or

9.1.6 any governmental authorisation necessary for the performance of any obligation of the Issuer or the Guarantor under the Notes, the Guarantee or the Trust Deed, as the case may be, fails to be in full force and effect; or

9.1.7 any governmental authority or court takes any action that has a Material Adverse Effect on the Issuer's or the Guarantor's ability to perform their respective obligations under the Notes, the Guarantee or the Trust Deed, as the case may be, or the validity or enforceability of the Notes or the Guarantee, as the case may be, or the rights and remedies of the Noteholders thereunder; or

9.1.8 any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of the Guarantor or any of the Material Subsidiaries having a Fair Market Value of more than U.S.$20 million or the equivalent thereof in any other currency or any event occurs which under the laws of any jurisdiction has a similar or analogous effect unless such execution, distress, enforcement of a Lien or similar or analogous event is being contested in good faith by the Guarantor or such Material Subsidiary, as the case may be, and is not removed, paid out, stayed or discharged within 45 days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be; or

9.1.9 there are unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against the Guarantor and/or the Material Subsidiaries and there is a period of 45 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 days after the notice specified in Condition 4.13; or

9.1.10 any seizure, compulsory acquisition, expropriation, nationalisation without appropriate compensation or renationalisation after the date of these Conditions by or under the authority of a government authority of all or part (the IFRS book value of which is 5 per cent or more of the book value of the whole) of the assets of the Guarantor or any Material Subsidiary; or

9.1.11 the Guarantor or any of its Material Subsidiaries ceases to carry on the principal business they each carried on at the date hereof;

9.1.12 at any time it is or becomes unlawful for the Issuer or the Guarantor to perform or comply with any or all of their respective obligations under the Notes, the Guarantee or the Trust Deed, as the case may be, or any of such obligations are not, or cease to be, legal, valid, binding and enforceable; or

9.1.13 any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

10 Prescription

Claims for the payment of principal and interest in respect of any Note shall be prescribed and become void unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

11 Replacement of Definitive Certificates

If a Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange, be replaced at the specified offices of the Registrar or the Transfer Agent on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Registrar or the Transfer Agent. Mutilated or defaced Notes must be surrendered before replacements will be issued.

12 Meetings of Noteholders, Modification and Waiver

12.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed. Noteholders will be entitled to one vote per U.S.$1,000 in principal amount of Notes held by them. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured and/or prefunded to its satisfaction, upon the request in writing of holders of the Notes holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of, inter alia (i) altering the terms and conditions relating to the maturity, redemption, prepayment and repayment or postponing any date for payment of interest, (ii) reducing the principal amount of the Notes, (iii) varying the amounts corresponding to interest or principal payable in respect of the Notes or the method of determining such payments in respect of the Notes, (iv) varying the currency in which payments under the Notes are to be made, (v) modifying or cancelling the Guarantee, (vi) amending the provisions of Schedule 3 of the Trust Deed concerning the quorum required at any meeting of the Noteholders or any adjourned such meeting thereof or concerning the majority required to pass an Extraordinary Resolution, (vii) amending the proviso to paragraph 5 of Schedule 3 of the Trust Deed, or (viii) giving a direction pursuant to Clause 7.1(i) of the Trust Deed, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 50 per cent, in principal amount of the Notes for the time being outstanding. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

12.2 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, the Trust Deed or the Paying Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (except as mentioned in the Trust Deed) in the opinion of the Trustee is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed, which is the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, waiver, authorisation or determination shall be subject to such conditions as the Trustee may determine and shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be promptly notified to the Noteholders in accordance with Condition 16.

12.3 Entitlement of the Trustee

In connection with the exercise of any of its functions (including but not limited to those referred to in this Condition), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders (including but not limited to resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory). No Noteholder is entitled to claim from the Issuer, the Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

13 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings or take such steps or actions against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and/or the Notes, but it need not take any such proceedings and nor shall the Trustee be bound to take, or omit to take any step or action (including instituting such proceedings, steps or actions) unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 Indemnification and Removal of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including provisions relieving it from taking proceedings or steps or actions to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction, and to be paid its costs and expenses in priority to any claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Notes or for the performance by the Issuer or the Guarantor of its obligations under or in respect of the Notes and the Trust Deed. The Trustee is entitled to assume that each of the Issuer and the Guarantor is performing all of its obligations pursuant to the Notes and the Trust Deed (and shall have no liability for doing so) until it has actual knowledge to the contrary.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by auditors, accountants or any other expert pursuant to the Trust Deed, whether or not addressed to the Trustee and whether or not the auditors', accountants' or expert's liability in respect thereof is limited by a monetary cap or otherwise. The Trust Deed provides that the Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove the Trustee (or any successor trustee or additional trustees) provided that the removal of the Trustee or any other trustee shall not become effective unless there remains a trustee in office after such removal.

15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, the date of issue and the amount of principal) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from a guarantee substantially in the form of the Guarantee given in respect of these Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders for the holders of securities of other series where the Trustee so decides. Application will be made by the Issuer for such further securities to be listed and admitted to trading on the stock exchange on which the Notes are from time to time listed or quoted.

16 Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register or by any means designated from time to time by any clearing system on which trades in Notes settle. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the Stock Exchange and the rules or guidelines of that exchange so require, notices will be published via the companies announcements office of the Stock Exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

17 Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Guarantor in respect of the Guarantee or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer or the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes or the Guarantee, the Issuer, failing whom the Guarantor, shall indemnify each recipient, on the written demand of such recipient addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such recipient may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer or, as the case may be, the Guarantor and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder or any other person and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed and/or the Notes or any other judgment or order.

18 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent, if any, that the Notes expressly provide for such Act to apply to any of their terms.

19 Governing Law and Arbitration

19.1 The Trust Deed, the Notes and these Conditions and any non-contractual obligations arising out of or in connection therewith shall be governed by and interpreted in accordance with English law.

19.2 Any dispute, claim or difference of whatever nature arising out of or in connection with the Trust Deed, the Notes and these Conditions (including a dispute regarding the existence, validity or termination of the Trust Deed, the Notes or these Conditions or a dispute relating to non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and these Conditions) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the rules of the LCIA (the "**Rules**").

19.2.1 The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator. The respondent(s), irrespective of number, shall nominate jointly the second arbitrator. The third arbitrator, who shall serve as Chairman, shall be nominated by agreement of the two party-nominated arbitrators. Failing such agreement within 15 days of the confirmation of the appointment of the second arbitrator, the third arbitrator shall be appointed by the LCIA as soon as possible. For the avoidance of doubt, for the purpose of Article 8.1 of the Rules, the claimant(s), irrespective of number, and the respondent(s), irrespective of number, shall constitute two separate sides for the formation of the arbitral tribunal.

19.2.2 In the event that the claimant(s) or the respondent(s) fail to nominate an arbitrator in accordance with the Rules, such arbitrator shall be nominated by the LCIA as soon as possible, preferably within 15 days of such failure. In the event that the respondent(s) or both the claimant(s) and the respondent(s) fail to nominate an arbitrator in accordance with the Rules, all 3 arbitrators shall be nominated and appointed by the LCIA as soon as possible, preferably within 15 days of such failure, and such arbitrators shall then designate one amongst them as Chairman.

19.2.3 The seat of arbitration shall be London, England and the language of the arbitration shall be English.

19.2.4 If more than one arbitration is commenced under the Trust Deed, the Notes or these Conditions and any party contends that two or more such arbitrations are so closely connected that it is expedient for them to be resolved in one set of proceedings, the arbitral tribunal appointed in the first filed of such proceedings (the "**First Tribunal**") shall have the power to determine, provided no date for the hearing on the merits of the Dispute in any such arbitrations has been fixed, that the proceedings shall be consolidated.

19.2.5 The tribunal in such consolidated proceedings shall be selected as follows:

(i) the parties to the consolidated proceedings shall agree on the composition of the tribunal; and

(ii) failing such agreement within 30 days of consolidation being ordered by the First Tribunal, the LCIA shall appoint all members of the tribunal within 30 days of a written request by any of the parties to the consolidated proceedings.

19.3 The Guarantor undertakes irrevocably to appoint Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 5EX, United Kingdom as agent to accept service of process and any other documents in proceedings in England or in any legal action or proceedings arising out of or in connection with these Conditions and the Notes (the "**Process Agent**"), provided that:

19.3.1 service upon the Process Agent shall be deemed valid service upon the Guarantor whether or not the process is forwarded to or received by the Guarantor;

19.3.2 the Guarantor shall inform the Trustee, in writing, of any change in the address of the Process Agent within 28 days of such change;

19.3.3 if the Process Agent ceases to be able to act as a process agent or to have an address in England, the Guarantor irrevocably agrees to appoint a new process agent in England acceptable to the Trustee and to deliver to the trustee within 14 days a copy of a written acceptance of appointment by the new process agent; and

19.3.4 nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

19.4 To the extent that the Issuer or the Guarantor may now or hereafter be entitled, in any jurisdiction in which any legal action or proceeding may at any time be commenced pursuant to or in accordance with these Conditions, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from suit, jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's lien, counterclaim or any other legal process or remedy with respect to its obligations under these Conditions and/or to the extent that in any such jurisdiction there may be attributed to the Issuer or the Guarantor any such immunity (whether or not claimed), each of the Issuer and the Guarantor hereby irrevocably agrees not to claim, and hereby waive, any such immunity.

19.5 Each of the Issuer and the Guarantor irrevocably and generally consents in respect of any proceedings anywhere to the giving of any relief or the issue and service on it of any process in connection with those proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those proceedings.

20 Definitions

In these Conditions the following terms have the meaning given to them in this Condition 20.

"**Accounting Standards**" means IFRS or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the Committee of European Securities Regulators from time to time;

"**Agency**" means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Affiliate**" of any specified person means (i) any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person or (ii) any other person who is a director or officer (a) of such specified person or (b) of any person described in (i) above or, in relation to the Guarantor, any other Person who is an "affiliate" of such Person within the meaning of Russian joint-stock company and competition law. For the purpose of this definition, "**control**" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing;

"**Auditors**" means, the auditors from time to time of the Group's consolidated financial statements under IFRS or, if they are unable or unwilling to carry out any action requested of them hereof, such other internationally recognised firm of accountants as may be nominated by the Guarantor;

"**Authorised Signatory**" means, in relation to the Issuer, a duly authorised attorney or director of the Issuer, and, in relation to the Guarantor, any person who is duly authorised (in such manner as may be reasonably acceptable to the Trustee) and in respect of whom the Trustee has received a certificate signed by a director or another Authorised Signatory of the Guarantor setting out the name and signature of such person and confirming such person's authority to act;

"**Board of Directors**" means, as to any Person, the board of directors or other equivalent executive body of such Person or any duly authorised committee thereof;

"**Business Day**" means, other than for the purposes of Condition 3.4 and Condition 7, a day on which commercial banks generally are open for business in London, New York City, Moscow, Dublin and in the city where the specified office (as defined in the Paying Agency Agreement) of the Principal Paying Agent is located;

"**Capital Stock**" means, with respect to any Person, any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) of such Person's equity, including any Preferred Stock of such Person, whether now outstanding or issued after the Issue Date, including without limitation, all series and classes of such Capital Stock, but excluding any debt securities convertible into or exchangeable for such Capital Stock;

"**Change of Control**" means the Russian Federation ceasing to own or control (directly or indirectly) in excess of 75 per cent of the issued and outstanding voting share capital of the Guarantor and/or the Issuer, and the occurrence of a Change of Control shall be a "**Change of Control Put Event**".

"**Disinterested Directors**" means, with respect to any transaction or series of related transactions, a member of the Board of Directors of the Issuer, the Guarantor or its relevant Subsidiary who (x) does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions, (y) has not and whose Affiliates or affiliated firm has not, at any time during the twelve months prior to the taking of any action hereunder, directly or indirectly, received, or entered into any understanding or agreement to receive, any compensation, payment or other benefit, of any type or form, from the Guarantor or any of its Affiliates, other than customary directors' fees for serving on the Board of Directors of the Guarantor or any Affiliate and reimbursement of out-of-pocket expenses for attendance at the Guarantor's or Affiliate's board and board committee meetings and (z) in relation to the Guarantor, is a disinterested director within the meaning of the Russian joint-stock company law. A Person shall not be ineligible to constitute a Disinterested Director solely as a result of such Person owning any equity interests of the Issuer, the Guarantor or any of their respective Subsidiaries or acting as an officer, director or employee of the Issuer, the Guarantor or any of their respective Subsidiaries.

"**Disqualified Stock**" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(a) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;

(b) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(c) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part,

in each case on or prior to the first anniversary hereof.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to the terms hereof; provided, however, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person;

"**Fair Market Value**" means, with respect to any asset or property, the price which could be negotiated in an arm's length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will, in relation to any transaction or series of related transactions with an aggregate value in excess of U.S.$20 million, other than of any asset with a public trading market, be determined in good faith by a majority of the Disinterested Directors or, in the event that there is only one Disinterested Director, by such Disinterested Director (whose determination shall be conclusive if evidenced by a resolution of the Board of Directors);

"**Fitch"** means Fitch Ratings Limited or any successor to its ratings business;

"**Group**" means the Guarantor and its Subsidiaries taken as a whole;

"**guarantee**" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep well, to purchase assets, goods, securities or services, to take or pay, or to maintain financial statement conditions or otherwise); or

(b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, however that "guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. "Guarantee" used as a verb has a corresponding meaning;

"**Indebtedness**" means, without duplication, any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable either on a compulsory basis or at the option of the shareholder; any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing; and the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above;

"Investment Grade Rating" means a rating equal to or higher than (a) BBB- (or the equivalent) by Fitch, (b) Baa3 (or the equivalent) by Moody's, (c) BBB- (or the equivalent) by Standard & Poor's or (d) if any of Moody's, Fitch or Standard & Poor's cease to publish ratings of securities, an equivalent rating by an internationally recognised statistical rating organisation;

"Investment Grade Status" means that the Notes have an Investment Grade Rating from any two Ratings Agencies;

"**IFRS**" means International Financial Reporting Standards issued by the International Accounting Standards Board (the "**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, consistently applied and which are in effect from time to time;

"**Issue Date**" means 31 May 2017;

"**Lien**" means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

Material Adverse Effect" means a material adverse effect on:

(a) the financial condition, assets or business of the Guarantor or any of its Material Subsidiaries; or

(b) the Issuer's ability to perform its obligations under the Notes; or

(c) the Guarantor's ability to perform its obligations under the Guarantee; or

(d) the validity, legality or enforceability of the Notes or the Guarantee;

"**Material Subsidiary**" means, (i) Issuer, or (ii) at any time, any Subsidiary of the Guarantor which, at such time, has total assets or gross revenues (or the equivalent thereof) equal to or exceeding 5 per cent of the consolidated total assets or Net Interest Income (or the equivalent thereof), as the case may be, of the Group as calculated by reference to the then financial statements of such Subsidiary and the then latest IFRS consolidated financial statements of the Group, provided however that an Officer's Certificate that a Subsidiary of the Guarantor is or is not a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"**Moody's**" means Moody's Investors Service Limited or any successor to its ratings business;

"**Net Interest Income**" means the sum of ((i) finance lease interest income, (ii) other interest income, (iii) income from operating leases) minus interest expense, as determined by reference to the Guarantor's most recent annual consolidated balance sheet delivered in accordance with Condition 4.10 or, prior to the first delivery, to the Original Financial Statements;

"**Officer's Certificate**" means, a certificate executed on behalf of such person by an Authorised Signatory of the Issuer or the Guarantor, as the case may be;

"**Original Financial Statements**" means the audited IFRS consolidated financial statements of the Group for the year ended 31 December 2016;

"**Person**" means any individual, corporation, firm, partnership, joint venture, association, trust, unincorporated organisation or government or judicial entity or any Agency or political subdivision thereof, in each case, whether or not having a separate legal personality;

"**Permitted Liens**" means:

(a) any Lien over or affecting any asset acquired by a member of the Group after the date hereof and subject to which such asset is acquired, if:

(i) such Lien was not created in contemplation of the acquisition of such asset by a member of the Group;

(ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Group; and

(iii) such Lien is removed or discharged within three calendar months of the date of acquisition of such asset;

(b) any Lien over or affecting any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, if:

(i) such Lien was not created in contemplation of the acquisition of such company;

(ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company; and

(iii) such Lien is removed or discharged within three calendar months of such company becoming a member of the Group;

(c) any Lien arising by operation of law and in the normal course of business;

(d) any Lien granted by any Subsidiary of the Guarantor in favour of the Guarantor;

(e) any Liens existing on the Issue Date and any extension, renewal of or substitution for any Lien existing on the Issue Date provided, however, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (e) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than proceeds of the property or assets in question); and

(f) any Lien over any asset of any member of the Group provided that, at all times, the aggregate book value of the assets of the Group that are not subject to any Lien is equal to or greater than 110 per cent of the aggregate amount of all Indebtedness of the Group which is not secured by Liens over assets of any member of the Group (in each case calculated in accordance with IFRS), except, in any case, where the creation or existence of such Lien could reasonably be expected to result in a Material Adverse Effect;

"**Potential Event of Default**" means any condition, event or act which, with the lapse of time, the expiry of any grace period and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Event of Default;

"**Preferred Stock**", as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person;

"**Qualified Securitisation Transaction**" means any transaction or series of transactions that may be entered into by the Issuer, the Guarantor or any of their respective Subsidiaries pursuant to which the Issuer, the Guarantor or any of their respective Subsidiaries may sell, convey or otherwise transfer to (i) a Securitisation Entity (in the case of a transfer by the Issuer, the Guarantor or any of their respective Subsidiaries); and (ii) any other Person (in the case of a transfer by a Securitisation Entity), or may grant a security interest in any accounts receivable or equipment (whether now existing or arising or acquired in the future) of the Issuer, the Guarantor or any of their respective Subsidiaries, and any assets related thereto including, without limitation, all collateral securing such accounts receivable and equipment, all contracts and contract rights and all guarantees or other obligations in respect of such accounts receivable and equipment, proceeds of such accounts receivable and equipment and other assets (including contract rights) which are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitisation transactions involving accounts receivable and equipment;

"**Rate of Interest**" means interest in U.S. Dollars on the outstanding principal amount of the Notes at the rate of 5.125 per cent per annum;

"**Rating Agency"** means any of Fitch, Moody's or Standard & Poor's or if any of Fitch, Moody's or Standard & Poor's cease to publish ratings of securities, any other internationally recognised statistical rating organisation;

"**Relevant Jurisdiction**" means:

(a) in the case of payment by the Issuer, Ireland or any political subdivision or any authority thereof or therein having power to tax;

(b) in the case of payments by the Guarantor, the Russian Federation or any political subdivision or any authority thereof or therein having power to tax; or

(c) in any case except in relation to Condition 6.2, any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax in which the Issuer or the Guarantor becomes organised or resident for tax purposes or through which payments are made by it of principal or interest on the Notes or under the Guarantee;

"**Securities Act**" means the U.S. Securities Act of 1933, as amended;

"Securitisation Entity" means a Wholly Owned Subsidiary (or another Person to which the Issuer, the Guarantor or any of their respective Subsidiaries transfers accounts receivable or other assets) which engages in no activities other than in connection with the financing of accounts receivable or such other assets and which is designated by the Board of Directors of the Guarantor or the Issuer as a Securitisation Entity (a) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (i) is guaranteed by the Issuer, the Guarantor or any of their respective Subsidiaries (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitisation Undertakings); (ii) is recourse to or obligates the Issuer, the Guarantor or any of their respective Subsidiaries in any way other than pursuant to Standard Securitisation Undertakings; or (iii) subjects any property or asset of the Issuer, the Guarantor or any of their respective Subsidiaries, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitisation Undertakings; (b) with which none of the Issuer, the Guarantor or any of their respective Subsidiaries has any material contract, agreement, arrangement or understanding other than on terms no less favourable to the Issuer, the Guarantor or any of such Subsidiaries than those that might be obtained at the time from Persons that are not Affiliates, other than fees payable in the ordinary course of business in connection with servicing receivables of such entity; and (c) to which none of the Issuer, the Guarantor or any of their respective Subsidiaries has any obligations to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results;

"**Standard & Poor's**" means Standard & Poor's Credit Market Services France SAS, or any successor to its ratings business;

"**Standard Securitisation Undertaking**" means representations, warranties, covenants and indemnities entered into by the by the Issuer, the Guarantor or any of their respective Subsidiaries which are reasonably customary in securitisations of leases;

"**Stock Exchange**" means the Irish Stock Exchange plc;

"**Subsidiary**" of any Person means (a) any corporation more than 50 per cent of the outstanding voting power of the Capital Stock of which is owned or controlled, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person, or by such Person and one or more other Subsidiaries thereof, (b) any limited partnership of which such Person or any Subsidiary of such Person is a general partner, (c) any other Person in which such Person, or one or more other Subsidiaries of such Person, or such Person and one or more other Subsidiaries, directly or indirectly, has more than 50 per cent of the outstanding partnership or similar interests or has the power, by contract or otherwise, to direct or cause the direction of the policies, management and affairs thereof or (d) any other Person whose financial statements are required by Accounting Standards to be consolidated into the consolidated financial statements of such Person (except that the Issuer shall not be considered to be a Subsidiary of the Guarantor merely by reason of its financial statements being required by Accounting Standards to be consolidated into the consolidated financial statements of the Guarantor). Unless otherwise specified, "**Subsidiary**" refers to a Subsidiary of the Guarantor;

"**Taxes**" means any taxes, duties, assessments or government charges of whatever nature (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by a Relevant Jurisdiction or any tax authority thereof or therein and the term Taxation shall be construed accordingly;

"**Total Assets**" means the book value of the consolidated total assets of the Group as determined by reference to the Group's most recent annual consolidated balance sheet delivered in accordance with Condition 4.10;

"**Total Equity**" means the book value of the consolidated total equity of the Group as determined by reference to the Guarantor's most recent annual consolidated balance sheet delivered in accordance with Condition 4.10;

"**U.S. Dollar Equivalent**" means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under "**Currency Rates**" in the section of the Financial Times entitled "Currencies, Bonds & Interest Rates"; and

"Wholly Owned Subsidiary" means a Subsidiary all the Capital Stock of which (other than directors' qualifying shares or shares of Subsidiaries required to be owned by third parties under applicable law) is owned by the Guarantor or the Issuer or one or more other Wholly Owned Subsidiaries.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Certificate

The Notes will be evidenced on issue by the Global Certificate deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

Beneficial interests in the Global Certificate may be held only through Euroclear or Clearstream, Luxembourg. See "*Book-entry Procedures for the Global Certificates*". By acquisition of a beneficial interest in the Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is purchasing the Certificates in an "offshore transaction" as such term is defined in Regulation S. See "*Transfer Restrictions*".

Beneficial interests in the Global Certificate will be subject to certain restrictions on transfer set forth therein and in the Paying Agency Agreement and the Notes will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*."

Except in the limited circumstances described below, owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of certificated Notes in definitive form (the **Definitive Certificates**). The Notes are not issuable in bearer form.

Amendments to Conditions

The Global Certificate contains provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by the Global Certificate will be made to the person who appears at the relevant time on the register of Noteholders against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent, (or to or to the order of such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose). A record of each payment so made will be endorsed in the appropriate schedule to the Global Certificate, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

Notices

So long as any Notes are evidenced by the Global Certificate and the Global Certificate is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be).

Record Date

So long as the Global Certificate is held by or on behalf of a common depositary for Euroclear, Clearstream, Luxembourg or an Alternative Clearing System, **Record Date** shall mean the Clearing

System Business Day before the relevant due date for payment, where **Clearing System Business Day** means a day when Euroclear and Clearstream, Luxembourg is open for business.

Meetings

The holder of the Global Certificate and any proxy appointed by it will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each USD 1,000 in principal amount of Note represented by the Global Certificate.

Trustee's Powers

In considering the interests of Noteholders while the Global Certificate is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Global Certificate.

Exchange for Definitive Certificates

Exchange

Each Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: a Global Certificate is held by or on behalf of Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent.

The Registrar will not register the transfer of, or exchange of interests in, the Global Certificate for Definitive Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

Delivery

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

Legends

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon.

Euroclear and Clearstream, Luxembourg

The Global Certificate representing the Notes will have an ISIN and Common Code number and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**Direct Participants**) or indirectly (**Indirect Participants** and together with Direct Participants, **Participants**) through organisations which are accountholders therein.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a note evidenced by the Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by the Global Certificate, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in the Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by the Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of the Global Certificate in respect of each amount so paid. None of the Issuer, the Guarantor, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the **Beneficial Owner**) will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in the Global Certificate held within a clearing system are exchanged for Definitive Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefore on the Closing Date, which could be more than three business days following the date of pricing. Settlement procedures in different countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the Closing Date should consult their own advisors.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale or other transfer of the Notes offered hereby.

Each purchaser of Notes, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(a) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (i) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (ii) it is not an affiliate of the Issuer, the Guarantor or a person acting on behalf of such an affiliate.

(b) It understands that the Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the “distribution compliance period” (as such term is defined in Rule 902 of Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction to a person that is not a U.S. person in accordance with Rule 903 or Rule 904 of Regulation S and in accordance with any applicable securities laws of any state of the United States.

TAXATION

The following is a general description of certain tax laws relating to the Notes and does not purport to be a comprehensive discussion of the tax treatment of the Notes. Prospective investors in the Notes should consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Notes in light of their particular circumstances, including but not limited to the consequences of receipt of interest and sale or redemption of the Notes.

IRELAND

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, any member of the same group of companies as the Issuer or any person holding shares in the Issuer in connection with the Notes. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Taxation of Noteholders

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent), is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

(a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish Stock Exchange) and which carry a right to interest; and

(b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:

  (i) the Note is held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

  (ii) the person who is the beneficial owner of the quoted Eurobond and who is beneficially entitled to the interest is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange and are held in a recognised clearing system, interest on the Notes can be paid by any paying agent acting on behalf of the Issuer without any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a paying agent outside Ireland.

If, for any reason, the quoted Eurobond exemption referred to above cease to apply, interest payments may still be made free of withholding tax provided that: the interest is paid in the ordinary course of the Issuer's trade or business and the Noteholder is:

(i) a company which (1) by virtue of the law of a Relevant Territory (as defined below), is resident in the Relevant Territory for the purposes of tax, and that Relevant Territory imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory, and (2) does not receive the interest payment in connection with a trade or business which is carried on in Ireland by it through a branch or agency; or

(ii) a company where (1) the interest payable to it is exempted from the charge to income tax under a double taxation treaty in force between Ireland and another territory, or would be exempted from the charge to income tax if a double taxation treaty made between Ireland and another territory on or before the date of payment, but not yet in force, had the force of law when the interest was paid, and (2) it does not receive the interest payment in connection with a trade or business which is carried on in Ireland by it through a branch or agency.

The Issuer must be satisfied that the respective terms of the exemptions are satisfied. The test of residence in each case is determined by reference to the law of the Relevant Territory in which the Noteholder claims to be resident.

In this context **Relevant Territory** means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty.

For other holders of Notes, interest may be paid free of withholding tax if the Noteholder is resident in a double tax treaty country and under the provisions of the relevant treaty with Ireland such Noteholder is exempt from Irish tax on the interest and clearance in the prescribed form has been received by the Issuer before the interest is paid.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish income tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, pay related social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax, notwithstanding that the Noteholder is not resident in Ireland. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Interest payments made by the Issuer in the ordinary course of its trade or business to a company are exempt from income tax provided the recipient company is not resident in Ireland and is either resident for tax purposes in a Relevant Territory which imposes a tax that generally applies to interest receivable in that territory by companies from sources outside that territory or the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come into force once all ratification procedures have been completed. In addition, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption or under the wholesale debt instrument exemption is exempt from income tax where the recipient is a person not resident in Ireland and resident in a Relevant Territory or is a company not resident in Ireland which is under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory is resident for the purposes of tax in a Relevant Territory and are not under the control of person(s) who are not so resident, or is a company not resident in Ireland where the principal class of shares of the company or its 75 per cent parent is substantially and regularly traded on a recognised stock exchange. For the purposes of these exemptions and where not specified otherwise, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, the charge to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to income tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A holder of Notes will not be subject to Irish tax on capital gains on a disposal of Notes unless (i) such holder is either resident or ordinarily resident in Ireland, (ii) carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held, or (iii) the Notes cease to be listed on a stock exchange in circumstances where the Notes derive their value, or the greater part of their value, from Irish real estate, mineral rights or exploration rights.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, is currently levied at 33 per cent) if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland on the issue of the Notes.

There is an exemption from stamp duty (provided for in Section 85 of the Stamp Duties Consolidation Act 1999) which may apply to a transfer of the Notes where the Notes:

(a) do not carry a right of conversion into stocks or marketable securities (other than loan capital) of a company having a register in Ireland or into loan capital having such a right;

(b) do not carry rights of the same kind as shares in the capital of the company including rights such as voting rights, a share in the profits or a share in the surplus upon liquidation;

(c) are issued for a price which is not less than 90 per cent of their nominal value; and

(d) do not carry a right to a sum in respect of repayment or interest which is related to certain movements in an index or indices specified in any instrument or other document relating to such loan capital.

THE RUSSIAN FEDERATION

Taxation of the Notes

General

The following is an overview of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes as well as the taxation of payments under the Guarantee. The overview is based on the laws of the Russian Federation in effect on the dates of this Prospectus, which are subject to potential change (possibly with retroactive effect). The overview does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation, nor does it seek to address the availability of double tax treaty relief in respect of income payable on the Notes, or practical difficulties connected with claiming such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes that may arise in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes pertinent to any particular Noteholder is made hereby.

Many aspects of the Russian tax laws are subject to significant uncertainty and lack of interpretive guidance, resulting in inconsistent interpretations and application thereof. Furthermore, provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable changes (possibly with retroactive effect) and inconsistent interpretation than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates and relevant interpretations may constantly change. In practice, interpretation by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated in the Russian Tax Code. Similarly, in the absence of binding precedents, court rulings on tax or other related matters taken by different Russian courts relating to the same or similar facts and circumstances may also be inconsistent or contradictory.

For the purposes of this overview, the term **Resident Noteholder** means:

(i) a Noteholder which is a legal entity or an organisation and is:

- a Russian legal entity;

- a foreign legal entity or organisation recognised as a Russian tax resident based on Russian domestic law (if the Russian Federation is recognised as the place of management of such legal entity or organisation as determined in the Russian Tax Code unless otherwise envisaged by an applicable double tax treaty);

- a foreign legal entity or organisation which holds and/or disposes of the Notes through its permanent establishment in the Russian Federation (a **Legal Entity Resident Noteholder**), and

(ii) an Individual Noteholder and is actually present in Russia in total 183 calendar days or more in any period comprised of 12 consecutive months (an **Individual Resident Noteholder**). Presence in the Russian Federation is not considered interrupted if an individual departs for short periods (less than six months) from the Russian Federation for medical treatment or education purposes as well as for the employment or other duties related to the performance of works (services) on offshore hydrocarbon fields. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that, for tax withholding purposes, an individual's tax residence status should be determined on the date of the income payment (based on the number of days spent in the Russian Federation in the 12-month period preceding the date of the payment). An individual's final tax liability in the Russian Federation for any reporting calendar year should be determined based on the number of days spent in the Russian Federation in such calendar year.

For the purposes of this overview, the term **Non-Resident Noteholder** means any Noteholder (including any individual (the **Individual Non-Resident Noteholder**) and any legal entity or an organisation (the **Legal Entity Non-Resident Noteholder**)) that does not qualify as a Resident Noteholder.

The Russian tax treatment of payments under the Guarantee to the Trustee under the Trust Deed may affect the holders of the Notes. See "*– Taxation of Payments under the Guarantee*" below.

Noteholders should seek professional advice on their tax status in Russia.

Legal Entity Non-Resident Noteholders

Acquisition of the Notes

The acquisition of the Notes by a Legal Entity Non-Resident Noteholder (whether upon issuance or in the secondary market) should not trigger any Russian tax implications for the Legal Entity Non-Resident Noteholder.

Disposal of the Notes

A Legal Entity Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on sale, redemption or a disposal of the Notes, provided that no portion of proceeds from such sale, redemption or other disposal of the Notes is received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity and no portion thereof is attributable to accrued interest. However, there is a risk that any portion of such proceeds received from either a source within Russian Federation or from a Russian tax resident which is a legal entity attributable to accrued interest may be subject to Russian withholding tax at a rate of 20 per cent subject to the provisions outlined in Section "*Double Tax Treaty Relief*" below, even if the sale, redemption or disposal itself results in a capital loss.

Legal Entity Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the acquisition and disposal of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a sale, redemption or other disposal of the Notes and applicability of double tax treaty relief.

Individual Non-Resident Noteholders

Acquisition of the Notes

Under Russian tax legislation, the taxation of income of Individual Non-Resident Noteholders will depend on whether the income is characterised as received from a Russian or non-Russian source. In certain circumstances, the acquisition of the Notes by Individual Non-Resident Noteholders (either at original issuance if the Notes are not issued at par, or in the secondary market) may constitute a taxable event for Russian personal income tax purposes. In particular, if Individual Non-Resident Noteholders acquire the Notes in the Russian Federation or from a Russian entity and the acquisition price of the Notes is below fair market value (calculated under a specific procedure for the determination of market prices of securities for Russian personal income tax purposes), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to material benefit (deemed income) received by individuals as a result of acquiring securities. Although the Russian Tax Code does not contain any provisions as to how the source of the related material benefit should be determined, in practice the Russian tax authorities may infer that such income should be considered as Russian-source income if the Notes are purchased "in the Russian Federation". In the absence of any additional guidance as to what should be considered as a purchase of securities in the Russian Federation, the Russian tax authorities may apply various criteria, including looking at the place of conclusion of the acquisition transaction, the location of the seller, or other similar criteria. In such a case, Individual Non-Resident Noteholders may be subject to Russian personal income tax at a rate of 30 per cent on an amount equal to the difference between the fair market value and the purchase price of the Notes.

The tax may be withheld at source of payment or, if the tax is not withheld, the Individual Non-Resident Noteholder may be required to declare its income in the Russian Federation by filing a tax return and paying the tax or based on a tax assessment received from the Russian tax authorities, depending on the circumstances.

Disposal of the Notes

Individual Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on a redemption, sale or disposal of the Notes outside the Russian Federation, provided that the proceeds of such sale, redemption, or other disposal of the Notes are not received from either a source within the Russian Federation or from a Russian tax resident, which is a legal entity.

If proceeds from the sale, redemption or other disposal of the Notes, including any portion of such proceeds attributable to accrued interest income under the Notes, are received either from a Russian source or from a Russian tax resident, which is a legal entity, an Individual Non-Resident Noteholder will generally be subject to Russian personal income tax at a rate of 30 per cent, subject to any available double tax treaty relief, as discussed below in "*Double Tax Treaty Relief*", in respect of the gross proceeds from such sale, redemption or other disposal less any available deduction of expenses incurred by the Noteholder (which includes the purchase price of the Notes).

Under Russian tax legislation, income received from a sale, redemption or disposal of securities should be treated as having been received from a Russian source if such sale, redemption or disposal occurs in the Russian Federation. In absence of any guidance as to what should be considered as a sale or other disposal of securities "in the Russian Federation", the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the buyer, or other similar criteria. There is no assurance, therefore, that proceeds received by Individual Non-Resident Noteholders from a sale, redemption or disposal of the Notes will not become subject to tax in the Russian Federation.

Furthermore, there is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities or by the person remitting the proceeds to an Individual Non-Resident Noteholder (where such person is considered the tax agent, obliged to calculate and withhold Russian personal income tax and remit it to the Russian budget), the cost deductions may be disallowed and the tax will apply to the gross amount of the sale, redemption or disposal proceeds.

In certain circumstances, if the sale and/or disposal proceeds (including accrued interest on the Notes) are paid to an Individual Non-Resident Noteholder by a licensed broker or an asset manager, who carries out operations in the Russian Federation in the interests of an Individual Non-Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement, the applicable Russian personal income tax at the rate of 30 per cent (or such other tax rate as may be effective at the time of payment) should be withheld at source by such person who will be considered as the tax agent. The withholding tax rate should be applied to the difference between the proceeds paid to the Individual Non-Resident Noteholder and the amount of duly documented deductions relating to the original purchase cost and related expenses incurred by the Noteholder on the purchase, holding and sale of the Notes to the extent that such deductions and expenses can be determined by the entity making the payment. The entity making the payment would be required to report to the Russian tax authorities the income received by and a deduction allowed the Individual Non-Resident Noteholder and tax withheld upon the sale of the Notes.

If a Russian personal income tax obligation arises as a result of the sale, redemption or other disposal of the Notes but the tax has not been withheld in the absence of a tax agent, an Individual Non-Resident Noteholder is required to file a personal income tax return in the Russian Federation to report the amount of income received to the Russian tax authorities and apply for a deduction in the amount of the acquisition cost and other expenses related to the acquisition, holding, sale or other disposal of the Notes, based on the provision of supporting documentation. The applicable personal income tax will then have to be paid by the individual on the basis of the filed personal income tax return.

If a Russian personal income tax obligation arises as a result of the sale, redemption or other disposal of the Notes but the tax agent was not able to withhold the tax and reported this fact to the Russian tax authorities, the tax is payable by the Individual Non-Resident Noteholder based on a tax assessment issued by the Russian tax authorities.

Under certain circumstances, gains received and losses incurred by an Individual Non-Resident Noteholder as a result of the sale, redemption or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes, which would affect the total amount of personal income of an Individual Non-Resident Noteholder subject to taxation in the Russian Federation.

Since the sale, redemption or other disposal proceeds and deductible expenses for Russian tax purposes are calculated in roubles, the taxable base may be affected by fluctuations in the exchange rates between the currency in which the Notes were acquired, the currency in which the Notes were sold, and roubles, i.e. there could be a loss or no gain in the currency of the Notes but a gain in roubles which could be potentially subject to taxation.

Individual Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the acquisition and disposal of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a sale, redemption or other disposal of the Notes.

Resident Noteholders

A Resident Noteholder will generally be subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of gain from the sale, redemption or other disposal of the Notes and interest income received on the Notes. Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and disposal of the Notes may have on their tax position.

Legal Entity Resident Noteholders

A Legal Entity Resident Noteholder should, prima facie, be subject to Russian profits tax at the rate of up to 20 per cent on interest (coupon) income on the Notes as well as on the capital gain from the sale, redemption or other disposal of the Notes. Generally, Legal Entity Resident Noteholders are required to submit Russian profits tax returns, and assess and pay tax on capital gains and interest (coupon) income.

Individual Resident Noteholders

An Individual Resident Noteholder should generally be subject to personal income tax at a rate of 13 per cent on (i) deemed income resulting from the acquisition of the Notes at a price below fair market value, (ii) on interest (coupon) income on the Notes and (iii) income received from the sale, redemption or other disposal of the Notes. If such income is paid to an Individual Resident Noteholder by a tax agent, the applicable Russian personal income tax of 13 per cent (or such other tax rate as may be effective at the time of payment) should be withheld at source by such person. For the purposes of interest (coupon) income and income received from a sale, redemption and/or other disposal of the Notes, a tax agent is a licensed broker or an asset manager who carries out operations in the interest of an Individual Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement, or in certain cases a Russian organisation (e.g. the Issuer), which makes payments under the notes. If the Russian personal income tax has not been withheld (if there was no tax agent) Individual Resident Noteholders are required to submit annual personal income tax returns, assess and pay the tax. If the tax agent in Russia was not able to withhold the tax and reported this fact to the Russian tax authorities, the tax is payable by the Individual Non-Resident Noteholder based on a tax assessment issued by the Russian tax authorities.

Taxation of Principal and Interest under the Notes paid by the Issuer to the Non-Resident Noteholders

Legal Entity Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of payments of principal on the Notes received from the Issuer.

Payments under the Notes may be subject to Russian withholding tax if the Issuer is treated as a Russian tax resident or if the Issuer's activities lead to creation of a permanent establishment for the Issuer in the Russian Federation. In these cases payments of interest under the Notes made by the Issuer to the Non-Resident Noteholders could be recognised by Russian tax authorities as subject to

Russian withholding tax at a rate of 20 per cent (or 30 per cent in respect of Individual Non-Resident Noteholders).

However, the Russian Tax Code provides an exemption from the obligation to withhold tax from interest paid by a Russian organisation to Legal Entity Non-Resident Noteholders under the "quoted bonds" issued in accordance with the legislation of the foreign jurisdiction (this exemption is also applicable to the foreign organizations, which are either recognised as Russian tax residents, or as those organizations, which activities lead to creation of a permanent establishment in the Russian Federation).

For the purpose of the Russian Tax Code, "quoted bonds" means bonds and other debt obligations (1) which passed the listing procedure and/or (2) which were admitted to circulation on one or more foreign stock exchanges and/or (3) rights to which are recorded by a foreign depositary-clearing organisation, provided such foreign stock exchanges and depositary-clearing organisations are specified in the list of foreign financial intermediaries (the **List**). The List, which became effective on 30 December 2012, includes the Irish Stock Exchange amongst the recognised foreign stock exchanges and Euroclear Bank SA/NV (**Euroclear**) and the Clearstream amongst the recognised foreign depositary-clearing organisations. While Clearstream is mentioned in the List, the List does not explicitly mention Clearstream Banking, S.A. (**Clearstream**, **Luxembourg**). According to the shareholding structure of Clearstream groups, Clearstream, Luxembourg is a member entity of Clearstream group, and, therefore, Clearstream, Luxembourg is part of Clearstream. However, there is a residual risk that the Russian tax authorities may apply a formalistic approach and take a position that Clearstream, Luxembourg is not included in the List based on the fact that they are not explicitly mentioned in the List.

Criteria (1) and (2) should be satisfied as the Notes will be listed on the Irish Stock Exchange. The Notes should satisfy criterion (3) because the rights to the Notes will be held in Euroclear and Clearstream, Luxembourg, which for the purposes of the Russian Tax Code essentially should mean that the rights to the Notes are "recorded" with one of the above foreign depositary-clearing organisations. According to the Russian Tax Code, in order to be treated as "quoted bonds" fulfilment of one of the above criteria is sufficient. Therefore, the Notes should be recognised as "quoted bonds" for purposes of the Russian Tax Code.

Based on the above, the Issuer should be released from the obligation to withhold the Russian withholding tax from interest payments made to Legal Entity Non-Resident Noteholders under the Notes provided that the Notes continue to be recognised as "quoted bonds" for the purposes of the Russian Tax Code as outlined above.

If the Issuer is treated as a Russian tax resident, or the Issuer's activities lead to creation of a permanent establishment for the Issuer in the Russian Federation, the payments under the Notes (including interest and principal amounts under the Notes) made by the Issuer to Individual Non-Resident Noteholders less any available cost deduction could be subject to Russian taxation at a rate of 30 per cent subject to any available double tax treaty relief (for details see *"Double Tax Treaty Relief"*).

Also, if the Issuer is treated as a Russian tax resident, or if the Issuer's activities lead to creation of a permanent establishment in the Russian Federation, the Issuer will be fully subject to all applicable Russian taxes in accordance with the Russian tax law and will be exposed to all of the risks and implications associated with the Russian tax system. Such Russian tax consequences could have a material adverse effect on the Issuer's business, financial condition and results of operations and the Issuer's ability to make payments under, or the trading price, of the Notes.

Taxation of Payments under the Guarantee

Russian withholding tax

Non-Resident Noteholders

Payments following enforcement of the Guarantee to be made by the Guarantor to Non-Resident Noteholders to the extent relating to interest on the Notes are likely to be characterised as Russian-source income. Accordingly, such payments should be subject to withholding tax at a rate of 20 per cent in the event that a payment under the Guarantee is made to a Legal Entity Non-Resident Noteholder which is not organised under Russian law and which holds the Notes otherwise than through a permanent establishment in the Russian Federation, subject to the provisions outlined in Section "*Double Tax Treaty Relief*" below. In the event a payment under the Guarantee is made to an Individual Non Resident Noteholder, such payment should be subject to withholding tax at a rate of 30 per cent, subject to the provisions outlined in Section "*Double Tax Treaty Relief*" below.

The Issuer and the Guarantor cannot offer any assurance that: (i) double tax treaty advance relief (or a refund of any taxes withheld) will be available to a Non Resident Noteholder with respect to payments under the Guarantee or (ii) that such withholding tax would not be imposed upon the entire payment under the Guarantee, including with respect to the principal amount of the Notes. The imposition or the possibility of the imposition of this withholding tax could adversely affect the value of the Notes.

Under the gross-up provisions for the Notes, if payments made under the Guarantee are subject to any withholding taxes for any reason (as a result of which the Guarantor would be obligated to reduce the payments to be made under the Guarantee by the amount of such taxes to be withheld), the Guarantor is required to increase the payments as may be necessary so that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. It is currently unclear whether the provisions obliging the Guarantor to gross-up payments will be enforceable in the Russian Federation. There is a risk that the tax gross-up for withholding tax will not take place and that the full amount of the payments made by the Guarantor will be subject to reduction by the Russian income tax at a rate of 20 per cent (or 30 per cent in respect of Individual Non-Resident Noteholders).

Non-Resident Noteholders should consult their tax advisors with respect to the tax consequences of the receipt of payments under the Guarantee, including applicability of any available double tax treaty relief.

Resident Noteholders

A Resident Noteholder is subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of payments to be received by such Noteholder under the Guarantee.

Resident Noteholders should consult their tax advisers with respect to the tax consequences of the receipt of payments under the Guarantee.

Russian VAT

Payments under the Guarantee attributable to the principal amount or interest under the Notes and the additional tax gross-up amounts, should not be subject to Russian VAT. The payments under the Guarantee attributable to compensation of other expenses (if any) could be subject to Russian VAT.

All payments made by the Guarantor with respect to the Guarantee will, except in certain limited circumstances, be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes unless the withholding or deduction for, or on account of, such taxes is then required by law. In the event of such a deduction or withholding, the Guarantor, as applicable, will pay such additional amounts as may be necessary in order that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. While the Prospectus provides for the Guarantor to pay such corresponding amounts in these circumstances, it is unclear whether a tax gross-up clause such as that contained in the Prospectus is enforceable in the Russian Federation. There is a risk that the tax gross-up for VAT will not take place and that the portion of the payments under the Guarantee attributable to compensation of other expenses (if any) made by the Guarantor, which is a Russian legal entity, will be reduced by Russian VAT at a rate of 18 per cent.

Noteholders should consult their tax advisers with respect to the Russian VAT consequences of the receipt of payments under the Guarantee.

Double Tax Treaty Relief

Advance relief

The Russian Federation has concluded double tax treaties with a number of countries. These double tax treaties may contain provisions that allow for the reduction or elimination of Russian withholding taxes with respect to income or proceeds received by Non-Resident Noteholders from a source within Russia, including income or proceeds from the sale, redemption or other disposal of the Notes. To the extent double tax treaty relief is available and the Russian Tax Code requirements are met (i.e. the "beneficial ownership" concept and the concept of the "tax residency"), a Non-Resident Noteholder must comply with the information, documentation and reporting requirements which are then in force in the Russian Federation in order to obtain such relief.

A Legal Entity Non-Resident Noteholder who is the beneficial owner of income or proceeds in terms of an applicable double tax treaty and the Russian Tax Code would need to provide the payor of the income or proceeds with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income or proceeds in order to obtain a relief from Russian withholding taxes under a double tax treaty. This certificate should confirm that the respective Legal Entity Non-Resident Noteholder is a tax resident of the relevant double tax treaty country in the particular calendar year during which the income or proceeds is paid. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate may be required. However, the payor of the income or proceeds in practice may request additional documents confirming the eligibility of the Legal Entity Non-Resident Noteholder for the benefits of the double tax treaty. In addition, in order to enjoy benefits under an applicable double tax treaty, the person claiming such benefits must be the beneficial owner of the relevant income or proceeds according to the respective requirements of the Russian Tax Code. In addition to a certificate of tax residency, starting from 1 January 2017, the Russian Tax Code obliges the Legal Entity Non-Resident Noteholder to provide the tax agent with a confirmation that it is the beneficial owner of the relevant income or proceeds in advance of payment of income or proceeds. As of the date of this Prospectus, there has been no guidance on the form of such confirmation and it is at the moment unclear how these measures will be applied in practice. Due to introduction of these changes, there can be no assurance that the treaty relief at source will be available in practice.

Currently, in order to obtain a full or partial exemption from taxation in Russia under an applicable double tax treaty at source, an Individual Non-Resident Noteholder should confirm to a tax agent that he or she is a tax resident in a relevant foreign jurisdiction having a double tax treaty with the Russian Federation by providing the tax agent with (i) a passport of a foreign resident, or (ii) another document envisaged by an applicable federal law or recognised as a personal identity document of a foreign resident in accordance with an international treaty, and (iii) if such passport/document does not confirm tax resident status in a foreign country, upon request of the tax agent, an official confirmation issued by the competent authorities evidencing his or her status of a tax resident in the respective country. A notarised Russian translation of such official confirmation is required. The above provisions are intended to provide a tax agent with the opportunity of applying reduced (or zero) withholding tax rates under an applicable double tax treaty at source.

Non-Resident Noteholders should consult their own tax advisers with respect to the applicability of any double tax treaty relief and the relevant procedures required in Russia.

Refund of Tax Withheld

If (i) Russian withholding tax on income derived from either Russian sources, or from a Russian tax resident, which is a legal entity by a Non-Resident Noteholder has been withheld at source or (ii) tax on such income has been paid by a Non-Resident Noteholder on the basis of a tax return, and such Non-Resident Noteholder is entitled to relief from tax on such income under an applicable double tax treaty allowing it not to pay the tax or to pay the tax at a reduced rate, a claim for a refund of such tax can be filed within three years from the end of the tax period in which the tax was withheld or paid (subject to limitations described below).

In order to obtain a refund, the Legal Entity Non-Resident Noteholder would need to file with the Russian tax authorities a duly notarised, apostilled and translated certificate of tax residence issued by the competent tax authority of the relevant double tax treaty country and other documents confirming the right for a refund under the Russian Tax Code (including the above Russian Tax Code requirements under the "beneficial ownership" concept).

If an Individual Non-Resident Noteholder wishes to obtain a refund, he or she should provide a claim for a refund of the tax withheld and documents confirming the right for a refund under the Russian Tax Code to the tax agent (if the tax was withheld by the agent). If there is no tax agent on the date of receipt by the individual of confirmation of its tax residence status in a relevant foreign jurisdiction having an applicable double tax treaty with the Russian Federation, the individual can file a claim for a refund and documents confirming the right for a refund directly with the Russian tax authorities.

Obtaining a refund of Russian taxes withheld may be a time-consuming process and can involve considerable practical difficulties, including the possibility that a tax refund may be denied for various reasons. Non-Resident Noteholders should consult their tax advisors regarding the procedures required to be fulfilled in order to obtain a refund of Russian income tax which was excessively withheld at source.

SUBSCRIPTION AND SALE

J.P. Morgan Securities plc and Renaissance Securities (Cyprus) Limited (the **Joint Global Coordinators**) and Alfa Capital Holdings (Cyprus) Limited, Bank GPB International S.A (Gazprombank Group), Société Générale and VTB Capital plc (together with the Joint Global Coordinators, the **Joint Lead Managers and Joint Bookrunners**) have, pursuant to a Subscription Agreement dated 30 May 2017 agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes.

The Issuer, failing whom the Guarantor, has agreed to pay to the Joint Lead Managers a combined management, underwriting and selling commission pursuant to the Subscription Agreement. In addition, the Issuer, failing whom the Guarantor, has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer and the Guarantor have in the Subscription Agreement agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Notes, including liabilities under the Securities Act.

The Joint Lead Managers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders and the Guarantor) and for which they will receive customary fees.

Each of the Joint Lead Managers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer and the Group in the ordinary course of their respective businesses.

General

Each of the Joint Lead Managers, the Issuer and the Guarantor has severally and not jointly, nor jointly and severally, agreed that it has in all material respects (to the best of its knowledge and belief) complied and will comply with all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes. Each of the Joint Lead Managers, the Issuer and the Guarantor severally and not jointly, nor jointly and severally, undertakes that it will use its reasonable efforts not to, directly or indirectly, offer or sell any Notes in any country or jurisdiction except under circumstances that will (to the best of its knowledge and belief) result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

United States

The Notes and have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in accordance with Regulation S or except pursuant to an exemption from the registration requirements of the Securities Act.

Each Joint Lead Manager has severally and not jointly, nor jointly and severally, represented that it has not offered and sold Notes, and agreed that it will not offer and sell the Notes (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement), only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirements of Regulation S. Each Joint Lead Manager severally and not jointly, nor jointly and severally, has agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

> "The securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date of the offering, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S under the Securities Act.".

United Kingdom

Each Joint Lead Manager has severally and not jointly, nor jointly and severally, represented, warranted and undertaken that:

(a) **Financial promotion**: it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (**FSMA**)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) **General compliance**: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Ireland

Each Joint Lead Manager has severally and not jointly, nor jointly and severally, represented, warranted and undertaken that:

(a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity than with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended, the **MiFID Regulations**), including, without limitation, Regulations 7 (Authorisation) and 152 (Restrictions on advertising) thereof and any codes of conduct made under the MiFID Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);

(b) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Companies Act 2014 (as amended, the **Companies Act**), the Central Bank Acts 1942-2015 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989 (as amended);

(c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued by the Central Bank of Ireland (the **CBI**) under Section 1363 of the Companies Act; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of, the Notes, otherwise than in conformity with the provisions of the Market Abuse Regulation (EU 596/2014) (as amended) and any rules and guidance issued by the CBI under Section 1370 of the Companies Act.

Russian Federation

Each Joint Lead Manager has severally and not jointly, nor jointly and severally, agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law.

INDEPENDENT AUDITORS

The Annual Consolidated Financial Statements have been audited by JSC “KPMG” of 10, Presnenskaya Naberezhnaya, Moscow, Russia, 123317, independent auditors, who have expressed an unqualified opinion on those financial statements, as stated in their reports appearing herein. JSC “KPMG” is a member of the self-regulated organisation of auditors "Russian Union of Auditors".

GENERAL INFORMATION

1. The Notes have been accepted for clearance through the facilities of, Euroclear and Clearstream, Luxembourg. The International Security Identification Number (ISIN) is XS1577961516 and the Common Code is 157796151. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210, Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855, Luxembourg.

2. It is expected that admission of the Notes to trading on the Main Securities Market of the Irish Stock Exchange will be granted on 31 May 2017, subject only to the issue of the Notes. Transactions will normally be effected for settlement in US dollars and for delivery on the third business day after the day of the transaction.

3. The Company and the Guarantor have obtained all necessary consents, approvals, authorisations or other orders for the issue of the Notes and the other documents to be entered into by the Company and the Guarantor in connection with the issue of the Notes. The issue of the Notes was authorised by a decision of the Board of Directors of the Company on 10 May 2017. The giving of the guarantee was authorised by a decision of the Board of Directors of the Guarantor on 28 April 2017.

4. The Guarantor is a public joint stock company organised under the laws of the Russian Federation with the legal name Public Joint Stock Company "State transport leasing company", main state identification number 1027739407189. The Guarantor was registered in the Russian Federation on 19 November 2001 as Closed Joint Stock Company "Civil Aviation Leasing Company". In 2006, the Guarantor was re-organised by way of transformation into Open Joint Stock Company "State transport leasing company". In 2015, the Guarantor's name was changed to Public Joint Stock Company "State transport leasing company". The Guarantor's registered address is Room 100, Bld. 73, ul. Respubliki, Salekhard, Yamalo-Nenetsky Avtonomny Okrug, Russian Federation, 629008. The Guarantor's principal place of business is Moscow, Russian Federation, telephone +7 495 221-00-12.

5. The Issuer was incorporated to facilitate aviation leasing. The Issuer is an operating and a holding company and its main activities include leasing, trading, remarketing, asset management as well as consulting on commercial aircraft and ship transactions. The Group holds many of the assets that it leases to customers though the Issuer's subsidiaries, particularly aircraft which are largely registered in the jurisdictions in which such subsidiaries are incorporated. See "*The Issuer*."

6. The Guarantor is an operating company and a holding company for its operating and intermediary holdings subsidiaries that together comprise the business of the Group. See "*Business – Group Structure*".

7. The estimated expenses associated with the admission to trading on the regulated market of the Irish Stock Exchange of the Notes are expected to be approximately EUR 6,790.

8. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on its regulated market for the purposes of the Prospectus Directive.

9. Until the maturity date or earlier repayment of the Notes, copies (and certified English translations where documents at issue are not in English) of the following documents may be

inspected at and are available in physical form from the principal office of the Company at 9 Pembroke Street Upper, Dublin 2, Ireland during usual business hours on any business day (Saturdays, Sundays and public holidays excepted):

(a) a copy of this Prospectus, together with any supplement to this Prospectus;

(b) the constitution of the Company;

(c) a copy of the charter of the Guarantor (together with an English translation thereof);

(d) the Financial Statements, including the report thereon, of the Group in respect of the financial years ended 31 December 2016 and 2015 and of the Issuer in respect of the financial years ended 31 December 2016 and 2015;

(e) the Paying Agency Agreement; and

(f) the Trust Deed, which includes the forms of the Global Certificate and the Definitive Certificate.

10. There has been no significant change in the financial or trading position of the Company, the Guarantor or of the Group since 31 December 2016, and there has been no material adverse change in the prospects of the Company, the Guarantor or of the Group since 31 December 2016.

11. There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during the previous 12 months in relation to the Company or the Guarantor, which may have, or have had in the recent past, significant effects on the Company's, the Guarantor's and/or the Group's financial position or profitability.

12. Save for the fees payable to the Joint Lead Managers, the Trustee, the Principal Paying Agent and the Registrar, so far as the Company is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

13. The Bank of New York Mellon SA/NV, Luxembourg Branch will act as Registrar in relation to the Notes.

14. BNY Mellon Corporate Trustee Services Limited is a professional trustee company, which is providing its services in relation to the Notes on an arm's length basis in consideration of a fee. Under the terms of the Trust Deed, the power of appointing new trustees is vested in the Company but a trustee so appointed must in the first place be approved by an Extraordinary Resolution of Noteholders. The Noteholders have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees. The removal of any trustee is only effective if following the removal there remains a trustee (being a trust corporation) in office after such removal. In addition, BNY Mellon Corporate Trustee Services Limited, or any other trustee duly appointed, may retire at any time upon giving not less than three months' notice in writing to the Company. The retirement of any trustee is only effective if, following the retirement, there remains a trustee (being a trust corporation) in office after such retirement. If the trustee has given notice of its desire to retire and the Company is unable to procure a new trustee to be appointed and the Company has not by the expiry of such notice appointed a new trustee, the trustee shall have the power of appointing new trustee(s).

15. The Trust Deed provides, among other things, that the Trustee may rely on any certificate or report prepared by accountants or other experts pursuant to the Trust Deed (whether or not

addressed to the Trustee), notwithstanding whether or not the accountants' or other experts' liability in respect thereof is limited by a monetary cap or otherwise.

16. The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

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Independent Auditors' Report

To the Shareholder and the Board of Directors

Public Joint Stock Company «State transport leasing company»

Opinion

We have audited the consolidated financial statements of Public Joint Stock Company "State transport leasing company" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Audited entity: Public Joint Stock Company "State transport leasing company".

Registration No. in the Unified State Register of Legal Entities №1027739407189.

Moscow, Russian Federation

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organizations: No. 11603053203.

Impairment of net investment in leases	
Refer to the notes 7 и 25 in the consolidated financial statements	
The key audit matter	***How the matter was addressed in our audit***
The impairment of net investment in leases is estimated by management of the Group through the application of judgment and use of highly subjective assumptions. Due to the significance of net investment in leases (representing 31% of total assets) and the related estimation uncertainty, this is considered a key audit risk.	With respect to net investment in leases for which no signs of impairment were identified we assessed whether collective provision for impairment correlates with historical information about the losses incurred taking into account current economic environment and the current circumstances of lessees. For a sample of exposures of net investment in leases that were subject to an individual impairment assessment, and focusing on those with the most significant potential impact on the consolidated financial statements, we assessed the Group's assumptions on the expected future cash flows, including the realisable value of assets leased out based on our own understanding and available market information. We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

Assets leased out under operating leases	
Refer to the note 12 in the consolidated financial statements	
The key audit matter	***How the matter was addressed in our audit***
Assets leased out under operating leases comprise 38% of the Group's total assets. The recoverable amount of these assets is estimated when there are indicators of impairment with the use of professional judgment and is sensitive to assumptions used. Decrease of recoverable amount below the carrying amount of an asset results in a recognition of a loss and may have significant influence on the financial results. Due to significant amount of these assets as well as uncertainty inherent to the estimation of recoverable amount, this issue is a key audit matter.	We assessed adequacy of the most significant assumptions used by the Group to determine recoverable amounts of the assets: - on a sample basis we assessed the adequacy of market value used for impairment testing of the respective asset using the available market information and the Group's own data; - we assessed the adequacy of the methodology and discount rates used for the value in use determination. We also assessed whether the financial statements disclosures appropriately reflect the key assumptions used for the impairment test for these assets.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Kolosov A.E.

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628 КПМГ KPMG МОСКВА

JSC KPMG

Moscow, Russian Federation

25 April 2017

(all amounts in thousands of Russian roubles unless otherwise indicated)

	Note	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	6	9 494 726	19 627 448
Deposits in banks		-	60 119
Net investment in leases	7	70 891 502	42 349 750
Derivative financial instruments		449 059	-
Receivables on cancelled lease agreements and other receivables	8	8 370 129	2 686 927
Advances to suppliers	9	39 653 900	32 544 252
Loans granted		254 335	219 929
VAT receivable		6 592 868	1 242 982
Income tax receivable		269 734	39 248
Inventories	10	1 147 977	1 230 112
Property and equipment	11	33 259	35 759
Assets leased out under operating leases	12	88 140 320	83 915 237
Investment property	13	5 973 555	186 048
Intangible assets	14	31 933	28 629
Deferred tax assets	15	793 607	1 036 617
Total assets		**232 096 904**	**185 203 057**
Liabilities			
Loans received	16	52 323 450	57 561 890
Finance lease liabilities	17	31 020 933	40 292 797
Bonds issued	18	86 138 164	40 188 938
Derivative financial instruments		-	116 854
Payables on equipment purchased for leasing purposes		31 517	-
Trade and other payables	19	3 637 536	805 083
Advances received		944 289	750 162
Income tax payable		60 533	-
Other than income tax payable	20	55 465	60 631
Total liabilities		**174 211 887**	**139 776 355**
Equity			
Share capital	21	57 358 790	44 945 410
Retained earnings		645 067	474 921
Currency translation difference		(118 840)	6 371
Total equity		**57 885 017**	**45 426 702**
Total liabilities and equity		**232 096 904**	**185 203 057**

Approved for issue and signed by the General Director of Public Joint Stock Company "State transport leasing company" on 25 April 2017.

Государственная
транспортная
лизинговая
компания

Khramagin S.N., General Director

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

(all amounts in thousands of Russian roubles unless otherwise indicated)

	Note	2016	2015
Finance lease interest income	22	7 826 092	7 914 356
Other interest income	22	1 173 924	1 608 315
Interest expense	22	(13 809 372)	(10 130 745)
Operating lease income		13 052 150	7 196 834
Operating lease expenses	12	(1 217 758)	-
Depreciation of assets leased out under operating leases	12	(4 898 315)	(3 428 919)
		2 126 721	**3 159 841**
Recovery (charge) of provision for impairment losses on interest bearing assets	7	1 572 493	(1 871 927)
		3 699 214	**1 287 914**
Administrative expenses	23	(1 496 319)	(1 428 310)
Net income from sales activities		-	18 347
Other operating income	24	564 629	1 176 595
Other operating expenses	24	(481 634)	(334 081)
Net foreign exchange translation (loss) gain		(544 416)	2 771 660
Impairment losses on non interest-earning assets	8	(1 114 181)	(3 213 551)
Gain (loss) from disposal of inventories and their writing down to net realizable value		5 067	(111 436)
Profit before taxation		**632 360**	**167 138**
Income tax expense	15	(427 150)	(128 232)
Profit for the year		**205 210**	**38 906**
Other comprehensive (loss) income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Currency translation difference		(125 211)	20 341
Total items that are or may be reclassified subsequently to profit or loss		(125 211)	20 341
Other comprehensive (loss) income, net of income tax		**(125 211)**	**20 341**
Total comprehensive income for the year		**79 999**	**59 247**

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

(all amounts in thousands of Russian roubles unless otherwise indicated)

	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from lessees (less interest received)		22 701 470	13 332 093
Interest received from lessees		4 441 441	7 053 755
Proceeds from disposal of repossessed equipment		938 954	1 526 691
Cash paid to suppliers of equipment for leasing purposes		(81 581 161)	(39 756 112)
Cash paid for insurance of leased equipment		(216 735)	(195 720)
Interest received other than from lessees		1 009 608	1 058 228
Interest paid		(12 781 731)	(9 843 286)
Proceeds from (payments) of taxes other than income tax		4 973 475	(2 524 034)
Net proceeds from derivative financial instruments		1 112 489	-
Administrative and other expenses paid		(1 363 595)	(1 438 947)
Net other operating (expenses paid) income received		(1 842 603)	106 422
Net cash flows used in operating activities before tax		**(62 608 388)**	**(30 680 910)**
Income tax paid		(366 822)	(595 095)
Net cash flows used in operating activities		**(62 975 210)**	**(31 276 005)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Placement of deposits		(348 137)	(60 119)
Withdrawal of deposits		408 256	-
Purchase of investment property		(577 223)	-
Net cash flows used in investing activities		**(517 104)**	**(60 119)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received		54 491 711	5 858 440
Loans and finance lease liabilities paid		(59 423 677)	(11 910 442)
Bonds issued		61 299 482	21 626 991
Bonds repaid		(14 506 312)	(2 625 000)
Dividends paid	21	(35 064)	(34 979)
Shares issued	21	12 413 380	34 944 410
Net cash flows from financing activities		**54 239 520**	**47 859 420**
Effect of exchange rate changes on cash and cash equivalents		(879 968)	326 258
Net (decrease) increase in cash and cash equivalents		**(10 132 762)**	**16 849 554**
Cash and cash equivalents at the beginning of the year	6	19 627 488	2 777 893
Cash and cash equivalents at the end of the year	6	**9 494 726**	**19 627 447**

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

(all amounts in thousands of Russian roubles unless otherwise indicated)

	Share capital	Retained earnings	Currency translation difference	Total equity
Balance as at 1 January 2015	**10 001 000**	**470 994**	**(13 970)**	**10 458 024**
Total comprehensive income				
Profit for the year	-	38 906	-	38 906
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Currency translation difference	-	-	20 341	20 341
Total items that are or may be reclassified subsequently to profit or loss	-	-	20 341	20 341
Total other comprehensive income	-	-	20 341	20 341
Total comprehensive income	**-**	**38 906**	**20 341**	**59 247**
Dividends declared and paid (Note 21)	-	(34 979)	-	(34 979)
Ordinary shares issued	34 944 410	-	-	34 944 410
Balance as at 31 December 2015	**44 945 410**	**474 921**	**6 371**	**45 426 702**
Total comprehensive income				
Profit for the year	-	205 210	-	205 210
Other comprehensive loss				
Items that are or may be reclassified subsequently to profit or loss:				
Currency translation difference	-	-	(125 211)	(125 211)
Total items that are or may be reclassified subsequently to profit or loss	-	-	(125 211)	(125 211)
Total other comprehensive loss	-	-	(125 211)	(125 211)
Total comprehensive income	**-**	**205 210**	**(125 211)**	**79 999**
Dividends declared and paid (Note 21)	-	(35 064)	-	(35 064)
Ordinary shares issued (Note 21)	12 413 380	-	-	12 413 380
Balance as at 31 December 2016	**57 358 790**	**645 067**	**(118 840)**	**57 885 017**

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

(all amounts in thousands of Russian roubles unless otherwise indicated)

1. Principal activities

Public Joint Stock Company "State transport leasing company" (the Company) was incorporated in the Russian Federation as a Closed Joint Stock Company "Leasing Company of Civilian Aviation" on 12 November 2001.

The Company's principal business activity is provision of finance and operating leases to companies within the Russian Federation and CIS.

The Company's registered office is located at 629008, Russia, Yamalo-Nenetsky avtonomny okrug, Salehard, ulitsa Respubliki, 73, office 100.

As at 31 December 2016 and 2015 the sole shareholder of the Company is the Russian Federation.

On 9 May 2012 the Company established a 100% subsidiary GTLK Europe DAC (former GTLK Europe Limited) in the Republic of Ireland to facilitate aviation and naval leasing. GTLK Europe DAC in its turn organized a number of subsidiaries during 2012 - 2016 which are used for aviation and naval leasing transactions structuring. All these entities are 100% directly owned by GTLK Europe DAC.

	Company registration number	Country of incorporation	Date of incorporation
GTLK 7706 Limited	46973	Bermuda	9 October 2012
GTLK 5 737 Limited	522912	Ireland	24 January 2013
GTLK AFL Limited	47929	Bermuda	11 July 2013
GTLK BO1 Limited	47930	Bermuda	11 July 2013
GTLK BO2 Limited	47931	Bermuda	11 July 2013
STLC Europe One Leasing Limited	530075	Ireland	10 July 2013
STLC Europe Two Leasing Limited	47987	Ireland	10 October 2013
GTLK BO3 Limited	512927	Bermuda	24 July 2013
GTLK Malta Limited	533928	Malta	10 October 2013
GTLK BO4 Limited	48730	Bermuda	13 February 2014
GTLK BO5 Limited	48734	Bermuda	14 February 2014
GTLK BO6 Limited	46973	Bermuda	30 April 2014
GTLK Lietuva 01 UAB	303248146	Lithuania	21 February 2014
STLC Europe Three Leasing Limited	571533	Ireland	10 November 2015
STLC Europe Four Leasing Limited	572072	Ireland	18 November 2015
STLC Europe Five Leasing Limited	576865	Ireland	10 February 2016
STLC Europe Six Leasing Limited	592364	Ireland	3 November 2016
GTLK Malta Two Limited	C76031	Malta	13 June 2016
GTLK Malta Three Limited	C76721	Malta	3 August 2016

In 2015 tax registration of Limited Liability Company "GTLK – Finance", a 100% subsidiary of the Company, was conducted. This entity has been established for structuring of transactions with Rouble denominated public debt instruments of the Company traded on Moscow Exchange and for management of outstanding public debt level.

In 2016 tax registration of Limited Liability Company "GTLK – Invest" was conducted. The Company and Limited Liability Company "GTLK – Finance" jointly own 100% of the share capital of the company.

In December, 2016 the Group acquired a 95% share in Limited Liability Company "Rozana" and the 100% share in Limited Liability Company "Morskoy port "Lavna" (hereinafter Rozana LLC and Lavna LLC, respectively). The aforementioned companies hold permission and construction documentation in respect of the project of a trading seaport, and leasehold of certain land plots in the Murmansk region.

This transaction is not a business combination and is classified as acquisition of an investment property asset. The operation on acquisition of these two companies has no significant impact on the equity of the Group.

Public Joint Stock Company "State transport leasing company", Limited Liability Company "GTLK – Finance", Limited Liability Company "GTLK – Invest", Limited Liability Company "Rozana", Limited Liability Company "Lavna" and GTLK Europe DAC together with its subsidiaries form the STLC Group (the Group).

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.

2. Basis of preparation

Statement of Compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at fair value.

Functional and Presentation Currency

The national currency of the Russian Federation where the Group has its main activity is the Russian Rouble (RUB). Management has determined the functional currency of the Company to be the RUB. The functional currency of GTLK Europe DAC and its subsidiaries is US dollar (USD). The RUB is the presentation currency for the purposes of these consolidated financial statements. Amounts in RUB are rounded to the nearest thousand.

In translating to the presentation currency of the Group, assets and liabilities that are included in the statement of financial position of GTLK Europe DAC are translated at the exchange rates at the reporting date. All income and expenses and equity items are translated into presentation currency at exchange rate at the dates of the transactions.

3. Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by the Group except for the reclassifications described in this note.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognsied amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity-accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group’s interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the foreign exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on the retranslation are recognised in the consolidated statement of profit or loss and other comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, settlement accounts and short-term deposits in banks. Deposits in banks are classified as cash and cash equivalents if initial contractual maturities of such deposits are less than 3 months.

Leases

The Group’s lease transactions are classified as either finance or operating leases at inception in accordance with IAS 17 “Leases”. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease is considered to be the date when the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

Finance leases - Group as lessor

The gross investment in a lease is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor. Minimum lease payments are the payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor.

The net investment in a lease is the gross investment in a lease less unearned finance income and is recorded in “net investment in leases” in the consolidated statement of financial position. The unearned finance income is amortised to finance lease interest income over the lease term to produce a constant percentage return on the net investment in a lease. Any allowance for possible losses under finance leases is charged to expense and is recorded as a reduction to the net investment in leases through an impairment allowance.

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

In case the Group finances the purchase of the equipment (through advance payments to the equipment supplier) for leasing purposes during the period between the inception of the lease and commencement of the lease, finance lease income begins to be recognized in the consolidated statement of profit or loss and other comprehensive income from the date of commencement of the lease.

Any advance payments made by the lessee prior to commencement of the lease are recorded as advances received and subsequently adjust finance lease receivable upon commencement of the lease.

Finance leases - Group as lessee

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the Group's consolidated statement of financial position.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense 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.

Operating leases – Group as lessor

The Group recognizes assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating lease is recognized in profit or loss for the year on a straight-line basis over the lease term.

Operating leases – Group as lessee

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. Assets held under leases classified as operating leases are not recognised in the Group's consolidated statement of financial position.

Financial instruments

<u>Classification</u>

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments)
- upon initial recognition, designated as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that

would otherwise be required under the contract.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

During 2016 and 2015 the Group did not hold any investments in this category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss. During 2016 and 2015 the Group did not hold any investments in this category.

<u>Recognition</u>

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

<u>Measurement</u>

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

<u>Amortised cost</u>

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in payables under repo stated as a separate line in the consolidated statement of financial position. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life. Depreciation commences on the date of acquisition. The average useful life for premises is 50 years.

Taxation

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

Value added tax (VAT)

The tax authorities permit the settlement of VAT from sales and purchases on a net basis.

VAT is payable to tax authorities upon accrual of sales.

VAT receivable relates to purchases that have not been settled at the reporting date.

Amounts of VAT payable relating to future lease payments, excluding lease payments that are deemed current in accordance with lease agreements and included in lease payments receivable, are not reflected in the consolidated statement of financial position. Those amounts are included in the lease payments receivable and taxes payable when the lease payment becomes due in accordance with the payment schedule.

Other operation taxes

Property tax payable on leased assets is included in lease payments and is excluded from interest income from finance lease. The Russian Federation also has various operating taxes that are assessed on the Group’s activities. These taxes are included in other operating expenses.

Impairment of assests

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of net investment in leases, loans, deposits and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan or receivable is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan or receivable balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their 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. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Equipment purchased for leasing purposes

The Group records capital expenditures related to acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenditures are accumulated until the equipment is ready for use and then are transferred to the lessee.

Settlements on equipment purchased for leasing purposes are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Property and equipment and assets leased out under operating leases

Items of property and equipment and assets leased out under operating leases are stated at cost less accumulated depreciation and impairment losses. Where an item of property and equipment and assets leased out under operating leases comprises major components having different useful lives, they are accounted for as separate items of property and equipment and assets leased out under operating leases.

Depreciation

Depreciation is charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of the individual assets.

Depreciation commences on the date of acquisition. Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. The estimated useful lives are as follows:

Aircraft	15-25 years
Railroad rolling stock	22-32 years
Premises	30 years
Equipment and machinery	3-5 years
Vehicles	5 years
Other	5-7 years

The Group has adopted a component based depreciation accounting model for certain groups of its assets (such as aircraft). Under this approach, depreciation of certain parts of the relevant assets with a cost that is significant in relation to the total cost of such assets is calculated separately. Useful life of these parts may differ from the overall useful life of the relevant assets. The Group estimates depreciation of certain components based on their actual utilisation (not useful life) whenever this depreciation method allows for a more accurate estimate of the pattern of consumption of the future economic benefits embodied in such components. The Group reviews its assumptions on useful life and/or utilisation on a regular basis.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licences. Intangible assets acquired are measured the financial statements on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Contingent assets and liabilities

Contingent liabilities are not recognised in the consolidated financial statements but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Interest income and expenses

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available–for–sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Fee and commission income and expense

Fees, commissions and other income and expense items are recorded on an accrual basis when the service has been provided.

General and administrative expenses

All expenses incurred by the Group other than those recorded in the separate lines of the consolidated statement of profit or loss and other comprehensive income are recorded as general and administrative expenses. General and administrative expenses are recognized on the accrual basis in the period to which they relate.

(all amounts in thousands of Russian roubles unless otherwise indicated)

Share capital

Share capital

Issued and paid ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Segment reporting

The Group's operations constitute a single industry segment – leasing

Changes in information presentation

Starting from 2016 the Group presents its net financial result from disposal of repossessed lease equipment on the "Gain (loss) from disposal of inventories and their writing down to net realizable value" line of the statement of profit or loss and other comprehensive income.

The following reclassifications were made to 2015 consolidated statement of profit or loss and other comprehensive income to conform to the 2016 presentation:

	Before reclassification	**The effect of the reclassification**	**After reclassification**
Other operating income	1 473 751	(297 156)	1 176 595
Gain (loss) from disposal of inventories and their writing down to net realizable value	(408 592)	297 156	(111 436)

4. Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results could differ from those estimates.

Classification of a lease agreement as finance and operating lease

Management applies professional judgement with regard to the classification of some aircraft and railroad rolling stock lease agreements as finance and operating lease agreements in order to determine whether all significant risks and rewards related to the ownership of an asset are transferred to the Group in accordance with the agreement and which risks and rewards are significant. A change in these estimates may require a different approach to aircraft or railroad rolling stock accounting.

Useful lives of property and investment property

The assessment of the useful lives of property and investment property and their residual value are matters of management judgement based on the use of similar assets. To determine the useful lives and residual value of property, management considers the following factors: nature of the expected use, estimated technical obsolescence and physical wear. A change in each of the above conditions or estimates may require the adjustment of future depreciation expenses. Investment property owned by the Group is primarily represented by real estate assets which typically are not subject to substantial physical wear and tear under the normal conditions of utilization. Depreciation of investment property is therefore less likely to be affected by changes in the aforementioned estimates and judgements.

Impairment test of investment property

The estimate of the fair value of investment property on its recognition, as well as further impairment tests, is a professional judgement of management. Management applies widely recognized valuation techniques based both on observable market data, and judgements based on the historical data and the estimates of future circumstances, to determine the possible existence of impairment and its quantitative measures.

Impairment test of assets leased out under operating leases

Impairment tests in respect of assets leased out under operating leases is a professional judgement of management. Whenever signs of impairment are considered to exist, the Group assesses the recoverable amount of the relevant assets as the higher of its fair value less any direct selling costs and value in use. The Group uses its experience, observable market data and reports of independent appraisers together with its professional judgement to estimate the possible existence of impairment and its quantitative measures.

Finance Lease – Group as Lessor

The Group enters into lease arrangements with various counterparties. Under the terms of the lease agreements lessees obtain a purchase option in respect of the lease equipment, so they retain all the significant risks and rewards of ownership of the equipment, and accordingly the leases are accounted for as finance leases.

Allowance for impairment of net investment in leases and receivables

Management regularly reviews its lease portfolio and receivables to assess impairment. Management uses its experience and judgement to estimate the amount of any impairment loss in cases where a lessee is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, management estimates changes in future cash flows based on observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults by companies. Management uses its experienced judgement to adjust observable data for net investment in leases or receivables to reflect current circumstances.

Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Net realisable values are estimated by management based on third party quotes or industry price movement statistics and expectations of market realisation costs.

5. New standards and interpretations

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing these financial consolidated statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

The Group has not yet analysed the likely impact of the new standards and amendments on its financial position or performance.

- IFRS 9 *Financial instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

  (i) Classification and measurement

  IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

  IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

  (ii) Impairment

  IFRS 9 replaces the "incurred loss" model in IAS 39 with an ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognize expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months ("12-month ECL") or expected credit losses resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Initial amount of expected credit losses recognized for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

  Financial assets for which 12-month ECL is recognized are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Calculation of expected credit losses is likely to be based on the PDxLGDxEAD approach (at least for some portfolios), depending on the type of the exposure, stage at which the exposure is classified under IFRS 9, collective or individual assessment, etc.

(iii) Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39.

(iv) Transition to IFRS 9

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Group does not intend to adopt the standard earlier.

The Group has not started a formal assessment of potential impact on its consolidated financial statements resulting from the application of IFRS 9 neither has initiated any specific actions towards the preparation for implementation of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Group's consolidated financial statements.

- IFRS 16 *Leases* replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is *similar* to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. The Group does not intend to adopt this standard early and has not assessed the potential impact resulting from these changes.

- Various "*Improvements to IFRS*" are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2017. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

(all amounts in thousands of Russian roubles unless otherwise indicated)

6. Cash and cash equivalents

	31 December 2016	**31 December 2015**
Banks from the range rated BBB	441 816	1 391 938
Banks from the range rated BB	8 730 173	14 068 738
Banks from the range rated B	104 200	4 166 571
Other banks	218 537	201
Total cash and cash equivalents	**9 494 726**	**19 627 448**

The ratings shown in the table above represent classification by long term credit ratings as reported by S&P rating agency. In certain cases, when S&P's rating agency did not award a rating on the counterparty, the rating of another well recognized rating agency is used, translated into S&P's equivalent rating.

As at 31 December 2016 cash and cash equivalents include deposits of RUB 7 280 715 thousand (31 December 2015: RUB 14 298 581 thousand). The interest rate on the deposits varies from 1.57% to 10.25% (31 December 2015: from 7.7% to 12.0%) depending on its currency, outstanding amount and term. The Group can withdraw funds placed into these deposits at any time before the agreed term but in this case the interest rate will be significantly reduced.

7. Net investment in leases

	31 December 2016	**31 December 2015**
Gross investments in leases	124 255 597	74 232 943
Unearned income	(51 704 607)	(28 651 212)
Net investment in leases gross of impairment allowance	**72 550 990**	**45 581 731**
Less impairment allowance	(1 659 488)	(3 231 981)
Net investment in leases	**70 891 502**	**42 349 750**

The Group holds title to the leased assets during the lease term. Titles to the assets under finance lease agreements pass to the lessees at the end of the lease term. Risks related to the leased property such as damage and theft are insured. The beneficiary under the insurance policy on the vast majority of the lease agreements is the Group.

Net investment in leases are secured by assets for which leases were obtained, such as railroad rolling stock, aircraft, cars, other vehicles and equipment.

The number of lease agreements are also secured by personal sureties of lessees or third parties and/or buyback agreements with the suppliers of the leased equipment.

The Group provides two types of finance lease products to its customers: commercial leases and non-commercial leases. There are no differences in internal procedures of risk assessment and decision making between these two types of leases. Unified risk management policy is applied to all the financial leases regardless of their type.

Non-commercial leases

Non-commercial lease programmes are programmes/projects implemented by the Company in the course of its ordinary business activity, which are specifically aimed to promote the governmental policy in transportation and transport infrastructure development, including replacement of the existing fleet of transportation companies by the higher-efficiency innovative, domestically manufactured equipment.

(all amounts in thousands of Russian roubles unless otherwise indicated)

Non-commercial lease programmes funding is sourced from the capital contributions received from the federal budget and the moneys borrowed, both in accordance with terms and conditions of the relevant programmes. Funding of the programmes is subject to "Use of capital contributions and proceeds from investments funded by capital contributions, as regards PJSC STLC equity indemnification", an internal regulation of the Company approved by the Board of Directors on 28 September 2016 (board minutes № 76/2016). Implementation of the programmes is also subject to any regulatory acts of the Government of the Russian Federation and the Ministry of Transport. The following types of clients which are companies involved in the transport infrastructure of the Russian Federation are eligible for participation in the programmes:

- Aviation transportation enterprises;
- Airports/airfields operators and other enterprises for airline passenger services, aircraft and cargo services;
- Enterprises that operate domestically produced sea/river vessels and combined type vessels;
- Passenger and cargo transportation enterprises;
- Logistics hub operator and/or developer enterprises;
- Railroad transportation enterprises that operate innovative types of rolling stock;
- Road construction enterprises and utility enterprises; road and transport infrastructure opeators;
- Passenger transport enterprises, including taxi services;
- Government authorities of the Russian Federation, its federal entites or municipal entities.

Commercial leases

Commercial leases are a standard lease program under which leases are issued on market terms. The commercial leases program has no specific requirements to lessees except that they must meet requirements on their financial position and creditworthiness. There are no specific requirements related to the type of leased assets. These types of lease agreements are funded with borrowings from third parties. The lease term under commercial leases normally varies from 3 to 10 years. The initial payment amount varies from 5.0% to 30.0% of the initial price of leased asset. Lease payments are normally made on a monthly basis.

The outstanding contractual maturities of the net investment in leases as at 31 December 2016 are as follows:

	Gross investment in leases	Repayment of unearned income	Net investment in leases gross of impairment allowance	Impairment allowance	Net investment in leases
Overdue and less than one month	6 222 481	(832 665)	5 389 816	(757 528)	4 632 288
From one to three months	2 118 154	(1 368 916)	749 238	(18 835)	730 403
From three to six months	3 383 393	(2 181 571)	1 201 822	(45 084)	1 156 738
From six months to one year	6 514 728	(4 271 409)	2 243 319	(95 160)	2 148 159
From one year to five years	53 353 956	(26 883 781)	26 470 175	(355 340)	26 114 835
More than five years	52 662 885	(16 166 265)	36 496 620	(387 541)	36 109 079
Total	**124 255 597**	**(51 704 607)**	**72 550 990**	**(1 659 488)**	**70 891 502**

(all amounts in thousands of Russian roubles unless otherwise indicated)

The outstanding contractual maturities of the net investment in leases as at 31 December 2015 are as follows:

	Gross investment in leases	Repayment of unearned income	Net investment in leases gross of impairment allowance	Impairment allowance	Net investment in leases
Overdue and less than one month	3 510 963	(496 251)	3 014 712	(1 189 917)	1 824 795
From one to three months	1 700 703	(977 812)	722 891	(55 169)	667 722
From three to six months	2 499 913	(1 433 874)	1 066 039	(98 547)	967 492
From six months to one year	5 179 946	(2 747 558)	2 432 388	(210 395)	2 221 993
From one year to five years	32 475 690	(15 479 559)	16 996 131	(921 976)	16 074 155
More than five years	28 865 728	(7 516 158)	21 349 570	(755 977)	20 593 593
Total	**74 232 943**	**(28 651 212)**	**45 581 731**	**(3 231 981)**	**42 349 750**

The term analysis of the gross investment in leases and the present value of minimum lease payments is as follows:

	31 December 2016		31 December 2015	
	Gross investment in leases	Present value of minimum lease payments	Gross investment in leases	Present value of minimum lease payments
Overdue and less than one month	6 222 481	6 216 787	3 510 963	3 506 930
From one to three months	2 118 154	2 052 128	1 700 703	1 641 530
From three to six months	3 383 393	3 179 819	2 499 913	2 327 712
From six months to one year	6 514 728	5 808 847	5 179 946	4 534 522
From one year to five years	53 353 956	35 219 266	32 475 690	21 073 311
More than five years	52 662 885	20 074 143	28 865 728	12 497 726
Total	**124 255 597**	**72 550 990**	**74 232 943**	**45 581 731**

The overdue net investment in leases line only refers to outstanding amounts due for which the payment date has already occurred.

The currency breakdown of the net investment in leases as at 31 December 2016 is as follows:

	Gross investment in leases	Unearned income	Net investment in leases gross of impairment allowance	Impairment allowance	Net investment in leases
USD	29 655 946	(9 226 597)	20 429 349	(205 232)	20 224 117
EUR	124 833	(7 635)	117 198	(1 277)	115 921
RUB	94 474 818	(42 470 375)	52 004 443	(1 452 979)	50 551 464
Total	**124 255 597**	**(51 704 607)**	**72 550 990**	**(1 659 488)**	**70 891 502**

(all amounts in thousands of Russian roubles unless otherwise indicated)

The currency breakdown of the net investment in leases as at 31 December 2015 is as follows:

	Gross investment in leases	Unearned income	Net investment in leases gross of impairment allowance	Impairment allowance	Net investment in leases
USD	13 212 629	(3 857 930)	9 354 699	(151 347)	9 203 352
EUR	249 457	(24 029)	225 428	(7 082)	218 346
RUB	60 770 857	(24 769 253)	36 001 604	(3 073 552)	32 928 052
Total	**74 232 943**	**(28 651 212)**	**45 581 731**	**(3 231 981)**	**42 349 750**

The industry breakdown of net investment in leases is as follows:

	31 December 2016		31 December 2015	
	Value	**%**	**Value**	**%**
Railroad transportation	33 418 725	46.0	26 397 211	57.9
Naval transportation and port facilities	17 630 155	24.3	6 255 766	13.7
Cargo and passenger motor transport	11 303 470	15.6	2 367 607	5.2
Aircraft industry and airport services	5 384 812	7.4	5 497 946	12.1
Food production	2 455 399	3.4	2 237 908	4.9
Machinery construction	992 851	1.4	797 597	1.7
Road construction	965 225	1.3	830 017	1.8
Oil, gaz and energy production	111 647	0.2	101 236	0.2
Construction and production of construction materials	96 659	0.1	146 633	0.3
Extraction of mineral resources	66 686	0.1	204 062	0.4
Ferrous and non-ferrous metallurgy	52 996	0.1	185 486	0.4
Trading activities	39 307	0.1	64 620	0.1
Rental services	12 967	0.0	73 019	0.2
Community facilities	7 877	0.0	281 378	0.6
Pipelining	-	-	121 000	0.3
Other industries	12 214	0.0	20 245	0.0
Net investment in leases gross of impairment allowance	**72 550 990**	**100.0**	**45 581 731**	**100.0**
Less impairment allowance	(1 659 488)		(3 231 981)	
Net investment in leases	**70 891 502**		**42 349 750**	

Impairment of net investment in leases

Movement in allowance for impairment is as follows:

	2016	**2015**
Balance at the beginning of the year	3 231 981	2 985 619
Net (recovery) charge	(1 572 493)	1 871 927
Write-offs	-	(1 625 565)
Balance at the end of the year	**1 659 488**	**3 231 981**

Other information about net investment in leases

As at 31 December 2016 net investment in leases with ten largest lessees amount to 59.8% of net investment in leases gross of impairment allowance, or RUB 43 383 027 thousand (31 December 2015: 73.1%, or RUB 33 330 777 thousand).

As at 31 December 2016 the amount of gross investment in leases on contracts that have been signed but have not commenced is RUB 63 450 588 thousand (31 December 2015: RUB 24 405 528 thousand).

(all amounts in thousands of Russian roubles unless otherwise indicated)

As at 31 December 2016 and 31 December 2015 certain assets leased out under financial leases and/or future lease payments under such financial lease contracts were pledged to secure loans received. As at 31 December 2016 net investment in leases in total amount of RUB 28 439 475 thousand (31 December 2015: RUB 20 130 358 thousand) related to assets used to collateralize loans received.

Change in accounting estimates

During 2016 the Group has modified its internal model it utilizes to estimate the impairment allowances ratio. Application of the previously existing model to estimate the impairment of net investment in leases with no signs of impairment as at 31 December 2016 would have resulted in increase of the impairment allowance estimate by RUB 1 177 million.

8. Receivables on cancelled lease agreements and other receivables

	31 December 2016	31 December 2015
Receivables on cancelled lease agreements and under loss compensation agreements	5 104 337	4 739 293
Advances paid to suppliers (other than payments for leasing assets and property and equipment)	446 117	154 854
Prepaid expenses	391 054	522 642
Receivables on operating lease agreements	942 660	1 010 667
Other taxes receivables	4 695	191 053
Lease premium	2 247 295	-
Other receivables	3 990 668	1 052 446
Less impairment allowance	(4 756 697)	(4 984 028)
Total trade and other receivables	**8 370 129**	**2 686 927**

Receivables on cancelled lease agreements represent amounts due and payable under the terms of lease agreements which were cancelled and considerations payable in respect of related Group's claims arising from or made in connection with cancelled lease agreements.

During 2016 the Group incurred deferred losses represented by lease premium and arrangement fees in respect of lease agreements of RUB 2 340 285 thousand and RUB 254 759 thousand respectively. These losses have been capitalized and are being amortized to profit or loss over the lease term of 12 years. See note 12 for further details.

During the year, the Group entered into a number of operating sub-lease agreements with a third party airline in respect of 7 Airbus A320 aircraft which it leased under separate operating lease agreements from a company to which the CMB (China Merchants Bank) is the ultimate controlling party. As part of the transaction the Group received upfront rental payments of RUB 2 565 955 thousand which are classified as deferred lease income. Deferred lease income is being amortized to revenue over the lease term. See note 19 for further details.

Movement in the allowance for impairment is as follows:

	2016	2015
Balance at the beginning of the year	4 984 028	2 756 866
Net charge	1 114 181	3 213 551
Write-offs	(1 260 552)	(1 067 433)
Translation difference	(80 960)	81 044
Balance at the end of the year	**4 756 697**	**4 984 028**

(all amounts in thousands of Russian roubles unless otherwise indicated)

The Group evaluates impairment of receivables on cancelled lease agreements and other receivables on an individual basis.

9. Advances to suppliers

Advances to suppliers represent prepayments for assets to be leased.

As at 31 December 2016 advances were issued to the following suppliers:

	Advances to suppliers	% of total
"Torgovy dom" Objedinennaya vagonnaya kompaniya" LLC	15 805 850	39.9
"Sukhoi Civil Aircraft" JSC	9 006 605	22.7
"VERTOLETI ROSSII" JSC	3 260 780	8.2
"Amurskiy sudostroitelniy zavod" PJSC	3 565 660	9.0
"Okskaya sudoverf" OJSC	1 729 947	4.4
"Avin" LLC	1 500 000	3.8
"Trolza-Market" LLC	983 398	2.5
"Uralskiy zavod grazdanskoy aviacii" JSC	847 458	2.1
"RE BAS" LLC	598 736	1.5
"Nevskiy sudostroitelniy-sudoremontniy zavod" LLC	555 677	1.4
Others	1 799 789	4.5
Total	**39 653 900**	**100.0**

As at 31 December 2015 advances were issued to the following suppliers:

	Advances to suppliers	% of total
"Sukhoi Civil Aircraft" JSC	22 528 120	69.2
"Resource" LLC	5 413 748	16.6
"Okskaya sudoverf" OJSC	2 014 202	6.2
"Trolza-Market" LLC	1 272 654	3.9
"Krasnoe Sormovo zavod" JSC	743 882	2.3
"Torgovy dom KIFATO" LLC	314 165	1.0
"VOSTOKAVTOTRANS" JSC	202 446	0.6
"TehnoMashHolding" CJSC	24 015	0.1
Others	31 020	0.1
Total	**32 544 252**	**100.0**

As at 31 December 2016 and 2015 there were no signs of impairment of advances to suppliers.

10. Inventories

Inventories generally represent assets repossessed by the Group from delinquent lessees under cancelled finance lease contracts and spare parts and materials.

Upon termination of lease contracts the leased object is measured at the lower of cost, which is equivalent to the net investment in the related lease, or net realizable value. When estimating the net realizable value the Group makes assumptions to assess the market values depending on the type of asset being assessed and then applies market realization cost adjustments to certain types of assets for obsolescence, illiquidity and trade discounts expected.

Changes in these estimates could affect the loss from writing down of inventories to net realizable value. For example, to the extent that estimated net realizable value decrease by one percent, the loss from writing down of inventories to net realizable value for 2016 would be RUB 11 480 thousand higher (2015: RUB 12 301 thousand).

(all amounts in thousands of Russian roubles unless otherwise indicated)

The breakdown of inventories is presented below:

	31 December 2016	**31 December 2015**
Equipment and vehicles repossessed after the termination of lease agreements	595 819	708 333
Spare part supply	546 751	516 423
Office supplies	5 407	5 356
Total inventories	**1 147 977**	**1 230 112**

11. Property and equipment

Fixed assets are presented vehicles, computer equipment and property (building).

(all amounts in thousands of Russian roubles unless otherwise indicated)

12. Assets leased out under operating leases

Assets leased out under operating leases are primarily represented by aircraft and railroad rolling stock.

Movements in assets leased out under operating leases are as follows:

	Aircraft	Railroad rollingstock and other equipment	Total
Cost			
Balance at 1 January 2015	**29 811 690**	**495 804**	**30 307 494**
Additions	31 543 109	11 703 329	43 246 438
Disposals (transfer to finance lease)	(1 513 297)	-	(1 513 297)
Translation difference	17 747 395	-	17 747 395
Balance at 31 December 2015	**77 588 897**	**12 199 133**	**89 788 030**
Additions	22 300 462	5 367 633	27 668 095
Disposals (transfer to finance lease)	-	(7 618 091)	(7 618 091)
Translation difference	(12 381 636)	-	(12 381 636)
Balance at 31 December 2016	**87 507 723**	**9 948 675**	**97 456 398**
Accumulated depreciation			
Balance at 1 January 2015	**(1 476 306)**	**(75 849)**	**(1 552 155)**
Depreciation charge	(3 188 486)	(240 433)	(3 428 919)
Translation difference	(891 719)	-	(891 719)
Balance at 31 December 2015	**(5 556 511)**	**(316 282)**	**(5 872 793)**
Depreciation charge	(4 557 236)	(341 079)	(4 898 315)
Disposals	-	157 797	157 797
Translation difference	1 297 233	-	1 297 233
Balance at 31 December 2016	**(8 816 514)**	**(499 564)**	**(9 316 078)**
Carrying amount			
At 1 January 2015	**28 335 384**	**419 955**	**28 755 339**
At 31 December 2015	**72 032 386**	**11 882 851**	**83 915 237**
At 31 December 2016	**78 691 209**	**9 449 111**	**88 140 320**

(all amounts in thousands of Russian roubles unless otherwise indicated)

Maturity breakdown of non-cancellable minimum cash inflows from operating lease is presented below:

	31 December 2016	31 December 2015
Less than one year	18 820 695	7 694 771
From one year to five years	45 376 715	35 198 014
More than five years	50 870 864	48 653 104
Total	**115 068 274**	**91 545 889**

As at 31 December 2016 the aircraft of total carrying value of RUB 39 260 483 thousand were received by the Group under finance lease arrangements. The present value of minimum lease payments under these arrangements as at the reporting date is RUB 31 020 933 thousand (31 December 2015: RUB 50 094 347 thousand and RUB 40 292 797 thousand, respectively).

As at 31 December 2016 assets leased out under operating leases of total carrying value of RUB 27 014 425 thousand (31 December 2015: RUB 27 956 299 thousand) were pledged to secure loans received.
The Group registered pledges in respect of certain aircraft of total carrying value of RUB 12 730 549 thousand after the reporting date. The pledge of these assets is a condition precedent to the utilization of the subsequent loan facility tranche under the facility agreement with a state-owned bank.

As at 31 December 2016 and 31 December 2015 PJSC “Aeroflot” was the largest lessee under operating lease agreements in terms of carrying value of leased assets: 44.5% of assets leased out under operating leases were leased to PJSC “Aeroflot” (2015: 59.4%).

During 2016 the Group received 7 Airbus A320 aircraft from a company to which the CMB (China Merchants Bank) is the ultimate controlling party. These assets are received on terms of operating leases and are further leased to PJSC “Aeroflot” under operating sub-lease agreements. The carrying value of the aforementioned aircraft is not shown on the relevant line of the financial statements as these assets do not belong to the Group. Substantially all risks and rewards associated with the possession of the assets have not been transferred to the Group. Expenses under the relevant lease agreements are recorded as operating lease expenses of RUB 1 217 758 thousand.

Maturity breakdown of non-cancellable minimum cash outflows from operating lease is presented below:

	31 December 2016	31 December 2015
Less than one year	1 909 072	-
From one year to five years	7 636 288	-
More than five years	12 158 971	-
Total	**21 704 331**	**-**

Impairment tests in respect of aircraft of total carrying value of RUB 56 023 037 thousand are based on the following judgements:

- fair value of the assets less direct selling costs is based on half-life reports prepared by specialized appraiser companies (where available), and further adjustments to reflect the actual physical condition of the relevant aircraft, if applicable. Fair value estimates in respect of the other aircraft are based on reports of independent appraisers prepared applying the comparative approach.

Impairment tests in respect of aircraft of total carrying value of RUB 22 668 172 thousand are based on the following judgements:

- value in use calculations are based the net present value of expected cash flows calculations. Discount rates applied were 6.88% - 9%.

(all amounts in thousands of Russian roubles unless otherwise indicated)

Key judgements used to determine the future cash flows are expected lease income under the existing lease contracts, expected maintenance expenses and expected residual value of the aircraft which is based on the data received from independent appraisers.

Impairment tests in respect of railroad rolling stock of total carrying value of RUB 9 400 909 thousand are based on the following judgements:
- fair value of the assets less direct selling costs is based on comparable market offerings analysis in respect of similar equipment, and further adjustments to account for a discount that may be applicable to the sale transaction.

Key judgements applied for impairment tests are attributable to Level 3 of the fair value hierarchy.

Impairment tests carried out by the Group indicated no impairment of assets leased out under operating leases as at 31 December 2016.

13. Investment property

During 2012 the Group repossessed office premises located in the centre of Novosibirsk. During 2013-2015 the Group financed the construction of the “Yuzhnouralskiy” logistics hub located in the Uvelskiy district of the Chelyabinsk region. These assets are recorded as investment property as the Group is planning to benefit from growth of the market value of the premises.

Depreciation is charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful life of the asset which is 50 years.

As at 31 December 2016, the book value of the “Yuzhnouralskiy” logistics hub was RUB 4 747 036 thousand less accumulated depreciation of RUB 23 670 thousand (as at 31 December 2015: 0)

Management believes that the fair value of investment property is at least equal to its carrying value as at the reporting date. No impairment was recognized as at 31 December 2016.

Impairment tests supported by future cash flows calculations are based on the following key judgements:

- discount rate applied was 18.5%. Key judgements applied for impairment tests are attributable to Level 3 of the fair value hierarchy.

In December 2016 the Group acquired Rozana LLC and Lavna LLC (see note 1 for further details). The cost of acquisition matches the fair value of the underlying assets owned by these companies, which is RUB 1 061 242 thousand. The fair value estimate was prepared by an independent appraiser applying the comparative approach.

14. Intangible assets

Intangible assetsare primarily represented by software, licenses and certificates.

15. Taxation

Income tax expense

	2016	**2015**
Current tax charge	(160 301)	(439 712)
Deferred tax assets/liabilities movement due to origination and reversal of temporary differences	(266 849)	311 480
Income tax expense for the year	**(427 150)**	**(128 232)**

(all amounts in thousands of Russian roubles unless otherwise indicated)

Reconciliation of effective tax rate

	2016	**2015**
Profit before tax	632 360	167 138
Income tax at the applicable tax rate	(126 472)	(33 428)
Non-taxable expenses	(242 826)	(108 398)
Recognition of deferred tax liability (not recognized in prior periods)	(131 738)	-
Income (loss) taxed at lower tax rates	73 886	13 594
Income tax expense for the year	**(427 150)**	**(128 232)**

Recognized deferred tax assets and liabilities

The difference between IFRS and Russian statutory taxation regulations gives rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred income tax assets and liabilities for the Company are measured at 20% as at 31 December 2016 and 2015, the rate applicable when the asset or liability will reverse. Applicable tax rate for GTLK Europe DAC and its subsidiaries is 12.5%.

Movement in temporary differences

Movements in temporary differences for 2016 are as follows:

	31 December 2015	**Recognized in profit or loss**	**Translation difference**	**31 December 2016**
Net investment in leases	(340 858)	(1 892 113)	55 224	(2 177 747)
Other payables and receivables	1 254 602	(69 557)	-	1 185 045
Loans received	-	(42 588)	-	(42 588)
Inventories	119 082	33 222	-	152 304
Property and equipment and investment property	3 791	2 453	-	6 244
Tax loss carried forward	-	1 701 734	(31 385)	1 670 349
Net deferred tax assets	**1 036 617**	**(266 849)**	**23 839**	**793 607**

Movements in temporary differences for 2015 are as follows:

	31 December 2014	**Recognized in profit or loss**	**31 December 2015**
Net investment in leases	(33 751)	(307 107)	(340 858)
Other payables and receivables	523 140	731 462	1 254 602
Loans received	(7 861)	7 861	-
Inventories	240 874	(121 792)	119 082
Property and equipment and investment property	2 735	1 056	3 791
Net deferred tax assets	**725 137**	**311 480**	**1 036 617**

16. Loans received

The bank loans were received to purchase assets to be leased. Part of loans received is collateralized by the assets or rights to lease agreements.

As at 31 December 2016 the average effective interest rate on bank loans in RUB is 12.0%, in USD is 6.4% (31 December 2015: 13.3% in RUB and 6.4% in USD).

(all amounts in thousands of Russian roubles unless otherwise indicated)

The remaining contractual maturity of loans received is as follows:

	31 December 2016	**31 December 2015**
Less than one month	385 028	659 087
From one to three months	2 221 756	5 422 778
From three to six months	6 387 561	5 701 665
From six months to one year	7 683 688	8 476 501
From one year to five years	22 928 562	33 594 661
More than five years	12 716 855	3 707 198
Total loans received	**52 323 450**	**57 561 890**

The currency breakdown of loans received is as follows.

	31 December 2016	**31 December 2015**
USD	12 562 691	27 374 436
RUB	39 760 759	30 187 454
Total	**52 323 450**	**57 561 890**

As at 31 December 2016 and 31 December 2015 the majority amount of loans were received from Russian banks. The other loans are received from the biggest international banking groups.

Credit ratings with S&P scale of the banks are shown in the following table:

	31 December 2016	**31 December 2015**
Banks from the range rated A and higher	10 559 846	16 010 780
Banks from the range rated BBB	2 918 441	-
Banks from the range rated BB	34 729 233	38 578 395
Banks from the range rated B	3 375 043	2 972 715
Other banks	740 887	-
Total loans received	**52 323 450**	**57 561 890**

As at 31 December 2016 loans received in the amount of RUB 44 030 592 thousand (31 December 2015: RUB 46 103 010 thousand) were collateralized by pledged assets leased out under finance leases and/or future lease payments under such lease contracts and assets leased out under operating leases.

17. Finance lease liabilities

Assets acquired under finance lease agreements are further leased out either under operating or finance lease. The Group uses finance leases as funding source for aircraft purchases.
Since 2013 the Group has leased 8 Airbus A321 and Boeing 777 aircraft further transferred to PJSC "Aeroflot". The lessors under the corresponding financial lease agreements are Irish companies for which the ultimate controlling party is Industrial and Commercial Bank of China.

	31 December 2016	**31 December 2015**
Future minimum lease payments	39 546 814	51 285 554
Interest expenses to be paid	(8 525 881)	(10 992 757)
Present value of minimum lease payments	**31 020 933**	**40 292 797**

(all amounts in thousands of Russian roubles unless otherwise indicated)

The remaining contractual maturities of finance lease liabilities as at 31 December 2016 are as follows:

	Total payments under finance lease liabilities	Repayment of interest	Repayment of principal
Less than one month	403 471	133 358	270 113
From one to three months	678 862	251 231	427 631
From three to six months	1 038 617	384 837	653 780
From six months to one year	2 062 771	740 450	1 322 321
From one year to five years	16 083 220	4 648 480	11 434 740
More than five years	19 279 873	2 367 525	16 912 348
Total finance lease	**39 546 814**	**8 525 881**	**31 020 933**

The remaining contractual maturities of finance lease liabilities as at 31 December 2015 are as follows:

	Total payments under finance lease liabilities	Repayment of interest	Repayment of principal
Less than one month	468 282	155 773	312 508
From one to three months	792 176	298 761	493 416
From three to six months	1 203 826	450 947	752 879
From six months to one year	2 399 628	871 034	1 528 594
From one year to five years	18 918 685	5 637 021	13 281 664
More than five years	27 502 957	3 579 221	23 923 736
Total finance lease liabilities	**51 285 554**	**10 992 757**	**40 292 797**

A term analysis of the gross investment in leases and the present value of minimum lease payments is as follows:

	31 December 2016		31 December 2015	
	Gross investment in leases	Present value of minimum lease payments	Gross investment in leases	Present value of minimum lease payments
Less than one month	403 471	345 993	468 282	463 639
From one to three months	678 862	673 022	792 176	778 792
From three to six months	1 038 617	1 019 062	1 203 826	1 172 719
From six months to one year	2 062 771	1 986 328	2 399 628	2 299 449
From one year to five years	16 083 220	13 873 453	18 918 685	16 565 404
More than five years	19 279 873	13 123 075	27 502 957	19 012 794
Total	**39 546 814**	**31 020 933**	**51 285 554**	**40 292 797**

As at 31 December 2016 accrued interest under finance leases in the amount of RUB 56 600 thousand were recognized as finance lease liabilities and accrued expenses (31 December 2015: RUB 48 047 thousand). The average effective interest rate on finance leases as at 31 December 2016 is 4.7% (31 December 2015: 4.5%).

As at 31 December 2016 and 31 December 2015 all finance lease liabilities are nominated in USD.

18. Bonds issue

Over the period started in January 2013 the Company and GTLK Europe DAC has been issuing documentary interest-bearing non-convertible bonds (both classical and exchange bonds).

(all amounts in thousands of Russian roubles unless otherwise indicated)

As at 31 December 2016 bonds issued are as follows:

	Nominal amount (balance)	**Issue date**	**Principal amount final maturity**	**Offer date**	**Nominal coupon interest rate as at 31 December 2016**
Series 01	5 000 000	January2013	January 2018	-	15.00%
Series 02	5 000 000	February 2013	January 2018	-	15.00%
Series BO-01	2 500 000	September 2013	September 2018	-	9.50%
Series BO-01 (tap issue)	3 125 000	August 2015	September 2018	-	9.50%
Series BO-02	2 500 000	September 2013	September 2018	-	9.50%
Series BO-02 (tap issue)	3 925 000	June 2016	September 2018	-	9.50%
Series BO-03	1 500 000	December 2014	December 2024	December 2020	10.90%
Series BO-04	5 000 000	March 2015	March 2025	September 2017	14.75%
Series BO-05	4 000 000	October 2015	October 2025	October 2023	11.00%
Series BO-06	4 000 000	November 2015	October 2025	November 2018	14.75%
Series BO-07	4 000 000	December 2015	December 2025	December 2017	14.75%
Series BO-08	5 000 000	September 2016	September 2026	September 2021	11.10%
Series 001P-01	2 478 000	September 2016	September 2031	-	9.20%
Series 001P-01 (tap issue)	1 040 000	December 2016	September 2031	-	9.20%
Series 001P-02	7 780 000	December 2016	November 2031	-	9.00%
Eurobonds (USD 500 mln)	30 328 450	July 2016	July 2021	-	5.95%

The total amount of bonds issued is represented by documentary interest-bearing non-convertible bonds.

Certain amount of bonds isued by the Company is held by other companies of the Group. Such amounts are not reflected as liabilities of the Group in these consolidated financial statements.

BO-01, BO-02, 001P-01 and 001P-02 series bonds notionals are depreciable.

In 2016 the Company has performed a tap issue of BO-02 series bonds. Nominal amount of the tap is RUB 4 710 000 thousand, offer price is 96.25 per cent. The Company has also placed an issue of BO-08 series bonds in the nominal amount of RUB 5 000 000 thousand (at par), an issue of 001P-01 series bonds in the nominal amount of RUB 3 000 000 thousand (at par) under the terms of the previously registered Exchange Bonds Programme 001P (the Programme), and an issue of 001P-02 series bonds in the nominal amount of RUB 7 780 000 thousand (at par) under the Programme. Offer price is 100.00 per cent (at par). The Company has also performed a tap issue of 001P-01 series bonds. Nominal amount of the tap is RUB 1 040 000 thousand.

During the 9 months of 2016 the Group repurchased 01, 02 and BO-04 series bonds under the existing put options set out in the terms and conditions of the respective issues. The notional amount of the bonds repurchased is RUB 10 093 328 thousand. The bonds repurchased with the notional amount of RUB 8 269 820 thousand have further been placed to third party bondholders.

In the 4th quarter of 2016 the Group repurchased BO-05 series bonds under the existing put options set out in the terms and conditions of the issue. The notional amount of the bonds repurchased is RUB 3 432 511 thousand. All the bonds repurchased were subsequently placed to third party bondholders on the option date. Transactions were carried out at face value of the bonds. The Company has also passed the put option date set out for BO-03 series bonds, with no repurchase requests received from the bondholders.

(all amounts in thousands of Russian roubles unless otherwise indicated)

As at 31 December 2015 bonds issued are as follows:

	Nominal amount (balance)	Issue date	Principal amount final maturity	Offer date	Nominal coupon interest rate as at 31 December 2015
Series 01	5 000 000	January 2013	January 2018	January 2016	10.0%
Series 02	5 000 000	February 2013	February 2018	February 2016	10.0%
Series BO-01	3 500 000	September 2013	September 2018	-	9.5%
Series BO-01 (tap issue)	4 375 000	August 2015	September 2018	-	9.5%
Series BO-02	3 500 000	September 2013	September 2018	-	9.5%
Series BO-03	1 500 000	December 2014	December 2024	December 2016	14.3%
Series BO-04	5 000 000	March 2015	March 2025	March 2016	18.8%
Series BO-05	4 000 000	October 2015	October 2025	November 2016	14.0%
Series BO-06	4 000 000	November 2015	October 2025	November 2018	14.75%
Series BO-07	4 000 000	November 2015	December 2025	December 2017	14.75%

19. Trade and other payables

	31 December 2016	31 December 2015
Security deposits of clients	412 296	323 599
Trade payables	60 241	199 192
Provision for bonuses	102 717	133 555
Provision for unused vacations	42 647	31 570
Deferred lease income	2 471 831	-
Other payables	547 804	117 167
Total trade and other payables	**3 637 536**	**805 083**

20. Other than income taxes payable

	31 December 2016	31 December 2015
Property tax	35 646	-
Social taxes	14 821	55 574
Transport tax	4 998	5 057
Total other than income taxes payable	**55 465**	**60 631**

(all amounts in thousands of Russian roubles unless otherwise indicated)

21. Share capital

Registered, issued and fully paid share capital comprised:

	31 December 2016			31 December 2015		
	Number of shares	**Nominal value of 1 share, RUB'000**	**Nominal amount, RUB'000**	**Number of shares**	**Nominal value of 1 share, RUB'000**	**Nominal amount, RUB'000**
Ordinary shares	5 735 879	10	57 358 790	4 494 541	10	44 945 410
Total equity	**5 735 879**	**10**	**57 358 790**	**4 494 541**	**10**	**44 945 410**

In December 2016 PJSC "STLC" has received RUB 12 413 380 thousand from the sole shareholder as a share capital contribution.

These funds were transferred to purchase lease assets to facilitate a number of government lease programs. These assets will further be leased out under operating and/or finance leases.

Ordinary shares

All shares rank equally with regard to the Group's residual assets. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general shareholders' meetings of the Company.

As at 31 December 2016 the Company had its net assets value lower than its share capital as determined basing on its statutory accounts drawn up in accordance with Russian accounting principles (RAP) requirements. Under such circumstances, the Civil Code of the Russian Federation provides for a possible requirement to resolve a reduction of the share capital in the future so that it would not exceed the value of net assets. Management estimates the probability of occurrence of such a risk as low and therefore the decrease of the net assets of the Company as determined under RAP requirements does not imply any significant risks for the operations of the Group.

Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian accounting principles. In accordance with Russian accounting principles, as at the reporting date, there are no reserves available for distribution (2015: RUB 745 671 thousand).

During 2016 the Company has declared and paid dividends for 2015 in the amount totalling RUB 35 064 thousand (2015: RUB 34 979 thousand).

(all amounts in thousands of Russian roubles unless otherwise indicated)

22. Net interest income

	2016	2015
Interest income		
Finance lease interest income	7 826 091	7 914 356
Other interest income	1 173 924	1 608 315
Total interest income	**9 000 015**	**9 522 671**
Interest expense		
Bank loans and bonds issued	(12 079 343)	(8 911 130)
Finance lease interest expense	(1 730 029)	(1 219 615)
Total interest expense	**(13 809 372)**	**(10 130 745)**
Net interest income (expense)	**(4 809 357)**	**(608 074)**

23. Administrative expenses

	2016	2015
Salary and related social costs	937 724	804 578
Information and consulting services	162 083	149 988
Repossessing, storage and valuation expenses under cancelled lease agreements	69 976	108 522
Rent of premises	60 555	81 562
Transportation expenses	46 734	38 060
Other administrative expenses	219 247	245 600
Total administrative expenses	**1 496 319**	**1 428 310**

24. Other operating income and expenses

	2016	2015
Other operating income		
Income from charges and penalties	304 106	335 014
Other income	260 523	841 581
Total other operating income	**564 629**	**1 176 595**
Other operating expenses		
Charges and penalties	(59 123)	(903)
Bank charges	(213 708)	(113 703)
Other operating expenses	(208 803)	(219 475)
Total other operating expenses	**(481 634)**	**(334 081)**
Total other net operating income and expenses	**82 995**	**842 514**

25. Financial risk management

The operations of the Group result in credit, market and liquidity risks. In addition to these financial risks, the operations of the Group are also exposed to operational, business and other non-financial risks.

The Group has implemented a continuous risk management process in order to control the level of risks and restrict losses resulting from financial and non-financial risks. The risk management system is based on an integrated approach of identification, assessment, monitoring and control of risks accepted by the Group. The risk management policies and procedures are subject to continuous improvement and are implemented to comply with legal requirements and prudential norms, best practices and standards, and internal regulations of the Group.

Risk management structure

Risk management functions are implemented at all corporate governance levels and are allocated as follows.

Board of Directors performs supervisory functions and provides overall assurance over the risk management process. It is responsible for the general risk management approach and the approval of risk management and internal control strategy, key principles and policies.

Leasing Council ensures the implementation of strategy, approves the risk management policy, allocates the risk management functions between the governance bodies and business units of the Group and controls their performance. The responsibility of the Leasing Council includes the approval of total risk limits by type of risk and type of business. The Leasing Council reviews risk level reports on a regular basis and reallocates the risk limits where necessary to maintain the pre-set strategic risk profile.

In order to ensure the efficient operation of the risk management system, the Leasing Council delegates the risk limits to other collegial bodies, individual business units and employees.

The Leasing Council is a collegial body accountable to the CEO. It is responsible for the implementation of the credit policy as related to lease financing. Further details on the credit decision process are presented in the "Credit risk" section below.

Risk Management Department performs centralized risk management tasks and is responsible for the development of risk management policies and procedures and for identification, assessment and control of risks. It controls the implementation of risk management and internal control procedures and monitors the key risk factors which may potentially affect the key objectives of the Group. The Risk Management Department is in charge of financial monitoring of the clients of the Group, and reviews business performance of the clients on a regular basis. It is also in charge of credit risk management and property-related risk management.

Financial Department and Economics Department ensure the implementation of structural risk management policy. They are in charge of currency, interest rate and liquidity risk management. The Economics Department is also responsible for the coordination of anti-money laundering compliance procedures set out in accordance with the Russian legislation, implementation of which mitigates operational and reputational risks of the Group.

Day-to-day management of foreign currency risk, interest rate risk and liquidity risk is performed by the Treasury within the limits of roles delegated by the Financial Department, to which it is a structural unit.

Economic Security Department assesses non-credit risks such as reputational risks or any information on unreliability of a client.

Legal Department is in charge of the legal aspects of the transactions, and manages legal risks.

Property Management Department is in charge of property-related risk management. It ensures the control of the physical condition of lease assets and its residual value.

Insurance Department ensures the coverage of lease assets. It is in charge of the insurance underwriter selection, and determines the scope of the risks covered by the insurance policy. It is also in charge of the insurance contracts roll-over as appropriate to ensure the continuing coverage.

Internal Audit Department performs internal audit tasks under which it assesses the effectiveness of the risk management system taken as a whole and in individual business areas. Internal audit function presents the findings of its reviews to the General Director and the Board of Directors.

Credit risk

Credit risk is the risk that the Group will incur a financial loss because its counterparties fail to discharge their financial obligations in full or in part when due.

(all amounts in thousands of Russian roubles unless otherwise indicated)

Credit risk is assessed in respect of each decision on lease financing and any other decisions that may involve credit risks. Assesment includes the following: financial analysis of the counterparties, evaluation of the lease asset market value and liquidity, identification and assesment of the transaction-related risks.

Portfolio-level risk management is based on the limits set out in the lease policy. The lease policy is approved by the Board of Directors. Credit risk management also involves the financial monitoring of the counterparties to ensure its ability to meet the obligations under lease contracts and the monitoring of the physical condition of lease assets.

As at 31 December 2016 the derivative financial instruments transactions are entered into with a financial institution rated BBB- (S&P scale).

Exposure to credit risk without taking into account any collateral and netting agreements is as follows:

	Note	**31 December 2016**	**31 December 2015**
Cash and cash equivalents	6	9 494 726	19 627 448
Deposits in banks	6	-	60 119
Derivative financial instruments		449 059	-
Loans granted		254 335	219 929
Net investment in leases	7	70 891 502	42 349 750
Receivables on cancelled lease agreements and other receivables	8	8 370 129	2 686 927
Advances to suppliers	9	39 653 900	32 544 252
Total credit risk exposure		**129 113 651**	**97 488 425**

(all amounts in thousands of Russian roubles unless otherwise indicated)

The information about the credit quality of financial assets as at 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	**31 December 2015**
Net investment in leases		
Contracts for which no signs of impairment have been identified:		
- non-overdue	48 362 869	27 179 868
- overdue 1-30 days	9 122 700	6 749 244
- overdue 31-90 days	10 472 905	3 429 146
Total net investment in leases for which no signs of impairment have been identified	**67 958 474**	**37 358 258**
Impaired net investment in leases:		
- non-overdue	1 147 664	198 610
- overdue 1-30 days	1 904	-
- overdue 31-90 days	786	1 085 953
- overdue 91-180 days	2 420	2 059 770
- overdue more than 180 days	3 439 742	4 879 140
Total impaired net investment in leases	**4 592 516**	**8 223 473**
Total net investment in leases	**72 550 990**	**45 581 731**
Allowance for impairment	**(1 659 488)**	**(3 231 981)**
Total net investment in leases net of impairment allowance	**70 891 502**	**42 349 750**

(all amounts in thousands of Russian roubles unless otherwise indicated)

Receivables on cancelled lease agreements and other receivables

	31 December 2016	31 December 2015
Other receivables for which no signs of impairment have been identified:		
- non-overdue	5 761 585	883 615
- overdue 1-30 days	93 158	212 541
- overdue 31-90 days	71 198	-
Total other receivables for which no signs of impairment have been identified	**5 925 941**	**1 096 156**
Impaired receivables on cancelled lease agreements and other receivables:		
- overdue more than 90 days	7 200 885	6 574 799
Total impaired receivables on cancelled lease agreements and other receivables gross of impairment allowance	**7 200 885**	**6 574 799**
Total receivables on cancelled lease agreements and other receivables gross of impairment allowance	**13 126 826**	**7 670 955**
Allowance for impairment	**(4 756 697)**	**(4 984 028)**
Total receivables on cancelled lease agreements and other receivables net of impairment allowance	**8 370 129**	**2 686 927**

Classification of net investment in leases in the above tables between the overdue and non-overdue categories is based on contractual maturities of lease agreements.

As at 31 December 2016 the Group did not identify any evidence of impairment of advances to suppliers.

The Group evaluates the impairment of net investment in leases on an individual and collective basis.

The objective indicators of financial assets impairment include the following:

- overdue lease payments under a leasing contract;
- essential difficulties in financial position of a lessee;
- deterioration in business environment, negative changes in certain industrial markets;
- decreasing value of a leasing object.

The following factors and estimates are taken into account when identifying the amount of the allowance for impairment: realizable value of the collateral, timeframe of expected cash flows, sustainability of the lessee's business plan, ability of the lessee to improve performance in case of financial difficulties.

Evaluation is performed on a collective basis with respect to the lease agreements that are not individually significant or to the individually significant transactions where there are no indications of individual impairment.

As at 31 December 2016 impaired net investment in leases are secured by the underlying leased equipment. Recoverable value of the leased equipment is at least equal to the carrying value of impaired net investment in leases less impairment allowance.

For the net investment in leases which is not impaired the fair value of collateral was estimated at the commencement of the investment in leases and was not adjusted for subsequent changes to the reporting date. The recoverability of this net investment in leases is primarily dependent on the creditworthiness of the lessees rather than the value of collateral, and the current value of the collateral does not substantially impact the impairment assessment.

(all amounts in thousands of Russian roubles unless otherwise indicated)

Impairment allowances for the impaired net investment in leases are based either on the analysis of estimated future cash flows generated by the business of a lessee, or on the fair value of the relevant lease assets adjusted to reflect a discount expected to be applicable to the sale transaction.

Changes in estimates could affect the allowance for impairment for net investment in leases. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the allowance for impairment as at 31 December 2016 would be RUB 708 915 thousand lower/higher (31 December 2015: RUB 423 498 thousand lower/higher).

The Group evaluates the impairment of receivables on cancelled lease agreements and other receivables on an individual basis.

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. The Group has in place a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations.

The table below summarizes the maturity profile of assets and liabilities as at 31 December 2016 by their expected maturities:

	Demand (including overdue) and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	No stated maturity	Total
Assets								
Cash and cash equivalents	9 494 726	-	-	-	-	-	-	9 494 726
Derivative financial instruments	(138)	(38 464)	489 992	(959)	(1 372)	-	-	449 059
Loans granted	254 335	-	-	-	-	-	-	254 335
Net investment in leases	4 632 288	730 403	1 156 738	2 148 159	26 114 835	36 109 079	-	70 891 502
Receivables on cancelled lease agreements and other receivables	347 752	695 503	1 043 255	2 086 510	3 073 461	1 123 648	-	8 370 129
Advances to suppliers	3 007 353	6 014 707	9 022 060	18 044 120	3 565 660	-	-	39 653 900
VAT receivable	-	5 750 451	842 417	-	-	-	-	6 592 868
Income tax receivable	-	-	269 734	-	-	-	-	269 734
Inventories	-	-	-	-	-	-	1 147 977	1 147 977
Property and equipment	-	-	-	-	-	-	33 259	33 259
Assets leased out under operating leases	-	-	-	-	-	-	88 140 320	88 140 320
Investment property	-	-	-	-	-	-	5 973 555	5 973 555
Intangible assets	-	-	-	-	-	-	31 933	31 933
Deferred tax assets	-	-	-	-	-	-	793 607	793 607
Total assets	**17 736 316**	**13 152 725**	**12 333 684**	**22 277 830**	**33 242 971**	**37 232 727**	**96 120 651**	**232 096 904**

(all amounts in thousands of Russian roubles unless otherwise indicated)

	Demand (including overdue) and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	No stated maturity	Total
Liabilities								
Loans received	385 028	2 221 756	6 387 561	7 683 688	22 928 562	12 716 855	-	52 323 450
Finance lease liabilities	270 113	427 631	653 780	1 322 321	11 434 740	16 912 348	-	31 020 933
Bonds issued	1 633 865	2 692 990	1 420 345	11 667 285	57 289 456	11 434 223	-	86 138 164
Payables on equipment purchased for leasing purposes	5 252	10 506	15 759	-	-	-	-	31 517
Trade and other payables	79 488	158 979	238 468	476 936	1 029 930	1 653 735	-	3 637 536
Advances received	157 381	314 763	472 145	-	-	-	-	944 289
Income tax payable	60 533	-	-	-	-	-	-	60 533
Other than income taxes payable	55 465	-	-	-	-	-	-	55 465
Total liabilities	**2 647 125**	**5 826 625**	**9 188 058**	**21 150 230**	**92 682 688**	**42 717 161**	**-**	**174 211 887**
Net position	**15 089 191**	**7 326 100**	**3 145 626**	**1 127 600**	**(59 439 717)**	**(5 484 434)**	**96 120 651**	**57 885 017**
Accumulated maturity gap	**15 089 191**	**22 415 291**	**25 560 917**	**26 688 517**	**(32 751 200)**	**(38 235 634)**	**57 885 017**	

The table below summarizes the maturity profile of assets and liabilities as at 31 December 2015 by their expected maturities:

	Demand (including overdue) and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	No stated maturity	Total
Assets								
Cash and cash equivalents	19 627 448	-	-	-	-	-	-	19 627 448
Term deposits in banks	-	-	60 119	-	-	-	-	60 119
Loans granted	-	219 929	-	-	-	-	-	219 929
Net investment in leases	1 824 795	667 722	967 492	2 221 993	16 074 155	20 593 593	-	42 349 750
Receivables on cancelled lease agreements and other receivables	883 615	212 541	-	1 590 771	-	-	-	2 686 927
Advances to suppliers	834 679	3 713 770	8 637 272	12 810 924	6 547 607	-	-	32 544 252
VAT receivable	207 164	414 327	621 491	-	-	-	-	1 242 982
Income tax receivable	-	-	39 248	-	-	-	-	39 248
Inventories	-	-	-	-	-	-	1 230 112	1 230 112
Property and equipment	-	-	-	-	-	-	35 759	35 759
Assets leased out under operating leases	-	-	-	-	-	-	83 915 237	83 915 237
Investment property	-	-	-	-	-	-	186 048	186 048
Intangible assets	-	-	-	-	-	-	28 629	28 629
Deferred tax assets	-	-	-	-	-	-	1 036 617	1 036 617
Total assets	**23 354 423**	**5 211 886**	**10 305 258**	**16 570 983**	**22 180 098**	**21 148 007**	**86 432 402**	**185 203 057**

(all amounts in thousands of Russian roubles unless otherwise indicated)

	Demand (including overdue) and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	No stated maturity	Total
Liabilities								
Loans received	659 087	5 422 778	5 701 665	8 476 501	33 594 661	3 707 198	-	57 561 890
Finance lease liabilities	312 508	493 416	752 879	1 528 594	13 281 664	23 923 736	-	40 292 797
Bonds issued	4 953 708	12 200 487	-	7 059 034	15 975 709	-	-	40 188 938
Derivative financial instruments	116 854	-	-	-	-	-	-	116 854
Trade and other payables	67 089	134 181	201 271	402 542	-	-	-	805 083
Advances received	125 027	250 054	375 081	-	-	-	-	750 162
Other than income taxes payable	60 631	-	-	-	-	-	-	60 631
Total liabilities	**6 294 904**	**18 500 916**	**7 030 896**	**17 466 671**	**62 852 034**	**27 630 934**	**-**	**139 776 355**
Net position	**17 059 519**	**(13 289 030)**	**3 274 362**	**(895 688)**	**(40 671 936)**	**(6 482 927)**	**86 432 402**	**45 426 702**
Accumulated maturity gap	**17 059 519**	**3 770 489**	**7 044 851**	**6 149 163**	**(34 522 773)**	**(41 005 700)**	**45 426 702**	

Undiscounted cash flows on financial liabilities except for loans received, finance lease liabilities and bonds issued do not differ significantly from the expected maturity stated.

The table below summarizes the undiscounted cash flow for listed above liabilities as at 31 December 2016:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	Total gross amount of outflow	Total carrying amount
Liabilities								
Loans received	824 933	3 324 923	7 704 391	10 024 344	33 215 978	15 189 484	**70 284 053**	**52 323 450**
Finance lease liabilities	403 471	678 862	1 038 617	2 062 771	16 083 220	19 279 873	**39 546 814**	**31 020 933**
Bonds issued	1 913 877	3 789 145	2 709 805	16 135 496	73 261 961	17 419 509	**115 229 793**	**86 138 164**

The table below summarizes the undiscounted cash flow for listed above liabilities as at 31 December 2015:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	Total gross amount of outflow	Total carrying amount
Liabilities								
Loans received	996 248	6 430 341	6 883 741	10 565 026	39 692 792	3 882 715	**68 450 863**	**57 561 890**
Finance lease liabilities	468 281	792 177	1 203 826	2 399 628	18 918 685	27 502 957	**51 285 554**	**40 292 797**
Bonds issued	5 591 908	13 051 297	718 148	8 456 817	18 625 968	-	**46 444 138**	**40 188 938**

The table below presents the term analysis of undiscounted cash flow profile for derivative financial instrument transactions as estimated at the spot rates as at 31 December 2016:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	Total amount of cash flows
Inflows	34	242	619 715	3 026	6 896	-	**629 913**
Outflows	-	(95 030)	-	-	-	-	**(95 030)**

(all amounts in thousands of Russian roubles unless otherwise indicated)

The table below presents the term analysis of undiscounted cash flow profile for derivative financial instrument transactions as estimated at the spot rates as at 31 December 2015:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	Total amount of cash flows
Inflows	-	-	-	-	-	-	-
Outflows	-	(128 958)	-	-	-	-	**(128 958)**

Market risk

Market risk is the risk of incurring losses due to changes in the exchange or interest rates. The market risk results in the impairment of fair value or future payment flows of financial instruments owned by the Group.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to the risk of changes in foreign exchange rates relates primarily to operating activities (when revenues or expenses are denominated in a different currency from the functional currency).

The following table shows the currency structure of assets and liabilities as at 31 December 2016:

	USD	EUR	RUB	Total
Assets				
Cash and cash equivalents	3 039 319	14	6 455 393	9 494 726
Loans granted	-	-	254 335	254 335
Derivative financial instruments	-	-	449 059	449 059
Net investment in leases	20 224 117	115 921	50 551 464	70 891 502
Receivables on cancelled lease agreements and other receivables	3 257 244	-	5 112 885	8 370 129
Advances to suppliers	80 163	-	39 573 737	39 653 900
Income tax receivable	-	-	269 734	269 734
VAT receivable	-	-	6 592 868	6 592 868
Inventories	43 976	-	1 104 001	1 147 977
Property and equipment	-	-	33 259	33 259
Assets leased out under operating leases	53 044 765	-	35 095 555	88 140 320
Investment property	-	-	5 973 555	5 973 555
Intangible assets	-	-	31 933	31 933
Deferred tax assets	-	-	793 607	793 607
Total assets	**79 689 584**	**115 935**	**152 291 385**	**232 096 904**
Liabilities				
Loans received	12 562 691	-	39 760 759	52 323 450
Finance lease liabilities	31 020 933	-	-	31 020 933
Bonds issued	30 785 921	-	55 352 243	86 138 164
Trade and other payables	3 301 945	47 120	288 471	3 637 536
Payables on equipment purchased for leasing purposes	-	-	31 517	31 517
Advances received	459 729	-	484 559	944 289
Income tax payable	60 504	-	29	60 533
Other than income taxes payable	-	-	55 465	55 465
Total liabilities	**78 191 724**	**47 120**	**95 973 043**	**174 211 887**
Net balance position	**1 497 860**	**68 815**	**56 318 342**	**57 885 017**
Nominal value of derivative financial instruments	**(1 282 125)**	**(156 648)**	**1 438 773**	**-**

(all amounts in thousands of Russian roubles unless otherwise indicated)

The following table shows the currency structure of assets and liabilities as at 31 December 2015:

	USD	EUR	RUB	Total
Assets				
Cash and cash equivalents	1 411 992	7 674	18 207 782	19 627 448
Deposits in banks	-	-	60 119	60 119
Loans granted	-	-	219 929	219 929
Net investment in leases	9 203 352	218 346	32 928 052	42 349 750
Receivables on cancelled lease agreements and other receivables	866 309	-	1 820 618	2 686 927
Advances to suppliers	-	-	32 544 252	32 544 252
Income tax receivable	-	-	39 248	39 248
VAT receivable	-	-	1 242 982	1 242 982
Inventories	-	-	1 230 112	1 230 112
Property and equipment	-	-	35 759	35 759
Assets leased out under operating leases	65 628 334	-	18 286 283	83 915 237
Investment property	-	-	186 048	186 048
Intangible assets	-	-	28 629	28 629
Deferred tax assets	-	-	1 036 617	1 036 617
Total assets	**77 109 987**	**226 020**	**107 867 050**	**185 203 057**
Liabilities				
Loans received	27 374 436	-	30 187 454	57 561 890
Finance lease liabilities	40 292 797	-	-	40 292 797
Bonds issued	-	-	40 188 938	40 188 938
Trade and other payables	407 260	-	397 823	805 083
Advances received	-	-	750 162	750 162
Derivative financial instruments	-	-	116 854	116 854
Other than income taxes payable	-	-	60 631	60 631
Total liabilities	**68 074 493**	**-**	**71 701 862**	**139 776 355**
Net balance position	**9 035 494**	**226 020**	**36 165 188**	**45 426 702**
Nominal value of derivative financial instruments	**(1 065 909)**	**-**	**1 065 909**	**-**

Substantial amount assets leased out under operating leases are owned by companies included into GTLK Europe DAC group whose functional currency is USD. All operating lease payments related to such assets to be received by the Group are also denominated in USD.

Sensitivity analysis

The following table demonstrates the sensitivity, to a reasonably possible change in the USD and EUR to RUB exchange rate based on the net balance position, with all other variables held constant, of profit after taxation and equity. In 2016 and 2015, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during the reporting periods. The exposure to foreign currency changes for all other currencies is not material.

	Appreciation of RUB, %		**Effect on profit after tax**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
USD	30.0	30.0	(359 486)	(2 168 519)
EUR	30.0	30.0	(16 516)	(54 245)

A 30% weakening of the RUB against the above currencies at the end of the comparable periods would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(all amounts in thousands of Russian roubles unless otherwise indicated)

The Group enters into derivative financial instrument transactions to mitigate the impact of currency risks on its business. The following table demonstrates the sensitivity of the fair value of such instruments to exchange rates:

	Appreciation of RUB, %		**Effect on profit after tax**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
USD	30.0	30.0	307 710	255 818
EUR	30.0	30.0	37 596	-

The Group has applied the following exchange rates:

	Average rate		**Reporting date spot rate**	
	2016	**2015**	**31 December 2016**	**31 December 2015**
RUB/USD	67.0349	60.9579	60.6569	72.8827
RUB/EUR	74.2310	67.7767	63.8111	79.6972

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event of unexpected interest rate movements.

The table below displays the key interest bearing assets and liabilities as at 31 December 2016 and 31 December 2015 and their corresponding average effective interest rates as at those dates. These interest rates are an approximation of the yields to maturity of these assets and liabilities except for loans received denominated in USD with floating rates.

	31 December 2016		**31 December 2015**	
	Value	**%**	**Value**	**%**
Interest bearing assets				
Cash and cash equivalents				
RUB	5 169 855	9.6	17 951 812	10.3
USD	2 110 860	1.6	-	-
Term deposits in banks				
RUB	-	-	60 119	10.5
Net investment in leases				
RUB	50 551 464	14.3	32 928 052	16.1
USD	20 224 117	8.5	9 203 352	10.1
EUR	115 921	5.9	218 346	5.9
Interest bearing liabilities				
Loans received				
RUB	39 760 759	12.0	30 187 454	13.3
USD	12 562 691	6.4	27 374 436	6.4
Finance lease liabilities				
USD	31 020 933	4.7	40 292 797	4.5
Bonds issued				
RUB	55 352 243	10.1	40 188 938	13.9
USD	30 785 921	6.2		

(all amounts in thousands of Russian roubles unless otherwise indicated)

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	**31 December 2015**
300 bp parallel fall	101 680	239 310
300 bp parallel rise	(101 680)	(239 310)

Operational risk

Operational risk is the risk of direct or indirect losses resulting from deficiencies or errors in internal processes, actions of employees, operations of information systems and technologies, and resulting from external events. This definition includes legal risk, but excludes strategic and reputation risks.

Legal risk is the risk to incur losses resulting from non-compliance of the Group with legal regulations and/or contractual obligations. It also includes risks of unwilful violation when carrying out business and risks associated with imperfection of the legal framework: internal inconsistency of the applicable legislation, lack of legal provisions on certain aspects of the Group's operations under the applicable legislation.

Operational risk management system includes collection of information on actual and potential losses, assesment, risk chart development and monitoring of the consolidated risk report prepared for management of the Group and the Board of Directors.

Internal Control Department is engaged in the control over operational risks. Key tasks of this department include the day-to-day control over compliance with internal regulations governing the sequence of business processes in lease transactions, control over correct compilation of information bases by the employees of regional branches, control over the client's payment discipline and correct preparation of data regarding the impaired/potentially impaired debt by the employees of regional branches. In addition, the Operational Control Department controls compliance with the obligation to insure the leased assets, documentation and filing procedures.

Reputational risk

Reputational risk is the risk of negative perception of the financial stability of the Group in the public domain as a result of certain internal and external factors.

Reputational risk management is carried our in accordance with the procedures set out in the risk management and internal control policy.

26. Fair values of financial instruments

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of trading securities and bonds issued are based on quoted market prices or dealer price quotations. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

(all amounts in thousands of Russian roubles unless otherwise indicated)

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table analyses the fair value of financial instruments not measured at fair value and for which carrying value does not equal fair value by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2016. Fair value of other financial assets and liabilities recorded in the consolidated statement of financial position at amortized cost approximates the carrying amount of these financial instruments.

	Level 1	**Level 2**	**Level 3**	**Total**	**Book value**
Net investment in leases	-	-	69 754 032	**69 754 032**	**70 891 502**
Loans received	-	-	52 450 738	**52 450 738**	**52 323 450**
Bonds issued	76 428 308	10 612 794	-	**87 041 102**	**86 138 164**

The fair value of financial instruments is categorised as at 31 December 2015 is as follows:

	Level 1	**Level 2**	**Level 3**	**Total**	**Book value**
Net investment in leases	-	-	40 123 858	**40 123 858**	**42 349 750**
Loans received	-	-	57 382 053	**57 382 053**	**57 561 890**
Bonds issued	38 366 820	1 502 295	-	**39 869 115**	**40 188 938**

Discount rates used for estimation of fair values of major financial assets and liabilities as at 31 December 2016 depend on its currency:

		31 December 2016
	RUB	**USD**
Net investment in leases	13% - 20%	8% - 15%
Loans received	12% - 18%	5% - 12%

(all amounts in thousands of Russian roubles unless otherwise indicated)

Discount rates used for estimation of fair values of major financial assets and liabilities as at 31 December 2015 depend on its currency:

	31 December 2015	
	RUB	**USD**
Net investment in leases	15% - 20%	9% - 14%
Loans received	13% - 15%	5% - 11%

The table below analyzes financial instruments measured at fair value as at 31 December 2016 by the level in the fair value hierarchy into which each fair value measurement is categorized as at the date. All amounts are based on those stated in the consolidated statement of financial position:

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	449 059	-	**449 059**

The table below analyzes financial instruments measured at fair value as at 31 December 2015 by the level in the fair value hierarchy into which each fair value measurement is categorized as at the date. All amounts are based on those stated in the consolidated statement of financial position:

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Derivative financial instruments	-	116 854	-	**116 854**

The fair value of financial instruments has been measured using the techniques which utilize observable market data to determine values for all inputs that may have significant effect on the fair value estimates. Quoted market prices in active markets were used as inputs for the aforementioned model.

27. Capital management and capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of capital management are to ensure that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise the shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

In order to maintain or adjust the capital structure, the Group may adjust the amount of distribution payment to the shareholder and the amount of bonuses paid to employees.

The Group monitors net assets using a gearing ratio, which is total liabilities divided by total equity.

As at 31 December 2016 and 31 December 2015 the gearing ratio is calculated as follows

	31 December 2016	31 December 2015
Total liabilities	174 211 887	139 776 355
Total equity	57 885 017	45 426 702
Gearing ratio	**3.3**	**3.1**

(all amounts in thousands of Russian roubles unless otherwise indicated)

28. Commitments and contingencies

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Based on the facts available, no provision for potential tax liabilities is made in these consolidated financial statements, as management believes it is not likely that an outflow of funds will be required to settle such obligations.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

Payments to suppliers

Non-cancellable payments to the suppliers of equipment for leasing purposes as at 31 December 2016 and 31 December 2015 including VAT are as follows:

	31 December 2016	31 December 2015
Less than one year	46 855 264	12 569 968
Between one and five years	4 350 000	32 061 116
Total	**51 205 264**	**44 631 084**

(all amounts in thousands of Russian roubles unless otherwise indicated)

Rent of premises

Non-cancellable operating lease payments as at 31 December 2016 and 31 December 2015 including VAT are as follows.

	31 December 2016	**31 December 2015**
Less than one year	19 128	23 266
Total	**19 128**	**23 266**

Non-cancellable operating lease payments under aircraft lease agreements are presented in Note 12.

29. Related parties

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

Transactions with government related entities

The Company is directly owned by Russian Federation (100%) and managed by the Ministry of Transport of the Russian Federation. The Group has transactions with other government related entities including but not limited to lease of assets, rendering and receiving services, depositing and borrowing money, and use of public utilities.

These transactions are conducted in the ordinary cause of business on terms comparable to those with other entities that are not government related.

The Group has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

(all amounts in thousands of Russian roubles unless otherwise indicated)

The major outstanding balances as at 31 December 2016 with related parties and their corresponding average effective interest rates are as follows.

	Key management personnel	State controlled entities and state bodies	%	Total
Assets				
Cash and cash equivalents	-	5 729 570	7.3	**5 729 570**
Net investment in leases	-	9 120 220	12.7	**9 120 220**
Receivables on cancelled lease agreements and other receivables	-	18 998	-	**18 998**
Derivative financial instruments		449 059		**449 059**
Advances to suppliers		15 833 045	-	**15 833 045**
Liabilities				
Loans received	-	19 759 979	11.8	**19 759 979**
Payables on equipment purchased for leasing purposes	-	13 590	-	**13 590**
Advances received	-	213 108	-	**213 108**
Trade and other payables	36 259	472	-	**36 731**

Carrying value of the aircraft leased out under operating leases to the government-related entities as at 31 December 2016 is RUB 73 490 718 thousand (31 December 2015: RUB 65 628 334 thousand).

As at 31 December 2016 loans received were collateralized by pledged assets leased out under operating and financial leases and/or future lease payments under lease contracts. Net investment in leases is collateralized by assets leased out under financial leases. The other balances are unsecured.

The major outstanding balances as at 31 December 2015 with related parties and their corresponding average effective interest rates are as follows:

	Key management personnel	State controlled entities and state bodies	%	Total
Assets				
Cash and cash equivalents	-	7 228 217	10.3	**7 228 217**
Net investment in leases	-	1 994 894	16.9	**1 994 894**
Receivables on cancelled lease agreements and other receivables	-	7 613	-	**7 613**
Advances to suppliers		23 491 217		**23 491 217**
Liabilities				
Loans received	-	20 822 671	12.4	**20 822 671**
Advances received	-	81 327	-	**81 327**
Trade and other payables	-	67 315	-	**67 315**

As at 31 December 2015 loans received were collateralized by pledged assets leased out under operating and financial leases and/or future lease payments under lease contracts. Net investment in leases is collateralized by assets leased out under financial leases. The other balances are unsecured.

(all amounts in thousands of Russian roubles unless otherwise indicated)

The results of major transactions with related parties for 2016 are as follows:

	Key management personnel	**State controlled entities and state bodies**	**Total**
Finance lease interest income	-	868 344	**868 344**
Other interest income	-	556 913	**556 913**
Income from operating leases	-	10 627 855	**10 627 855**
Interest expense	-	(2 364 102)	**(2 364 102)**
Other operating expenses	-	(46 839)	**(46 839)**
Administrative expenses	(128 167)	-	**(128 167)**

The results of major transactions with related parties for 2015 are as follows:

	Key management personnel	**State controlled entities and state bodies**	**Total**
Finance lease interest income	-	471 774	**471 774**
Other interest income	-	713 930	**713 930**
Income from operating leases	-	6 559 884	**6 559 884**
Interest expense	-	(2 713 651)	**(2 713 651)**
Other operating expenses	-	(27 710)	**(27 710)**
Administrative expenses	(125 042)	-	**(125 042)**

Payments to suppliers

Non-cancellable payments to the suppliers of equipment for leasing purposes represented by government related entities as at 31 December 2016 and 31 December 2015 including VAT are as follows:

	31 December 2016	**31 December 2015**
Less than one year	38 850 730	10 823 526
Between one and five years	4 350 000	32 061 116
Total	**43 200 730**	**42 884 642**

Государственная
Транспортная
Лизинговая
Компания

Public Joint Stock Company
"State transport leasing company"

Consolidated Financial Statements
For the Year Ended
31 December 2015
and Auditors' Report

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Auditors' Report

To the Shareholder and the Board of Directors

of Public Joint Stock Company "State transport leasing company"

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "State transport leasing company" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes, comprising 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and 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 express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: Public Joint Stock Company "State transport leasing company".

Registered by the Moscow Registration Chamber under the Government of the Moscow on 19 November 2001, Registration No. 727.376.

Entered in the Unified State Register of Legal Entities on 18 October 2002 by Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1027739407189, Certificate series 77 No. 005404964.

Address of the audited entity: 125284, Moscow, Leningradskiy prospect, 31a, bld.1.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-regulated organization of auditors "Audit Chamber of Russia (Association)". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

Kolosov A.E.

Director (power of attorney dated 16 March 2015 No. 44/15)

JSC KPMG

Moscow, Russian Federation

29 April 2016

(all amounts in thousands of Russian roubles unless otherwise indicated)

	Note	31 December 2015	31 December 2014
Assets			
Cash and cash equivalents	6	19 627 448	2 777 893
Deposits in banks		60 119	-
Net investment in leases	7	42 349 750	55 600 285
Receivables on cancelled lease agreements and other receivables	8	2 686 927	1 549 447
Advances to suppliers	9	32 544 252	5 741 837
Loans granted		219 929	-
VAT receivable		1 242 982	-
Income tax receivable		39 248	-
Inventories	10	1 230 112	1 701 315
Property and equipment	11	35 759	38 075
Assets leased out under operating leases	12	83 915 237	28 755 339
Investment property	13	186 048	189 017
Intangible assets	14	28 629	7 766
Deferred tax asset	15	1 036 617	725 137
Total assets		**185 203 057**	**97 086 111**
Liabilities			
Loans received	16	57 561 890	52 680 169
Finance lease liabilities	17	40 292 797	11 775 292
Bonds issued	18	40 188 938	20 902 340
Foreign currency derivative financial instruments		116 854	-
Trade and other payables	19	805 083	472 394
Advances received		750 162	541 727
Income taxes payable		-	133 760
Other than income taxes payable	20	60 631	64 206
Other liabilities		-	58 199
Total liabilities		**139 776 355**	**86 628 087**
Equity			
Share capital	21	44 945 410	10 001 000
Retained earnings		474 921	470 994
Currency translation difference		6 371	(13 970)
Total equity		**45 426 702**	**10 458 024**
Total liabilities and equity		**185 203 057**	**97 086 111**

Approved for issue and signed by the General Director of Public Joint Stock Company “State transport leasing company” on 29 April 2016.

Khramagin S.N., General Director

Государственная транспортная лизинговая компания

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

(all amounts in thousands of Russian roubles unless otherwise indicated)

	Note	2015	2014
Finance lease interest income		7 914 356	7 960 888
Other interest income		1 608 315	285 107
Interest expense		(10 130 745)	(6 749 605)
Net interest (expense) income	22	**(608 074)**	**1 496 390**
Impairment losses on interest-earning assets	7	(1 871 927)	(1 285 907)
Net interest (expense) income after impairment of interest-earning assets		**(2 480 001)**	**210 483**
Administrative expenses	23	(1 428 310)	(975 751)
Net income from sales activities	24	18 347	31 864
Income from operating leases		7 196 834	2 322 889
Depreciation of assets leased out under operating leases	12	(3 428 919)	(1 032 571)
Other operating income	25	1 473 751	583 846
Other operating expenses	25	(334 081)	(165 007)
Foreign exchange translation gain		2 771 660	2 804 452
Impairment losses on non interest-earning assets	8	(3 213 551)	(2 603 130)
Losses from disposal of inventories and their writing down to net realizable value		(408 592)	(843 866)
Profit before taxation		**167 138**	**333 209**
Income tax expense	15	(128 232)	(68 115)
Profit for the year		**38 906**	**265 094**
Other comprehensive income (loss), net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Currency translation difference		20 341	(13 971)
Total items that are or may be reclassified subsequently to profit or loss		20 341	(13 971)
Other comprehensive income (loss), net of income tax		**20 341**	**(13 971)**
Total comprehensive income for the year		**59 247**	**251 123**

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

(all amounts in thousands of Russian roubles unless otherwise indicated)

	Note	2015 год	2014 год
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from lessees (less interest received)		13 332 093	10 055 346
Interest received from lessees		7 053 755	6 689 023
Proceeds from disposal of repossessed equipment		1 526 691	440 926
Cash paid to suppliers of equipment for leasing purposes		(39 756 112)	(18 319 343)
Cash paid for insurance of leased equipment		(195 720)	(268 995)
Interest received other than from lessees		1 058 228	283 885
Interest paid		(9 843 286)	(6 394 773)
Payments of taxes other than income tax		(2 524 034)	(1 113 291)
Administrative expenses paid		(1 438 947)	(889 260)
Net other operating income received		106 422	292 337
Operating cash flow before income tax		**(30 680 910)**	**(9 224 145)**
Income tax paid		(595 095)	(222 288)
Net cash flows used in operating activities		**(31 276 005)**	**(9 446 433)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of trading securities		-	(1 257 400)
Sales of trading securities		-	3 290 548
Placement of deposits		(60 119)	(182 186)
Withdrawal of deposits		-	2 254 272
Purchase of property and equipment, used by the Group, and intangible assets		-	(15 307)
Net cash flows (used in) from investing activities		**(60 119)**	**4 089 927**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received		5 858 440	9 538 689
Loans and finance lease liabilities paid		(11 910 442)	(7 899 417)
Bonds issued		21 626 991	1 501 330
Bonds repaid		(2 625 000)	(1 000 000)
Dividends paid	21	(34 979)	(79 256)
Shares issued	21	34 944 410	-
Net cash flows from financing activities		**47 859 420**	**2 061 346**
Effect of exchange rate changes on cash and cash equivalents		326 258	587 193
Net increase (decrease) in cash and cash equivalents		**16 849 554**	**(2 707 967)**
Cash and cash equivalents at the beginning of the year	6	2 777 893	5 485 860
Cash and cash equivalents at the end of the year	6	**19 627 448**	**2 777 893**

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

(all amounts in thousands of Russian roubles unless otherwise indicated)

	Share capital	Retained earnings	Currency translation difference	Total equity
Balance as at 1 January 2014	**10 001 000**	**285 156**	**1**	**10 286 157**
Total comprehensive income				
Profit for the year	-	265 094	-	265 094
Other comprehensive loss				
Items that are or may be reclassified subsequently to profit or loss:				
Currency translation difference	-	-	(13 971)	(13 971)
Total items that are or may be reclassified subsequently to profit or loss	-	-	(13 971)	(13 971)
Total other comprehensive loss	-	-	(13 971)	(13 971)
Total comprehensive income	**-**	**265 094**	**(13 971)**	**251 123**
Dividends declared and paid	-	(79 256)	-	(79 256)
Balance as at 31 December 2014	**10 001 000**	**470 994**	**(13 970)**	**10 458 024**
Total comprehensive income				
Profit for the year	-	38 906	-	38 906
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Currency translation difference	-	-	20 341	20 341
Total items that are or may be reclassified subsequently to profit or loss	-	-	20 341	20 341
Total other comprehensive income	-	-	20 341	20 341
Total comprehensive income	**-**	**38 906**	**20 341**	**59 247**
Dividends declared and paid (note 21)	-	(34 979)	-	(34 979)
Shares issued (note 21)	34 944 410	-	-	34 944 410
Balance as at 31 December 2015	**44 945 410**	**481 291**	**6 371**	**45 426 702**

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

(all amounts in thousands of Russian roubles unless otherwise indicated)

1. Principal activities

Public Joint Stock Company “State transport leasing company” (the Company) was incorporated in the Russian Federation as a Closed Joint Stock Company “Leasing Company of Civilian Aviation” on 12 November 2001.

The Company’s principal business activity is provision of finance and operating leases to companies within the Russian Federation and CIS.

The Company’s registered office is located at 629008, Russia, Yamalo-Nenetsky avtonomny okrug, Salehard, ulitsa Respubliki, 73, office 100.

As at 31 December 2015 and 2014 the sole shareholder of the Company is the Russian Federation.

On 9 May 2012 the Company established a 100% subsidiary GTLK Europe Limited in the Republic of Ireland to facilitate aviation leasing. GTLK Europe Limited in its turn organized a number of subsidiaries during 2012 - 2014 which are used for aviation and ship leasing transactions structuring. All these entities are 100% directly owned by GTLK Europe Limited.

	Country of incorporation	Date of incorporation
GTLK 7706 Limited	Bermuda	9 October 2012
GTLK 5 737 Limited	Ireland	24 January 2013
GTLK AFL Limited	Bermuda	11 July 2013
GTLK BO1 Limited	Bermuda	11 July 2013
GTLK BO2 Limited	Bermuda	11 July 2013
STLC Europe One Leasing Limited	Ireland	10 July 2013
STLC Europe Two Leasing Limited	Ireland	10 October 2013
GTLK BO3 Limited	Bermuda	24 July 2013
GTLK Malta Limited	Malta	10 October 2013
GTLK BO4 Limited	Bermuda	13 February 2014
GTLK BO5 Limited	Bermuda	14 February 2014
GTLK Lietuva 01 UAB	Lithuania	21 February 2014
GTLK BO6 Limited	Bermuda	30 April 2014

On 12 May 2015 tax registration of Limited Liability Company “GTLK – Finance”, a 100% subsidiary of the Company, was conducted. This entity has been established for structuring of transactions with Rouble denominated public debt instruments of the Company traded on Moscow Exchange and for management of outstanding public debt level.

Public Joint Stock Company “State transport leasing company”, Limited Liability Company “GTLK – Finance” and GTLK Europe Limited together with its subsidiaries form the STLC Group (the Group).

Russian business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

Since September 2014, a drop of oil prices led to significant devaluation of the Russian Rouble which in turn accelerated inflation. Current economic and political situation, including situation in Ukraine and introduction of sanctions against the Russian Federation by particular countries and introduction of responsive sanctions against particular countries by the Russian Federation creates risks for operations conducted by the Group. In particular, some Russian entities, including leasing companies, may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.

2. Basis of preparation

Statement of Compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at fair value.

Functional and Presentation Currency

The national currency of the Russian Federation where the Group has its main activity is the Russian Rouble (RUB). Management has determined the functional currency of the Company to be the RUB. The functional currency of GTLK Europe Limited and its subsidiaries is US dollar (USD). The RUB is the presentation currency for the purposes of these consolidated financial statements. Amounts in RUB are rounded to the nearest thousand.

In translating to the presentation currency of the Group, assets and liabilities that are included in the statement of financial position of GTLK Europe Limited are translated at the exchange rates at the reporting date. All income and expenses and equity items are translated into presentation currency at exchange rate at the dates of the transactions.

3. Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by Group entities.

Basis of consolidation

<u>Business combinations</u>

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognsied amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group’s share of the total recognised gains and losses of associates on an equity-accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group’s share of losses exceeds the Group’s interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group’s interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the foreign exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on the retranslation are recognised in the consolidated statement of profit or loss and other comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, settlement accounts and short-term deposits in banks. Deposits in banks are classified as cash and cash equivalents if initial contractual maturities of such deposits are less than 3 months.

Leases

The Group's lease transactions are classified as either finance or operating leases at inception in accordance with IAS 17 "Leases". A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease is considered to be the date when the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

Finance leases - Group as lessor

The gross investment in a lease is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor. Minimum lease payments are the payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor.

The net investment in a lease is the gross investment in a lease less unearned finance income and is recorded in "net investment in leases" in the consolidated statement of financial position. The unearned finance income is amortised to finance lease interest income over the lease term to produce a constant percentage return on the net investment in a lease. Any allowance for possible losses under finance leases is charged to expense and is recorded as a reduction to the net investment in leases through an impairment allowance.

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

In case the Group finances the purchase of the equipment (through advance payments to the equipment supplier) for leasing purposes during the period between the inception of the lease and commencement of the lease, finance lease income begins to be recognized in the consolidated statement of profit or loss and other comprehensive income from the date of commencement of the lease.

Any advance payments made by the lessee prior to commencement of the lease are recorded as advances received and subsequently adjust finance lease receivable upon commencement of the lease.

Finance leases - Group as lessee

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the Group's consolidated statement of financial position.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense 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.

Operating leases – Group as lessor

The Group recognizes assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating lease is recognized in profit or loss for the year on a straight-line basis over the lease term.

Operating leases – Group as lessee

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. Assets held under leases classified as operating leases are not recognised in the Group’s consolidated statement of financial position.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments)
- upon initial recognition, designated as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

During 2015 and 2014 the Group did not hold any investments in this category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss. During 2015 and 2014 the Group did not hold any investments in this category.

Recognition

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in payables under repo stated as a separate line in the consolidated statement of financial position. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life. Depreciation commences on the date of acquisition. The average useful life for premises is 50 years.

Taxation

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

Value added tax (VAT)

The tax authorities permit the settlement of VAT from sales and purchases on a net basis.

VAT is payable to tax authorities upon accrual of sales.

VAT receivable relates to purchases that have not been settled at the reporting date.

Amounts of VAT payable relating to future lease payments, excluding lease payments that are deemed current in accordance with lease agreements and included in lease payments receivable, are not reflected in the consolidated statement of financial position. Those amounts are included in the lease payments receivable and taxes payable when the lease payment becomes due in accordance with the payment schedule.

Other operation taxes

Property tax payable on leased assets is included in lease payments and is excluded from interest income from finance lease. The Russian Federation also has various operating taxes that are assessed on the Group's activities. These taxes are included in other operating expenses.

Impairment of assests

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of net investment in leases, loans, deposits and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan or receivable is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan or receivable balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their 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. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Equipment purchased for leasing purposes

The Group records capital expenditures related to acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenditures are accumulated until the equipment is ready for use and then are transferred to the lessee.

Settlements on equipment purchased for leasing purposes are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Property and equipment and assets leased out under operating leases

Items of property and equipment and assets leased out under operating leases are stated at cost less accumulated depreciation and impairment losses. Where an item of property and equipment and assets leased out under operating leases comprises major components having different useful lives, they are accounted for as separate items of property and equipment and assets leased out under operating leases.

Depreciation

Depreciation is charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of the individual assets.

Depreciation commences on the date of acquisition. Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. The estimated useful lives are as follows:

Aircraft	15-25 years
Railroad rolling stock	22-32 years
Premises	30 years
Equipment and machinery	3-5 years
Vehicles	5 years
Other	5-7 years

The Group have adopted a component based depreciation accounting model for certain groups of its assets (such as aircraft). Under this approach, depreciation of certain parts of the relevant assets with a cost that is significant in relation to the total cost of such assets is calculated separately. Useful life of these parts may differ from the overall useful life of the relevant assets. The Group estimates depreciation of certain components based on their actual utilisation (not useful life) whenever this depreciation method allows for a more accurate estimate of the pattern of consumption of the future economic benefits embodied in such components. The Group reviews its assumptions on useful life and/or utilisation on a regular basis.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licences. Intangible assets acquired are measured the financial statements on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Contingent assets and liabilities

Contingent liabilities are not recognised in the consolidated financial statements but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Interest income and expenses

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available–for–sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Fee and commission income and expense

Fees, commissions and other income and expense items are recorded on an accrual basis when the service has been provided.

General and administrative expenses

All expenses incurred by the Group other than those recorded in the separate lines of the consolidated statement of profit or loss and other comprehensive income are recorded as general and administrative expenses. General and administrative expenses are recognized on the accrual basis in the period to which they relate.

Share capital

<u>Share capital</u>

Issued and paid ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

<u>Dividends</u>

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Segment reporting

The Group’s operations constitute a single industry segment – leasing.

4. Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results could differ from those estimates.

Classification of a lease agreement as finance and operating lease

Management applies professional judgement with regard to the classification of some aircraft and railroad rolling stock lease agreements as finance and operating lease agreements in order to determine whether all significant risks and rewards related to the ownership of an asset are transferred to the Group in accordance with the agreement and which risks and rewards are significant. A change in these estimates may require a different approach to aircraft or railroad rolling stock accounting.

Useful lives and residual value of property and equipment

The assessment of the useful lives of property and equipment and their residual value are matters of management judgement based on the use of similar assets in prior periods. To determine the useful lives and residual value of property and equipment, management considers the following factors: nature of the expected use, estimated technical obsolescence and physical wear. A change in each of the above conditions or estimates may require the adjustment of future depreciation expenses.

Finance Lease – Group as Lessor

The Group enters into leases arrangements with various counterparties. Under the terms of the lease agreements lessees obtain a purchase option in respect of the lease equipment, so they retain all the significant risks and rewards of ownership of the equipment, and accordingly the leases are accounted for as finance leases.

Allowance for impairment of loans and receivables

Management regularly reviews its lease portfolio and receivables to assess impairment. Management uses its experience and judgement to estimate the amount of any impairment loss in cases where a lessee is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, management estimates changes in future cash flows based on observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults by companies. Management uses its experienced judgement to adjust observable data for loans or receivables to reflect current circumstances.

Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Net realisable values are estimated by management based on third party quotes or industry price movement statistics and expectations of market realisation costs.

5. New standards and interpretations

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2015, and are not applied in preparation these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance of the Group. The Group plans to adopt these pronouncements when they become effective.

The Group has not yet analysed the likely impact of the new standards and amendments on its financial position or performance.

IFRS 16 "Leases" replaces the existing lease accounting guidance in IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 "Revenue from Contracts with Customers" is also adopted. The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early.

(all amounts in thousands of Russian roubles unless otherwise indicated)

IFRS 9 Financial Instruments, published in July 2014, will ultimately replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early.

Various Improvements to IFRS are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2016. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

6. Cash and cash equivalents

	31 December 2015	31 December 2014
Banks rated BB+ and above	10 605 617	2 541 943
Banks rated BB-	4 855 059	12 311
Banks rated B	2 008 367	-
Banks rated B+	2 001 184	200 000
Banks rated B-	157 020	23 605
Others	201	34
Total cash and cash equivalents	**19 627 448**	**2 777 893**

The ratings shown in the table above represent classification by long term credit ratings as reported by S&P rating agency. In certain cases, when S&P's rating agency did not award a rating on the counterparty, the rating of another well recognized rating agency is used, translated into S&P's equivalent rating.

As at 31 December 2015 cash and cash equivalents include deposits of RUB 14 298 581 thousand (31 December 2014: RUB 2 087 740 thousand). The interest rate on the deposits varies from 7.7% to 12.0% (31 December 2014: from 2.3% to 18.0%) depending on its outstanding amount and term. The Group can withdraw funds placed into these deposits at any time before the agreed term but in this case the interest rate will be significantly reduced.

7. Net investment in leases

	31 December 2015	31 December 2014
Gross investment in leases	74 232 943	103 371 468
Unearned income	(28 651 212)	(44 785 564)
Net investment in leases gross of impairment allowance	**45 581 731**	**58 585 904**
Less impairment allowance	(3 231 981)	(2 985 619)
Net investment in leases	**42 349 750**	**55 600 285**

As at 31 December 2015 there were 640 (31 December 2014: 1 729) finance lease contracts.

The Group holds title to the leased assets during the lease term. Titles to the assets under finance lease agreements pass to the lessees at the end of the lease term. Risks related to the leased property such as damage and theft are insured. The beneficiary under the insurance policy on the vast majority of the lease agreements is the Group.

Net investment in leases are secured by assets for which leases were obtained, such as railroad rolling stock, aircraft, cars, other vehicles and equipment.

(all amounts in thousands of Russian roubles unless otherwise indicated)

The vast majority of lease agreements are secured by personal sureties of lessees or third parties and/or buyback agreements with the suppliers of lease equipment.

The Group provides two types of finance lease products to its customers: commercial leases and non-commercial leases. There are no differences in internal procedures of risk assessment and decision making between these two types of leases. Unified risk management policy is applied to all the financial leases regardless of their type.

Non-commercial leases

Non-commercial leases are a specific lease product under which leases are issued at favorable interest rates as they are funded by the charter capital of the Group. The program contains certain requirements relating to lessees and the leased assets. Lessees should belong to road construction and road infrastructure services and utilities. Leased assets are limited to road construction equipment and machinery, special road servicing vehicles and machinery, special community facilities servicing vehicles, other special purpose vehicles and machinery, cargo and passenger transport. Leased assets should be new and produced or assembled in the Russian Federation. The lease terms under non-commercial leases vary from 3 to 5 years. The initial payment amount varies from 8.0% to 30.0% of the initial price of leased asset. Lease payments are made on a monthly basis.

Commercial leases

Commercial leases are a standard lease program under which leases are issued on market terms. The commercial leases program has no specific requirements to lessees except that they must meet requirements on their financial position and creditworthiness. There are no specific requirements related to the type of leased assets. These types of lease agreements are funded with borrowings from third parties. The lease term under commercial leases normally varies from 3 to 10 years. The initial payment amount varies from 5.0% to 30.0% of the initial price of leased asset. Lease payments are normally made on a monthly basis.

The outstanding contractual maturities of the net investment in leases as at 31 December 2015 are as follows:

	Gross investment in leases	**Repayment of unearned income**	**Net investment in leases gross of impairment allowance**	**Impairment allowance**	**Net investment in leases**
Overdue and less than one month	3 510 963	(496 251)	3 014 712	(1 189 917)	1 824 795
From one to three months	1 700 703	(977 812)	722 891	(55 169)	667 722
From three to six months	2 499 913	(1 433 874)	1 066 039	(98 547)	967 492
From six months to one year	5 179 946	(2 747 558)	2 432 388	(210 395)	2 221 993
From one year to five years	32 475 690	(15 479 559)	16 996 131	(921 976)	16 074 155
More than five years	28 865 728	(7 516 158)	21 349 570	(755 977)	20 593 593
Total	**74 232 943**	**(28 651 212)**	**45 581 731**	**(3 231 981)**	**42 349 750**

(all amounts in thousands of Russian roubles unless otherwise indicated)

The outstanding contractual maturities of the net investment in leases as at 31 December 2014 are as follows:

	Gross investment in leases	Repayment of unearned income	Net investment in leases gross of impairment allowance	Impairment allowance	Net investment in leases
Overdue and less than one month	3 014 574	(683 614)	2 330 960	(327 167)	2 003 793
From one to three months	2 333 977	(1 311 184)	1 022 793	(55 469)	967 324
From three to six months	3 224 567	(1 965 933)	1 258 634	(79 235)	1 179 399
From six months to one year	6 427 200	(3 806 146)	2 621 054	(154 273)	2 466 781
From one year to five years	42 490 251	(23 163 085)	19 327 166	(870 022)	18 457 144
More than five years	45 880 899	(13 855 602)	32 025 297	(1 499 453)	30 525 844
Total	**103 371 468**	**(44 785 564)**	**58 585 904**	**(2 985 619)**	**55 600 285**

The term analysis of the gross investment in leases and the present value of minimum lease payments is as follows:

	31 December 2015		31 December 2014	
	Gross investment in leases	**Present value of minimum lease payments**	**Gross investment in leases**	**Present value of minimum lease payments**
Overdue and less than one month	3 510 963	3 506 930	3 014 574	3 009 397
From one to three months	1 700 703	1 641 530	2 333 977	2 255 804
From three to six months	2 499 913	2 327 712	3 224 567	3 013 039
From six months to one year	5 179 946	4 534 522	6 427 200	5 652 764
From one year to five years	32 475 690	21 073 311	42 490 251	27 265 704
More than five years	28 865 728	12 497 726	45 880 899	17 389 196
Total	**74 232 943**	**45 581 731**	**103 371 468**	**58 585 904**

The overdue net investment in leases line only refers to outstanding amounts due for which the payment date has already occurred.

The currency breakdown of the net investment in leases as at 31 December 2015 is as follows:

	Gross investment in leases	Unearned income	Net investment in leases gross of impairment allowance	Impairment allowance	Net investment in leases
USD	13 212 629	(3 857 930)	9 354 699	(151 347)	9 203 352
EUR	249 457	(24 029)	225 428	(7 082)	218 346
RUB	60 770 857	(24 769 253)	36 001 604	(3 073 552)	32 958 052
Total	**74 232 943**	**(28 651 212)**	**45 581 731**	**(3 231 981)**	**42 349 750**

(all amounts in thousands of Russian roubles unless otherwise indicated)

The currency breakdown of the net investment in leases as at 31 December 2014 is as follows:

	Gross investment in leases	**Unearned income**	**Net investment in leases gross of impairment allowance**	**Impairment allowance**	**Net investment in leases**
USD	7 580 575	(1 956 871)	5 623 704	(95 046)	5 528 658
RUB	95 790 893	(42 828 693)	52 962 200	(2 890 573)	50 071 627
Total	**103 371 468**	**(44 785 564)**	**58 585 904**	**(2 985 619)**	**55 600 285**

The industry breakdown of net investment in leases is as follows:

	31 December 2015		**31 December 2014**	
	Value	**%**	**Value**	**%**
Railroad transportation services	26 397 211	57.9	36 547 931	62.4
Naval transportation and port facilities	6 255 766	13.7	3 226 256	5.5
Aircraft industry and airport services	5 497 946	12.1	6 304 878	10.8
Cargo and passenger motor transport	2 367 607	5.2	4 790 918	8.2
Food production	2 237 908	4.9	1 956 415	3.3
Road construction	830 017	1.8	1 994 369	3.4
Machinery construction	797 597	1.7	644 922	1.1
Rent	281 378	0.6	1 236 923	2.1
Extraction of mineral resources	204 062	0.4	297 756	0.5
Ferrous and non-ferrous metallurgy	185 486	0.4	244 804	0.4
Oil, gaz and energy production	101 236	0.2	176 922	0.3
Construction and production of construction materials	146 633	0.3	451 663	0.8
Pipelining	121 000	0.3	249 487	0.4
Trading activities	64 620	0.1	322 141	0.5
Community facilities	73 019	0.2	135 095	0.3
Other industries	20 245	0.0	5 424	0.0
Net investment in leases gross of impairment allowance	**45 581 731**	**100.0**	**58 585 904**	**100.0**
Less impairment allowance	(3 231 981)		(2 985 619)	
Net investment in leases	**42 349 750**		**55 600 285**	

Comparative information reclassification

During 2015 the Group revised industry classification of certain lessees. Comparative information was reclassified to conform to changes in presentation of these consolidated financial statements. The effect of stated above changes on the industry breakdown of net investment in leases as at 31 December 2014 is as follows:

(all amounts in thousands of Russian roubles unless otherwise indicated)

	Before reclassification	**The effect of the reclassification**	**After reclassification**
Railroad transportation services	35 691 180	856 751	36 547 931
Cargo and passenger moto transport	4 748 540	42 378	4 790 918
Food production	1 746 016	210 399	1 956 415
Road construction	2 547 638	(553 269)	1 994 369
Construction and production of construction materials	361 106	90 557	451 663
Rent	1 885 292	(648 369)	1 236 923
Community facilities	133 542	1 553	135 095

Impairment of net investment in leases

Movement in allowance for impairment is as follows:

	2015	**2014**
Balance at the beginning of the year	2 985 619	1 835 055
Net charge	1 871 927	1 285 907
Write-offs	(1 625 565)	(135 343)
Balance at the end of the year	**3 231 981**	**2 985 619**

Other information about net investment in leases

As at 31 December 2015 net investment in leases with ten largest lessees amount to 73.1% of net investment in leases gross of impairment allowance, or RUB 33 330 777 thousand (31 December 2014: 62.0%, or RUB 36 313 440 thousand).

As at 31 December 2015 the amount of gross investment in leases on contracts that have been signed but have not commenced is RUB 24 405 528 thousand (31 December 2014: RUB 6 847 185 thousand).

As at 31 December 2015 and 31 December 2014 certain assets leased out under financial leases and/or future lease payments under such financial lease contracts were pledged to secure loans received. As at 31 December 2015 net investment in leases in total amount of RUB 20 130 358 thousand (31 December 2014: RUB 30 742 302 thousand) related to assets used to collateralize loans received.

8. Receivables on cancelled lease agreements and other receivables

	31 December 2015	**31 December 2014**
Receivables on cancelled lease agreements and under loss compensation agreement	5 818 179	2 676 487
Advances paid to suppliers (other than payments for leasing assets and fixed assets)	154 854	-
Prepaid expenses	522 642	543 443
Receivables on operating lease agreements	343 667	314 543
Other tax receivables	191 053	4 978
Other receivables	640 560	766 862
Less impairment allowance	(4 984 028)	(2 756 866)
Total trade and other receivables	**2 686 927**	**1 549 447**

Receivables on cancelled lease agreements represent amounts due and payable under the terms of lease agreements which were cancelled and considerations payable in respect of related Group’s claims arising from or made in connection with cancelled lease agreements.

(all amounts in thousands of Russian roubles unless otherwise indicated)

Movement in the allowance for impairment is as follows:

	2015	2014
Balance at the beginning of the year	2 756 866	260 612
Net charge	3 213 551	2 603 130
Write-offs	(1 067 433)	(106 876)
Translation difference	81 044	-
Balance at the end of the year	**4 984 028**	**2 756 886**

The Group evaluates impairment of trade and other receivables on an individual basis.

9. Advances to suppliers

Advances to suppliers represent prepayments for assets to be leased.

As at 31 December 2015 advances were issued to the following suppliers:

	Advances to suppliers	% of total
"Sukhoi Civil Aircraft" JSC	22 528 120	69.2
"Resource" LLC	5 413 748	16.6
"Okskaya sudoverf" JSC	2 014 202	6.2
"TrolzaMarket" LLC	1 272 654	3.9
"Krasnoe Sormovo zavod" JSC	743 882	2.3
"Torgovy dom KIFATO" LLC	314 165	1.0
"VOSTOKAVTOTRANS" JSC	202 446	0.6
"TehnoMashHolding" CJSC	24 015	0.1
Others	31 020	0.1
Всего	**32 544 252**	**100.0**

As at 31 December 2014 advances were issued to the following suppliers:

	Advances to suppliers	% of total
"Resource" LLC	3 439 459	59.9
"Okskaya sudoverf" JSC	949 680	16.5
"Trade Centre" LLC	436 569	7.6
"Function" CJSC	420 840	7.3
"TD KIFATO" LLC	176 863	3.1
"MRO Techincom" OJS	172 436	3.0
"Russkieavtobus – group GAZ" LLC	40 911	0.7
"Barnaulskiyvagonoremontniyzavod" JSC	30 405	0.5
"Tetis Pro" JSC	27 514	0.5
"Alliance Trans-Asia"	18 129	0.3
Others	29 031	0.5
Total	**5 741 837**	**100.0**

As at 31 December 2015 and 2014 there were no signs of impairment of advances to suppliers.

10. Inventories

Inventories generally represent assets repossessed by the Group from delinquent lessees under cancelled finance lease contracts and spare parts and materials.

Upon termination of lease contracts the leased object is measured at the lower of cost, which is equivalent to the net investment in the related lease, or net realizable value. When estimating the net realizable value the Group makes assumptions to assess the market values depending on the type of asset being assessed and then applies market realization cost adjustments to certain types of assets for obsolescence, illiquidity and trade discounts expected.

(all amounts in thousands of Russian roubles unless otherwise indicated)

Changes in these estimates could affect the loss from writing down of inventories to net realizable value. For example, to the extent that estimated net realizable value decrease by one percent, the loss from writing down of inventories to net realizable value for 2015 would be RUB 12 301 thousand higher (31 December 2014: RUB 17 013 thousand).

The breakdown of inventories is presented below:

	31 December 2015	31 December 2014
Equipment and vehicles repossessed after the termination of lease agreements	708 333	1 695 100
Spare part supply	516 423	-
Office supplies	5 356	6 215
Total inventories	**1 230 112**	**1 701 315**

Spare parts were purchased by the Group in 2015 from "Sukhoi Civil Aircraft" JSC for the purpose of initial accumulation of spare parts supply for the purchasers of SukhoiSuperJet 100 aircraft. These spare parts are on a responsible storage at "Sukhoi Civil Aircraft" JSC storage facilities.

A subsidy in the amount of 90% of such spare parts' fair value has been granted under the Decree of the Government of the Russian Federation № 745 dated 23 July 2015. All economic benefits related to this grant were received by the Group and are not subject to repayment. In accordance with the requirements of IAS 20, the Group accounts for the grant as government assistance recognized as profit presented as other operating income. As at 31 December 2015 in respect of recognition of this project there were no unfulfilled conditions or other contingencies.

11. Property and equipment

Fixed assets are presented vehicles, computer equipment and property (building).

(all amounts in thousands of Russian roubles unless otherwise indicated)

12. Assets leased out under operating leases

Assets leased out under operating leases are primarily represented by aircraft and railroad rolling stock.

Movements in assets leased out under operating leases are as follows:

	Aircraft	Railroad rolling stock	Total
Cost			
Balance at 1 January 2014	13 160 881	426 971	13 587 852
Additions	4 206 202	68 833	4 275 035
Translation difference	12 444 607	-	12 444 607
Balance at 31 December 2014	**29 811 690**	**495 804**	**30 307 494**
Additions	31 543 109	11 703 332	43 246 438
Disposals (transfer to finance lease)	(1 513 297)	-	(1 513 297)
Translation difference	17 747 395	-	17 747 395
Balance at 31 December 2015	**77 588 897**	**12 199 133**	**89 788 030**
Accumulated depreciation			
Balance at 1 January 2014	(71 327)	(3 817)	(75 144)
Depreciation charge	(960 539)	(72 032)	(1 032 571)
Disposals (transfer to finance lease)	251 348	-	251 348
Translation difference	(193 052)	-	(193 052)
Balance at 31 December 2014	**(1 476 306)**	**(75 849)**	**(1 552 155)**
Depreciation charge	(3 188 486)	(240 433)	(3 428 919)
Translation difference	(891 719)	-	(891 719)
Balance at 31 December 2015	**(5 556 511)**	**(316 282)**	**(5 872 793)**
Carrying amount			
At 1 January 2014	**13 089 554**	**423 154**	**13 512 708**
At 31 December 2014	**28 335 384**	**419 955**	**28 755 339**
At 31 December 2015	**72 032 386**	**11 882 851**	**83 915 237**

The analysis of non-cancellable minimum operating lease payments as at 31 December 2015 and 2014 is presented below:

	31 December 2015	31 December 2014
Less than one year	7 694 771	3 019 670
From one year to five years	35 198 014	11 826 641
More than five years	48 653 104	10 340 294
Total	**91 545 889**	**25 186 605**

As at 31 December 2015 the aircraft of total book value of RUB 50 094 347 thousand were received by the Group under finance lease arrangements. The present value of minimum lease payments under these arrangements as at the reporting date is RUB 40 292 797 thousand (31 December 2014: RUB 14 831 904 thousand and RUB 11 775 292 thousand, respectively).

(all amounts in thousands of Russian roubles unless otherwise indicated)

As at 31 December 2015 assets leased out under operating leases of total book value of RUB 27 956 299 thousand (2014: RUB 21 008 886 thousand) were pledged to secure loans received.

As at 31 December 2015 and 31 December 2014 PJSC “Aeroflot” was the largest lessee under operating lease agreements in terms of book value of leased assets: 59.4% of assets leased out under operating leases were leased to PJSC “Aeroflot” (2014: 51.6%).

13. Investment property

During 2012 the Group repossessed office premises located in the centre of Novosibirsk. These assets are recorded as investment property as the Group is planning to benefit from growth of the market value of the premises.

Management believes that the fair value of investment property is at least equal to its carrying value as at the reporting date.

Depreciation is charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful life of the asset which is 50 years.

14. Intangible assets

Intangible assetsare primarily represented by software, licenses and certificates.

15. Taxation

Income tax expense

	2015	**2014**
Current tax charge	(439 712)	(501 472)
Deferred tax assets/liabilities movement due to origination and reversal of temporary differences	311 480	433 357
Income tax expense for the year	**(128 232)**	**(68 115)**

Reconciliation of effective tax rate

	2015	**2014**
Profit before tax	167 138	333 209
Income tax at the applicable tax rate	(33 428)	(66 642)
Non-taxable expenses	(108 398)	(5 241)
Income (loss) taxed at lower tax rates	13 594	3 768
Income tax expense for the year	**(128 232)**	**(68 115)**

Recognized deferred tax assets and liabilities

The difference between IFRS and Russian statutory taxation regulations gives rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred income tax assets and liabilities for the Company are measured at 20% as at 31 December 2015 and 2014, the rate applicable when the asset or liability will reverse. Applicable tax rate for GTLK Europe Limited and its subsidiaries is 12.5%.

(all amounts in thousands of Russian roubles unless otherwise indicated)

Movement in temporary differences

Movements in temporary differences for the year ended 31 December 2015 are as follows:

	31 December 2014	Recognized in profit or loss	31 December 2015
Net investment in leases	(33 751)	(307 107)	(340 858)
Other payables and receivables	523 140	731 462	1 254 602
Loans received	(7 861)	7 861	-
Inventories	240 874	(121 792)	119 082
Property and equipment and investment property	2 735	1 056	3 791
Net deferred tax asset	**725 137**	**311 480**	**1 036 617**

Movements in temporary differences for the year ended 31 December 2014 are as follows:

	31 December 2013	Recognized in profit or loss	31 December 2014
Net investment in leases	133 429	(167 180)	(33 751)
Other payables and receivables	73 058	450 082	523 140
Loans received and promissory notes issued	(10 481)	2 620	(7 861)
Inventories	93 983	146 891	240 874
Property and equipment and investment property	1 791	944	2 735
Net deferred tax asset	**291 780**	**433 357**	**725 137**

16. Loans received

The bank loans were received to purchase assets to be leased. Most of loans received is collateralized by the assets or rights to lease agreements.

As at 31 December 2015 the average effective interest rate on bank loans in RUB is 13.3%, in USD is 6.4% (as at 31 December 2014: 13.1% in RUB and 5.7% in USD).

The remaining contractual maturity of loans received is as follows:

	31 December 2015	31 December 2014
Less than one month	659 087	444 496
From one to three months	5 422 778	934 442
From three to six months	5 701 665	2 088 518
From six months to one year	8 476 501	3 831 147
From one year to five years	33 594 661	39 202 895
More than five years	3 707 198	6 178 671
Total loans received	**57 561 890**	**52 680 169**

The currency breakdown of loans received is as follows:

	31 December 2015	31 December 2014
USD	27 374 436	17 359 489
RUB	30 187 454	35 320 680
Total	**57 561 890**	**52 680 169**

(all amounts in thousands of Russian roubles unless otherwise indicated)

As at 31 December 2015 and 2014 the most amount of loans was received from Russian banks, the rest one was received from the biggest international bank groups.

Credit ratings with S&P scale of thebanks are shown in the following table:

	31 December 2015	31 December 2014
Banks rated A	16 010 780	11 827 702
Banks rated BB+	25 760 654	27 398 480
Banks rated BB-	12 817 741	10 864 603
Banks rated B+	1 851 290	406 279
Banks rated B-	1 121 425	2 183 105
Total loans received	**57 561 890**	**52 680 169**

As at 31 December 2015 loans received in the amount of RUB 46 103 010 thousand (2014: RUB 44 658 053 thousand) were collateralized by pledged assets leased out under financial leases and/or future lease payments under such financial lease contracts and under operating leases.

17. Finance lease liabilities

Assets acquired under finance lease agreements are further leased out either under operating or finance lease. The Group uses finance leases as funding source for aircraft purchases.

During 2013-2015 the Group has leased 8 Airbus A321 and Boeing 777 aircraft further transferred to PJSC "Aeroflot". The lessors under the corresponding financial lease agreements are Irish Companies, companies for which the ultimate controlling party is Industrial and Commercial Bank of China.

	31 December 2015	31 December 2014
Future minimum lease payments	51 285 554	14 769 076
Interest expenses to be paid	(10 992 757)	(2 993 784)
Present value of minimum lease payments	**40 292 797**	**11 775 292**

The remaining contractual maturities of finance lease liabilities as at 31 December 2015 are as follows:

	Total payments under finance lease liabilities	Repayment of interest	Repayment of principal
Less than one month	468 281	155 773	312 508
From one to three months	792 177	298 761	493 416
From three to six months	1 203 826	450 947	752 879
From six months to one year	2 399 628	871 034	1 528 594
From one year to five years	18 918 685	5 637 021	13 281 664
More than five years	27 502 957	3 579 221	23 923 736
Total finance lease liabilities	**51 285 554**	**10 992 757**	**40 292 797**

(all amounts in thousands of Russian roubles unless otherwise indicated)

The remaining contractual maturities of finance lease liabilities as at 31 December 2014 are as follows:

	Total payments under finance lease liabilities	**Repayment of interest**	**Repayment of principal**
Less than one month	147 382	41 770	105 612
From one to three months	215 152	78 819	136 333
From three to six months	328 296	121 077	207 219
From six months to one year	660 852	234 225	426 627
From one year to five years	5 298 540	1 527 909	3 770 631
More than five years	8 118 854	989 984	7 128 870
Total finance lease liabilities	**14 769 076**	**2 993 784**	**11 775 292**

A term analysis of the gross investment in leases and the present value of minimum lease payments is as follows:

	31 December 2015		**31 December 2014**	
	Gross investment in leases	**Present value of minimum lease payments**	**Gross investment in leases**	**Present value of minimum lease payments**
Overdue and less than one month	468 282	463 639	147 382	155 400
From one to three months	792 176	778 792	215 152	198 383
From three to six months	1 203 826	1 172 719	328 296	305 260
From six months to one year	2 399 628	2 299 449	660 852	623 941
From one year to five years	19 062 727	16 565 404	5 298 540	4 749 751
More than five years	27 358 916	19 012 795	8 118 854	5 742 556
Total	**51 285 555**	**40 292 798**	**14 769 076**	**11 775 291**

As at 31 December 2015 accrued interest under finance leases in the amount of RUB 48 047 thousand were recognized as finance lease liabilities and accrued expenses (2014: RUB 37 727 thousand). The average effective interest rate on finance leases as at 31 December 2015 is 4.5% (2014: 4.2%).

As at 31 December 2015 and 31 December 2014 all finance lease liabilities are nominated in USD.

(all amounts in thousands of Russian roubles unless otherwise indicated)

18. Bonds issued

Over the period started in January 2013 the Company has been issuing documentary interest-bearing non-convertible bonds (both classical and exchange bonds).

As at 31 December 2015 bonds issued are as follows:

	Nominal amount (balance)	Issue date	Principal amount final maturity	Offer date	Coupon interest rate as at 31 December 2015
Series 01	5 000 000	January 2013	January 2018	January 2016	10.0%
Series 02	5 000 000	February 2013	February 2018	February 2016	10.0%
SeriesBO-01	3 500 000	September 2013	September 2018	-	9.5%
Series-01 (tap issue)	4 375 000	August 2015	September 2018	-	9.5%
Series BO-02	3 500 000	September 2013	September 2018	-	9.5%
Series BO-03	1 500 000	December 2014	December 2024	December 2016	14.3%
Series BO-04	5 000 000	March 2015	March 2025	March 2016	18.8%
Series BO-05	4 000 000	October 2015	October 2025	November 2016	14.0%
Series BO-06	4 000 000	November 2015	October 2025	November 2018	14.75%
Series BO-07	4 000 000	November 2015	December 2025	December 2017	14.75%

BO-01 and BO-02 series bonds notionals are depreciable. Coupon is paid quarterly. Bond redemption date is 3,640th day from the issue date. Partial earlier redemption of the bond notional value is executed as at the date of 4, 6, 8, 10, 12, 14, 16, 18 coupon payment period in the amount of 10% of the nominal value and as at the date of 20 coupon payment in the amount of 20% of the nominal value

In 2015 the Company has performed a additional issue of BO-01 series bonds. Nominal amount of the additional issue is RUB 6 250 000 thousand, offer price is 91.5 per cent.

In 2015 the Company has performed partial redemption of BO-01 series bonds notional value (state registration no. 4B02-01-32432-H) in the total amount of RUB 1 625 000 thousand.

In 2015 the Company has performed partial redemption of BO-02 series bonds notional value (state registration no. 4B02-02-32432-H) in the total amount of RUB 1 000 000 thousand.

	Nominal amount (balance)	Issue date	Principal amount final maturity	Offer date	Coupon interest rate as at 31 December 2014
Series 01	5 000 000	January 2013	January 2018	January 2016	10.00%
Series 02	5 000 000	February 2013	February 2018	February 2016	10.00%
Series B-01	4 500 000	September 2013	September 2018	-	9.50%
Series B-02	4 500 000	September 2013	September 2018	-	9.50%
Series B-03	1 500 000	December 2014	December 2024	December 2016	14.30%

(all amounts in thousands of Russian roubles unless otherwise indicated)

19. Trade and other payables

	31 December 2015	31 December 2014
Security deposits of clients	323 599	280 731
Trade payables	199 192	48 778
Provision for bonuses	133 555	40 591
Provision for unused vacations	31 570	30 071
Other payables	117 167	72 223
Total trade and other payables	**805 083**	**472 394**

20. Other than income taxes payable

	31 December 2015	31 December 2014
Social taxes	55 574	16 410
Transport tax	5 057	14 396
Property tax	-	20 547
Value added tax	-	5 532
Other taxes	-	7 321
Total other than income taxes payable	**60 631**	**64 206**

21. Share capital

As at 31 December 2015 and 31 December 2014, registered, issued and fully paid share capital comprised:

	31 December 2015			31 December 2014		
	Number of shares	Nominal value of 1 share, RUB'000	Nominal amount, RUB'000	Number of shares	Nominal value of 1 share, RUB'000	Nominal amount, RUB'000
Ordinary shares	4 494 541	10	44 945 410	1 000 100	10	10 001 000
Total equity	**4 494 541**	**10**	**44 945 410**	**1 000 100**	**10**	**10 001 000**

In January 2015 PJSC "STLC" has received RUB 4 944 410 thousand from the sole shareholder as a share capital contribution.

In October 2015 the Company has received another capital contribution in the amount of RUB 30 000 000 thousand. These funds were further paid to "Sukhoi Civil Aircraft" JSC as an advance payment under the Sukhoi Superjet 100 purchase contract. Aircraft delivered under the contract will further be leased out under operating and/or finance leases.

Ordinary shares

All shares rank equally with regard to the Group's residual assets. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general shareholders' meetings of the Company.

(all amounts in thousands of Russian roubles unless otherwise indicated)

Dividends

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian accounting principles. In accordance with Russian accounting principles, as at the reporting date, reserves available for distribution amounted to RUB 745 671thousand (2014: RUB 720 644 thousand)

During 2015 the Company declared and paid dividends for the year ended 31 December 2014 in the amount of RUB 12.73 per one share (2014: RUB 79.26 per one share) totalling RUB 34 979 thousand (2014: RUB 79 258 thousand).

22. Net interest income

	2015	**2014**
Interest income		
Finance lease interest income	7 914 356	7 960 888
Other interest income	1 608 315	285 107
Total interest income	**9 522 671**	**8 245 995**
Interest expense		
Bank loans	(8 911 130)	(6 397 622)
Finance lease interest expense	(1 219 615)	(351 983)
Total interest expense	**(10 130 745)**	**(6 749 605)**
Net interest income	**(608 074)**	**1 496 390**

23. Administrative expenses

	2015	**2014**
Salary and related social costs	804 578	588 183
Information and consulting services	149 988	64 876
Repossessing, storage and valuation expenses	108 522	68 247
Rent of premises	81 562	57 415
Advertising and representation expenses	56 938	26 907
Transportation expenses	38 060	34 974
Insurance expenses	28 370	15 698
Repair and maintenance of equipment	18 220	16 320
Business-travel services	16 949	24 293
Amortization of intangible assets	9 699	8 869
Communication services	8 677	8 907
Depreciation of property and equipment	7 945	8 211
Materials and stationery	4 407	3 981
Security	3 120	3 100
Other taxes	-	19 656
Other administrative expenses	91 275	26 114
Total administrative expenses	**1 428 310**	**975 751**

(all amounts in thousands of Russian roubles unless otherwise indicated)

24. Income from sales activities

The Group promotes the government program of support for domestic vendors. As a part of this program the Group purchases machinery and trucks from large domestic vendors and sells them to producers of special vehicles for further modifications. Some of the completed vehicles are then purchased back by the Group for non-commercial leasing purposes.

	2015	**2014**
Revenue from sales	508 219	705 332
Cost of goods sold	(489 872)	(673 468)
Total income from sales activities	**18 347**	**31 864**

25. Other operating income and expenses

	2015	**2014**
Other operating income		
Income from charges and penalties	335 014	437 431
Net income from sales of repossessed equipment	297 156	2 986
Other income	841 581	143 429
Total other operating income	**1 473 751**	**583 846**
Other operating expenses		
Charges and penalties	(903)	(24 689)
Banking charges	(113 703)	(82 452)
Other operating expenses	(219 475)	(57 866)
Total other operating expenses	**(334 081)**	**(165 007)**
Net other operating income and expenses	**2 218 556**	**418 839**

26. Financial risk management

The operations of the Group result in credit, market and liquidity risks. In addition to these financial risks, the operations of the Group are also exposed to operational, business and other non-financial risks.

The Group has implemented a continuous risk management process in order to control the level of risks and restrict losses resulting from financial and non-financial risks. The risk management system is based on an integrated approach of identification, assessment, monitoring and control of risks accepted by the Group. The risk management policies and procedures are subject to continuous improvement and are implemented to comply with legal requirements and prudential norms, best practices and standards, and internal regulations of the Group.

Risk management structure

Risk management functions are implemented at all corporate governance levels and are allocated as follows.

Board of Directors performs supervisory functions and provides overall assurance over the risk management process.

Leasing Council ensures the implementation of strategy, approves the risk management policy, allocates the risk management functions between the governance bodies and business units of the Group and controls their performance. The responsibility of the Leasing Council includes the approval of total risk limits by type of risk and type of business. The Leasing Council reviews risk level reports on a regular basis and reallocates the risk limits where necessary to maintain the pre-set strategic risk profile.

In order to ensure the efficient operation of the risk management system, the Leasing Council delegates the risk limits to other collegial bodies, individual business units and employees.

Budgeting and Economic Department ensures the implementation of policies related to the management of structural risks of the consolidated statement of financial position, including foreign currency risk, interest rate risk and liquidity risk.

Day-to-day management of foreign currency risk, interest rate risk and liquidity risk is performed by the Treasury within the limits of roles delegated by Budgeting and Economic Department.

Risk Management Department performs centralized risk management tasks and is responsible for the development of risk management policies and procedures and for identification, assessment and control of risks.

Credit Risk Department is responsible for the implementation of the credit policy pertaining to lease financing. Section “Credit risk” contains additional information on the credit decision-making process.

Economic Security Department assesses non-credit risks such as reputational risks or any information on unreliability of a client.

Internal Audit Department performs internal audit tasks under which it assesses the effectiveness of the risk management system taken as a whole and in individual business areas. Internal control function presents the findings of its reviews to the General Director and the Board of Directors.

Credit risk

Credit risk is the risk that the Group will incur a financial loss because its counterparties fail to discharge their financial obligations in full or in part when due.

(all amounts in thousands of Russian roubles unless otherwise indicated)

Exposure to credit risk without taking into account any collateral and netting agreements is as follows:

	Note	31 December 2015	31 December 2014
Cash and cash equivalents	6	19 627 448	2 777 893
Deposits in banks	6	60 119	-
Loans granted		219 929	-
Net investment in leases	7	42 349 750	55 600 285
Receivables on cancelled lease agreements and other receivables	8	2 686 927	1 549 447
Advances to suppliers	9	32 544 252	5 741 837
Total credit risk exposure		**97 488 425**	**65 669 462**

The information about the credit quality of financial assets as at 31 December 2015 and 31 December 2014 is as follows:

	31 December 2015	31 December 2014
Net investment in leases		
Contracts for which no signs of impairment have been identified:		
- non-overdue	27 179 868	33 544 343
- overdue 1-30 days	6 749 244	8 979 099
- overdue 31-90 days	3 429 146	4 081 676
Total net investment in leases for which no signs of impairment have been identified	**37 358 258**	**46 605 118**
Impaired net investment in leases:		
- non-overdue	198 610	227 830
- overdue 1-30 days	-	6 130 727
- overdue 31-90 days	1 085 953	2 010 554
- overdue 91-180 days	2 059 770	1 176 424
- overdue more than 180 days	4 879 140	2 435 251
Total impaired net investment in leases	**8 223 473**	**11 980 786**
Total net investment in leases	**45 581 731**	**58 585 904**
Allowance for impairment (individual and collective)	**(3 231 981)**	**(2 985 619)**
Total net investment in leases net of impairment allowance	**42 349 750**	**55 600 285**

(all amounts in thousands of Russian roubles unless otherwise indicated)

	31 December 2015	31 December 2014
Receivables on cancelled lease agreements and other receivables		
Other receivables for which no signs of impairment have been identified:		
- non-overdue	883 615	548 421
- overdue 1-30 days	212 541	314 543
Total other receivables for which no signs of impairment have been identified	**1 096 156**	**862 964**
Impaired receivables on cancelled lease agreements and other receivables:		
- overdue 31-90 days	-	527 428
- overdue more than 90 days	6 574 799	2 915 921
Total impaired receivables on cancelled lease agreements and other receivables gross of impairment allowance	**6 574 799**	**3 443 349**
Total receivables on cancelled lease agreements and other receivables gross of impairment allowance	**7 670 955**	**4 306 313**
Allowance for impairment	**(4 984 028)**	**(2 756 866)**
Total impaired receivables on cancelled lease agreements and other receivables net of impairment allowance	**2 686 927**	**1 549 447**

Classification of net investment in leases in the above tables between the overdue and non-overdue categories is based on contractual maturities of lease agreements.

As at 31 December 2015 the Group did not identify any evidence of impairment of advances to suppliers.

The Group evaluates the impairment of net investment in leases on an individual and collective basis.

The objective indicators of financial assets impairment include the following:

- overdue lease payments under a leasing contract;
- essential difficulties in financial position of a lessee;
- deterioration in business environment, negative changes in certain industrial markets;
- decreasing value of a leasing object.

The following factors and estimates are taken into account when identifying the amount of the allowance for impairment: realizable value of the collateral, timeframe of expected cash flows, sustainability of the lessee's business plan, ability of the lessee to improve performance in case of financial difficulties.

Evaluation is performed on a collective basis with respect to the lease agreements that are not individually significant or to the individually significant transactions where there are no indications of individual impairment.

As at 31 December 2015 impaired net investment in leases with a net value of RUB 6 052 758 thousand (2014: RUB 10 357 645 thousand) is secured by the underlying leased equipment with a recoverable value of RUB 6 052 758 thousand (2014: RUB 7 904 815 thousand), excluding the effect of over-collateralization.

For remaining net investment in leases with a net value of RUB 36 296 992 thousand (2014: RUB 45 242 640 thousand), which is not impaired, the fair value of collateral was estimated at the commencement of the investment in leases and was not adjusted for subsequent changes to the reporting date. The recoverability of this net investment in leases is primarily dependent on the creditworthiness of the lessees rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Changes in estimates could affect the allowance for impairment for net investment in leases. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the allowance for impairment as at 31 December 2015 would be RUB 423 498 thousand lower/higher (31 December 2014: RUB 556 003 thousand lower/higher).

The Group evaluates the impairment of receivables on cancelled lease agreements and other receivables on an individual basis.

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. The Group has in place a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations.

(all amounts in thousands of Russian roubles unless otherwise indicated)

The table below summarizes the maturity profile of assets and liabilities as at 31 December 2015 by their expected maturities.

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 year to 5 years**	**More than 5 years**	**No stated maturity**	**Total**
Assets								
Cash and cash equivalents	19 627 448	-	-	-	-	-	-	19 627 448
Deposits in banks	-	-	60 119	-	-	-	-	60 119
Loans granted	-	219 929	-	-	-	-	-	219 929
Net investment in leases	1 801 517	651 319	947 128	2 169 288	15 632 491	21 148 007	-	42 349 750
Receivables on cancelled lease agreements and other receivables	883 615	212 541	-	1 590 771	-	-	-	2 686 927
Advances to suppliers	834 679	3 713 770	8 637 272	12 810 924	6 547 607	-	-	32 544 252
VAT receivable	207 164	414 327	621 491	-	-	-	-	1 242 982
Income tax receivable	-	-	39 248	-	-	-	-	39 248
Inventories	-	-	-	-	-	-	1 230 112	1 230 112
Property and equipment	-	-	-	-	-	-	35 759	35 759
Assets leased out under operating leases	-	-	-	-	-	-	83 915 237	83 915 237
Investment property	-	-	-	-	-	-	186 048	186 048
Intangible assets	-	-	-	-	-	-	28 629	28 629
Deferred tax asset	-	-	-	-	-	-	1 036 617	1 036 617
Total assets	**23 354 423**	**5 211 886**	**10 305 258**	**16 570 983**	**22 180 098**	**21 148 007**	**86 432 402**	**185 203 057**
Liabilities								
Loans received	659 087	5 422 778	5 701 665	8 476 501	33 594 661	3 707 198	-	57 561 890
Finance lease liabilities	312 508	493 416	752 879	1 528 594	13 281 664	23 923 736	-	40 292 797
Bonds issued	4 953 708	12 200 487	-	7 059 034	15 975 709	-	-	40188 938
Foreign currency derivative financial instruments	116 854	-	-	-	-	-	-	116 854
Trade and other payables	67 089	134 181	201 271	402 542	-	-	-	805 083
Advances received	125 027	250 054	375 081	-	-	-	-	750 162
Other than income taxes payable	60 631	-	-	-	-	-	-	60 631
Total liabilities	**6 294 904**	**18 500 916**	**7 030 896**	**17 466 671**	**62 852 034**	**27 630 934**	**-**	**139 776 355**
Net position	**17 059 519**	**(13 289 030)**	**3 274 362**	**(895 688)**	**(40 671 936)**	**(6 482 927)**	**86 432 402**	**45 426 702**
Accumulated maturity gap	**17 059 519**	**3 770 489**	**7 044 851**	**6 149 163**	**(34 522 773)**	**(41 005 800)**	**45 426 702**	

(all amounts in thousands of Russian roubles unless otherwise indicated)

The table below summarizes the maturity profile of assets and liabilities as at 31 December 2014 by their expected maturities.

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 year to 5 years**	**More than 5 years**	**No stated maturity**	**Total**
Assets								
Cash and cash equivalents	2 777 893	-	-	-	-	-	-	2 777 893
Net investment in leases	2 003 793	967 324	1 179 399	2 466 781	18 457 144	30 525 844	-	55 600 285
Receivables on cancelled lease agreements and other receivables	296 567	209 601	663 426	293 499	86 354	-	-	1 549 447
Advances to suppliers	478 487	956 973	1 435 459	2 870 918	-	-	-	5 741 837
Inventories	-	-	-	-	-	-	1 701 315	1 701 315
Property and equipment	-	-	-	-	-	-	38 075	38 075
Assets leased out under operating leases	-	-	-	-	-	-	28 755 339	28 755 339
Investment property	-	-	-	-	-	-	189 017	189 017
Intangible assets	-	-	-	-	-	-	7 766	7 766
Deferred tax asset	-	-	-	-	-	-	725 137	725 137
Total assets	**5 556 740**	**2 133 898**	**3 278 284**	**5 631 198**	**18 543 498**	**30 525 844**	**31 416 649**	**97 086 111**
Liabilities								
Loans received	444 496	934 442	2 088 518	3 831 147	39 202 895	6 178 671	-	52 680 169
Finance lease liabilities	105 612	136 333	207 219	426 627	3 770 631	7 128 870	-	11 775 292
Bonds issued	447 055	1 000 000	-	1 000 000	18 455 285	-	-	20 902 340
Trade and other payables	39 367	78 732	118 098	236 197	-	-	-	472 394
Advances received	90 287	180 576	270 864	-	-	-	-	541 727
Income taxes payable	133 760	-	-	-	-	-	-	133 760
Other than income taxes payable	64 206	-	-	-	-	-	-	64 206
Other liabilities	970	1 940	2 910	5 820	46 559	-	-	58 199
Total liabilities	**1 325 753**	**2 332 023**	**2 687 609**	**5 499 791**	**61 475 370**	**13 307 541**	**-**	**86 628 087**
Net position	**4 230 987**	**(198 125)**	**590 675**	**131 407**	**(42 931 872)**	**17 218 303**	**31 416 649**	**10 458 024**
Accumulated maturity gap	**4 230 987**	**4 032 862**	**4 623 537**	**4 754 944**	**(38 176 928)**	**(20 958 625)**	**10 458 024**	

Undiscounted cash flows on financial liabilities except for loans received, finance lease liabilities and bonds issued do not differ significantly from the expected maturity stated.

(all amounts in thousands of Russian roubles unless otherwise indicated)

The table below summarizes the undiscounted cash flow for listed above liabilities as at 31 December 2015:

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 year to 5 years**	**More than 5 years**	**Total gross amount of outflow**	**Total carrying amount**
Liabilities								
Loans received	996 248	6 430 341	6 883 741	10 565 026	39 692 792	3 882 715	**68 450 863**	**57 561 890**
Finance lease liabilities	468 281	792 177	1 203 826	2 399 628	18 918 685	27 502 957	**51 285 554**	**40 292 797**
Bonds issued	5 591 908	13 051 297	718 148	8 456 817	18 625 969	-	**46 444 138**	**40 188 938**

The table below summarizes the undiscounted cash flow for listed above liabilities as at 31 December 2014:

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 year to 5 years**	**More than 5 years**	**Total gross amount of outflow**	**Total carrying amount**
Liabilities								
Loans received	774 467	1 914 849	3 430 339	6 353 597	47 349 759	6 920 564	**66 743 575**	**52 680 169**
Finance lease liabilities	147 382	215 152	328 296	660 852	5 298 540	8 118 854	**14 769 076**	**11 775 292**
Bonds issued	498 600	1 266 675	242 975	1 960 850	20 325 700	-	**24 294 800**	**20 902 340**

Market risk

Market risk is the risk of incurring losses due to changes in the exchange or interest rates. The market risk results in the impairment of fair value or future payment flows of financial instruments owned by the Group.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to the risk of changes in foreign exchange rates relates primarily to operating activities (when revenues or expenses are denominated in a different currency from the functional currency).

The Group does not use any hedging instruments to mitigate foreign exchange risks of its operations.

(all amounts in thousands of Russian roubles unless otherwise indicated)

The following table shows the currency structure of assets and liabilities as at 31 December 2015:

	USD	EUR	RUB	Total
Assets				
Cash and cash equivalents	1 411 992	7 674	18 207 782	19 627 448
Deposits in banks	-	-	60 119	60 119
Loans granted	-	-	219 929	219 929
Net investment in leases	9 203 352	218 346	32 928 052	42 349 750
Receivables on cancelled lease agreements and other receivables	866 309	-	1 820 618	2 686 927
Advances to suppliers	-	-	32 544 252	32 544 252
Income tax receivable	-	-	39 248	39 248
VAT receivable	-	-	1 242 982	1 242 982
Inventories	-	-	1 230 112	1 230 112
Property and equipment	-	-	35 759	35 759
Assets leased out under operating leases	65 628 334	-	18 286 283	83 915 237
Investment property	-	-	186 048	186 048
Intangible assets	-	-	28 629	28 629
Deferred tax asset	-	-	1 036 617	1 036 617
Total assets	**77 109 987**	**226 020**	**107 867 050**	**185 203 057**
Liabilities				
Loans received	27 374 436	-	30 187 454	57 561 890
Finance lease liabilities	40 292 797	-	-	40 292 797
Bonds issued	-	-	40 188 938	40 188 938
Trade and other payables	407 260	-	397 823	805 083
Advances received	-	-	750 162	750 162
Foreign currency derivative financial instruments	-	-	116 854	116 854
Other than income taxes payable	-	-	60 631	60 631
Total liabilities	**68 074 493**	**-**	**71 701 862**	**139 776 355**
Net position	**9 035 494**	**226 020**	**36 165 188**	**45 426 702**

The following table shows the currency structure of assets and liabilities as at 31 December 2014:

	USD	EUR	RUB	Total
Assets				
Cash and cash equivalents	664 871	21 992	2 091 030	2 777 893
Net investment in leases	5 528 658	-	50 071 627	55 600 285
Receivables on cancelled lease agreements and other receivables	758 592	-	790 855	1 549 447
Advances to suppliers	-	-	5 741 837	5 741 837
Inventories	-	-	1 701 315	1 701 315
Property and equipment	-	-	38 075	38 075
Assets leased out under operating leases	28 335 384	-	419 955	28 755 339
Investment property	-	-	189 017	189 017
Intangible assets	-	-	7 766	7 766
Deferred tax asset	-	-	725 137	725 137
Total assets	**35 287 505**	**21 992**	**61 776 614**	**97 086 111**
Liabilities				
Loans received	17 359 489	-	35 320 680	52 680 169
Finance lease liabilities	11 775 292	-	-	11 775 292
Bonds issued	-	-	20 902 340	20 902 340
Trade and other payables	280 731	-	191 663	472 394
Advances received	-	-	541 727	541 727
Income taxes payable	-	-	133 760	133 760
Other than income taxes payable	-	-	64 206	64 206
Other liabilities	58 199	-	-	58 199
Total liabilities	**29 473 711**	**-**	**57 154 376**	**86 628 087**
Net position	**5 813 794**	**21 992**	**4 622 238**	**10 458 024**

(all amounts in thousands of Russian roubles unless otherwise indicated)

Substantial amount assets leased out under operating leases are owned by companies included into GTLK Europe Limited group whose functional currency is USD. All operating lease payments related to such assets to be received by the Group are also denominated in USD.

Sensitivity analysis

The following table demonstrates the sensitivity, to a reasonably possible change in the USD and EUR to RUB exchange rate, with all other variables held constant, of profit after taxation and equity. In 2015 and 2014, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during the reporting periods. The exposure to foreign currency changes for all other currencies is not material.

	Appreciation of RUB, %		**Effect on profit after tax**	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
USD	30.0	30.0	(2 143 268)	(1 395 311)
EUR	30.0	30.0	(52 135)	(5 278)

A 30% weakening of the RUB against the above currencies at the end of the comparable periods would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Significant exchange rates applied:

	Average rate		**Reporting date spot rate**	
	2015	**2014**	**31 December 2015**	**31 December 2014**
RUB/USD	60.9579	38.4217	72.8827	56.2584
RUB/EUR	67.7767	50.8150	79.6972	68.3427

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event of unexpected interest rate movements.

The table below displays the key interest bearing assets and liabilities as at 31 December 2015 and 31 December 2014 and their corresponding average effective interest rates as at those dates. These interest rates are an approximation of the yields to maturity of these assets and liabilities except for loans received denominated in USD with floating rates.

(all amounts in thousands of Russian roubles unless otherwise indicated)

	31 December 2015		31 December 2014	
	Value	**%**	**Value**	**%**
Interest bearing assets				
Cash and cash equivalents				
RUB	17 951 812	10.3	2 035 982	15.6
USD	-	-	51 758	2.9
Term deposits in banks				
RUB	60 119	10.5	-	-
Net investment in leases				
RUB	32 928 052	16.1	50 071 627	15.4
USD	9 203 352	10.1	5 528 658	9.0
EUR	218 346	5.9	-	-
Interest bearing liabilities				
Loans received				
RUB	30 187 454	13.3	35 320 680	13.1
USD	27 374 436	6.4	17 359 489	5.7
Finance lease liabilities				
USD	40 292 797	4.5	11 775 292	4.2
Bonds issued				
RUB	40 188 938	13.9	20 902 340	10.1

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2015 and 2014 is as follows:

	31 December 2015	31 December 2014
300 bp parallel fall	494 270	(845 236)
300 bp parallel rise	(494 270)	845236

Operational risk

Operational risk is the risk of direct or indirect losses resulting from deficiencies or errors in internal processes, actions of employees, operations of information systems and technologies, and resulting from external events. This definition includes legal risk, but excludes strategic and reputation risks.

The Operational Control Department is engaged in the control over operational risks. Key tasks of this department include the day-to-day control over compliance with internal regulations governing the sequence of business processes in lease transactions, control over correct compilation of information bases by the employees of regional branches, control over the client's payment discipline and correct preparation of data regarding the impaired/potentially impaired debt by the employees of regional branches. In addition, the Operational Control Department controls compliance with an obligation to insure the leased assets, documentation and filing procedures.

(all amounts in thousands of Russian roubles unless otherwise indicated)

27. Fair values of financial instruments

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of trading securities and bonds issued are based on quoted market prices or dealer price quotations. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table analyses the fair value of financial instruments not measured at fair value and for which carrying value does not equal fair value by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2015.

	Level 1	**Level 2**	**Level 3**	**Total**	**Book value**
Net investment in leases	-	-	40 123 858	**40 123 858**	**42 349 750**
Loans received	-	-	57 382 053	**57 382 053**	**57 561 890**
Bonds issued	38 366 820	1 502 295	-	**39 869 115**	**40 188 938**

The fair value of financial instruments is categorised as at 31 December 2014 is as follows:

	Level 1	**Level 2**	**Level 3**	**Total**	**Book value**
Net investment in leases	-	-	42 310 982	**42 310 982**	**55 600 285**
Loans received	-	48 951 561	-	**48 951 561**	**52 680 169**
Bonds issued	16 964 000	1 364 700	-	**18 328 700**	**20 902 340**

As at 31 December 2015 the fair value of other financial assets and liabilities recorded in the consolidated statement of financial position at amortized cost approximates the carrying amount of these financial instruments.

(all amounts in thousands of Russian roubles unless otherwise indicated)

Discount rates used for estimation of fair values of major financial assets and liabilities depend on its currency.

	31 December 2015	
	RUB	**USD**
Net investment in leases	15% - 20%	9% - 14%
Loans received	13% - 15%	5% - 11%

Discount rates used for estimation of fair values of major financial assets and liabilities as at 31 December 2014 are as follows:

	RUB	**USD**
Net investment in leases	15% - 21%	9% - 14%
Loans received	13% - 19%	5% - 11%

28. Capital management and capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of capital management are to ensure that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise the shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

In order to maintain or adjust the capital structure, the Group may adjust the amount of distribution payment to the shareholder and the amount of bonuses paid to employees.

The Group monitors net assets using a gearing ratio, which is total liabilities divided by total equity.

As at 31 December 2015 and 31 December 2014 the gearing ratio is calculated as follows:

	31 December 2015	**31 December 2014**
Total liabilities	139 776 355	86 628 087
Total equity	45 426 702	10 458 024
Gearing ratio	**3.1**	**8.3**

29. Commitments and contingencies

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian

(all amounts in thousands of Russian roubles unless otherwise indicated)

Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Based on the facts available, no provision for potential tax liabilities is made in these consolidated financial statements, as management believes it is not likely that an outflow of funds will be required to settle such obligations.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

Payments to suppliers

Non-cancellable payments to the suppliers of equipment for leasing purposes as at 31 December 2015 and 31 December 2014 including VAT are as follows:

	2015	**2014**
Less than one year	12 569 968	1 440 115
Between one and five years	32 061 116	-
Total	**44 631 084**	**1 440 115**

Rent of premises

Non-cancellable operating lease payments as at 31 December 2015 and 31 December 2014 including VAT are as follows:

	2015	**2014**
Less than one year	23 266	58 076
Between one and five years	-	9 466
Total	**23 266**	**67 542**

30. Related parties

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(all amounts in thousands of Russian roubles unless otherwise indicated)

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.

Transactions with government related entities

The Company is directly owned by Russian Federation (100%) and managed by the Ministry of Transport of the Russian Federation. The Group has transactions with other government related entities including but not limited to lease of assets, rendering and receiving services, depositing and borrowing money, and use of public utilities.

These transactions are conducted in the ordinary cause of business on terms comparable to those with other entities that are not government related.

The Group has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

The major outstanding balances as at 31 December 2015 with related parties and their corresponding average effective interest rates are as follows:

	Key management personnel	**Government owned entities and state bodies**	**%**	**Total**
Assets				
Cash and cash equivalents	-	7 228 217	10.3	**7 228 217**
Net investment in leases	-	2 057 300	16.9	**2 057 300**
Provision for impairment of net investment in leases		(62 406)		**(62 406)**
Receivables on cancelled lease agreements and other receivables	-	7 613	-	**7 613**
Advances to suppliers		23 491 217		**23 491 217**
Liabilities				
Loans received	-	20 822 671	12.4	**20 822 671**
Advances received	-	81 327	-	**81 327**
Trade and other payables	-	67 315	-	**67 315**

Carrying value of the aircraft leased out under operating leases to the government-related entities as at 31 December 2015 is RUB 65 628 334 thousand (2014: RUB 25 609 205 thousand).

(all amounts in thousands of Russian roubles unless otherwise indicated)

The major outstanding balances as at 31 December 2014 with related parties and their corresponding average effective interest rates are as follows:

	Key management personnel	Government owned entities and state bodies	%	Total
Assets				
Cash and cash equivalents	-	1 863 414	15.6	**1 863 414**
Net investment in leases	-	3 647 608	16.2	**3 647 608**
Provision for impairment of net investment in leases	-	(102 649)		**(102 649)**
Receivables on cancelled lease agreements and other receivables	-	9 177	-	**9 177**
Advances to suppliers	-	949 680	-	**949 680**
Liabilities				
Loans received	-	21 688 960	11.8	**21 688 960**
Advances received	-	17 445	-	**17 445**
Trade and other payables	522	3 910	-	**3 910**

The results of major transactions with related parties for the year ended 31 December 2015 are as follows:

	Key management personnel	Government owned entities and state bodies	Total
Finance lease interest income	-	471 774	**471 774**
Other interest income	-	713 930	**713 930**
Income from operating leases	-	6 559 884	**6 559 884**
Interest expense	-	(2 713 651)	**(2 713 651)**
Other operating expenses	-	(27 710)	**(27 710)**
Administrative expenses	(125 042)	-	**(125 042)**

The results of major transactions with related parties for the year ended 31 December 2014 are as follows:

	Key management personnel	Government owned entities and state bodies	Total
Finance lease interest income	-	707 302	**707 302**
Other interest income	-	104 161	**104 161**
Income from operating leases	-	1 957 113	**1 957 113**
Interest expense	-	(2 295 466)	**(2 295 466)**
Expenses from banking charges	-	(30 143)	**(30 143)**
Administrative expenses	(123 360)	-	**(123 360)**

(all amounts in thousands of Russian roubles unless otherwise indicated)

Payments to suppliers

Non-cancellable payments to the suppliers of equipment for leasing purposes represented by government related entities as at 31 December 2015 and 31 December 2014 including VAT are as follows:

	2015	**2014**
Less than one year	10 823 526	-
Between one and five years	32 061 116	-
Total	**42 884 642**	**-**

Company Registration Number: 512927

GTLK EUROPE DESIGNATED ACTIVITY COMPANY
(FORMERLY GTLK EUROPE LIMITED)

ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

KPMG

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GTLK EUROPE DAC

We have audited the Group and Company financial statements (financial statements) of GTLK Europe DAC for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK & Ireland).

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

In our opinion the financial statements:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2016 and of its profit for the year then ended;
- the Company statement of financial position gives a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2016;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2014; and
- the Group financial statements and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our conclusions on other matters on which we are required to report by the Companies Act 2014 are set out below

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

In our opinion the information given in the Directors' Report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GTLK EUROPE DAC *(continued)*

***2 Our conclusions on other matters on which we are required to report by the Companies Act 2014 are set out below** (continued)*

In addition we report, in relation to information given in the Corporate Governance Statement on appendix A to the financial statements, that:

- based on knowledge and understanding of the Company and its environment obtained in the course of our audit, no material misstatements in the information identified above have come to our attention;
- based on the work undertaken in the course of our audit, in our opinion
  - the description of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements specified by the Companies Act 2014 for our consideration, are consistent with the financial statements and have been prepared in accordance with the Companies Act 2014, and
  - the Corporate Governance Statement contains the information required by the Companies Act 2014.

3 We have nothing to report in respect of matters on which we are required to report by exception

ISAs (UK & Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In addition, the Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made.

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of Directors' Responsibilities set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and ISAs (UK & Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GTLK EUROPE DAC *(continued)*

Basis of our report, responsibilities and restrictions on use *(continued)*

In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so.

Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Killian Croke
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
IFSC
Dublin 1

28 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Year ended 31 December 2016 US$	Year ended 31 December 2015 US$
Revenue			
Lease income	3	168,654,198	114,857,826
Other income	5	392,871	2,298,924
Total income		**169,047,069**	**117,156,750**
Provision for bad debts	6	-	(6,865,829)
Impairment	6	(388,800)	(471,555)
Operating expenses	7	(87,597,723)	(55,735,343)
Foreign exchange loss		(59,805)	(30,873)
Total expenses		**(88,046,328)**	**(63,103,600)**
Profit from operating activities		**81,000,741**	**54,053,150**
Finance income	4	4,065,530	2,661
Finance costs	8	(66,429,277)	(49,149,779)
Profit before taxation		**18,636,994**	**4,906,032**
Tax on profit	11	(2,098,008)	(2,520,494)
Other comprehensive income, net of tax		-	-
Total comprehensive income attributable to owners of the group		16,538,986	2,385,538

All amounts relate to continuing operations.

GTLK EUROPE DESIGNATED ACTIVITY COMPANY
(FORMERLY GTLK EUROPE LIMITED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	As at 31 December 2016 US$	As at 31 December 2015 US$
Non-current assets			
Property, plant and equipment	12	875,147,177	901,509,459
Net investment in finance lease	14A	219,207,184	85,056,356
Other assets	15	43,203,280	7,170,997
		1,137,557,641	993,736,812
Current assets			
Net investment in finance lease	14A	13,260,122	5,715,375
Other assets	15	11,287,221	-
Cash and cash equivalents	17	14,476,343	19,098,314
Trade and other receivables	18	10,047,339	2,994,638
Loans and other receivables	19	159,043,534	-
Asset held for sale	13	225,000	800,000
		208,339,559	28,608,327
Total assets		**1,345,897,200**	**1,022,345,139**
Non-current liabilities			
Deferred tax liability	11	3,737,385	1,982,685
Security deposits	20	6,428,000	4,440,000
Finance lease liability	21A	467,334,925	510,483,276
Loans and borrowings	22	576,363,194	198,246,957
Deferred income	23	35,368,164	-
		1,089,231,668	715,152,918
Current liabilities			
Finance lease liability	21A	43,148,351	41,456,689
Deferred income	23	13,014,158	5,730,282
Trade and other payables	24	2,074,729	1,665,442
Corporate tax payable		997,487	656,243
Loans and borrowings	22	179,614,112	256,405,856
		238,848,837	305,914,512
Total liabilities		**1,328,080,505**	**1,021,067,430**
Equity			
Share capital	27	12,429	12,429
Capital contribution	28	3,076,000	3,076,000
Retained earnings / (losses)		14,728,266	(1,810,720)
Equity attributable to owners of the group		**17,816,695**	**1,277,709**
Total liabilities and equity		**1,345,897,200**	**1,022,345,139**

The accompanying notes on pages 24 to 78 form an integral part of these financial statements. The financial statements were approved by the board and authorised for issue on 28 March 2017 and signed on its behalf by:

Mikhail Podkhvatilin
Director

Patrick Flynn
Director

GTLK EUROPE DESIGNATED ACTIVITY COMPANY
(FORMERLY GTLK EUROPE LIMITED)

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	As at 31 December 2016 US$	As at 31 December 2015 US$
Non-current assets			
Property, plant and equipment	12	193,106,716	209,103,767
Net investment in finance lease	14B	8,415,864	9,357,114
Investment in subsidiaries	26	3,086,866	3,085,159
Loans and receivables inter-company	16	579,698,986	499,617,823
		784,308,432	721,163,863
Current assets			
Net investment in finance lease	14B	941,250	841,229
Other assets	15	7,000,000	-
Cash and cash equivalents	17	925,004	2,888,125
Trade and other receivables	18	1,494,555	1,590,683
Inter-company receivables	25	9,173,678	1,310,380
Loan and receivables inter-company	16	173,302,968	-
		192,837,455	6,630,417
Total assets		977,145,887	727,794,280
Non-current liabilities			
Deferred tax liability	11	642,286	313,468
Security deposits	20	4,440,000	4,440,000
Finance lease liability	21B	184,624,055	198,907,434
Loans and borrowings	22	576,363,194	198,271,178
		766,069,535	401,932,080
Current liabilities			
Deferred income	23	1,120,295	1,262,258
Finance lease liability	21B	14,283,379	13,608,184
Trade and other payables	24	2,884,416	43,020,861
Loans and borrowings	22	191,130,384	267,238,078
		209,418,474	325,129,381
Total liabilities		975,488,009	727,061,461
Equity			
Share capital	27	12,429	12,429
Capital contribution	28	3,076,000	3,076,000
Retained losses		(1,430,551)	(2,355,610)
Equity attributable to owners of the company		1,657,878	732,819
Total liabilities and equity		977,145,887	727,794,280

The accompanying notes on pages 24 to 78 form an integral part of these financial statements. The financial statements were approved by the Board and authorised for issue on 28 March 2017 and signed on its behalf by:

Mikhail Podkhvatilin
Director

Patrick Flynn
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2016

	Share capital US$	Capital contribution US$	Retained earnings / (losses) US$	Total US$
At beginning of year	12,429	3,076,000	(1,810,720)	1,277,709
Total comprehensive				
Profit for the year	-	-	16,538,986	16,538,986
Transactions with owners	-	-	-	-
As at 31 December 2016	12,429	3,076,000	14,728,266	17,816,695

AS AT 31 DECEMBER 2015

	Share capital US$	Capital contribution US$	Retained earnings / (losses) US$	Total US$
At beginning of year	12,429	3,076,000	(4,196,258)	(1,107,829)
Total comprehensive income				
Profit for the year	-		2,385,538	2,385,538
Transactions with owners	-	-	-	-
As at 31 December 2015	12,429	3,076,000	(1,810,720)	1,277,709

COMPANY STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2016

	Share capital US$	Capital contribution US$	Retained earnings / (losses) US$	Total US$
At beginning of year	12,429	3,076,000	(2,355,610)	732,819
Total comprehensive income				
Profit for the year	-	-	925,059	925,059
Transactions with owners	-	-	-	-
As at 31 December 2016	12,429	3,076,000	(1,430,551)	1,657,878

AS AT 31 DECEMBER 2015

	Share capital US$	Capital contribution US$	Retained earnings /(losses) US$	Total US$
At beginning of year	12,429	3,076,000	(4,792,596)	(1,704,167)
Total comprehensive income				
Profit for the year	-	-	2,436,986	2,436,986
Transactions with owners	-	-	-	-
As at 31 December 2015	12,429	3,076,000	(2,355,610)	732,819

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Year ended 31 December 2016 US$	Year ended 31 December 2015 US$
Cashflows from operating activities			
Operating profit		16,538,986	2,385,538
Adjustments for:			
Depreciation	12	61,794,311	52,036,003
Amortisation of capitalised costs	12	275,077	(34,020)
Impairment	6	388,800	-
Upfront rent realised		(1,551,747)	-
Amortisation of lease premium and arrangement fee		1,738,824	-
Amortisation of deferred fee	7	724,014	722,036
Amortisation of issuance costs		1,435,087	648,968
Impairment – finance lease receivable	6	-	4,588,201
Impairment – operating lease receivable and other	6	-	2,713,234
Interest income	4	(4,065,530)	(2,661)
Interest expense		64,719,115	48,534,830
Gain on transfer to/from finance lease		(274,988)	(2,038,247)
Tax expense		2,098,008	-
Increase in trade receivables		(7,055,171)	(2,115,945)
Increase in trade payables		4,418,582	7,262,507
Increase in interest accrued on loans to parent		(804,901)	-
Interest received	4	4,065,530	2,661
Interest paid		(57,490,895)	(37,312,419)
Lease premium		(38,582,342)	-
Upfront rent received		39,715,864	-
Arrangement fee paid		(4,200,000)	-
Proceeds on disposal of assets held for sale	13	186,200	950,000
Tax paid		(2,062)	-
Net cash inflows from operating activities		84,070,762	78,340,686
Cashflows from investing activities			
Purchase of assets sold under finance lease		(149,180,000)	-
Principal payments received on net investments in finance leases		8,209,424	7,501,944
Purchase of property, plant and equipment	12	(35,707,106)	(462,666,049)
Security deposits (paid) / received		1,988,000	(550,020)
Deposits paid		(7,000,000)	-
Loans issued to Parent	19	(275,000,000)	-
Principal repayments of loans issued to Parent		116,761,366	-
Net cash outflows from investing activities		(339,928,316)	(455,714,125)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Year ended 31 December 2016 US$	Year ended 31 December 2015 US$
Cashflows from financing activity			
Finance lease facilities received		-	375,000,000
Principal repayments under finance lease liabilities		(41,456,689)	(31,696,694)
Third party loans drawn down	22	500,000,000	50,000,000
Third party loans repaid		(114,458,615)	(28,214,286)
Third party loan facility fee		(6,455,881)	(660,290)
Loans drawn down from parent		446,730,000	23,375,000
Repayment of loans from parent		(533,123,232)	(2,593,000)
Net cash inflows from financing activity		251,235,583	385,210,730
Net increase / (decrease) in cash and cash equivalents during the year		(4,621,971)	7,837,291
Cash and cash equivalents at the beginning of the year	17	19,098,314	11,261,023
Cash and cash equivalents at the end of the year	17	14,476,343	19,098,314

GTLK EUROPE DESIGNATED ACTIVITY COMPANY
(FORMERLY GTLK EUROPE LIMITED)

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Year ended 31 December 2016 US$	Year ended 31 December 2015 US$
Cashflows from operating activities			
Operating profit		925,059	2,436,986
Adjustments for:			
Depreciation	12	15,742,171	16,714,974
Amortisation of capitalised costs	12	275,077	320,362
Amortisation of issuance costs		1,329,939	591,351
Interest income	4	(21,995)	(2,166)
Tax expense		330,880	-
(Increase) / Decrease in trade receivables		(7,767,170)	2,867,932
(Decrease) / Increase in trade payables		(40,278,408)	25,454,686
Increase in interest payable on loans and borrowings		7,962,111	10,987,714
Interest received	4	21,995	2,166
Proceeds on disposal of assets held for sale		-	950,000
Tax paid		(2,062)	-
Net cash (outflows) / inflows from operating activities		(21,482,403)	60,324,005
Cashflows from investing activities			
Principal payments received on net investments in finance leases		841,229	757,491
Security deposits paid		(7,000,000)	-
Purchase of property, plant and equipment	12	(20,197)	(28,755)
Investment in subsidiary undertakings		(1,707)	(580)
Net cash inflows / (outflows) from investing activities		(6,180,675)	728,156
Cashflows from financing activity			
Issue of intercompany loans		(465,715,143)	(95,253,322)
Intercompany loans repaid		212,331,012	-
Principal repayments under finance lease liabilities		(13,608,184)	(13,013,040)
Third party loans drawn down	22	500,000,000	50,000,000
Third party loans repaid		(114,458,615)	(28,213,478)
Third party loan facility fee		(6,455,881)	(500,000)
Loans drawn down from subsidiary		-	299,605
Loans drawn down from parent		130,750,000	23,375,000
Repayment of loans from parent		(217,143,232)	(2,593,000)
Net cash inflows / (outflows) from financing activities		25,699,957	(65,898,235)

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Year ended 31 December 2016 US$	Year ended 31 December 2015 US$
Net decrease in cash and cash equivalents during the year		(1,963,121)	(4,846,074)
Cash and cash equivalents at the beginning of the year	17	2,888,125	7,734,199
Cash and cash equivalents at the end of the year	17	925,004	2,888,125

1. GENERAL INFORMATION

GTLK Europe Designated Activity Company ("the Company") is a limited liability company incorporated, under the Companies Acts 2014 of Ireland, with a company number 512927. The Company was incorporated on 9 May 2012 and is resident in Ireland. The Company converted its legal form under the Companies Act 2014 from a Limited Company to a Designated Activity Company on 7 September 2016. The Company is a wholly owned subsidiary of PJSC "State Transport Leasing Company", (the "Parent") a company incorporated under the laws of the Russian Federation. As at 31 December 2016, the Company had incorporated eighteen (2015: fifteen) subsidiaries (the "Subsidiaries"), (together "the Group").

As a holding company, GTLK Europe Designated Activity Company has taken advantage of the exemption from the requirement to publish a separate profit and loss account from the Group which forms part of the statutory financial statements approved by the directors under S304 of the Companies Act 2014, which forms part of the statutory financial statements approved by the Directors.

2. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company and Group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and in the case of the Company as applied in accordance with the Companies Act 2014. The Directors of the Company are of the view that the Company will continue as a going concern.

Going concern

The financial statements are prepared on a going concern basis, as the Group earned a profit before tax during the year of US$18,636,994 (2015: profit US$4,906,032) and has net assets of US$17,816,695 (2015: net assets US$1,277,709). The Company also earned a profit during the year before tax of US$1,255,939 (2015: profit US$3,302,090) and had net assets of US$1,657,878 (2015: net assets US$732,819).

The Group and the Company have cash and cash equivalents at the year-end of US$14,476,343 and US$925,004 (2015: US$19,098,314 and US$2,888,125) respectively.

As at 31 December 2016, the Group and Company have current liabilities of $238,848,837 and $209,418,474 (2015: US$305,914,512 and US$325,129,381) respectively. The majority of these liabilities relate to loans from the Parent and third party loans. The Company entered into three loan arrangements during 2013 which will mature in installments through 2016-2018 with significant repayments started in 2016. These facilities are guaranteed by the Parent. In July 2016, the Company issued $500,000,000 5.95% guaranteed notes. The notes are due in 2021 and are guaranteed by the Parent. Interest on these notes is payable bi- annually through 2017 - 2021 with the first payment due in January 2017. The average lease period for investments of the Group is ten years. The directors acknowledge that the facility agreements are due to mature before the leases.

2. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

The Group expects to generate sufficient cash flows from the leases and the Parent has confirmed that it will continue to provide support to enable the Group to meet its obligations under the facility agreements and to provide for extensions on the loans payable to the Parent.

During the year the Group entered into agreements to purchase three new aircraft, eleven new vessels and operating lease agreements for seven new aircraft. These aircraft and vessels have in turn been leased under operating and finance leases to third party airlines and third party bareboat charterers. The directors plan to enter into further agreements to purchase additional aircraft and vessels. It is expected that these new aircraft and vessels will be leased at a profit and will provide a further cash inflow to the Group and Company to help support the ongoing operations.

The directors believe that the Group and the Company are going concerns and have sufficient resources to meet the day to day expenses of the Group and the Company. They have also received a letter of support from the Parent confirming that the Parent will continue to support the Group and Company for a period of at least 12 months from the date of signing of the financial statements.

As with any Group placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Basis of measurement

The financial statements are stated in United States Dollars ("US$"), the functional currency of the Company. The Directors of the Company believe that US$ most accurately represents the economic effects of underlying transactions, events and conditions.

Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

IFRS applied in the preparation of these financial statements are those that were effective at 31 December 2016.

2. ACCOUNTING POLICIES (CONTINUED)

Standards, amendments and interpretations that are effective from 1 January 2016 and adopted by the Company during the reporting period:

The following amendments to existing IFRS became effective for, and have been applied in, preparing these consolidated financial statements:

- Amendments to IFRS 11: *Accounting for acquisitions of interests in Joint Operations*
- Amendments to IAS 16 and IAS 38: *Clarification of acceptable methods of depreciation and amortisation*
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Bearer Plants*
- Amendments to IAS 27 Equity method in Separate Financial Statements
- Amendments to IAS 1: Disclosure Initiative
- Annual Improvements to IFRSs 2012-2014 Cycle
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities – exception to consolidation

The application of these amendments did not result in material changes to the Group's consolidated financial statements.

Accounting standards in issue that are not yet effective and have not been early adopted:

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early; instead it will apply them from their effective dates as determined by their dates of EU endorsement. The expected impacts of these upcoming requirements on the Group are noted below.

- **IFRS 16: *Leases*** *(effective 1 January 2019)*
  The changes under IFRS 16 are significant and will predominantly affect lessees, the accounting for which is substantially reformed. The lessor accounting requirements contained in IFRS 16's predecessor, IAS 17 will remain largely unchanged. The main impact on lessees is that almost all leases will go on the Statement of Financial Position. This is because the Statement of Financial Position distinction between operating and finance leases is removed for lessees. Instead, under IFRS 16, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exemptions are short-term and low-value leases. The standard introduces new estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions. More extensive disclosures, both qualitative and quantitative, are also required. The Group is currently assessing the impact of IFRS 16.

The following amendments are not expected to have a significant impact on the financial statements upon application:

- IFRS 14: *Regulatory Deferral Accounts*
- Amendments to IAS 7: *Disclosure Initiative*
- Amendments to IAS 12: *Recognition of deferred tax assets for unrealised losses*

2. ACCOUNTING POLICIES (CONTINUED)

Accounting standards in issue that are not yet effective and have not been early adopted (continued)

- IFRS 15: *Revenue from contracts with customers including amendments to IFRS 15: Effective date of IFRS 15 (effective 1 January 2018)*
- IFRS 9 *Financial Instruments (effective 1 January 2018)*
- Clarifications to IFRS 15: *Revenue from Contracts with Customers*
- Amendments to IFRS 2: *Classification and measurement of share-based payment transactions*
- Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*
- Amendments to IFRS 10 and IAS 28: *Sale or contribution of assets between an investor and its associate or joint venture*

There are no other new standards, amendments to standards and interpretations that are effective subsequent to the year-end that would have a material impact on the results or financial position of the Group.

Significant accounting judgements and estimates

The preparation of the financial statements requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates with revisions being recognised prospectively.

Estimates and underlying assumptions are reviewed on an ongoing basis. Information about estimates and underlying assumptions that have a significant risk of resulting in a material adjustment to the results for the year ending 31 December 2016 is included in the following accounting policies:

- Assessment of leases
- Recoverability of finance lease receivables
- Property, plant and Equipment (impairment, depreciation)
- Recoverability of loans and receivables

See the specific accounting policies for more detail of the judgements and estimates used.

2. ACCOUNTING POLICIES (CONTINUED)

The following accounting policies have been applied in the Statement of Comprehensive Income and the Statement of Financial Position:

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transaction with equity- accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currencies

Transactions in foreign currencies are translated to US$ at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities are retranslated to the functional currency at the currency rate ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency rate are translated using the exchange rate as at the date of initial transaction. Profit or losses arising from foreign currency translation and on settlement of amounts receivable and payable in other currencies are dealt with in the Statement of Comprehensive Income.

Taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rate enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary difference between the carrying amounts of assets and liabilities for the financial reporting purposes and the amount used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future profits will be available against which they can be used. Deferred tax assets are reviewed at reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profit will be available against which they can be used. Deferred tax assets and liabilities are offset only if certain criteria are met.

2. ACCOUNTING POLICIES (CONTINUED)

Lease revenue

Revenue from aircraft on operating lease is recognised as lease revenue over the term of the lease. The rental received under an operating lease is recorded on a straight-line basis over the lease term, even if the payments are not made on such a basis. Lease revenue received but unearned under the lease agreements are recorded in "Deferred income" on the Statement of Financial Position until earned.

Supplemental rent is maintenance reserves that are paid by the lessee for future maintenance costs that may be incurred for the Group's aircraft assets. Supplemental rent is recorded as lease revenue in the Statement of Comprehensive Income as the Group has adopted a component based depreciation policy for its aircraft assets.

Finance lease income is recognised at a constant periodic rate of return commencing from lease inception.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised as an expense over the lease term on the same basis as the lease income.

Lease classification

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date i.e. whether 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 where the Company does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases and are not recognised in the Group's Statement of Financial Position.

Lease expenses

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease payments made in advance are recorded in "Trade and other receivables" as a prepayment on the Statement of Financial Position until expensed.

Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an asset in "Other assets" and expensed over the lease term.

Finance leases

A finance lease is a lease under the terms of which substantially all the risks and rewards of ownership of the underlining asset are transferred to the lessee.

The net investment in finance leases is recorded by the Group in the Statement of Financial Position as the present value of total minimum lease payments receivable and any unguaranteed residual amount less finance income charges allocated to future periods. Finance income charges are allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

2. ACCOUNTING POLICIES (CONTINUED)

Finance leases (continued)

Impairment is recognised against the net investment in finance leases, if required, for such items as bad and doubtful rentals receivable.

The finance lease liabilities are recorded by the Group in the Statement of Financial Position as the present value of the total minimum lease payments less finance charges allocated to future periods. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense 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.

Property, plant and equipment

Aircraft are recorded at the cost of the individual components, net of any manufacturer credits and inclusive of applicable technical and legal costs, less accumulated depreciation and impairment loss. Interest and other costs that are directly attributable to the financing of process payments for aircraft are capitalised as part of the cost of those assets.

The Group has adopted component based depreciation on all of the aircraft which it holds, in which the annual depreciation amount is determined based on the computation of the forecast utilisation of the components and the predicted cost of future maintenance. The annual depreciation amount for each component based on component based depreciation is reviewed annually and adjusted if necessary.

Depreciation is calculated to write off the cost of each component of the aircraft, less its estimated residual value, on a straight-line basis over its estimated useful life "EUL" from the date of manufacture in the case of the airframe or from the last maintenance event in the case of other components. The following table outlines the estimated useful life per aircraft component:

Component	Estimated Useful Life
6 year check	6 years
8 year check	8 years
10 year check	10 years
12 year check	12 years
Landing Gear	10 years
APU	3-8 years per approved manufacturer maintenance program for APU type/model and adjusted for utilisation and number of performed shop visits
Engine	3-15 years per approved manufacturer maintenance program for engine type/model and adjusted for engine thrust, utilisation, number of performed shop visits and environment
Life Limited Parts (LLP)	8-30 years (for new LLP) per approved manufacturer maintenance program for engine type/model and adjusted for engine thrust and utilisation
Airframe	25 years with 10% residual value

The estimates of useful lives and residual values are reviewed periodically.

2. ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Aircraft are assessed for recoverability in accordance with IAS 36-Impairment of Assets ("IAS 36"), whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Impairment loss is charged to reduce the carrying value of specific assets to their recoverable amount where an impairment is considered to have occurred. Where the recoverable amount is greater than the carrying value no adjustment is made to the carrying value unless the asset was previously impaired. For the purpose of measuring an impairment loss, each aircraft is tested individually by comparing carrying value to recoverable amount. Recoverable amount is the higher of the net realisable value and value in use. Net realisable value is the amount at which an asset could be disposed of less any direct selling costs. The Directors estimate the net realisable value using aircraft specific "half life" appraiser values. The Directors then estimate the amounts required to adjust the "half life" values to reflect the specific maintenance condition of the aircraft.

A review of technical event cost estimates throughout the fleet was carried out. The following table outlines the effect of these changes in estimates on the current year depreciation charge and subsequent years:

	2016	2017	2018	2019	2020	2021 onwards
Increase/(decrease) in depreciation charge	(1,853,748)	64,348	262,004	1,898,577	(618,335)	(97,865)

Value in use is the present value of future cash flows. The key inputs into the value in use calculation are the current contracted rent receipts per the lease agreement, projected maintenance income based on the estimated utilisation in the future, projected maintenance expenses based on third party reports and estimated residual value of the aircraft supplied by an independent appraiser.

In determining the present value of future cash flows the Directors are of the view that the use of a range from 6.88% to 9% discount rate is reasonable. This represents the Directors view of what a market participant would apply to equally risky assets.

Computer, software and other plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis over the useful life of 3 years.

2. ACCOUNTING POLICIES (CONTINUED)

Assets held for sale

Non-current assets are classified as held for sale if it is highly probable that its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Cash and cash equivalents

Cash and cash equivalents for the purpose of the Statement of Financial Position include cash on hand and deposits repayable on demand with any qualifying financial institution. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed. Cash includes cash in hand and deposits denominated in foreign currencies.

Cash and cash equivalents for the purpose of Statement of Cash Flows includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Trade debtors

Trade debtors are stated net of impairment for bad and doubtful debts. No impairment is made in respect of doubtful debts where there are limited recourse arrangements in place, such that the economic cost of a bad debt rests with creditors of the Company rather than the Company itself.

Loans and receivables

Loans and receivables are recognised in the Statement of Financial Position initially at fair value and subsequently measured at amortised cost. Interest due on the loans and receivables is accrued in the Statement of Comprehensive Income.

Loans and borrowings

Loans and borrowings are initially booked at fair value less transaction costs and subsequently measured at amortised cost in the Statement of Financial Position using the effective interest method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. The total amount of interest paid during a year is disclosed in the cash flows statement whether it has been recognised as an expense in profit or loss or capitalised.

2. ACCOUNTING POLICIES (CONTINUED)

Finance income and expense

Interest income and expenses are recognised on an accrual basis by reference to the principal outstanding using the effective interest rate method.

Other expenses

Other expenses have been recognised in the Statement of Comprehensive Income on an accruals basis.

Share capital

Ordinary shares are classified as equity as per the Company's Articles of Association.

Capital contribution

Any capital contribution received by the Company is reported within equity. In the year in which the capital contribution is made, it is also reported in the reconciliation of movements of equity.

Dividends

Dividends are recognised in the financial statements when they have been appropriately approved or authorised by the Directors.

Provisions

A provision is recognised if, as a result of a past event, a present legal or constructive obligation exists that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

2. ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise of trade and other receivables, cash, loans, and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses in the case of financial assets. Financial liabilities are derecognised if the obligations specified in the contract expire or are discharged or cancelled.

Fair values of non-derivatives financial instruments, which are determined for disclosure purposes, are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. The effective interest rate computed at initial recognition). The carrying amount of the asset is reduced directly with the amount of the loss being recognised in profit and loss.

Measurement of fair values

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

3. LEASE INCOME

	Consolidated Year ended 31 December 2016 US$	Consolidated Year ended 31 December 2015 US$
Finance lease income	11,413,772	7,244,393
Supplemental income	38,344,103	26,781,189
Operating lease income	118,896,323	80,832,244
	168,654,198	114,857,826

Revenue from aircraft and vessels on finance lease is recognised as lease revenue over the term of the lease. The rental income received under operating leases is recorded on a straight-line basis over the lease term. Lease revenue received but unearned under the lease agreements is recorded in deferred income on the Statement of Financial Position until earned.

Supplemental rent is maintenance reserves that are paid by the lessee for future maintenance costs that may be incurred for the Group's aircraft assets. Supplemental income is recorded as lease revenue in the Statement of Comprehensive Income as the Group has adopted a component based depreciation policy for its aircraft assets.

The Group acquired a number of new aircraft and vessels at the end of the prior year and during the current year which were leased to third party airlines and bareboat charterers under operating and finance leases. This has resulted in a significant increase in finance lease, operating lease and supplemental income from the prior year.

At 31 December 2016 the contracted cash lease rentals to be received under non-cancellable operating leases in respect of aircraft in the portfolio comprised:

	Consolidated Year ended 31 December 2016 US$	Consolidated Year ended 31 December 2015 US$
Due within one year	135,612,120	89,296,667
Due within one and five years	502,816,480	342,627,096
Due after five years	545,632,211	384,534,861
	1,184,060,811	816,458,624

4. FINANCE INCOME

	Consolidated Year ended 31 December 2016 US$	Consolidated Year ended 31 December 2015 US$
Interest earned on deposit account	21,995	2,661
Interest income on loans	4,043,535	-
	4,065,530	2,661

During the year the Company entered into three loans agreements with the Parent. Interest on these loans is accrued at a rate of 6.7% per annum. Total interest earned for the year ended 31 December 2016 was $4,043,535. All loan principal and interest accrued is repayable on demand.

5. OTHER INCOME

	Consolidated Year ended 31 December 2016 US$	Consolidated Year ended 31 December 2015 US$
Other income	10,347	240,684
Bad debts recovered	13,308	-
Net lease arrangement fees	266,374	-
Technical services fees	50,878	-
Gain on transfer to finance lease	51,964	2,058,240
	392,871	2,298,924

During the year the Company's subsidiary STLC Europe Three Leasing Limited entered into operating lease agreements with a third party airline for seven new aircraft which it had leased under separate operating lease agreements from third party lessor. As part of the transaction STLC Europe Three Leasing Limited was in receipt of a net lease arrangement fee of $266,372 from the third party airline.

During the year, the Company also entered into a servicing agreement for the provision of technical services and contract management services to a third party company. The agreement is for an indefinite period and is terminable on 30 days written notice. The Company earned income of $50,878 during the year under this agreement.

The Company's subsidiaries, GTLK Malta Limited, GTLK Malta Two Limited and GTLK Malta Three Limited, entered into a number of finance lease transactions for vessels. These transactions resulted in a gain on finance leases being the difference between the present value of the minimum lease payments and any unguaranteed residual value receivable under each respective finance lease agreement and the cost of the underlying assets. These gains have been deferred and are being amortised to profit or loss over the underlying lease term. The amount recognized as income during 2016 was $51,964 (2015: $19,993).

5. OTHER INCOME (CONTINUED)

During the prior year an aircraft that was previously leased under an operating lease to a third party airline was renegotiated to a finance lease with the same airline. The aircraft, which originally cost $21,500,000 and had a carrying value of $17,929,401 at the date of the renegotiation, was recognised as an investment in finance lease of $19,967,648, being the present value of the minimum lease payments at the inception of the lease. This resulted in a gain on transfer to finance lease of $2,038,247, being the difference between the carrying value of the aircraft and the finance lease principal payable at the date of the renegotiation.

6. PROVISION FOR BAD DEBT AND IMPAIRMENT

	Consolidated Year ended 31 December 2016 US$	Consolidated Year ended 31 December 2015 US$
Bad debt provision – finance leases receivable	-	(4,588,201)
Bad debt provision – operating leases receivable	-	(2,679,537)
Impairment provision - assets held for sale	(388,800)	-
Other bad debt written off	-	(69,646)
	(388,800)	(7,337,384)

During the prior year four aircraft were repossessed from a third party airline which went into liquidation. Two of these aircraft were included in property plant and equipment. The other two airframes and three engines were recorded as assets held for sale at their total fair value of $800,000 at 31 December 2015. Two of these engines' that were valued at $300,000 at 31 December 2015 were sold for $186,200 during the year. This resulted in a loss on sale of $113,800 from assets held for sale. The remaining engine and one of the airframes that were valued at $275,000 at 31 December 2015 are to be scrapped. This has resulted in an impairment of their carrying value during the year of $275,000.

During the prior year the directors of the Company fully impaired the finance lease receivable of US$4,588,201 in relation to the aforementioned four aircraft that were leased to a third party airline which went into liquidation.

During the prior year the directors renegotiated a lease agreement with a third party airline from an operating lease to a finance lease. Supplemental income receivable under the old operating lease of US$2,679,537 was fully impaired.

In the prior year, the directors also provided for interest due on the late payment of lease income from debtors of US$69,646.

7. OPERATING EXPENSES

	Consolidated Year ended 31 December 2016 US$	Consolidated Year ended 31 December 2015 US$
Bank charges	139,256	20,346
Aircraft expenses	1,467,675	487,078
Other expenses	425,252	669,600
Amortisation of lease premium and arrangement fees	1,738,824	-
Operating lease expense	18,166,034	-
Professional fees	866,359	323,094
Wages and salaries	1,334,744	862,904
Legal fees	941,254	614,283
Amortisation of deferred fee	724,014	722,035
Depreciation	61,794,311	52,036,003
	87,597,723	55,735,343

During the year, the Company's subsidiary STLC Europe Three Leasing Limited entered into operating lease agreements with a third party lessor for seven new aircraft. As part of the transaction STLC Europe Three Leasing Limited incurred lease premium and arrangement fee of $38,582,342 and $4,200,000 respectively in respect of the same seven aircraft. This premium and arrangement fee has been capitalised under other assets and is being amortised to profit or loss over the lease term. Total amortisation of lease premium and arrangement fee recognised in profit or loss for the year ended 31 December 2016 was $1,533,060 and $205,764 respectively.

Operating lease expense incurred during the year of $18,166,034 relate to the lease of the aforementioned seven aircraft by STLC Europe Three Leasing Limited from a third party.

At 31 December 2016 the contracted cash lease rentals to be paid under non-cancellable operating leases in respect of aircraft in the portfolio comprised:

	Consolidated Year ended 31 December 2016 US$	Consolidated Year ended 31 December 2015 US$
Due within one year	31,473,288	-
Due within one and five years	125,893,152	-
Due after five years	198,206,778	-
	355,573,218	-

7. OPERATING EXPENSES (CONTINUED)

Aggregate payroll expenses are set as follows:	Consolidated Year ended 31 December 2016 US$	Consolidated Year ended 31 December 2015 US$
Wages and Salaries	1,234,851	812,311
Social welfare costs	99,893	50,593
	1,334,744	862,904

The Company employed ten employees during the year (2015: Six employees). The Company had five directors during the year (2015: three directors).Payroll and taxation services are outsourced to TMF Management (Ireland) Limited.

8. FINANCE COSTS

	Consolidated Year ended 31 December 2016 US$	Consolidated Year ended 31 December 2015 US$
Loan interest payable to Parent on loans	10,843,930	11,103,866
Interest payable to third parties	28,067,302	17,423,447
Amortisation of deferred costs	1,710,164	614,948
Finance lease interest	25,807,881	20,007,518
	66,429,277	49,149,779

9. PROFIT / (LOSS) BEFORE TAX

The profit/ (loss) is arrived at after charging:	Consolidated Year ended 31 December 2016 US$	Consolidated Year ended 31 December 2015 US$
Depreciation	61,794,311	52,036,003
Impairment provision – assets held for sale	388,800	-
Impairment provision – net investment in finance lease	-	471,555
Bad debt provision – finance lease income from the lessee	-	4,116,646
Bad debt provision - operating lease income receivable from the lessee	-	2,749,183
Auditor's remuneration	599,884	228,615
Directors' fees and remuneration	612,716	387,283
	63,395,711	59,989,286

In addition to the directors fees and remuneration outlined above, an amount of $553 was paid by the Parent to directors of the Company in respect of duties carried out as a director of the Company.

10. AUDITORS' REMUNERATION

Auditors' remuneration exclusive of VAT:	Consolidated Year ended 31 December 2016 US$	Consolidated Year ended 31 December 2015 US$
KPMG Ireland statutory auditors' remuneration	294,276	147,643
KPMG Ireland taxation advisory services	192,082	80,972
Total paid to KPMG Ireland (statutory auditor)	486,358	228,615
Fees paid to KPMG (network firms)	113,526	-
	599,884	228,615

11. CORPORATION TAX ON PROFIT

Corporation tax has been calculated based on the results for the year at a rate of 12.5%.

	Consolidated Year ended 31 December 2016 US$	Consolidated Year ended 31 December 2015 US$
Current tax expense		
Current year	545,812	449,800
Adjustment for prior periods	(202,504)	-
	343,308	449,800
Deferred tax expense		
Origination and reversal of temporary differences	1,721,388	2,070,694
Adjustment for prior periods	33,312	-
	1,754,700	2,070,694
Tax expenses on profit	**2,098,008**	**2,520,494**

Reconciliation of effective tax rate

	2016	2015
Profit/loss before taxation	18,636,994	4,906,032
Income tax at 12.5%	2,329,624	613,254
Effects of:		
Losses for which no deferred tax recognised / reversed	(364,919)	1,322,469
Expenses not deductible for tax purposes	434,532	478,190
Income taxable at different rate	87,437	125,152
Prior year tax over charge	(202,504)	-
Prior year deferred tax under charge	33,312	4,238
Income not taxable	(219,474)	(22,809)
Total income tax charge	2,098,008	2,520,494

11. CORPORATION TAX ON PROFIT (CONTINUED)

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the reporting date where the transaction or events have occurred at that date will result in an obligation to pay more or right to pay less tax. Deferred tax is measured on an undiscounted basis at the tax rate that is expected to apply in the years in which the temporary differences reverse. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The deferred tax liability has been recognised as at 31 December 2016.

The tax rate laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. The directors are not aware of any factor that may affect the future tax charge.

A deferred tax liability of US$3,737,385 (2015: Deferred tax liability US$1,982,685) has been recognised at year end. The Company has recognised a deferred tax liability of US$642,286 as at the year end. (2015: Deferred tax liability US$313,468)

The Group has not recoginsed deferred tax assets of $877,274 (2015: deferred tax assets $1,272,179) at year end due to concerns around the timing of its recovery.

Deferred tax assets and liabilities are attributable to the following:

	Consolidated Assets / (liabilities) 1 January 2016	Consolidated Movement recognised in profit and loss 2016	Consolidated Net assets / (liabilities) 31 December 2016
Property, plant and equipment	(14,637,771)	(9,204,614)	(23,842,385)
Finance lease receivable	-	-	-
Trade losses	12,655,086	7,449,914	20,105,000
Net tax assets / (liabilities)	**(1,982,685)**	**(1,754,700)**	**(3,737,385)**

	Consolidated Assets / (liabilities) 1 January 2015	Consolidated Movement recognised in profit and loss 2015	Consolidated Net assets / (liabilities) 31 December 2015
Property, plant and equipment	(7,011,114)	(7,626,657)	(14,637,771)
Finance lease receivable	-	-	-
Trade losses	7,099,123	5,555,963	12,655,086
Net tax assets / (liabilities)	**88,009**	**(2,070,694)**	**(1,982,685)**

11.CORPORATION TAX ON PROFIT (CONTINUED)

	Company Assets / (liabilities) 1 January 2016	Company Movement recognised in profit and loss 2016	Company Net assets / (liabilities) 31 December 2016
Property, plant and equipment	(5,788,145)	(1,766,742)	(7,554,887)
Finance lease receivable	-	-	-
Trade losses	5,474,677	1,437,924	6,912,601
Net tax assets / (liabilities)	**(313,468)**	**(328,818)**	**(642,286)**

	Company Assets / (liabilities) 1 January 2015	Company Movement recognised in profit and loss 2015	Company Net assets / (liabilities) 31 December 2015
Property, plant and equipment	(3,623,433)	(2,164,712)	(5,788,145)
Finance lease receivable	-	-	-
Trade losses	3,905,069	1,569,608	5,474,677
Net tax assets / (liabilities)	**281,636**	**(595,104)**	**(313,468)**

12. PROPERTY, PLANT AND EQUIPMENT

Aircraft	**Consolidated As at 31 December 2016 US$**	**Consolidated As at 31 December 2015 US$**	**Company As at 31 December 2016 US$**	**Company As at 31 December 2015 US$**
Cost				
At 1 January	978,012,982	531,695,688	237,488,904	237,488,904
Additions of aircraft	35,587,410	462,637,294	-	-
Transfer from finance lease	-	5,180,000	-	-
Transfer to finance lease	-	(21,500,000)	-	
	1,013,600,392	**978,012,982**	**237,488,904**	**237,488,904**
Depreciation and impairment				
At 1 January	(76,616,679)	(28,250,385)	(28,498,293)	(11,528,047)
Charge for the year/ period	(61,703,590)	(51,970,913)	(15,671,742)	(16,649,884)
Amortisation of capitalised costs	(275,077)	34,020	(275,077)	(320,362)
Transfer to finance lease	-	3,570,599	-	-
At 31 December	**(138,595,346)**	**(76,616,679)**	**(44,445,112)**	**(28,498,293)**
Carrying amount				
At 1 January	901,396,303	503,445,303	208,990,611	225,960,857
At 31 December	**875,005,046**	**901,396,303**	**193,043,792**	**208,990,611**

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the year the Company's subsidiary STLC Europe Four Leasing Limited acquired three new aircraft.

Two aircraft that were previously repossessed from a third party airline underwent restoration works during the year. This resulted in restoration costs of $1,600,000 being capitalised in respect of these aircraft which have been recorded as additions in the Company's subsidiary, GTLK 5737 Limited during the year. In the prior year these two aircraft were recorded at their fair value of $5,180,000 in property, plant and equipment.

During the prior year the Company's subsidiary, GTLK Lietuva 01 UAB, converted an operating lease with a third party airline into a finance lease with that third party airline. As a result, the carrying value of $17,929,401 of the asset was derecognised from property, plant and equipment. The net investment in finance lease was recognised at the present value of the minimum lease payments and any unguaranteed residual value at the inception of the lease.

The carrying value of the Group's aircraft has been supported by value in use calculations which contain certain judgmental assumptions such as the residual value of the aircraft at lease end and the discount rate applied in calculating the net present value of expected cashflows.

Property, plant and equipment is made up of twenty aircraft as at 31 December 2016 (31 December 2015: seventeen) and computer, software and other plant and equipment.

Depreciation is calculated to write off the cost of each component of the aircraft, less its estimated residual value, on a straight-line basis over its estimated useful life from the date of manufacture in the case of the airframe or from the last maintenance event in the case of other components. The estimates of useful lives and residual values are reviewed periodically. Items that have been capitalised are amortised on a straight line basis over the life of the asset to which they relate, in line with the accounting policy of the Company. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

As outlined in note 2, Accounting Policies, the Company have adopted component based depreciation on all of the aircraft which it holds, in which the annual depreciation amount is determined based on the computation of the forecast utilisation of each component and the predicted cost of future maintenance. The annual depreciation amount for each component is reviewed annually and adjusted if necessary.

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Computer, software and other plant & equipment	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2015 US$	Company As at 31 December 2016 US$	Company As at 31 December 2015 US$
Cost				
At 1 January	221,845	193,090	221,845	193,090
Additions	119,696	28,755	20,197	28,755
	341,541	**221,845**	**242,042**	**221,845**
Depreciation				
At 1 January	(108,689)	(43,599)	(108,689)	(43,599)
Charge for the year/ period	(90,721)	(65,090)	(70,429)	(65,090)
At 31 December	**(199,410)**	**(108,689)**	**(179,118)**	**(108,689)**
Carrying amount				
At 1 January	113,156	149,491	113,156	149,491
At 31 December	**142,131**	**113,156**	**62,924**	**113,156**

13. ASSET HELD FOR SALE

	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2015 US$	Company As at 31 December 2016 US$	Company As at 31 December 2015 US$
Asset held for sale	800,000	800,000	-	-
Proceeds on disposals	(186,200)	-	-	-
Impairment	(388,800)	-	-	-
	225,000	800,000	-	-

During the prior year four aircraft were repossessed from a third party airline which went into liquidation. As a result, two airframes and three engines were recorded as assets held for sale at their total fair value of $800,000 at 31 December 2015. During the year, proceeds on the sale of assets held for sale amounted to $186,200 and an impairment on assets held for sale amounted to $388,800. Refer to note 6 for further commentary.

A sale agreement for the remaining airframe was signed in December 2016. The Directors expect to receive net proceeds of $240,000.

14. NET INVESTMENT IN FINANCE LEASE

A. CONSOLIDATED NET INVESTMENT IN FINANCE LEASE

	As at 31 December 2016 Asset US$	As at 31 December 2015 Asset US$
Net investment in finance lease – non current	219,207,184	85,056,356
Net investment in finance lease – current	13,260,122	5,715,375
Net Investment in finance lease	232,467,306	90,771,731

The cost of the asset acquired and leased under finance leases in 2016 was US$250,315,860 (2015: US$101,135,860). The aggregate rentals received under finance lease during the year were US$11,413,772 (2015: US$7,244,393).

As at 31 December 2016	Gross contractual lease payments US$	Present Value Lease payments US$
Less than one year	31,904,788	13,260,122
Between one and five years	137,921,915	77,806,203
Greater than five years	174,622,292	141,400,981
	344,448,995	232,467,306
Less amounts representing finance charges	(111,981,689)	-
	232,467,306	232,467,306

As at 31 December 2015	Gross contractual lease payments US$	Present value Lease payments US$
Less than one year	13,467,219	5,715,375
Between one and five years	55,064,096	30,062,261
Greater than five years	65,263,366	54,994,095
	133,794,681	90,771,731
Less amounts representing finance charges	(43,022,950)	-
	90,771,731	90,771,731

14. NET INVESTMENT IN FINANCE LEASE (CONTINUED)

B. COMPANY NET INVESTMENT IN FINANCE LEASE

	As at 31 December 2016 Asset US$	As at 31 December 2015 Asset US$
Net investment in finance lease – non current	8,415,864	9,357,114
Net investment in finance lease – current	941,250	841,229
Net Investment in lease	9,357,114	10,198,343

As at 31 December 2016	Gross contractual lease payments US$	Present value Lease payments US$
Less than one year	1,921,694	941,250
Between one and five years	7,686,777	4,979,631
Greater than five years	3,843,389	3,436,233
	13,451,860	9,357,114
Less amounts representing finance charges	(4,094,746)	-
	9,357,114	9,357,114

As at 31 December 2015	Gross contractual lease payments US$	Present value Lease payments US$
Less than one year	1,921,694	841,229
Between one and five years	7,686,777	4,464,907
Greater than five years	5,765,083	4,892,207
	15,373,554	10,198,343
Less amounts representing finance charges	(5,175,211)	-
	10,198,343	10,198,343

The cost of the assets acquired and leased under finance leases in 2016 was US$14,500,000 (2015: US$14,500,000). The aggregate rentals received under finance lease during the year were US$1,075,803 (2015: US$1,163,302).

15. OTHER ASSETS

	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2015 US$	Company As at 31 December 2016 US$	Company As at 31 December 2015 US$
Current				
Deferred fee	722,035	-	-	-
Security deposits paid	7,000,000	-	7,000,000	-
Lease arrangement fees	350,000	-	-	-
Lease premium	3,215,186	-	-	-
	11,287,221	-	7,000,000	-
Non-Current				
Deferred fee	5,724,948	7,170,997	-	-
Lease arrangement fees	3,644,237	-	-	-
Lease premium	33,834,095	-	-	-
	43,203,280	7,170,997	-	-
Total	54,490,501	7,170,997	7,000,000	-

During the year, the Company's subsidiary, STLC Europe Three Leasing Limited incurred lease premium and arrangement fees of $38,582,342 and $4,200,000 respectively. These premiums and arrangement fees have been capitalised and are being amortised to the profit and loss account over the lease term of 12 years. Refer to note 7 for further commentary.

In October 2016, the Company paid two refundable deposits of $1,000,000 each in respect of two new aircraft. At the date of signing this financial report the purchase agreements in respect of same were not yet finalised. In December 2016, the Company signed a Letter of Intent to acquire the shares of another company which owns four aircraft which are currently on lease to a third party airline. Upon signing the Letter of Intent, the Company paid a refundable deposit of $5,000,000 to the seller. In January 2017 this deposit was refunded to the Company and as of the date of these financial statements negotiations are ongoing.

In 2013, STLC Europe One Leasing Limited entered into an agreement with a third party in order to cap the amount of future maintenance costs in relation to three of the STLC Europe One Leasing Limited aircraft. The fees have been deferred and are amortised over the life of the service agreement of 12 years.

16.LOANS AND RECEIVABLES INTER-COMPANY – COMPANY

	Company As at 31 December 2016 US$	Company As at 31 December 2015 US$
Loan to GTLK 5 737 Limited	9,376,885	11,090,851
Loan to GTLK BO4 Limited	31,736,484	40,902,096
Loans to GTLK Lietuva 01 UAB	37,606,759	40,919,306
Loan to GTLK Malta Limited	40,988,627	41,855,251
Loan to GTLK BO2 Limited	42,387,748	58,341,431
Loan to GTLK BO6 Limited	64,451,634	78,257,952
Loan to GTLK BO3 Limited	61,717,195	78,350,076
Loan to STLC Europe One Leasing Limited	51,121,553	60,307,250
Loan to STLC Europe Two Leasing Limited	82,571,255	89,593,610
Loan to STLC Europe Four Leasing Limited	23,539,443	-
Loan to GTLK Malta Two Limited	27,972,816	-
Loan to GTLK Malta Three Limited	120,488,021	-
Loan to STLC Russia	159,043,534	-
	753,001,954	499,617,823

These intercompany loans are interest bearing at rates between 3% - 10% and are repayable based on the underlying loan agreements. The term of the loans is directly linked to the expiration of the underlying aircraft lease agreements. The directors are of the view that loans and receivables are recoverable from its subsidiaries.

17. CASH AND CASH EQUIVALENTS

Group

Cash and cash equivalents includes cash on hand and deposits denominated in foreign currencies. The Group holds US$ and EUR bank accounts with Bank of Ireland, Barclays and ICBC (London) PLC. The total amount of cash and cash equivalents held at the year-end was US$14,476,343 (2015: US$19,098,314) for the Group.

Company

Cash and cash equivalents are held with Bank of Ireland and Barclays, where they have both US$ and EUR bank accounts. The total amount of cash and cash equivalents held by the Company at the year-end was US$925,004 (2015: US$2,888,125) for GTLK Europe Designated Activity Company.

The Moody's long term credit rating of the banks in which the Company and Group has held cash deposits is A1 (2015: A2) for Barclays Bank Plc, Baa2 (2015: Baa2) for Bank of Ireland and A1 (2015: A1) for ICBC (London) PLC.

18. TRADE AND OTHER RECEIVABLES

All trade and other receivables are due within the next twelve months and classified as current assets.

The table below presents the credit and default risk relating to trade receivables and other receivables by gross carrying amount:

	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2016 US$
	Neither Past due nor impaired	Past due and not impaired	Past due and impaired	Total
Measured at amortised cost:				
Other debtors	587,433	-	20,390	607,823
Finance lease receivable	2,385,949	2,171,864	4,116,646	8,674,459
Operating lease receivable	-	270	-	270
Supplemental income receivable	3,458,779	-	-	3,458,779
VAT refund	121,456	-	-	121,456
Operating lease expense prepaid	1,321,588		-	1,321,588
Bad debt provision – Finance lease receivable	-	-	(4,116,646)	(4,116,646)
Bad debt provision – Operating lease receivable	-	-	(20,390)	(20,390)
	7,875,205	2,172,134	-	10,047,339

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2015 US$
	Neither Past due nor impaired	Past due and not impaired	Past due and impaired	Total
Measured at amortised cost:				
Other debtors	163,131	-	33,697	196,828
Finance lease receivable	56,789	-	4,116,646	4,173,435
Operating lease receivable	1,551,693	-	2,679,537	4,231,230
Supplemental income receivable	1,198,365	-	-	1,198,365
VAT refund	24,660	-	-	24,660
Bad debt provision – Finance lease receivable from the lessee	-	-	(4,116,646)	(4,116,646)
Bad debt provision – Operating lease receivable	-	-	(2,713,234)	(2,713,234)
	2,994,638	-	-	2,994,638

	Company As at 31 December 2016 US$	Company As at 31 December 2016 US$	Company As at 31 December 2016 US$	Company As at 31 December 2016 US$
	Neither Past due nor impaired	Past due and not impaired	Past due and impaired	Total
Measured at amortised cost:				
Other debtors	160,052	-	20,390	180,442
Finance lease receivable	52,127	-	-	52,127
Operating lease receivable	6	-	-	6
Finance lease interest prepayment	542,166	-	-	542,166
Supplemental income receivable	618,748	-	-	618,748
VAT refund	121,456	-	-	121,456
Bad debt provision – finance lease receivable	-	-	(20,390)	(20,390)
	1,494,555	-	-	1,494,555

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Company As at 31 December 2015 US$	Company As at 31 December 2015 US$	Company As at 31 December 2015 US$	Company As at 31 December 2015 US$
	Neither Past due nor impaired	Past due and not impaired	Past due and impaired	Total
Measured at amortised cost:				
Other debtors	104,625	-	33,697	138,322
Finance lease income receivable	640,504	-	-	640,504
Operating lease receivable	4	-	-	4
Supplemental income receivable	822,152	-	-	822,152
VAT refund	23,398	-	-	23,398
Bad debt provision – finance lease receivable	-	-	(33,697)	(33,697)
	1,590,683	-	-	1,590,683

19. LOANS AND RECEIVABLES – CONSOLIDATED

	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2015 US$
Opening balance at the beginning of the year	-	-
Loans and receivables advanced	275,000,000	-
Interest accrued	4,043,534	-
Principal payments received	(116,761,366)	-
Interest payments received	(3,238,634)	
Closing balance at the end of the year	159,043,534	-

During the year the Company entered into three loan agreements with the Parent. Interest on these loans is accrued at a rate of 6.7% per annum and is repayable bi-annually on the 12th of January and 12th of July each year. All loan principal and interest accrued is repayable by 12 July 2021, however, under the terms of the loan agreement, the Company may request early repayment of the loans or part thereof as required. As a result, the balance outstanding on the loan has been classified as a current asset.

20. SECURITY DEPOSITS

	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2015 US$	Company As at 31 December 2016 US$	Company As at 31 December 2015 US$
Security Deposit	(6,428,000)	(4,440,000)	(4,440,000)	(4,440,000)

As at the year end, the Group held security deposits in respect of eleven aircraft (2015: seven aircraft). In addition to the security deposits, the Group has letters of credit in respect of the sixteen aircraft (2015: eight aircraft), five that are held by STLC Europe One Leasing Limited to the value of US$4,600,000 (2015: US$4,600,000), three that are held by STLC Europe Two Leasing Limited to the value of US$6,576,000 (2015: US$6,576,000), seven that are held by STLC Europe Three Leasing Limited to the value of $14,658,000 (2015: nil) and one that is held by STLC Europe Four Leasing Limited to the value of $894,000 (2015: nil)

The letters of credit are held with Commerzbank, Alfa Bank and Sberbank. The Moody's long term credit rating of the banks in which the Group has held letters of credit is Baa3 for Commerzbank Plc, Ba2 for Alfa Bank and Ba2 for Sberbank.

21. FINANCE LEASE LIABILITY

A. CONSOLIDATED FINANCE LEASE LIABILITY

	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2015 US$
Finance lease liability – non current	(467,334,925)	(510,483,276)
Finance lease liability – current	(43,148,351)	(41,456,689)
Finance lease liability	(510,483,276)	(551,939,965)

As at 31 December 2016	Consolidated Gross contractual lease payments US$	Consolidated Present Value Lease payments US$
Less than one year	(64,193,444)	(43,148,351)
Between one and five years	(251,262,567)	(188,515,077)
Greater than five years	(310,769,610)	(278,819,848)
	(626,225,621)	(510,483,276)
Less amounts representing finance charges	115,742,345	-
	(510,483,276)	(510,483,276)

21. FINANCE LEASE LIABILITY (CONTINUED)

A. CONSOLIDATED FINANCE LEASE LIABILITY (CONTINUED)

As at 31 December 2015	Consolidated Gross contractual lease payments US$	Consolidated Present Value Lease payments US$
Less than one year	(64,320,845)	(41,456,689)
Between one and five years	(252,648,028)	(182,233,421)
Greater than five years	(372,914,593)	(328,249,855)
	(689,883,466)	(551,939,965)
Less amounts representing finance charges	137,943,501	-
	(551,939,965)	(551,939,965)

The total future minimum sub-lease payments expected to be received under non-cancellable sub-leases at the reporting date are disclosed within note 3 - contracted cash lease rentals to be received under non-cancellable operating leases in respect of aircraft in the portfolio comprised.

B. COMPANY FINANCE LEASE LIABILITY

	Company As at 31 December 2016 US$	Company As at 31 December 2015 US$
Finance lease liability – non current	(184,624,055)	(198,907,434)
Finance lease liability – current	(14,283,379)	(13,608,184)
Finance lease liability	(198,907,434)	(212,515,618)

As at 31 December 2016	Company Gross contractual lease payments US$	Company Present Value Lease payments US$
Less than one year	(23,640,000)	(14,283,379)
Between one and five years	(189,975,000)	(168,955,908)
Greater than five years	(15,782,912)	(15,668,147)
	(229,397,912)	(198,907,434)
Less amounts representing finance charges	30,490,478	-
	(198,907,434)	(198,907,434)

21. FINANCE LEASE LIABILITY (CONTINUED)

B. COMPANY FINANCE LEASE LIABILITY (CONTINUED)

As at 31 December 2015	Company Gross contractual lease payments US$	Company Present Value Lease payments US$
Less than one year	(23,640,000)	(13,608,184)
Between one and five years	(136,595,000)	(107,876,912)
Greater than five years	(92,802,912)	(91,030,522)
	(253,037,912)	(212,515,618)
Less amounts representing finance charges	40,522,294	-
	(212,515,618)	(212,515,618)

22. LOANS AND BORROWINGS

	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2015 US$	Company As at 31 December 2016 US$	Company As at 31 December 2015 US$
Loans received from Parent	(62,500,000)	(148,893,232)	(62,500,000)	(148,893,232)
Interest on loan received from Parent	(11,843,939)	(17,697,319)	(11,843,939)	(17,697,319)
Loan received from subsidiary	-	-	(10,000,000)	(10,000,000)
Interest on loan received from subsidiary	-	-	(1,516,272)	(753,772)
Third party loans	(673,577,100)	(288,035,715)	(673,577,100)	(288,035,715)
Interest payable on third party loans	(14,571,884)	(1,518,893)	(14,571,884)	(1,518,893)
Debt issuance costs	6,515,617	1,492,346	6,515,617	1,389,675
	(755,977,306)	(454,652,813)	(767,493,578)	(465,509,256)

During the year the Company repaid principal and outstanding interest on loans received from the Parent in prior years totaling $106,006,784.

During the year the Company also made principal repayments of $114,458,614 on third-party loans.

During the year the Group drew down short term loans from the Parent totaling $446,730,000. These loans together with interest accrued were repaid in full during the year.

22. LOANS AND BORROWINGS (CONTINUED)

In July 2016, the Company issued $500,000,000 5.95% guaranteed notes. The notes are due in 2021 and are guaranteed by the Parent. Interest on these notes is payable bi-annually through 2017 - 2021 with the first payment due in January 2017. The Company incurred capital costs of $6,455,881 in relation to issuance of these notes. All of these costs have been capitalised and are being amortised over the term of the notes.

The interest on the outstanding loan from the Parent is at a fixed rate of 7.5% (2015: average rate on loans from Parent 8.17%). The loans received from third parties have variables rates of interest based on a fixed rate between 4% - 4.85% plus LIBOR.

The ageing of the loans and borrowings can be seen in the below tables for the Group and the Company:

Consolidated 2016	**Carrying amount US$**	**Less than 1 year US$**	**Between 2 and 5 years US$**	**After 5 years US$**
Loans received from Parent	(62,500,000)	(62,500,000)	-	-
Interest on loan received from Parent	(11,843,939)	(11,843,939)	-	-
Third party loans	(673,577,100)	(92,420,200)	(581,156,900)	-
Interest payable on third party loans	(14,571,884)	(14,571,884)	-	-
Debt issuance costs	6,515,617	1,721,911	4,793,706	-
	(755,977,306)	(179,614,112)	(576,363,194)	-

Company 2016	**Carrying amount US$**	**Less than 1 year US$**	**Between 2 and 5 years US$**	**After 5 years US$**
Loans received from Parent	(62,500,000)	(62,500,000)	-	-
Interest on loan received from Parent	(11,843,939)	(11,843,939)	-	-
Loan received from subsidiary	(10,000,000)	(10,000,000)	-	-
Interest on loan received from subsidiary	(1,516,272)	(1,516,272)	-	-
Third party loans	(673,577,100)	(92,420,200)	(581,156,900)	-
Interest payable on third party loans	(14,571,884)	(14,571,884)	-	-
Debt issuance costs	6,515,617	1,721,911	4,793,706	-
	(767,493,578)	(191,130,384)	(576,363,194)	-

22. LOANS AND BORROWINGS (CONTINUED)

Consolidated 2015	Carrying amount US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans received from Parent	(148,893,232)	(134,375,000)	-	(14,518,232)
Interest on loan received from parent	(17,697,319)	(17,697,319)	-	-
Third party loans	(288,035,715)	(103,571,429)	(184,464,286)	-
Interest payable on third party loans	(1,518,893)	(1,518,893)	-	-
Debt issuance costs	1,492,346	756,785	735,561	-
	(454,652,813)	(256,405,856)	(183,728,725)	(14,518,232)

Company 2015	Carrying amount US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans received from Parent	(148,893,232)	(134,375,000)	-	(14,518,232)
Interest on loan received from parent	(17,697,319)	(17,697,319)	-	-
Loan received from subsidiary	(10,000,000)	(10,000,000)	-	-
Interest on loan received from subsidiary	(753,772)	(753,772)	-	-
Third party loans	(288,035,715)	(103,571,429)	(184,464,286)	-
Interest payable on third party loans	(1,518,893)	(1,518,893)	-	-
Debt issuance costs	1,389,675	678,335	711,340	-
	(465,509,256)	(267,238,078)	(183,752,946)	(14,518,232)

23. DEFERRED INCOME

	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2015 US$	Company As at 31 December 2016 US$	Company As at 31 December 2015 US$
Non-current				
Deferred upfront rental income	(34,854,462)	-	-	-
Gain on finance lease	(513,702)	-	-	-
	(35,368,164)	-	-	-
Current				
Deferred income	(9,609,181)	(5,571,272)	(1,120,295)	(1,262,258)
Deferred upfront rental income	(3,309,655)	-	-	-
Gain on finance lease	(95,322)	(159,010)	-	-
	(13,014,158)	(5,730,282)	(1,120,295)	(1,262,258)
Total	(48,382,322)	(5,730,282)	(1,120,295)	(1,262,258)

The Group held deferred income in respect of the operating and finance leases between various group companies and third party airlines and charterers at the year end.

During the year the Company's subsidiary STLC Europe Three Leasing Limited entered into operating lease agreements with a third party airline for seven new aircraft which it had leased under separate operating lease agreements from a third party lessor. As part of the transaction STLC Europe Three Leasing Limited received upfront rental payments of $39,715,864 which have been deferred and are being amortised to revenue over the lease term.

During the year the Company's subsidiaries, GTLK Malta Two Limited and GTLK Malta Three Limited, entered into a number of finance lease transactions for vessels. These transactions resulted in gains on finance leases, being the difference between the present value of the minimum lease payments receivable plus any unguaranteed residual value under each respective finance lease agreement and the cost of the underlying assets. These gains have been deferred and are being amortised to profit or loss over the underlying lease terms.

24. TRADE AND OTHER PAYABLES

	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2015 US$	Company As at 31 December 2016 US$	Company As at 31 December 2015 US$
Audit and tax fee accrual	(238,700)	(153,398)	(207,000)	(153,118)
Finance Lease installments payable	-	-	(2,231,360)	(42,464,999)
Finance lease interest accrual	(933,100)	(904,500)	-	-
Operating lease expense	-	-	(60,992)	(26,610)
Deposit received	(369,180)	-	-	-
Other trade accruals	(533,739)	(607,544)	(385,064)	(376,134)
	(2,074,729)	(1,665,442)	(2,884,416)	(43,020,861)

25. INTER-COMPANY BALANCES – COMPANY

	Company As at 31 December 2016 US$	Company As at 31 December 2015 US$
Inter-company with GTLK 5 737 Limited	3,386,455	292,080
Inter-company with GTLK 7706 Limited	-	44,261
Inter-company with STLC Europe Two Leasing Limited	399,793	355,826
Inter-company with GTLK BO1 Limited	59,707	51,434
Inter-company with GTLK BO2 Limited	72,038	52,933
Inter-company with GTLK BO3 Limited	71,500	52,195
Inter-company with GTLK Malta Limited	124,519	213,879
Inter-company with GTLK AFL Limited	43,871	32,333
Inter-company with STLC Europe One Leasing Limited	179,701	137,694
Inter-company with GTLK BO4 Limited	42,951	27,520
Inter-company with GTLK BO5 Limited	61,769	49,973
Inter-company with GTLK Lietuva 01 UAB	(33,939)	(45,128)
Inter-company with GTLK BO6 Limited	55,172	35,716
Inter-company with STLC Europe Three Leasing Limited	4,298,990	4,874
Inter-company with STLC Europe Four Leasing Limited	89,711	4,790
Inter-company with STLC Europe Five Leasing Limited	72,104	-
Inter-company with STLC Europe Six Leasing Limited	2,241	-
Inter-company with GTLK Malta Two Limited	43,994	-
Inter-company with GTLK Malta Three Limited	203,101	-
	9,173,678	1,310,380

Inter-company balances due to the Company represent accumulated expenses paid by the Company on behalf of the subsidiaries. These balances do not bear any interest and are repayable on demand.

26. INVESTMENT IN SUBSIDIARIES – COMPANY

	As at 31 December 2016 Total US$	As at 31 December 2015 Total US$
Opening balance at the beginning of the year	3,085,159	3,084,579
Investment in subsidiaries during the year	45,967	580
Disposal of investment in subsidiary during the year	(44,260)	
	3,086,866	3,085,159

The Company owns 100% of the issued share capital of all companies in which it holds an investment.

GTLK BO1 Limited, GTLK BO2 Limited, GTLK BO3 Limited, GTLK BO4 Limited, GTLK BO5 Limited, GTLK BO6 Limited and GTLK AFL Limited were incorporated under the laws of Bermuda. GTLK Lietuva 01 UAB Limited was incorporated under the laws of Lithuania. GTLK Malta, GTLK Malta Two Limited and GTLK Malta Three Limited were incorporated under the laws of Malta. GTLK 5 737 Limited, STLC Europe One Leasing Limited, STLC Europe Two Leasing Limited, STLC Europe Three Leasing Limited, STLC Europe Four Leasing Limited, STLC Europe Five Leasing Limited and STLC Europe Six Leasing Limited were incorporated under the laws of Ireland.

On 8 December 2016, the Company dissolved one of its previous subsidiaries, GTLK 7706 Limited. GTLK 7706 Limited was incorporated on 9 October 2012 under the laws of Bermuda. Prior to dissolution, the Company waived outstanding debts due from GTLK 7706 Ltd of $43,260. This was recorded as an investment in subsidiary during the year in the Company's accounts. On dissolution, a loss on disposal of subsidiary of $44,260 was recognised in the Company's accounts for the year ended 31 December 2016, being the carrying value of the investment in the subsidiary at the date of dissolution.

The following tables contain information regarding the subsidiaries of the Company:

Company	Company Registration Number	Country of Incorporation	Date of Incorporation	Ownership
GTLK 5 737 Limited	522912	Ireland	24 January 2013	100%
GTLK AFL Limited	47929	Bermuda	11 July 2013	100%
GTLK BO1 Limited	47930	Bermuda	11 July 2013	100%
GTLK BO2 Limited	47931	Bermuda	11 July 2013	100%
STLC Europe One Leasing Limited	530075	Ireland	10 July 2013	100%
GTLK BO3 Limited	47987	Bermuda	24 July 2013	100%
STLC Europe Two Leasing Limited	533928	Ireland	10 October 2013	100%
GTLK Malta Limited	C62196	Malta	10 October 2013	100%
GTLK BO4 Limited	48730	Bermuda	13 February 2014	100%
GTLK BO5 Limited	48734	Bermuda	14 February 2014	100%

26. INVESTMENT IN SUBSIDIARIES – COMPANY (CONTINUED)

Company	Company Registration Number	Country of Incorporation	Date of Incorporation	Ownership
GTLK Lietuva 01 UAB	303248146	Lithuania	21 February 2014	100%
GTLK BO6 Limited	49036	Bermuda	30 April 2014	100%
STLC Europe Three Leasing Limited	571533	Ireland	10 November 2015	100%
STLC Europe Four Leasing Limited	572072	Ireland	18 November 2015	100%
STLC Europe Five Leasing Limited	576865	Ireland	10 February 2016	100%
STLC Europe Six Leasing Limited	592364	Ireland	03 November 2016	100%
GTLK Malta Two Limited	C76031	Malta	13 June 2016	100%
GTLK Malta Three Limited	C76721	Malta	03 August 2016	100%

Company	Registered Address	Activity
GTLK 5 737 Limited	9 Pembroke Street Upper, Dublin 2, Ireland	Aircraft leasing
GTLK AFL Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
GTLK BO1 Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
GTLK BO2 Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
STLC Europe One Leasing Limited	3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	Aircraft leasing
GTLK BO3 Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
STLC Europe Two Leasing Limited	3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	Aircraft leasing
GTLK Malta Limited	171, Old Bakery St., Valletta VLT 1455, Malta	Vessel leasing
GTLK BO4 Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
GTLK BO5 Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
GTLK Lietuva 01 UAB	Savickio str. 4, Vilnius, the Republic of Lithuania	Aircraft leasing
GTLK BO6 Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
STLC Europe Three Leasing Limited	9 Pembroke Street Upper, Dublin 2, Ireland	Aircraft leasing
STLC Europe Four Leasing Limited	9 Pembroke Street Upper, Dublin 2, Ireland	Aircraft leasing
STLC Europe Five Leasing Limited	9 Pembroke Street Upper, Dublin 2, Ireland	Aircraft leasing
STLC Europe Six Leasing Limited	9 Pembroke Street Upper, Dublin 2, Ireland	Aircraft leasing
GTLK Malta Two Limited	171, Old Bakery St., Valletta VLT 1455, Malta	Vessel leasing
GTLK Malta Three Limited	171, Old Bakery St., Valletta VLT 1455, Malta	Vessel leasing

26. INVESTMENT IN SUBSIDIARIES – COMPANY (CONTINUED)

Company	Net Assets / (liabilities) As at 31 December 2016 US$	Profit / (Loss) Year / Period ended 31 December 2016 US$
GTLK 7706 Limited	-	(7,395)
GTLK 5 737 Limited	(8,005,832)	(2,459,261)
GTLK AFL Limited	(316)	5,335
GTLK BO1 Limited	1,511	15,135
GTLK BO2 Limited	4,940	648,873
STLC Europe One Leasing Limited	16,934,994	6,241,311
GTLK BO3 Limited	3,461	768,222
STLC Europe Two Leasing Limited	4,277,892	3,199,166
GTLK Malta Limited	(217,324)	(194,218)
GTLK BO4 Limited	14,420	143,922
GTLK BO5 Limited	(17,766)	6,054
GTLK Lietuva 01 UAB	(927,802)	(59,969)
GTLK B06 Limited	40,398	123,989
STLC Europe Three Leasing Limited	741,692	745,962
STLC Europe Four Leasing Limited	6,143,566	6,147,768
STLC Europe Five Leasing Limited	(59,452)	(59,453)
STLC Europe Six Leasing Limited	(2,879)	(2,880)
GTLK Malta Two Limited	320,009	318,657
GTLK Malta Three Limited	(10,207)	(11,551)

27. SHARE CAPITAL

	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2015 US$	Company As at 31 December 2016 US$	Company As at 31 December 2015 US$
Authorised				
100 ordinary shares of €100	12,429	12,429	12,429	12,429
	US$	US$	US$	US$
100 ordinary shares of €100	12,429	12,429	12,429	12,429

On incorporation, the Company issued 100 ordinary shares of €100 at par.

The Company has issued 100 shares which are held by the Parent.

28. CAPITAL CONTRIBUTION

	As at 31 December 2016 Total US$	As at 31 December 2015 Total US$
Capital contribution	3,076,000	3,076,000

On 31 July 2014, the Company received a capital contribution from its Parent of US$3,076,000 and on that same date transferred this capital contribution to STLC Europe One Leasing Limited.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The primary risks arising from the Group's financial instruments are credit risk, market risk, liquidity risk and operating risk. The principal nature of such risks is summarised below. The Group's exposure to risk on its financial instruments and the management of such risk is carried out on an ongoing basis. The Group's activities and the role of each party to the transaction are clearly defined and documented.

The Directors monitor the Group's performance, reviewing management accounts on the performance of the loan and lease portfolio. Such review is designed to ensure that the terms of the documentation have been complied with and that no unforeseen risks have arisen.

(a) Capital risk management

The capital managed by the Group comprises of ordinary shares outstanding and capital contributions from the Parent. The Group is not subject to externally imposed capital requirements.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet to its contractual obligations and arises principally from the Group's finance lease receivable and trade and other receivables from customers.

During the normal course of purchasing aircraft and ships, the Group may be required to advance funds to finance the acquisition of the aircraft or vessels. The Directors note that these advances accordingly represent a significant credit exposure to the Group for the period from the advancing of the funds until the Group acquires the aircraft which can take several months. In the event of insolvency of the seller of the aircraft before the Group acquires the aircraft, the Group would be an unsecured creditor in respect of any amount advanced in purchasing the aircraft or ships. As at 31 December 2016 there was no such funds advanced in respect of the acquisition of aircraft or vessels.

The credit risk on operating lease is mitigated by the title of ownership over some assets under operating lease and the lessee performance is monitored on a continuous basis.

The credit risk on finance lease is mitigated by the title of ownership over most assets under finance lease and the lessee performance is monitored on a continuous basis.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to the credit risk at the reporting date was:

	Consolidated As at 2016 US$	Consolidated As at 2015 US$	Company As at 2016 US$	Company As at 2015 US$
Net investment in finance lease	232,467,306	90,771,731	9,357,114	10,198,343
Trade and other receivables (less prepayments)	8,725,751	2,994,638	952,389	1,590,683
Cash and cash equivalents	14,476,343	19,098,314	925,004	2,888,125
Inter-company receivables	-	-	9,173,678	-
Loan and receivables inter-company	159,043,534	-	753,001,954	-
	414,712,934	112,864,683	773,410,139	14,677,151

Net investment in finance lease

The Group's ability to succeed is dependent on the financial strength of these customers and their ability to both compete effectively in the market place and manage the competitive environment in which they operate. If the lessee experiences financial difficulties, this may result in defaults or the early termination of the finance leases. At 31 December 2016, the Group operated as a finance lessor to two airlines (2015: two) and the Group operated as charter hirer to three charter lessees (2015: one).

The following table shows the percentage of assets held by each finance lessee and their geographical location for the Group and Company as at 31 December 2016:

Group		
Airline	**Geographical location**	**% of assets held**
1 Airline lessee	Russia	4,03%
1 Airline lessee	Kazakhstan	15.55%
3 Charter lessees	Malta	80.42%
		100%

Company		
Airline	**Geographical location**	**% of assets held**
1 Airline lessee	Russia	100%

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Net investment in finance lease (continued)

The following tables show the percentage of assets held by each finance lessee and their geographical location for the Group and Company as at 31 December 2015:

Group		
Airline	**Geographical location**	**% of assets held**
1 Airline lessee	Russia	11.24%
1 Airline lessee	Kazakhstan	43.64%
1 Charter lessee	Malta	45.13%
		100%

Company		
Airline	**Geographical location**	**% of assets held**
1 Airline lessee	Russia	100%

The tables below presents the credit and default risk relating to finance lease receivables by gross carrying amount:

	Neither past due nor impaired 2016 US$	**Past due and impaired 2016 US$**	**Past due and not impaired 2016 US$**	**Total 2016 US$**
Consolidated				
Measured at amortised cost:				
Net investment in finance lease	232,467,306	-	-	232,467,306
Company				
Measured at amortised cost:				
Net investment in finance lease	9,357,114	-	-	9,357,114

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Net investment in finance lease (continued)

	Neither past due nor impaired 2015 US$	Past due and impaired 2015 US$	Past due and not impaired 2015 US$	Total 2015 US$
Consolidated				
Measured at amortised cost:				
Net investment in finance lease	90,771,731	-	-	90,771,731
Company				
Measured at amortised cost:				
Net investment in finance lease	10,198,343	-	-	10,198,343

Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each lessee. The lessees operate in a competitive and volatile market and perform based on their ability to react and cope with the market conditions. If the lessees experience financial difficulties, it may result in a default or the early termination of the leases.

The Group mitigates credit risk by ensuring that appropriate procedures are in place. The Parent has a risk management team that assesses the creditworthiness of the lessee initially before entering a transaction and on an on-going basis. The relevant documentation is submitted to the directors when a transaction is being presented to the directors. The Group closely monitors the economic environment and has taken all the necessary efforts to support the economic stability of the Group in the current environment.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Trade and other receivables (continued)

The tables below present the receivables past due and the risk relating to the trade and other receivables by their carrying amount:

Consolidated	Neither past due nor impaired 2016 US$	Past due and impaired 2016 US$	Past due and not impaired 2016 US$	Total 2016 US$
Measured at amortised cost:				
Trade and other receivables (less prepayments)	6,553,624	4,137,036	2,172,127	12,862,787
Past due				
Past due 1-30 days	-	-	1,491,922	1,491,922
Past due 31-90 days	-	-	550,050	550,050
Past due 91-120 days	-	-	104,971	104,971
Past due > 120 days	-	4,137,036	25,184	4,162,220
	-	4,137,036	2,172,127	6,309,163

Company	Neither past due nor impaired 2016 US$	Past due and impaired 2016 US$	Past due and not impaired 2016 US$	Total 2016 US$
Measured at amortised cost:				
Trade and other receivables	952,383	-	6	952,389
Past due				
Past due 1-30 days	-	-	1	1
Past due 31-90 days	-	-	-	-
Past due 91-120 days	-	-	-	-
Past due > 120 days	-	-	5	5
	-	-	6	6

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Trade and other receivables (continued)

Consolidated	Neither past due nor impaired 2015 US$	Past due and impaired 2015 US$	Past due and not impaired 2015 US$	Total 2015 US$
Measured at amortised cost:				
Trade and other receivables	2,994,638	6,829,880	-	9,824,518
Past due				
Past due 1-30 days	-	-	-	-
Past due 31-90 days	-	589,800	-	589,800
Past due 91-120 days	-	1,672,183	-	1,672,183
Past due > 120 days	-	4,567,897	-	4,567,897
	-	6,829,880	-	6,829,880
Company				
Measured at amortised cost:				
Trade and other receivables	1,590,683	33,697	-	1,624,380
Past due				
Past due 1-30 days	-	-	-	-
Past due 31-90 days	-	-	-	-
Past due 91-120 days	-	-	-	-
Past due > 120 days	-	33,697	-	33,697
	-	33,697	-	33,697

Cash and cash equivalents
Cash and cash equivalents are not perceived as being exposed to significant credit risk as they are held in reputable banks or financial institutions. The Moody's credit long term rating of the banks in which the Company has held cash deposits is A1 (2015: A2) for Barclays Bank Plc Baa2 (2015: Baa2) for Bank of Ireland and A1 (2015: A1) for ICBC (London) PLC. There are no credit ratings available for the lessees. The directors monitor the credit ratings of the financial institutions and the financial performance of the lessees on a continuous basis.

Loans and receivables
Loans and receivables are recognised in the Statement of Financial Position initially at fair value and subsequently measured at amortised cost. Loans and receivables are from the Parent which is directly owned by the Russian Federation (100%) and managed by the Ministry of Transport of the Russian Federation. The latest Moody's credit rating for the Parent is Ba2. The directors regularly assess the loans for impairment. During the year, the directors assessed the loans for impairment and provided for the loans to the extent that they have concerns over their recoverability.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk is the risk that changes in market prices will affect the Company's income or the value of the Company's financial assets or other financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk. Market risk embodies the potential for both loss and gains and includes interest rate risk, currency risk and price risk. The Company is exposed to the market risk of the financial instruments.

(i) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company has fixed and variable interest rates on the loans and the facility agreements and is exposed to fluctuations in interest rates.

The following table details the Company's consolidated exposure to interest rate risks in 2016:

2016 Consolidated	**Non – Interest Bearing US$**	**Interest Bearing At fixed rate US$**	**Interest Bearing At variable rate US$**	**Total US$**
Net investment in finance lease	-	192,881,416	39,585,890	232,467,306
Cash and cash equivalents	14,476,343	-	-	14,476,343
Trade and other receivables (less prepayments)	8,725,751	-	-	8,725,751
Loans and other receivables	-	159,043,534	-	159,043,534
Total assets	**23,202,094**	**351,924,950**	**39,585,890**	**414,712,934**
Liabilities				
Finance lease liability	-	-	(510,483,276)	(510,483,276)
Loans (excluding debt issuance costs)	-	(587,779,423)	(174,713,500)	(762,492,923)
Security deposits	(6,428,000)	-	-	(6,428,000)
Trade and other payables (less tax payable)	(2,074,732)	-	-	(2,074,732)
Total liabilities	**(8,502,732)**	**(587,779,423)**	**(685,196,776)**	**(1,281,478,931)**
Net exposure	**14,699,362**	**(235,854,473)**	**(645,610,886)**	**(866,765,997)**

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The following table details the Company's consolidated exposure to interest rate risks in 2015:

2015 Consolidated	Non – Interest Bearing	Interest Bearing At fixed rate	Interest Bearing At variable rate	Total
	US$	US$	US$	US$
Net investment in finance lease	-	49,807,590	40,964,141	90,771,731
Cash and cash equivalents	19,098,314	-	-	19,098,314
Trade and other receivables	2,994,638	-	-	2,994,638
Total assets	**22,092,952**	**49,807,590**	**40,964,141**	**112,864,683**
Liabilities				
Finance lease liability	-	-	(551,939,965)	(551,939,965)
Loans	-	(166,590,551)	(288,062,262)	(454,652,813)
Security deposits	(4,440,000)	-	-	(4,440,000)
Trade and other payables	(2,321,686)	-	-	(2,321,686)
Total liabilities	**(6,761,686)**	**(166,590,551)**	**(840,002,227)**	**(1,013,354,464)**
Net exposure	**15,331,266**	**(116,782,961)**	**(799,038,086)**	**(900,489,781)**

As at the year end, the total variable interest bearing liabilities were US$685,196,776 (2015: US$840,002,227). The amount of interest paid during the year end on the variable interest bearing liabilities was US$40,439,700 (2015: US$37,430,965).The interest is calculated at a fixed rate of 3.9% - 4.85% (2015: 3.9% - 8.35%) plus 3M LIBOR rate. If the interest was to increase/decrease by 5% the interest payable on liabilities would increase/decrease by US$34,259,839 (2015: US$42,000,111).

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The following table details the Company's exposure to interest rate risks in 2016:

2016 Company	**Non – Interest Bearing**	**Interest Bearing At fixed rate**	**Interest Bearing At variable rate**	**Total**
Assets	**US$**	**US$**	**US$**	**US$**
Net investment in finance lease	-	9,357,114	-	9,357,114
Cash and cash equivalents	925,004	-	-	925,004
Loans and receivables	-	660,891,774	92,110,180	753,001,954
Trade and other receivables	952,389	-	-	952,389
Inter-company receivables	9,173,678	-	-	9,173,678
Total assets	**11,051,071**	**670,248,888**	**92,110,180**	**773,410,139**
Liabilities				
Finance lease liability	-	(198,907,434)	-	(198,907,434)
Loans (less debt issuance costs)	-	(599,295,695)	(174,713,500)	(774,009,195)
Security deposits	(4,440,000)	-	-	(4,440,000)
Trade and other payables	(2,884,416)	-	-	(2,884,416)
Total liabilities	(7,324,416)	(798,203,129)	(174,713,500)	(980,241,045)
Net exposure	**3,726,655**	**(127,954,241)**	**(82,603,320)**	**(206,830,906)**

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The following table details the Company's exposure to interest rate risks in 2015:

2015 Company	Non – Interest Bearing	Interest Bearing At fixed rate	Interest Bearing At variable rate	Total
	US$	US$	US$	US$
Assets				
Net investment in finance lease	-	10,198,343	-	10,198,343
Cash and cash equivalents	2,888,125	-	-	2,888,125
Loans and receivables	-	499,617,823	-	499,617,823
Other assets	2,901,063	-	-	2,901,063
Total assets	**5,789,188**	**509,816,166**	-	**515,605,354**
Liabilities				
Finance lease liability	-	(212,515,618)	-	(212,515,618)
Loans	-	(177,344,323)	(288,164,933)	(465,509,256)
Trade and other payables	(47,460,861)	-	-	(47,460,861)
Total liabilities	(47,460,861)	**(389,859,941)**	**(288,164,933)**	**(725,485,735)**
Net exposure	**(41,671,673)**	**119,956,225**	**(288,164,933)**	**(209,880,381)**

As at the year end, the total variable interest bearing liabilities was US$174,713,500 (2015: US$288,164,933). The amount of interest paid as the year end on the variable interest bearing liabilities was US$14,631,818 (2015: US$17,684,356).The variable interest is calculated at a fixed rate of 3.9% - 4.85% plus 3M LIBOR rate. If the interest was to increase/decrease by 5% the interest payable on liabilities would increase/decrease by US$8,735,675 (2015: US$14,408,247).

(ii) Foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to non US Dollar currencies is not significant. There is minimal foreign currency exposure due to minimal Euro expenses and the vast majority of assets/liabilities being held in US Dollar. As a result no sensitivity analysis has been included.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at an unacceptably high cost. If the Company cannot meet its obligations under the various debt arrangements or its capital commitments, it may be subject to contract breach damages and may even be unable to continue to operate on a going concern basis.

In the management of liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Company's operations and mitigate the effects of fluctuations in cash flows. It monitors the risk of shortage of funds by regular analysis of cash flow movements, forecasts and adherence to all loan agreements.

The Company's ability to repay loans to the Parent and third party lenders is dependent on receipt of payment by the lessees on a timely basis. The loans from the Parent are non-recourse. The monitoring of the risk has been outsourced to the Parent, who manages risk from the group perspective.

	Consolidated As at 31 December 2016 US$	Consolidated As at 31 December 2015 US$	Company As at 31 December 2016 US$	Company As at 31 December 2015 US$
Loans from related parties	(62,500,000)	(148,893,232)	(72,500,000)	(158,893,232)
Interest payable on related parties	(11,843,939)	(17,697,319)	(13,360,211)	(18,451,091)
Loans from third parties	(673,577,100)	(288,035,715)	(673,577,100)	(288,035,715)
Interest payable on third parties	(14,571,884)	(1,518,893)	(14,571,884)	(1,518,893)
Finance lease liability	(510,483,276)	(551,939,965)	(198,907,434)	(212,515,618)
Security deposits	(6,428,000)	-	(4,440,000)	-
Trade and other payables	(2,074,732)	(5,269,338)	(2,884,416)	(46,071,187)
	(1,281,478,931)	(1,013,354,462)	(980,241,045)	(725,485,736)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments as at 31 December 2016:

Consolidated 2016	Carrying amount US$	Contractual cash flows US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans from related parties	(74,343,939)	(75,846,507)	(75,846,507)	-	-
Loans from third parties	(688,148,984)	(834,217,291)	(130,351,276)	(703,866,015)	-
Finance lease liability	(510,483,276)	(626,225,621)	(64,193,444)	(251,262,567)	(310,769,610)
Security deposits	(6,428,000)	(6,428,000)	-	(5,778,000)	(650,000)
Trade payables	(2,074,732)	(2,074,732)	(2,074,732)	-	-
	(1,281,478,931)	(1,544,792,151)	(272,465,959)	(960,906,582)	(311,419,610)

Company 2016	Carrying amount US$	Contractual cash flows US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans from related parties	(85,860,211)	(87,362,779)	(87,362,779)	-	-
Loans from third parties	(688,148,984)	(834,217,291)	(130,351,276)	(703,866,015)	-
Finance lease liability	(198,907,434)	(229,397,912)	(23,640,000)	(189,975,000)	(15,782,912)
Security deposits	(4,440,000)	(4,440,000)	-	(3,790,000)	(650,000)
Trade payables	(2,884,416)	(2,884,416)	(2,884,416)	-	-
	(980,241,045)	(1,158,302,398)	(244,238,471)	(897,631,015)	(16,432,912)

The following are the contractual maturities of financial liabilities, including estimated interest payments as at 31 December 2015:

Consolidated 2015	Carrying amount US$	Contractual cash flows US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans from related parties	(166,590,551)	(184,235,187)	(156,492,437)	-	(27,742,750)
Loans from third parties	(289,554,608)	(312,675,540)	(118,043,449)	(194,632,091)	-
Finance lease liability	(551,939,965)	(690,904,468)	(65,341,847)	(252,648,028)	(372,914,593)
Other payables	(5,269,338)	(5,269,338)	(5,269,338)	-	-
	(1,013,354,461)	(1,193,084,533)	(345,147,071)	(447,280,119)	(400,657,343)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

Company 2015	Carrying amount US$	Contractual cash flows US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans from related parties	(177,344,323)	(194,988,959)	(167,246,209)	-	(27,742,750)
Loans from third parties	(289,554,608)	(312,675,540)	(118,043,449)	(194,632,091)	-
Finance lease liability	(212,515,618)	(253,037,912)	(23,640,000)	(136,595,000)	(92,802,912)
Trade payables	(46,071,187)	(46,071,187)	(46,071,187)	-	-
	(725,485,736)	(806,773,598)	(355,000,845)	(331,227,091)	(120,545,662)

(e) Operational risk exposure

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel and infrastructure, and from external factors other than credit, markets and liquidity issues such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company was incorporated with the purpose of engaging in those activities outlined in the preceding paragraphs. Payroll and taxation functions have been outsourced to the TMF Management (Ireland) Limited.

(e) Economic risk

The recent conflicts in Ukraine and related events have increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. The Group have taken all the necessary efforts to support the economic stability of the Group in the current environment.

30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table shows the carrying value and fair values of financial assets and liabilities. Where the carrying value of financial assets and financial liabilities is a reasonable approximation of fair value not adjustment to fair value recognised. Financial assets and liabilities are deemed to be within Level 2 of the fair value hierarchy.

Consolidated	As at 31 December 2016 US$ Carrying Value	As at 31 December 2016 US$ Fair Value	As at 31 December 2015 US$ Carrying Value	As at 31 December 2015 US$ Fair Value
Financial assets				
Net investment in finance lease	232,467,306	232,254,234	90,771,731	92,249,706
Cash and cash equivalents	14,476,345	14,476,345	19,098,314	19,098,314
Trade and other receivables	8,725,751	8,725,751	2,994,638	2,994,638
Loans and other receivables	159,043,534	158,010,598	-	-
Total financial assets	414,712,936	413,466,928	112,864,683	114,342,658
Liabilities				
Finance lease liability	(510,483,276)	(510,483,276)	(551,939,965)	(551,939,965)
Loans and borrowings	(762,492,923)	(749,734,579)	(454,652,813)	(450,633,717)
Security deposits	(6,428,000)	(3,446,323)	-	-
Trade and other payables	(2,074,732)	(2,074,732)	(6,761,686)	(6,761,686)
Total financial liabilities	(1,281,478,931)	(1,265,738,910)	(1,013,354,464)	(1,009,335,368)
Net financial liabilities	**(866,765,995)**	**(852,271,982)**	**(900,489,781)**	**(894,992,710)**

30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Company	As at 31 December 2016 US$ Carrying Value	As at 31 December 2016 US$ Fair Value	As at 31 December 2015 US$ Carrying Value	As at 31 December 2015 US$ Fair Value
Financial assets				
Net investment in finance lease	9,357,114	9,724,926	10,198,343	10,696,130
Cash and cash equivalents	925,004	925,004	2,888,125	2,888,125
Receivables	763,128,021	763,128,021	505,604,045	505,604,045
Total financial assets	773,410,139	773,777,951	518,690,513	519,188,300
Liabilities				
Finance lease liability	(198,907,434)	(198,907,434)	(212,515,618)	(212,515,618)
Loans and borrowings	(774,009,195)	(761,250,851)	(465,509,256)	(461,490,161)
Security deposits	(4,440,000)	(2,690,335)	-	-
Trade and other payables	(2,884,417)	(2,884,417)	(47,460,861)	(47,460,861)
Total financial liabilities	(980,241,046)	(965,733,037)	(725,485,735)	(721,466,640)
Net financial liabilities	**(206,830,907)**	**(191,955,086)**	**(206,795,222)**	**(202,278,340)**

The fair value of financial assets and financial liabilities are measured as the net present value of the future cashflows in relation to the financial assets and liabilities discounted at the underlying interest rate as adjusted for movements in market interest rates.

The future commitment to long term loans can be seen in note 22 and the future obligation under finance lease can be seen in note 21.

There have been no capital commitments other than those stated above as at 31 December 2016.

There were no contingent liabilities at 31 December 2016 (2015: nil). Contingent liabilities are assessed continually to determine whether transfers of economic benefits have become probable. Where future transfers of economic benefits change from previously disclosed contingent liabilities, provisions are recognised in the year in which the changes in probability occur.

31. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

Key management comprises of five directors. Directors' fees and remuneration are disclosed at note 9.

There were no other contracts of any significance in relation to the business of the Company in which the directors had any interest, as defined in the Companies Act 2014, at any time during the period.

Parent and ultimate controlling party

The Group and Company has entered into one loan agreement (2015: six loan agreements) with the Parent as at the year end. The principal outstanding on this loan was US$62,500,000 (2015: US$148,893,232). As at the year end the outstanding amount with the Parent is US$74,343,939 (2015: US$166,590,551). Interest payable on the loan is at a fixed rate of 7.5% (2015: average rate 8.17%).

During the year, the Company issued three loans to the Parent. The first was for $175,000,000, the second was for $51,000,000 and the third was for $49,000,000. All three loans are at a fixed interest rate of 6.7%.

During the year, the Company provided a guarantee to a third party financier as security for the Ultimate Parent's obligations. Pursuant to the guarantee, the Company, as guarantor, guaranteed to the third party financier the payment, discharge and performance by the Ultimate Parent of all the present and future liabilities under the facilities or any unpaid portion thereof. The guarantee will continue in force until the Ultimate Parent discharges in full all obligations under the facilities.

During the year, the Ultimate Parent provided a guarantee to the Company in respect of the $500,000,000 guaranteed notes it issued. As security for the Company's obligations under the notes, the Ultimate Parent guaranteed to the trustee of the notes the payment of principal and/or interest and/or any other amounts payable under the notes. The Ultimate Parent's obligations under the guarantee are continuing and will remain in force until all sums under the guaranteed bonds have been discharged. Pursuant to the guarantee, the Ultimate Parent has also provided an indemnity to the trustee for any cost, losses and expenses incurred as a result of the recovery of any amounts due to the trustee by the Company.

32. SIGNIFICANT SUBSEQUENT EVENTS

In February 2017, GTLK Malta Three Limited entered into a purchase agreement for one new vessel. This vessel has in turn been leased under a finance lease agreement to a third party bareboat charterer. This transaction was financed by a loan from GTLK Europe Designated Activity Company which is repayable within 10 days of presentation of an invoice stating the amount of principal and interest that is due.

In December 2016, the Company signed a Letter of Intent to acquire the shares of another company which owns four Airbus A321-211 aircraft which are currently on lease to a third party airline. Upon signing the Letter of Intent, the Company paid a refundable deposit of $5,000,000 to the seller. In January 2017 this deposit was refunded to the Company and as of the date of this report negotiations are ongoing.

32. SIGNIFICANT SUBSEQUENT EVENTS (CONTINUED)

On 22 February 2017, the Company incorporated two new subsidiaries, STLC Europe Seven Leasing Limited and STLC Europe Eight Leasing Limited. At the date of this report the only transactions that have occurred in the company are administration expenses.

There have been no other significant subsequent events since the year end until the date of signing of this report that would require adjustment or disclosure in these financial statements.

33. CHARGES

The Company has sixteen charges registered with the Companies Registration Office ("CRO") in favour of a number of third-party financiers.

GTLK 5 737 Limited has one charge registered with the Companies Registration Office in favour of a third party financier.

STLC Europe One Leasing Limited has eleven charges registered with the Companies Registration Office, in favour of a third-party financier.

STLC Europe Two Leasing Limited has five charges registered with the Companies Registration Office in favour of a third party financier.

STLC Europe Three Leasing Limited has eight charges registered with the Companies Registration Office in favour of a number of third party financiers.

34. IMMEDIATE AND ULTIMATE PARENT COMPANY

The Company is a wholly owned subsidiary of PJSC "State Transport Leasing Company", a company incorporated under the laws of the Russian Federation with a registered address at Room 100, Bld. 73, ul. Respubliki, Salekhard, Yamalo-Nenetsky Avtonomny Okrug, Russian Federation, 629008 (the "Parent"). On 9 February 2015, OJSC State Transport Leasing Company changed its form of incorporation from OJSC to PJSC in accordance with changes in the laws of the Russian Federation and changed its registered address from Building 1, 31A Leningradsky Prospect, Moscow, Russia, 125284 to the above mentioned.

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board and authorised for issue on 28 March 2017.

Company Registration Number: 512927

GTLK EUROPE LIMITED

ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

KPMG

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GTLK EUROPE LIMITED

We have audited Group and Company financial statements ("financial statements") of GTLK Europe Limited for the year ended 31 December 2015 which comprise Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK & Ireland)

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

In our opinion the financial statements:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2015 and of its results for the year then ended;
- the Company statement of financial position gives a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2015;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2014; and
- the Group financial statements and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

2 Our conclusions on other matters on which we are required to report by the Companies Act 2014 are set out below

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

3 We have nothing to report in respect of matters on which we are required to report by exception

ISAs (UK & Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GTLK EUROPE LIMITED
(continued)

***3 We have nothing to report in respect of matters on which we are required to report by exception** (continued)*

In addition, the Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made.

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of Directors' Responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Killian J Croke

Killian Croke *14 June 2016*
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
IFSC
Dublin 1

GTLK EUROPE LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Year ended 31 December 2015 US$	Year ended 31 December 2014 US$
Revenue			
Lease income	3	114,857,826	64,917,810
Other income	5	2,298,924	470,001
Total income		**117,156,750**	**65,387,811**
Provision for bad debts	6	(6,865,829)	(1,351,591)
Impairment	6	(471,555)	(515,859)
Operating expenses	7	(55,735,343)	(28,396,087)
Foreign exchange loss		(30,873)	(149,604)
Total expenses		**(63,103,600)**	**(30,413,141)**
Profit from operating activities		**54,053,150**	**34,974,670**
Finance income	4	2,661	57,802
Finance costs	8	(49,149,779)	(32,265,216)
Profit before taxation		**4,906,032**	**2,767,256**
Tax on ordinary activities	11	(2,520,494)	(119,432)
Total comprehensive income attributable to owners of the group		2,385,538	2,647,824

All amounts relate to continuing operations.

The accompanying notes on pages 20 to 79 form an integral part of these financial statements.

The financial statements were approved by the board and authorised for issue on 14 June 2016 and signed on its behalf by:

Mikhail Podkhvatilin
Director

Patrick Flynn
Director

GTLK EUROPE LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Notes	As at 31 December 2015 US$	As at 31 December 2014 US$
Non-current assets			
Property, plant and equipment	12	901,509,459	503,594,794
Net investment in finance lease	14A	85,056,356	76,521,291
Other assets	15	7,170,997	7,893,032
		993,736,812	588,009,117
Current assets			
Net investment in finance lease	14A	5,715,375	8,236,290
Cash and cash equivalents	17	19,098,314	11,261,023
Trade and other receivables	18	2,994,638	7,708,573
Loans and other receivables	19	-	-
Asset held for sale	13	800,000	950,000
		28,608,327	28,155,886
Total assets		**1,022,345,139**	**616,165,003**
Non-current liabilities			
Security deposits	20	(4,440,000)	(4,990,020)
Finance lease liability	21A	(510,483,276)	(193,739,965)
Loans and borrowings	22	(198,246,957)	(311,768,233)
		(713,170,233)	(510,498,218)
Current liabilities			
Finance lease liability	21A	(41,456,689)	(14,896,694)
Deferred income	23	(5,730,282)	(1,034,491)
Trade and other payables	24	(4,304,370)	(1,503,764)
Loans and borrowings	22	(256,405,856)	(89,339,665)
		(307,897,197)	(106,774,614)
Total liabilities		**(1,021,067,430)**	**(617,272,832)**
Net assets / (liabilities)		**1,277,709**	**(1,107,829)**
Equity			
Share capital	27	12,429	12,429
Capital contribution	28	3,076,000	3,076,000
Retained earnings / (losses)		(1,810,720)	(4,196,258)
Equity attributable to owners of the group		**1,277,709**	**(1,107,829)**

The accompanying notes on pages 20 to 79 form an integral part of these financial statements. The financial statements were approved by the board and authorised for issue on 14 June 2016 and signed on its behalf by:

Mikhail Podkhvatilin
Director

Patrick Flynn
Director

GTLK EUROPE LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Notes	As at 31 December 2015 US$	As at 31 December 2014 US$
Non-current assets			
Property, plant and equipment	12	209,103,767	226,110,348
Net investment in finance lease	14B	9,357,114	10,198,343
Investment in subsidiary	26	3,085,159	3,084,579
Loans and receivables inter-company	16	499,617,823	404,364,502
		721,163,863	643,757,772
Current assets			
Net investment in finance lease	14B	841,229	757,490
Cash and cash equivalents	17	2,888,125	7,734,199
Deferred tax asset	11	-	281,636
Trade and other receivables	18	1,590,683	5,197,446
Inter-company receivables	25	1,310,380	571,550
Asset held for sale	13	-	950,000
		6,630,417	15,492,321
Total assets		**727,794,280**	**659,250,093**
Non-current liabilities			
Security deposits	20	(4,440,000)	(4,440,020)
Finance lease liability	21B	(198,907,434)	(212,524,577)
Loans and borrowings	22	(198,271,178)	(311,768,233)
		(401,618,612)	(528,732,830)
Current liabilities			
Deferred income	23	(1,262,258)	(180,822)
Finance lease liability	21B	(13,608,184)	(13,004,081)
Trade and other payables	24	(43,020,861)	(19,242,695)
Deferred tax liability	11	(313,468)	-
Loans and borrowings	22	(267,238,078)	(99,793,832)
		(325,442,849)	(132,221,430)
Total liabilities		**(727,061,461)**	**(660,954,260)**
Net assets / (liabilities)		**732,819**	**(1,704,167)**
Equity			
Share capital	27	12,429	12,429
Capital contribution	28	3,076,000	3,076,000
Retained losses		(2,355,610)	(4,792,596)
Equity attributable to owners of the group		**732,819**	**(1,704,167)**

The accompanying notes on pages 20 to 79 form an integral part of these financial statements. The financial statements were approved by the Board and authorised for issue on 14 June 2016 and signed on its behalf by:

Mikhail Podkhvatilin
Director

Patrick Flynn
Director

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2015

	Share capital US$	Retained earnings US$	Capital contribution US$	Total US$
At beginning of year	12,429	(4,196,258)	3,076,000	(1,107,829)
Profit for the year	-	2,385,538	-	2,385,538
As at 31 December 2015	12,429	(1,810,720)	3,076,000	1,277,709

AS AT 31 DECEMBER 2014

	Share capital US$	Retained earnings US$	Capital Contribution US$	Total US$
At beginning of year	12,429	(6,844,082)	-	(6,831,653)
Profit for the year	-	2,647,824		2,647,824
Capital Contribution	-	-	3,076,000	3,076,000
As at 31 December 2014	12,429	(4,196,258)	3,076,000	(1,107,829)

COMPANY STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2015

	Share capital US$	Retained earnings US$	Capital contributio US$	Total US$
At beginning of year	12,429	(4,792,596)	3,076,000	(1,704,167)
Profit for the year	-	2,436,986	-	2,436,986
As at 31 December 2015	12,429	(2,355,610)	3,076,000	732,819

AS AT 31 DECEMBER 2014

	Share capital US$	Retained earnings US$	Capital Contribution US$	Total US$
At beginning of year	12,429	(5,587,172)	-	(5,574,743)
Profit for the year	-	794,576	-	794,576
Capital Contribution	-	-	3,076,000	3,076,000
As at 31 December 2014	12,429	4,792,596	3,076,000	(1,704,167)

GTLK EUROPE LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Year ended 31 December 2015 US$	Year ended 31 December 2014 US$
Cashflows from operating activities			
Operating profit		2,385,538	2,647,824
Adjustments for:			
Depreciation	7/12	52,036,003	25,253,487
Amortisation of capitalised costs	8	(34,020)	619,423
Impairment	6	-	515,859
Lease incentive amortization		-	(178,762)
Amortisation of deferred fee	7	722,035	722,036
Amortisation of issuance costs	8	648,968	353,365
Provision for bad debts – finance and operating lease receivable	6	6,829,880	-
Impairment provision – net investment in finance lease	6	471,555	-
Interest income	4	(2,661)	-
Gain on transfer to/from finance lease	5	(2,038,247)	-
Decrease in trade receivables		(2,115,945)	(7,055,066)
Increase / (decrease) in trade payables		7,496,398	(4,278,666)
Increase in interest payable on loans from parent		10,987,714	
Net cash inflows from operating activities		77,387,218	18,599,500
Cashflows from investing activities			
Purchase of aircraft – sold under finance lease		-	(12,131,947)
Principal repayments under finance lease		7,501,944	-
Purchase of fixed assets	12	(462,666,049)	(133,847,780)
Interest received		2,661	-
Security deposit (refunded) / received		(550,020)	2,655,020
Proceeds on disposal of asset held for sale	13	950,000	-
Repayment of loans and advances receivable		-	106,082
Net cash outflows from investing activities		(454,761,464)	(143,218,625)
Cashflows from financing activity			
Capital Contribution from Parent	28	-	3,076,000
Finance lease liability draw down		375,000,000	-
Principal repayments under finance lease		(31,696,694)	(14,943,341)
Third party loans drawn down	22	50,000,000	-
Third party loans repaid		(28,213,479)	(8,667,151)
Third party loan facility fee		(660,290)	
Loans drawn down from parent	22	23,375,000	132,900,000
Repayment of loans from parent		(2,593,000)	(13,021,068)
Net cash inflows from financing activity		385,211,537	99,344,440
Net increase / (decrease) in cash and cash equivalents during the year		7,837,291	(25,274,685)
Cash and cash equivalents at the beginning of the year	17	11,261,023	36,535,708
Cash and cash equivalents at the end of the year	17	19,098,314	11,261,023

GTLK EUROPE LIMITED
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Year ended 31 December 2015 US$	Year ended 31 December 2014 US$
Cashflows from operating activities			
Operating profit		2,436,986	794,576
Adjustments for:			
Depreciation	12	16,714,974	10,870,379
Amortisation of capitalised costs	12	320,362	283,489
Impairment		-	515,859
Amortisation of issuance costs		591,351	353,365
Interest income	4	(2,166)	-
Decrease / (Increase) in trade receivables		2,867,932	(4,874,667)
Increase in trade payables		25,454,686	20,745,472
Increase in interest payable on loans from parent		10,987,714	-
Net cash inflows from operating activities		59,371,839	28,688,473
Cashflows from investing activities			
Finance lease asset		757,491	3,544,167
Purchase of fixed assets	12	(28,755)	(112,233,501)
Interest received	4	2,166	-
Sale of current assets	13	950,000	-
Investment in subsidiary undertakings	26	(580)	(3,081,978)
Net cash inflows / (outflows) from investing activities		1,680,322	(111,771,312)
Cashflows from financing activity			
Issue of loans		(95,253,322)	(145,354,877)
Capital contribution from Parent	28	-	3,076,000
Finance lease liability (repayment) / draw down		(13,013,040)	101,528,659
Third party loans drawn down	22	50,000,000	-
Third party loan repaid		(28,213,478)	(8,667,151)
Third party loan facility fee		(500,000)	
Loans drawn down from subsidiary		299,605	10,454,167
Loans drawn down from parent	22	23,375,000	132,900,000
Loans drawn down from parent repaid		(2,593,000)	(13,021,059)
Net cash (outflows) / inflows from financing activities		(65,898,235)	80,915,739
Net decrease in cash and cash equivalents during the year		(4,846,074)	(2,167,100)
Cash and cash equivalents at the beginning of the year	17	7,734,199	9,901,299
Cash and cash equivalents at the end of the year	17	2,888,125	7,734,199

1. GENERAL INFORMATION

GTLK Europe Limited ("the Company") is a limited liability company incorporated, under the Companies Acts 2014 of Ireland, with a company number 512927. The Company was incorporated on 9 May 2012 and is resident in Ireland. The Company is a wholly owned subsidiary of PJSC "State transport leasing company", (the "Parent") a company incorporated under the laws of the Russian Federation. As at 31 December 2015, the Company had incorporated fifteen subsidiaries (the "Subsidiaries"), (together "the Group").

As a holding company, GTLK Europe Limited has taken advantage of the exemption from the requirement to publish a separate profit and loss account from the Group under S304 of the Companies Act 2014.

2. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with IFRS as adopted by the European Union ("EU"). The Directors of the Company are of the view that the Company will continue as a going concern.

Going concern

The financial statements are prepared on a going concern basis, as the Group earned a profit before tax during the year of US$4,906,032 (2014: profit US$2,767,256) and has net assets of US$1,277,709 (2014: net liabilities US$1,107,829). The Company also earned a profit during the year before tax of US$3,032,090 (2014: profit US$512,940) and had net assets of US$732,819 (2014: net liabilities US$1,704,167).

The Group and the Company have cash and cash equivalents at the year-end of US$19,098,314 and US$2,888,125 (2014: US$11,261,023 and US$7,734,199) respectively.

As at 31 December 2015, the Group and Company have current liabilities $307,897,197 and $325,442,849, respectively. The majority of these liabilities relate to loans from the parent and third party loans. The Company entered into two loan arrangements during 2013 which will mature in installments through 2016-2018 with significant repayments starting in 2016. The Company also entered into a new loan arrangement in April 2015 which will mature in installments through 2015 – 2017. These facilities are guaranteed by the Parent. The average lease period is ten years. The directors acknowledge that the facility agreements are due to mature before the leases.

The Group expects to generate sufficient cash flows from the leases and the Parent has confirmed that it will continue to provide support to enable the Group to meet its obligations under the facility agreements and to provide for extensions on the loans payable to the Parent. In addition, the Company considers refinancing part of its obligations through additional loan facility agreements in 2016.

2. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

During the year the Group entered into agreements to purchase three new aircraft. These aircraft have in turn been leased under operating leases to a third party airlines. The directors plan to enter into further agreements to purchase additional aircraft. It is expected that these new aircraft will be leased at a profit and will provide a further cash inflow to the Group and Company to help support the ongoing operations.

The directors believe that the Group and the Company is a going concern and have sufficient resources to meet the day to day expenses of the Group and the Company. They have also received a letter of support from the Parent confirming that the Parent will continue to support the Group and Company for a period of at least 12 months from the date of signing of the financial statements.

As with any Group placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Basis of measurement

The financial statements are stated in United States Dollars ("US$"), the functional currency of the Company. The Directors of the Company believe that US$ most accurately represents the economic effects of underlying transactions, events and conditions.

Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Financial Statements.

IFRS applied in the preparation of these Financial Statements are those that were effective at 31 December 2015.

Standards, amendments and interpretations that are effective from 1 January 2015 and adopted by the Company during the reporting periods:

Annual Improvements to IFRSs 2011-2013 Cycle

- **IFRS 1 First-time adoption of IFRS: meaning of 'effective IFRSs'.**

  This amendment to IFRS 1 clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application. An entity is required to apply the same version of the IFRS throughout the periods covered by those first IFRS financial statements.

2. ACCOUNTING POLICIES (CONTINUED)

Standards, amendments and interpretations that are effective from 1 January 2015 and adopted by the Company during the reporting periods (continued):

- **IFRS 3 Business Combinations: scope exceptions for joint ventures.**

  This amendment to IFRS 3 excludes the formation of all types of joint arrangements from its scope and clarifies that the scope exclusion is the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- **IFRS 13 Fair Value Measurement: scope of paragraph 52 (portfolio exception).**

  This amendment to IFRS 13 confirms that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the 'portfolio exception') includes all contracts within the scope of, and accounted for, in accordance with IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32.

- **IAS 40 Investment Property: clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.**

  The amendment to IAS 40 confirms that an entity that acquires investment property has to determine whether the acquisition meets both the definition of a business combination as well as investment property.

These amendments do not have a significant impact on the financial position or performance of the Company.

Accounting standards in issue that are not yet effective and have not been early adopted:

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early; instead it will apply them from their effective dates as determined by their dates of EU endorsement. The expected impacts of these upcoming requirements on the Group are noted below.

1. **IAS 19 Amendment: *Defined Benefit Plans; Employee Contributions***

   These narrow scope amendments apply to contributions from employees or third parties to benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. These amendments are not expected to have a significant impact on the Financial Statements upon application.

2. **Annual Improvements to IFRSs 2010-2012 Cycle**

   As part of its annual improvements process, the IASB has published non-urgent but necessary amendments to IFRS. Together, the two cycles cover a total of nine standards, with consequential amendments to other standards. The amendments apply prospectively for annual periods beginning on or after 1 July 2014. The topics covered in these revisions are listed below.

- IFRS 2 Share-based Payment: definition of a vesting condition.

2. ACCOUNTING POLICIES (CONTINUED)

Accounting standards in issue that are not yet effective and have not been early adopted (continued):

- IFRS 3 Business Combinations: accounting for contingent consideration in a business combination.
- IFRS 8 Operating Segments: (i) aggregation of operating segments and (ii) reconciliation of the total of the reportable segments' assets to the entity's assets.
- IFRS 13 Fair Value Measurement: short-term receivables and payables.
- IAS 16 Property, Plant and Equipment: revaluation method – proportionate restatement of accumulated depreciation.
- IAS 24 Related Party Disclosures: key management personnel services.
- IAS 38 Intangible Assets: revaluation method; proportionate restatement of accumulated amortisation.

These amendments are not expected to have a significant impact on the Financial Statements upon application.

3. Amendments to IFRS 11: *Accounting for acquisitions of interests in Joint Operations.*

This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance of IFRS 11. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. These amendments are not expected to have a significant impact on the Financial Statements upon application.

4. IFRS 14: *Regulatory Deferral Accounts*

IFRS 14 Regulatory Deferral Accounts permits a first time adopter of IFRS to continue to use, in its first and subsequent IFRS financial statements, its previous GAAP accounting policies for the recognition, measurement, impairment and de-recognition of regulatory deferral account balances. The main requirements of the standard are that it requires entities to present regulatory deferral account balances as separate line items in the statement of financial position and to present movements in those account balances as separate line items in the statement of profit or loss and other comprehensive income, and also requires specific disclosures to identify the nature of, and risks associated with the rate regulation. These amendments are not expected to have a significant impact on the Financial Statements upon application.

2. ACCOUNTING POLICIES (CONTINUED)

Accounting standards in issue that are not yet effective and have not been early adopted (continued):

5. **Amendments to IAS 16 and IAS 38:** ***Clarification of acceptable methods of depreciation and amortisation***

IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The objective of the amendments is to ensure that preparers do not use revenue-based methods to calculate charges for the depreciation or amortisation of items of property, plant and equipment or intangible assets. This is because a revenue-based method reflects a pattern of economic benefits being generated from the asset, rather than the expected pattern of consumption of the future economic benefits embodied in the asset. These amendments are not expected to have a significant impact on the Financial Statements upon application.

6. **Amendments to IAS 16 and IAS 41:** ***Bearer plants***

IAS 41 currently requires all biological plants related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. A subset of biological assets known as Bearer plants are used solely to grow produce over several periods. The IASB have decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16, because their operation is similar to that of manufacturing. While bearer plants will be accounted for under IAS 16, the produce that grows on them will continue to be accounted for under IAS 41. These amendments are not expected to have a significant impact on the Financial Statements upon application.

7. **Amendments to IAS 27:** ***Equity Method in Separate Financial Statements***

The amendments to IAS 27 permit the use of the equity method in separate financial statements, and apply to the accounting for subsidiaries, joint ventures and associates. When an entity prepares separate financial statements, it shall now account for subsidiaries, joint ventures and associates using either of the three following methods:

(i) Cost;
(ii) In accordance with IFRS 9 / IAS 39; or
(iii) Using the equity method as described in IAS 28.

These amendments are not expected to have a significant impact on the Financial Statements upon application.

8. **Amendments to IFRS 10 and IAS 28:** ***Sale or contribution of assets between an investor and its associate or joint venture***

The amendments to IFRS 10 and IAS 28 address an inconsistency between the two standards in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are housed in a subsidiary. These amendments are not expected to have a significant impact on the Financial Statements upon application.

2. ACCOUNTING POLICIES (CONTINUED)

Accounting standards in issue that are not yet effective and have not been early adopted (continued):

9. Amendments to IFRS 10, IFRS 12 and IAS 28: ***Investment entities: exception to consolidation***

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value through profit or loss. The amendments also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow an investor, when applying the equity method to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The consequential amendments to IFRS 12 clarify that investment entities that measure their subsidiaries at fair value through profit or loss shall present the disclosures relating to investment entities required by IFRS 12. These amendments are not expected to have a significant impact on the Financial Statements upon application.

10. Amendments to IAS 1: ***Disclosure Initiative***

The following narrow scope amendments have been made to IAS 1 under the Disclosure Initiative:

- Materiality and aggregation: clarifies that an entity should not obscure useful information by aggregating or disaggregating information. It also clarifies that materiality considerations apply to the primary financial statements, notes and any other specific requirements in IFRS so that disclosures specifically required by IFRSs are only required where the information is material.

- Statement of financial position, statement of profit or loss, statement of other comprehensive income: clarifies that the line items specified by IAS 1 for these statements can be aggregated or disaggregated as relevant.

- Presentation of items of other comprehensive income: clarifies that an entity's share of other comprehensive income of equity accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not the item will subsequently be reclassified to profit or loss.

- Notes to the financial statements: clarifies that entities have flexibility when designing the structure of the notes and provides guidance on how to determine a systematic order of the notes.

These amendments are not expected to have a significant impact on the Financial Statements upon application.

11. Annual Improvements to IFRSs 2012-2014 Cycle

As part of its annual improvements process, the IASB has published non-urgent but necessary amendments to IFRS. The topics covered in these revisions are listed below.

Annual Improvements to IFRSs 2012-2014 Cycle

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal.

2. ACCOUNTING POLICIES (CONTINUED)

Accounting standards in issue that are not yet effective and have not been early adopted (continued):

- IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1): Provides additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required.

- IAS 19 Employee Benefits: Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

- IAS 34 Interim Financial Reporting: Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

These amendments are not expected to have a significant impact on the Financial Statements upon application.

12. IFRS 15: *Revenue from contracts with customers*

IFRS 15 establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cashflows arising from a contract with a customer. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. These amendments are not expected to have a significant impact on the Financial Statements upon application.

13. IFRS 9 Financial Instruments (2014)

IFRS 9 Financial Instruments issued on 24 July 2014 is the IASB's replacement of IAS 39's *Financial Instruments: Recognition and Measurement*. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Recognition and measurement

The recognition and measurement of financial assets under IFRS 9 is built on a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cashflow characteristics. The recognition of financial liabilities under IFRS 9 carries forward the treatment of IAS 39, except that IFRS 9 does introduce new requirements for the accounting for and presentation of changes in the fair value of an entity's own debt when the entity has chosen to measure the debt at fair value using the fair value option. IFRS 9 requires that the changes in the fair value of an entity's own credit risk should be recognised in other comprehensive income rather than the profit or loss.

Impairment

IFRS 9 requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. This model is forward looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised. Consequently more timely information is required to be provided about expected credit losses. Specifically, IFRS 9 requires an entity to base its measurement of expected credit losses on

2. ACCOUNTING POLICIES (CONTINUED)

Accounting standards in issue that are not yet effective and have not been early adopted (continued):

13. IFRS 9 Financial Instruments (2014) (continued)

reasonable and supportable information that is available without undue cost or effort, and that includes historical, current and forecast information. In addition, the same impairment model is applied to all financial assets subject to impairment accounting.

Hedge accounting

IFRS 9 introduces a substantial revision to hedge accounting requirements which will allow entities better reflect their risk management activities in their financial statements. The revision was issued in a response to concerns of preparers of financial statements about the difficulty of appropriately reflecting management activities in financial statements, the changes also address concerns raised by users of the financial statements about the difficulty of understanding hedge accounting.

The version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted (subject to local endorsement requirements). For a limited period, previous versions of IFRS 9 may be adopted early if not already done so provided the relevant date of initial application is before 1 February 2015. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

These amendments are not expected to have a significant impact on the Financial Statements upon application.

Significant accounting judgements and estimates

The preparation of the financial statements requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates with revisions being recognised prospectively.

Estimates and underlying assumptions are reviewed on an ongoing basis. Information about estimates and underlying assumptions that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is included in the following accounting policies:

- Assessment of leases
- Recoverability of finance lease receivables
- Property, plant and Equipment (impairment, depreciation)
- Recoverability of loans and receivables

See the specific accounting policies for more detail of the judgements and estimates used.

2. ACCOUNTING POLICIES (CONTINUED)

The following accounting policies have been applied in the Statement of Comprehensive Income and the Statement of Financial Position:

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transaction with equity- accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Loans and borrowings

Loans and borrowings are initially booked at fair value less transaction costs and subsequently measured at amortised cost in the Statement of Financial Position using the effective interest method.

Lease revenue

Revenue from aircraft on operating lease is recognised as lease revenue over the term of the lease. The rental received under an operating lease is recorded on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Lease revenue received but unearned under the lease agreements are recorded in "Deferred income" on the Statement of Financial Position until earned.

Supplemental rent is recorded as lease revenue in the Statement of Comprehensive Income. Supplemental rent is maintenance reserves that are paid by the lessee for future maintenance costs that may be incurred.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date i.e. whether 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 where the Company does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases.

2. ACCOUNTING POLICIES (CONTINUED)

Investment in finance leases

A finance lease is a lease under the terms of which substantially all the risks and rewards of ownership of the underlining asset are transferred to the lessee.

The net investment in finance leases is recorded by the Company in the Statement of Financial Position as the present value of total minimum lease payments less finance charges allocated to future periods. Finance charges are allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

Impairment is recognised against the net investment in finance leases, if required, for such items as bad and doubtful rentals receivable.

Property, plant and equipment

Aircraft are recorded at cost of the individual components, net of any manufacturer credits and inclusive of applicable technical and legal costs, less accumulated depreciation and impairment loss. Interest and other costs that are directly attributable to the financing of process payments for aircraft are capitalised as part of the cost of those assets.

The Company have adopted component based depreciation on all of its aircraft which it holds, in which the annual depreciation amount is determined based on the computation of the forecast utilisation of the engine and the predicted cost of future maintenance. The annual depreciation amount for each engine based on component based depreciation is reviewed annually and adjusted if necessary.

Depreciation is calculated to write off the cost of each component of the aircraft, less its estimated residual value, on a straight-line basis over its estimated useful life "EUL" from the date of manufacture in the case of the airframe or from the last maintenance event in the case of other components. The estimates of useful lives and residual values are reviewed periodically.

The following table outlines the estimated remaining useful life and residual values of the aircraft components as at 31 December 2015:

2. ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Aircraft Component	Type 2 Average EUL in months	Average RV	Type 3 Average EUL in months	Average RV	Type 4 Average EUL in months	Average RV
6 year /8 year check	53	-	46	-	86	-
10 year check	22	-	n/a	-	n/a	-
12 year check	41	-	118	-	n/a	-
Landing gear	15	-	94	-	110	-
APU	37	-	3	-	11	-
Engine	51	-	67	-	34	-
Life Limited Parts	56	-	118	-	135	-
Residual Airframe	194	$2,740,859	274	$4,142,363	290	$12,140,539

The following table outlines the estimated remaining useful life and residual values of the aircraft components as at 31 December 2014:

Aircraft Component	Type 1 Average EUL in months	Average RV	Type 2 Average EUL in months	Average RV	Type 3 Average EUL in months	Average RV
6 year /8 year check	96	-	20	-	60	-
10 year /12 year check	n/a	-	48	-	132	-
Landing gear	58	-	30	-	108	-
APU	48	-	18	-	56	-
Engine	33	-	43	-	132	-
Life Limited Parts	108	-	15	-	132	-
Residual Airframe	120	$2,150,000	216	$3,650,000	288	$5,286,685

During the year there was a change in technical service provider, with information being provided by FL Technics. As a result of this change, a review of technical event cost estimates throughout the fleet was carried out. The following table outlines the effect of these changes in estimates on the current year depreciation charge to the accounts and subsequent years:

	2015	2016	2017	2018	2019	2020 Onwards
Increase / (decrease) in depreciation charge	2,813,416	2,596,089	1,887,632	3,659,756	6,716,356	(15,373,863)

2. ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Aircraft are assessed for recoverability in accordance with IAS 36-Impairment of Assets ("IAS 36"), whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Impairment loss is charged to reduce the carrying value of specific assets to their recoverable amount where an impairment is considered to have occurred. Where the recoverable amount is greater than the carrying value no adjustment is made to the carrying value unless the asset was previously impaired. For the purpose of measuring an impairment loss, each aircraft is tested individually by comparing carrying value to recoverable amount. Recoverable amount is the higher of the net realisable value and value in use. Net realisable value is the amount at which an asset could be disposed of less any direct selling costs. The Directors estimate the net realisable value using aircraft specific "half life" appraiser values. The Directors then estimate the amounts required to adjust the "half life" values to reflect the specific maintenance condition of the aircraft.

Value in use is the present value of future cash flows. The key inputs into the value in use calculation are the current contracted rent receipts per the lease agreement, projected maintenance income based on the estimated utilisation in the future, projected maintenance expenses based on third party reports and estimated residual value of the aircraft supplied by an independent appraiser.

In determining the present value of future cash flows the Directors are of the view that the use of a range from 7.13% to 9% discount rate is reasonable. This represents the Directors view of what a market participant would apply to equally risky assets.

Computer and software equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis over the useful life of 3 years.

Finance lease income

Finance lease income is recognised at a constant periodic rate of return commencing from lease inception.

Finance expense

Interest expense is recognised on an accrual basis by reference to the principal outstanding using the effective interest rate method.

Dividends

Dividends are recognised in the financial statements when they have been appropriately approved or authorised by the Directors.

2. ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

Functional and presentation currency

The financial statements are presented in United States Dollars ("US$"), the functional currency of the Company. The Directors of the Company believe that US$ most accurately represents the economic effects of underlying transactions, events and conditions.

Foreign currency transactions

Transactions in foreign currencies are translated to US$ at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities are retranslated to the functional currency at the currency rate ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency rate are translated using the exchange rate as at the date of initial transaction. Profit or losses arising from foreign currency translation and on settlement of amounts receivable and payable in other currencies are dealt with in the Statement of Comprehensive Income.

Taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rate enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary difference between the carrying amounts of assets and liabilities for the financial reporting purposes and the amount used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future profits will be available against which they can be used. Deferred tax assets are reviewed at reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profit will be available against which they can be used. Deferred tax assets and liabilities are offset only if certain criteria are met.

Lease acquisition costs

Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

2. ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. The total amount of interest paid during a year is disclosed in the cash flows statement whether it has been recognised as an expense in profit or loss or capitalised.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits repayable on demand with any qualifying financial institution, less overdrafts from any qualifying financial institution repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed. Cash includes cash in hand and deposits denominated in foreign currencies.

Trade debtors

Trade debtors are stated net of impairment for bad and doubtful debts. No impairment is made in respect of doubtful debts where there are limited recourse arrangements in place, such that the economic cost of a bad debt rests with creditors of the Company rather than the Company itself.

Other expenses

Other expenses have been recognised in the Statement of Comprehensive Income on an accruals basis.

Loans and receivables

Loans and receivables are recognised in the Statement of Financial Position initially at fair value and subsequently measured at amortised cost. Interest due on the loans and receivables is accrued in the Statement of Comprehensive Income.

Share capital

Ordinary shares are classified as equity as per the Company's Articles of Association.

Capital contribution

Any capital contribution received by the Company is reported within equity. In the year in which the capital contribution is made, it is also reported in the reconciliation of movements of equity.

Assets held for sale

Non-current asset are classified as held for sale if it is highly probable that its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

2. ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised if, as a result of a past event, a present legal or constructive obligation exists that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash, loans, and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses in the case of financial assets. Finance liabilities are derecognised if the obligations specified in the contract expire or are discharged or cancelled.

Fair values of non-derivatives financial instruments, which are determined for disclosure purposes, are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. The effective interest rate computed at initial recognition). The carrying amount of the asset is reduced directly with the amount of the loss being recognised in profit and loss.

Measurement of fair values

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

3. LEASE INCOME

	Consolidated Year ended 31 December 2015 US$	Consolidated Year ended 31 December 2014 US$
Reversal of prior year amortization	-	178,762
Finance lease income	7,244,393	6,625,109
Supplemental income	26,781,189	11,753,016
Operating lease income	80,832,244	46,360,923
	114,857,826	64,917,810

Revenue from aircraft on finance lease is recognised as lease revenue over the term of the lease. The rental income received under an operating lease is recorded on a straight-line basis over the lease term. Lease revenue received but unearned under the lease agreements are recorded in deferred income on the Statement of Financial Position until earned. Supplemental income is recorded as lease revenue in the Statement of Comprehensive Income on an accruals basis.

The Group acquired a number of new aircraft at the end of the prior year and during the current year which were leased to third party airlines under operating and finance leases. This has resulted in a significant increase in finance lease, operating lease and supplemental income from the prior year.

At 31 December 2015 the contracted cash lease rentals to be received under non-cancellable operating leases in respect of aircraft in the portfolio comprised:

	Consolidated Year ended 31 December 2015 US$	Consolidated Year ended 31 December 2014 US$
Due within one year	89,296,667	51,240,000
Due within one and five years	342,627,096	199,460,000
Due after five years	384,534,861	189,571,685
	816,458,624	440,271,685

4. FINANCE INCOME

	Consolidated Year ended 31 December 2015 US$	Consolidated Year ended 31 December 2014 US$
Interest earned on deposit account	2,661	10,295
Interest income on loans	-	47,507
	2,661	57,802

In the prior year STLC Europe One Leasing Limited charged interest of US$47,507 on funds advanced to third parties. Due to uncertainty over the recoverability of these funds, interest was not charged in the current year. Please refer to note 19 for further commentary on these loans.

5. OTHER INCOME

	Consolidated Year ended 31 December 2015 US$	Consolidated Year ended 31 December 2014 US$
Other income	240,684	450,009
Gain on transfer to finance lease – GTLK Malta	19,993	19,992
Gain on transfer to finance lease – GTLK Lietuva	2,038,247	-
	2,298,924	470,001

During the year an aircraft that was previously leased under an operating lease to a third party airline was renegotiated to a finance lease with the same airline. The aircraft, which originally cost of $21,500,000 and had a carrying value of $17,929,401 at the date of the renegotiation, was recognised as an investment in finance lease of $19,967,648, being the present value of the minimum lease payments at the inception of the lease. This resulted in a gain on transfer to finance lease of $2,038,247, being the difference between the carrying value of the aircraft and the finance lease principal payable at the date of the renegotiation.

6. PROVISION FOR BAD DEBT AND IMPAIRMENT

	Consolidated Year ended 31 December 2015 US$	Consolidated Year ended 31 December 2014 US$
Bad debt provision – finance lease income receivable from the lessee	(4,116,646)	-
Bad debt provision – operating lease income receivable from the lessee	(2,679,537)	-
Impairment provision – loans and receivables	-	(1,351,591)
Impairment provision - property plant and equipment	-	(515,859)
Impairment provision – net investment in finance lease	(471,555)	-
Other bad debt written off	(69,646)	-
	(7,337,384)	(1,867,450)

During the year four aircraft were leased to a third party airline which went into liquidation. The directors of the Company have fully impaired the finance lease income receivable of US$4,116,646 (2014: US$ Nil). Two of these aircraft have been have been repossessed and are included in property, plant and equipment at 31 December 2015 at their fair value. The other two will be sold and are recorded at their market value under assets held for sale. These transactions have resulted in an impairment of the net investments in finance leases of US$471,555.

During the year the directors renegotiated a lease agreement with a third party airline from an operating lease to a finance lease. Supplemental income not received under the old operating lease of US$2,679,537 (2014 US$ Nil) was fully impaired.

The directors have also provided for interest due on the late payment of lease income from debtors of US$69,646 (2014: US$ Nil).

In the prior year the directors of the Company provided for an impairment of US$1,351,591 on the loans issued and interest accrued to a number of third party companies. There was also an impairment recognised in the prior year on property plant and equipment of US$515,859.

7. OPERATING EXPENSES

	Consolidated Year ended 31 December 2015 US$	Consolidated Year ended 31 December 2014 US$
Bank charges	20,346	20,517
Aircraft expenses	487,078	209,956
Other expenses	669,600	399,930
Professional fees	323,094	552,119
Wages and salaries	862,904	564,376
Legal fees	614,283	673,666
Amortisation of deferred fee	722,035	722,036
Depreciation	52,036,003	25,253,487
	55,735,343	28,396,087

Aggregate payroll expenses are set as follows:

	Consolidated Year ended 31 December 2015 US$	Consolidated Year ended 31 December 2014 US$
Wages and Salaries	812,311	350,411
Social welfare costs	50,593	213,965
	862,904	564,376

The Company employed six employees during the year (2014: Five employees). The Company had three directors during the year (2014: four directors). Payroll and taxation services are outsourced to TMF Administration Services Limited.

8. FINANCE COSTS

	Consolidated Year ended 31 December 2015 US$	Consolidated Year ended 31 December 2014 US$
Loan interest payable to Parent on loans	11,103,866	6,978,938
Interest payable to third parties	17,423,447	15,332,113
Amortisation of deferred issue costs	614,948	793,109
Finance lease expense	20,007,518	9,161,056
	49,149,779	32,265,216

9. PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAX

The profit/ (loss) is arrived at after charging:

	Consolidated Year ended 31 December 2015 US$	Consolidated Year ended 31 December 2014 US$
Depreciation	52,036,003	25,253,487
Impairment provision – property plant and equipment/finance lease	-	515,859
Impairment provision – loans and receivables	-	1,351,591
Impairment provision – net investment in finance lease	471,555	-
Bad debt provision – finance lease income from the lessee	4,116,646	-
Bad debt provision - operating lease income receivable from the lessee	2,749,183	-
Auditor's remuneration	228,615	362,478
Directors' fees	50,755	151,749
	59,652,757	27,635,164

10. AUDITORS' REMUNERATION

Auditors' remuneration exclusive of VAT:

	Consolidated Year ended 31 December 2015 US$	Consolidated Year ended 31 December 2014 US$
Statutory auditors' remuneration	147,643	233,459
Taxation advisory services	80,972	117,381
Fees paid to KPMG Russia	-	11,638
	228,615	362,478

11. CORPORATION TAX ON ORDINARY ACTIVITES

	Consolidated Year ended 31 December 2015 US$	Consolidated Year ended 31 December 2014 US$
Current tax expense		
Current year	449,800	206,442
Adjustment for prior periods	-	-
	449,800	206,442
Deferred tax expense		
Origination and reversal of temporary differences	2,070,694	(87,010)
Adjustment for prior periods	-	-
	2,070,694	(87,010)
Tax expenses on continuing operations	2,520,494	119,432
Reconciliation of effective tax rate		
Profit/loss on ordinary activities before taxation	4,906,032	2,767,256
Income tax at 12.5%	613,254	345,907
Effects of:		
Losses for which no deferred tax recognised / reversed	1,267,804	(612,092)
Expenses not deductible for tax purposes	478,190	
Income taxable at different rate	125,152	196,655
Prior year deferred tax under charge	4,238	-
Adjustments for prior periods	-	188,962
Expenses note deductible – Foreign loss no DTA	54,665	
Income not taxable	(22,809)	
Total income tax charge	2,520,494	119,432

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the reporting date where the transaction or events have occurred at that date will result in an obligation to pay more or right to pay less tax.

Deferred tax is measured on an undiscounted basis at the tax rate that is expected to apply in the years in which the timing differences reverse. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The deferred tax liability has been recognised as at 31 December 2015.

The tax rate laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. The directors are not aware of any factor that may affect the future tax charge.

The deferred tax liability of US$1,982,685 (2014: Deferred tax asset US$87,010) has been recognised at year end.

The Company has recognised a deferred tax liability of US$313,468 as at the year end. (2014: Deferred tax asset US$281,636)

12. PROPERTY, PLANT AND EQUIPMENT

Aircraft	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2014 US$	Company As at 31 December 2015 US$	Company As at 31 December 2014 US$
Cost				
At 1 January	531,695,688	399,795,423	237,488,904	127,202,918
Additions of aircraft	462,637,294	133,678,328	-	112,064,049
Transfer of asset held for sale	-	(1,778,063)	-	(1,778,063)
Transfer from finance lease	5,180,000	-	-	-
Transfer to finance lease	(21,500,000)		-	
	978,012,982	531,695,688	237,488,904	237,488,904
Depreciation and impairment				
At 1 January	(28,250,385)	(2,723,427)	(11,528,047)	(720,131)
Charge for the year/ period	(51,970,913)	(25,219,739)	(16,649,884)	(10,836,631)
Amortisation of capitalised costs	34,020	(619,423)	(320,362)	(283,489)
Impairment	-	(224,558)	-	(224,558)
Transfer to finance lease	3,570,599	-	-	
Transfer of asset held for sale	-	536,762	-	536,762
At 31 December	(76,616,679)	(28,250,385)	(28,498,293)	(11,528,047)
Carrying amount				
At 1 January	503,445,303	397,071,996	225,960,857	126,482,787
At 31 December	901,396,303	503,445,303	208,990,611	225,960,857

The Company's subsidiary, GTLK 5737 Limited, had four aircraft leased under finance leases to a third party airline. During the year the airline went into liquidation. As a result, the aircraft were repossessed. Two of the aircraft are now recorded at their fair value in fixed assets at $5,180,000. The other two aircraft will be sold and are therefore recorded at their market value in assets held for sale at US$800,000.

During the year the Company converted an operating lease between the Company's subsidiary, GTLK Lietuva 01 UAB, and a third party airline into a finance lease with a third party airline. As a result, the carrying value of $17,929,401 of the asset has been derecognised from property, plant and equipment. The net investment in finance lease has been recognised at the present value of the minimum lease payments at the inception of the lease.

The carrying value of the Group's aircraft has been supported by value in use calculations which contain certain judgmental assumptions such as the residual value of the aircraft at lease end and the discount rate applied in calculating the net present value of expected cashflows.

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment is made up of seventeen aircraft as at 31 December 2015 (31 December 2014: thirteen) and computer and software equipment.

Depreciation is calculated to write off the cost of each component of the aircraft, less its estimated residual value, on a straight-line basis over its estimated useful life "EUL" from the date of manufacture in the case of the airframe or from the last maintenance event in the case of other components. The estimates of useful lives and residual values are reviewed periodically. Items that have been capitalised are amortised on a straight line basis over the life of the asset to which they relate, in line with the accounting policy of the Company. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

As outlined in note 2, basis of preparation, the Company have adopted component based depreciation on all of the aircraft which it holds, in which the annual depreciation amount is determined based on the computation of the forecast utilisation of each component and the predicted cost of future maintenance. The annual depreciation amount for each component is reviewed annually and adjusted if necessary.

Computer and software equipment	**Consolidated As at 31 December 2015 US$**	**Consolidated As at 31 December 2014 US$**	**Company As at 31 December 2015 US$**	**Company As at 31 December 2014 US$**
Cost				
At 1 January	193,090	23,638	193,090	23,638
Additions of computers	28,755	169,452	28,755	169,452
	221,845	**193,090**	**221,845**	**193,090**
Depreciation				
At 1 January	(43,599)	(9,851)	(43,599)	(9,851)
Charge for the year/ period	(65,090)	(33,748)	(65,090)	(33,748)
At 31 December	**(108,689)**	**(43,599)**	**(108,689)**	**(43,599)**
Carrying amount				
At 1 January	149,491	13,787	149,491	13,787
At 31 December	**113,156**	**149,491**	**113,156**	**149,491**

13. ASSET HELD FOR SALE

	Consolidated As at 31 December 2014 US$	Consolidated As at 31 December 2014 US$	Company As at 31 December 2015 US$	Company As at 31 December 2014 US$
Asset held for sale	800,000	1,241,301	-	1,241,301
Impairment	-	(291,301)	-	(291,301)
	800,000	950,000	-	950,000

The Company's subsidiary, GTLK 5737 Limited, had four aircraft leased under finance leases to a third party airline. During the year the airline went into liquidation. As a result, the aircraft were repossessed. Two of the aircraft are included in property, plant and equipment at 31 December 2015 at their fair value of US$5,180,000. Management are committed to selling the other two aircraft and these are recognised as assets held for sale at their market value of US$800,000 at 31 December 2015. Both aircraft are available for immediate sale. Management are actively looking for a buyer with the intention to sell by the end of 2016. The technical team is actively marketing for sale at a sales price reasonable in relation to its fair value

In the prior year, there was an impairment recognised on an aircraft held for sale of US$291,302 and at 31 December 2014 this aircraft was recognised as an asset held for sale at its market value of US$950,000. On 6 March 2015, the Company entered into a sale and purchase agreement with a third party airline. The proceeds from this aircraft were received in installments over 7 months during 2015 with the final installment being received in September 2015.

14. NET INVESTMENT IN FINANCE LEASE

A. CONSOLIDATED NET INVESTMENT IN FINANCE LEASE

	As at 31 December 2015 Asset US$	As at 31 December 2014 Asset US$
Net investment in finance lease – non current	85,056,356	76,521,291
Net investment in finance lease – current	5,715,375	8,236,290
Net Investment in finance lease	90,771,731	84,757,581

The cost of the asset acquired and leased under finance leases in 2015 was US$157,200,661 (2014: US$155,300,661). The aggregate rentals received under finance lease during the year were US$7,244,393 (2014: US$6,625,109).

14. NET INVESTMENT IN FINANCE LEASE (CONTINUED)

A. CONSOLIDATED NET INVESTMENT IN FINANCE LEASE (CONTINUED)

As at 31 December 2015	Gross contractual lease payments US$	Present Value Lease payments US$
Less than one year	13,467,219	5,715,375
Between one and five years	55,064,096	30,062,261
Greater than five years	65,263,366	54,994,095
	133,794,681	90,771,731
Less amounts representing finance charges	(43,022,950)	-
	90,771,731	90,771,731

As at 31 December 2014	Gross contractual lease payments US$	Present value Lease payments US$
Less than one year	15,312,925	8,236,290
Between one and five years	46,997,109	24,977,232
Greater than five years	64,447,307	51,544,059
	126,757,341	84,757,581
Less amounts representing finance charges	(41,999,760)	-
	84,757,581	84,757,581

B. COMPANY NET INVESTMENT IN FINANCE LEASE

	As at 31 December 2015 Asset US$	As at 31 December 2014 Asset US$
Net investment in finance lease – non current	9,357,114	10,198,343
Net investment in finance lease – current	841,229	757,490
Net Investment in lease	10,198,343	10,955,833

14. NET INVESTMENT IN FINANCE LEASE (CONTINUED)

B. COMPANY NET INVESTMENT IN FINANCE LEASE (CONTINUED)

As at 31 December 2015	Gross contractual lease payments US$	Present value Lease payments US$
Less than one year	1,921,694	841,229
Between one and five years	7,686,777	4,464,907
Greater than five years	5,765,083	4,892,207
	15,373,554	10,198,343
Less amounts representing finance charges	(5,175,211)	-
	10,198,343	10,198,343

As at 31 December 2014	Gross contractual lease payments US$	Present value Lease payments US$
Less than one year	1,921,694	757,490
Between one and five years	7,686,777	4,002,590
Greater than five years	7,686,778	6,195,753
	17,295,249	10,955,833
Less amounts representing finance charges	(6,339,416)	-
	10,955,833	10,955,833

The cost of the assets acquired and leased under finance leases in 2015 was US$14,500,000 (2014: US$14,500,000). The aggregate rentals received under finance lease during the year were US$1,163,302 (2014: US$1,238,379).

The table below presents the credit and default risk relating to finance lease receivables by gross carrying amount:

	Past due and impaired 2015 US$	Past due and not impaired 2015 US$	Total 2015 US$
Consolidated			
Measured at amortised cost:			
Finance lease receivable	4,116,646	-	4,116,646
Company			
Measured at amortised cost:			
Finance lease receivable	-	-	-

14. NET INVESTMENT IN FINANCE LEASE (CONTINUED)

	Past due and impaired 2014 US$	Past due and not impaired 2014 US$	Total 2014 US$
Consolidated			
Measured at amortised cost:			
Finance lease receivable	-	961,149	961,149
Company			
Measured at amortised cost:			
Finance lease receivable	-	-	-

15. OTHER ASSETS – CONSOLIDATED

	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2014 US$
Deferred fee	7,170,997	7,893,032
	7,170,997	7,893,032

In 2013, STLC Europe One Leasing Limited entered into an agreement with a third party in order to cap the amount of future maintenance costs in relation to three of the STLC Europe One Leasing Limited aircraft. The above amount represents the fee paid to the third party for providing this service. The fees have been deferred and are amortised over the life of the service agreement of 12 years.

16.LOANS AND RECEIVABLES INTER-COMPANY – COMPANY

	Company As at 31 December 2015 US$	Company As at 31 December 2014 US$
Loan to GTLK 5 737 Limited	11,090,851	11,514,719
Loan to GTLK BO4 Limited	40,902,096	39,834,038
Loans to GTLK Lietuva 01 UAB	40,919,306	42,530,595
Loan to GTLK Malta Limited	41,855,251	42,978,704
Loan to GTLK BO2 Limited	58,341,431	55,853,081
Loan to GTLK BO6 Limited	78,257,952	74,579,100
Loan to GTLK BO3 Limited	78,350,076	74,714,876
Loan to STLC Europe One Leasing Limited	60,307,250	62,359,389
Loan to STLC Europe Two Leasing Limited	89,593,610	-
	499,617,823	404,364,502

These intercompany loans are interest bearing at a fixed rate and are repayable on presentation of invoice. The term of the loans are directly linked to the expiration of the underlying aircraft lease agreements which are all non-current at the reporting date. The directors are of the view that loans and receivables are recoverable from its subsidiaries.

17. CASH AND CASH EQUIVALENTS

Group
Cash and cash equivalents includes cash on hand and deposits denominated in foreign currencies. The Group holds US$ and EUR bank accounts with Bank of Ireland, Barclays and ICBC (London) PLC. The total amount of cash and cash equivalents held at the year-end was US$19,098,314 (2014: US$11,261,023) for the Group.

Company
Cash and cash equivalents are held with Bank of Ireland and Barclays, where they have both US$ and EUR bank accounts. The total amount of cash and cash equivalents held by the Company at the year-end was US$2,888,125 (2014: US$7,734,199) for GTLK Europe Limited.

The Moody's long term credit rating of the banks in which the Company and Group has held cash deposits is A2 (2014: A2) for Barclays Bank Plc, Baa2 (2014: Ba1) for Bank of Ireland and for ICBC (London) PLC A1 (2014: A2).

18. TRADE AND OTHER RECEIVABLES

All trade and other receivables are due within the next twelve months and classified as current assets.

The table below presents the credit and default risk relating to trade receivables and other receivables by gross carrying amount:

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2015 US$
	Neither Past due nor impaired	Past due and not impaired	Past due and impaired	Total
Measured at amortised cost:				
Other debtors	163,131	-	33,697	196,828
Finance lease receivable from the Lessee	56,789	-	4,116,646	4,173,435
Operating lease receivable	1,551,693	-	2,679,537	4,231,230
Supplemental income receivable	1,198,365	-	-	1,198,365
VAT refund	24,660	-	-	24,660
Bad debt provision – Finance lease receivable from the lessee	-	-	(4,116,646)	(4,116,646)
Bad debt provision – Operating lease receivable from the lessee	-	-	(2,713,234)	(2,713,234)
	2,994,638	-	-	2,994,638

	Consolidated As at 31 December 2014 US$	Consolidated As at 31 December 2014 US$	Consolidated As at 31 December 2014 US$	Consolidated As at 31 December 2014 US$
	Neither Past due nor impaired	Past due and not impaired	Past due and impaired	Total
Measured at amortised cost:				
Other debtors	119,554	-	-	119,554
Finance lease receivable from the Lessee	903,202	961,142	-	1,864,344
Operating lease receivable	-	3,866,283	-	3,866,283
Supplemental income receivable	1,430,749	294,017	-	1,724,766
VAT refund	133,626	-	-	133,626
	2,587,131	5,121,442	-	7,708,573

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Company As at 31 December 2015 US$	Company As at 31 December 2015 US$	Company As at 31 December 2015 US$	Company As at 31 December 2015 US$
	Neither Past due nor impaired	Past due and not impaired	Past due and impaired	Total
Measured at amortised cost:				
Other debtors	104,625	-	33,697	138,322
Finance lease receivable from the Lessee	640,504	-	-	640,504
Operating lease receivable	4	-	-	4
Supplemental income receivable	822,152	-	-	822,152
VAT refund	23,398	-	-	23,398
Bad debt provision – finance lease receivable from the lessee	-	-	(33,697)	(33,697)
	1,590,683	-	-	1,590,683

	Company As at 31 December 2014 US$	Company As at 31 December 2014 US$	Company As at 31 December 2014 US$	Company As at 31 December 2014 US$
	Neither Past due nor impaired	Past due and not impaired	Past due and impaired	Total
Measured at amortised cost:				
Other debtors	91,805	-	-	91,805
Finance lease income receivable from the Lessee	-	691,211	-	691,211
Operating lease receivable	-	3,628,619	-	3,628,619
Supplemental income receivable	374,854	294,017	-	668,871
VAT refund	116,940	-	-	116,940
	583,599	4,613,847	-	5,197,446

19. LOANS AND RECEIVABLES – CONSOLIDATED

	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2014 US$
Opening balance at the beginning of the year	-	106,082
Loans and receivables advanced	-	1,504,085
Interest receivable	-	47,506
Payments received	-	(306,082)
Provision for loans and interest	-	(1,351,591)
	-	-

During 2013, STLC Europe One Leasing Limited advanced funds in the amount of US$1,771,184 to various third party entities. During 2014, additional funds in the amount of US$1,504,085 were advanced to various third party entities. These transfers were approved by Sergey Kutsubin without the knowledge of the other members of the Board. Sergey Kutsubin is also a director of some of these entities. During 2014, the Company received a total of US$306,082 in respect of repayment of these funds.

On 16 May 2014, Sergey Kutsubin resigned as a director of the Company. The directors assessed the loans for impairment and provided for the loans to the extent that they have concerns over their recoverability.

Notwithstanding the provision that has been recorded at the year-end in the financial statements, the Company is seeking repayment of all the loans advanced, in this regard the Company entered into a Debt Collection Agreement as Principal with the Parent as Collection Agent.

The following table shows both the loans and receivables impaired and neither past due nor impaired:

Loans and receivables	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2014 US$
Impaired	3,035,404	3,035,404
Neither past due nor impaired	-	-
	3,035,404	3,035,404

20. SECURITY DEPOSITS

	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2014 US$	Company As at 31 December 2015 US$	Company As at 31 December 2014 US$
Security Deposit	(4,440,000)	(4,990,020)	(4,440,000)	(4,440,020)

As at the year end, the Company held security deposits in respect of seven aircraft (2014: eight). In addition to the security deposits, the Group has letters of credit in respect of the eight aircraft, five that are held by STLC Europe One Leasing Limited to the value of US$4,600,000 (2014: US$4,600,000) and three that are held by STLC Europe Two Leasing Limited to the value of US$6,576,000 (2014: US$ Nil).

The letters of credit are all held with Commerzbank and their long-term credit rating is BBB+ (2014: A-) (Standard and Poor's).

21. FINANCE LEASE LIABILITY

A. CONSOLIDATED FINANCE LEASE LIABILITY

	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2014 US$
Finance lease liability – non current	(510,483,276)	(193,739,965)
Finance lease liability – current	(41,456,689)	(14,896,694)
Finance lease liability	(551,939,965)	(208,636,659)

As at 31 December 2015	Consolidated Gross contractual lease payments US$	Consolidated Present Value Lease payments US$
Less than one year	(64,320,845)	(41,456,689)
Between one and five years	(252,648,028)	(182,233,421)
Greater than five years	(372,914,593)	(328,249,855)
	(689,883,466)	(551,939,965)
Less amounts representing finance charges	137,943,501	-
	(551,939,965)	(551,939,965)

21. FINANCE LEASE LIABILITY (CONTINUED)

A. CONSOLIDATED FINANCE LEASE LIABILITY (CONTINUED)

As at 31 December 2014	Consolidated Gross contractual lease payments US$	Consolidated Present Value Lease payments US$
Less than one year	(23,366,486)	(14,896,694)
Between one and five years	(94,176,949)	(67,023,426)
Greater than five years	(144,310,265)	(126,716,539)
	(261,853,700)	(208,636,659)
Less amounts representing finance charges	53,217,041	-
	(208,636,659)	(208,636,659)

B. COMPANY FINANCE LEASE LIABILITY

	Company As at 31 December 2015 US$	Company As at 31 December 2014 US$
Finance lease liability – non current	(198,907,434)	(212,524,577)
Finance lease liability – current	(13,608,184)	(13,004,081)
Finance lease liability	(212,515,618)	(225,528,658)

As at 31 December 2015	Company Gross contractual lease payments US$	Company Present Value Lease payments US$
Less than one year	(23,640,000)	(13,608,184)
Between one and five years	(136,595,000)	(107,876,912)
Greater than five years	(92,802,912)	(91,030,522)
	(253,037,912)	(212,515,618)
Less amounts representing finance charges	40,522,294	-
	(212,515,618)	(212,515,618)

21. FINANCE LEASE LIABILITY (CONTINUED)

B. COMPANY FINANCE LEASE LIABILITY (CONTINUED)

As at 31 December 2014	Company Gross contractual lease payments US$	Company Present Value Lease payments US$
Less than one year	(23,640,000)	(13,004,081)
Between one and five years	(146,280,000)	(112,182,487)
Greater than five years	(106,757,912)	(100,342,090)
	(276,677,912)	(225,528,658)
Less amounts representing finance charges	51,149,254	-
	(225,528,658)	(225,528,658)

22. LOANS AND BORROWINGS

	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2014 US$	Company As at 31 December 2015 US$	Company As at 31 December 2014 US$
Loans received from Parent	(148,893,232)	(128,111,233)	(148,893,232)	(128,111,233)
Interest on loan received from Parent	(17,697,319)	(6,709,605)	(17,697,319)	(6,709,605)
Loan received from subsidiary	-	-	(10,000,000)	(10,000,000)
Interest on loan received from subsidiary	-	-	(753,772)	(454,167)
Third party loans	(288,035,715)	(266,250,000)	(288,035,715)	(266,250,000)
Interest payable on third party loans	(1,518,893)	(1,518,086)	(1,518,893)	(1,518,086)
Debt issuance costs	1,492,346	1,481,026	1,389,675	1,481,026
	(454,652,813)	(401,107,898)	(465,509,256)	(411,562,065)

During the year the Company received two additional loans from its parent of US$23,375,000. The interest rate on these loans is fixed at 9.5%. During the year the Company repaid one of the loans it received in the prior year from its parent of US$2,593,000.

During the year the Company also drew down two additional third-party loans of US$25,000,000 each. The interest rate on these loans is variable at 8.35% plus 3 month LIBOR rate.

In the prior year, the Company was obliged to pay the arranger an arrangement fee as at the date of a facility agreement with a third party. In the prior year, the Company also incurred additional costs in relation to facility agreements entered into with third parties. In the current year, the Company incurred further costs in relation to facility agreements entered into with third parties. All of these costs have been capitalised and have been deferred and will be amortised over the term of the individual facility agreements using the effective interest rate method.

22. LOANS AND BORROWINGS (CONTINUED)

The interest on the loans from the Parent is fixed at an average rate of 8.17% (2014: 7.5%). The Loans received from third parties have variables rates of interest.

The ageing of the loans and borrowings can be seen in the below tables for the Group and the Company:

Consolidated 2015	Carrying amount US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans received from Parent	(148,893,232)	(134,375,000)	-	(14,518,232)
Interest on loan received from Parent	(17,697,319)	(17,697,319)	-	-
Third party loans	(288,035,715)	(103,571,429)	(184,464,286)	-
Interest payable on third party loans	(1,518,893)	(1,518,893)	-	-
Debt issuance costs	1,492,346	756,785	735,561	-
	(454,652,813)	(256,405,856)	(183,728,725)	(14,518,232)

Company 2015	Carrying amount US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans received from Parent	(148,893,232)	(134,375,000)	-	(14,518,232)
Interest on loan received from Parent	(17,697,319)	(17,697,319)	-	-
Loan received from subsidiary	(10,000,000)	(10,000,000)	-	-
Interest on loan received from subsidiary	(753,772)	(753,772)	-	-
Third party loans	(288,035,715)	(103,571,429)	(184,464,286)	-
Interest payable on third party loans	(1,518,893)	(1,518,893)	-	-
Debt issuance costs	1,389,675	678,335	711,340	-
	(465,509,256)	(267,238,078)	(183,752,946)	(14,518,232)

22. LOANS AND BORROWINGS (CONTINUED)

Consolidated 2014	Carrying amount US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans received from Parent	(128,111,233)	(65,093,000)	(48,500,000)	(14,518,233)
Interest on loan received from parent	(6,709,605)	(6,709,605)	-	-
Third party loans	(266,250,000)	(17,500,000)	(188,750,000)	(60,000,000)
Interest payable on third party loans	(1,518,086)	(1,518,086)	-	-
Debt issuance costs	1,481,026	1,481,026	-	-
	(401,107,898)	(89,339,665)	(237,250,000)	(74,518,233)

Company 2014	Carrying amount US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans received from Parent	(128,111,233)	(65,093,000)	(48,500,000)	(14,518,233)
Interest on loan received from parent	(6,709,605)	(6,709,605)	-	-
Loan received from subsidiary	(10,000,000)	(10,000,000)	-	-
Interest on loan received from subsidiary	(454,167)	(454,167)	-	-
Third party loans	(266,250,000)	(17,500,000)	(188,750,000)	(60,000,000)
Interest payable on third party loans	(1,518,086)	(1,518,086)	-	-
Debt issuance costs	1,481,026	1,481,026	-	-
	(411,562,065)	(99,793,832)	(237,250,000)	(74,518,233)

23. DEFERRED INCOME

	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2014 US$	Company As at 31 December 2015 US$	Company As at 31 December 2014 US$
Deferred income	(5,571,272)	(855,489)	(1,262,258)	(180,822)
Gain on finance lease	(159,010)	(179,002)	-	-
	(5,730,282)	(1,034,491)	(1,262,258)	(180,822)

The Group held deferred income in respect of the operating leases between STLC Europe One Leasing Limited, STLC Europe Two Leasing Limited and third party airlines at the year end and in respect of the operating leases between the Company and third party airlines.

24. TRADE AND OTHER PAYABLES

	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2014 US$	Company As at 31 December 2015 US$	Company As at 31 December 2014 US$
Tax payable	(2,638,927)	(123,843)	-	-
Audit and tax fee accrual	(153,398)	(128,695)	(153,118)	(128,695)
Finance Lease installments payable	-	(160,141)	(42,464,999)	(18,985,141)
Finance lease interest accrual	(904,500)	(670,609)	-	-
Payable to third party airline	-	(308,161)	-	-
Operating lease expense	-	-	(26,610)	(13,608)
Other trade accruals	(607,545)	(112,315)	(376,134)	(115,251)
	(4,304,370)	(1,503,764)	(43,020,861)	(19,242,695)

25.INTER-COMPANY BALANCES – COMPANY

	Company As at 31 December 2015 US$	Company As at 31 December 2014 US$
Inter-company with GTLK 5 737 Limited	292,080	62,442
Inter-company with GTLK 7706 Limited	44,261	35,090
Inter-company with STLC Europe Two Leasing Limited	355,826	30,124
Inter-company with GTLK BO1 Limited	51,434	37,114
Inter-company with GTLK BO2 Limited	52,933	38,101
Inter-company with GTLK BO3 Limited	52,195	37,113
Inter-company with GTLK Malta Limited	213,879	197,512
Inter-company with GTLK AFL Limited	32,333	16,894
Inter-company with STLC Europe One Leasing Limited	137,694	121,346
Inter-company with GTLK BO4 Limited	27,520	16,706
Inter-company with GTLK BO5 Limited	49,973	11,705
Inter-company with GTLK Lietuva 01 UAB	(45,128)	(53,307)
Inter-company with GTLK BO6 Limited	35,716	20,710
Inter-company with STLC Europe Three Leasing Limited	4,874	-
Inter-company with STLC Europe Four Leasing Limited	4,790	-
	1,310,380	571,550

26. INVESTMENT IN SUBSIDIARIES – COMPANY

	As at 31 December 2015 Total US$	As at 31 December 2014 Total US$
Opening balance at the beginning of the year	3,084,579	2,601
Investment in subsidiaries during the year	580	3,081,978
	3,085,159	3,084,579

The Company owns 100% of the issued share capital of all companies in which it holds an investment. GTLK 7706 Limited, GTLK BO1 Limited, GTLK BO2 Limited, GTLK BO3 Limited, GTLK BO4 Limited, GTLK BO5 Limited, GTLK BO6 Limited and GTLK AFL Limited were incorporated under the laws of Bermuda.

GTLK Lietuva 01 UAB Limited was incorporated under the laws of Lithuania. GTLK Malta was incorporated under the laws of Malta. GTLK 5 737 Limited, STLC Europe One Leasing Limited, STLC Europe Two Leasing Limited, STLC Europe Three Leasing Limited and STLC Europe Four Leasing Limited were incorporated under the laws of Ireland.

The following tables contain information regarding the subsidiaries of the Company:

Company	Company Registration Number	Country of Incorporation	Date of Incorporation	Ownership
GTLK 7706 Limited	46973	Bermuda	9 October 2012	100%
GTLK 5 737 Limited	522912	Ireland	24 January 2013	100%
GTLK AFL Limited	47929	Bermuda	11 July 2013	100%
GTLK BO1 Limited	47930	Bermuda	11 July 2013	100%
GTLK BO2 Limited	47931	Bermuda	11 July 2013	100%
STLC Europe One Leasing Limited	530075	Ireland	10 July 2013	100%
GTLK BO3 Limited	47987	Bermuda	24 July 2013	100%
STLC Europe Two Leasing Limited	533928	Ireland	10 October 2013	100%
GTLK Malta Limited	C62196	Malta	10 October 2013	100%
GTLK BO4 Limited	48730	Bermuda	13 February 2014	100%
GTLK BO5 Limited	48734	Bermuda	14 February 2014	100%
GTLK Lietuva 01 UAB	303248146	Lithuania	21 February 2014	100%
GTLK BO6 Limited	49036	Bermuda	30 April 2014	100%
STLC Europe Three Leasing Limited	571533	Ireland	10 November 2015	100%
STLC Europe Four Leasing Limited	572072	Ireland	18 November 2015	100%

26.INVESTMENT IN SUBSIDIARIES – COMPANY (CONTINUED)

Company	Registered Address	Activity
GTLK 7706 Limited	Clarendon House, 2 Church St., Hamilton HM11, Bermuda	Aircraft leasing
GTLK 5 737 Limited	Fitzwilliam Hall, Fitzwilliam Place, Dublin 2, Ireland	Aircraft leasing
GTLK AFL Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
GTLK BO1 Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
GTLK BO2 Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
STLC Europe One Leasing Limited	3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	Aircraft leasing
GTLK BO3 Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
STLC Europe Two Leasing Limited	3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	Aircraft leasing
GTLK Malta Limited	171, Old Bakery St., Valletta VLT 1455, Malta	Vessel leasing
GTLK BO4 Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
GTLK BO5 Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
GTLK Lietuva 01 UAB	Savickio str. 4, Vilnius, the Republic of Lithuania	Aircraft leasing
GTLK BO6 Limited	3rd Floor, Par La Ville, 14 Par-La-Ville Road, Hamilton HM 08, Bermuda	Aircraft leasing
STLC Europe Three Leasing Limited	9 Pembroke Street Upper, Dublin 2, Ireland	Aircraft leasing
STLC Europe Four Leasing Limited	9 Pembroke Street Upper, Dublin 2, Ireland	Aircraft leasing

26.INVESTMENT IN SUBSIDIARIES – COMPANY (CONTINUED)

Company	Net Assets / (liabilities) As at 31 December 2015 US$	Profit / (Loss) Year / Period ended 31 December 2015 US$
GTLK 7706 Limited	(35,865)	(1,893)
GTLK 5 737 Limited	(5,546,571)	(5,300,837)
GTLK AFL Limited	(5,650)	(3,364)
GTLK BO1 Limited	(13,623)	(1,248)
GTLK BO2 Limited	(643,932)	(173,094)
STLC Europe One Leasing Limited	10,693,683	5,015,462
GTLK BO3 Limited	(764,760)	(236,830)
STLC Europe Two Leasing Limited	1,078,726	1,100,484
GTLK Malta Limited	(13,571)	(8,539)
GTLK BO4 Limited	(129,502)	27,113
GTLK BO5 Limited	(23,820)	(12,215)
GTLK Lietuva 01 UAB	(867,832)	(198,529)
GTLK B06 Limited	(83,591)	133,126
STLC Europe Three Leasing Limited	(4,270)	(4,370)
STLC Europe Four Leasing Limited	(4,202)	(4,302)

27.SHARE CAPITAL

	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2014 US$	Company As at 31 December 2015 US$	Company As at 31 December 2014 US$
Authorised				
100 ordinary shares of €100	12,429	12,429	12,429	12,429
	US$	US$	US$	US$
100 ordinary shares of €100	12,429	12,429	12,429	12,429

On incorporation, the Company issued 100 ordinary shares of €100 at par.

The Company has issued 100 shares which are held by the Parent.

28.CAPITAL CONTRIBUTION

	As at 31 December 2015 Total US$	As at 31 December 2014 Total US$
Capital contribution	3,076,000	3,076,000

On 31 July 2014, the Company received a capital contribution from its Parent of US$3,076,000 and on that same date transferred this capital contribution to STLC Europe One Leasing Limited.

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The primary risks arising from the Company's financial instruments are credit risk, market risk, liquidity risk and operating risk. The principal nature of such risks is summarised below. The Company's exposure to risk on its financial instruments and the management of such risk is carried out on an ongoing basis. The Company's activities and the role of each party to the transaction are clearly defined and documented.

The directors monitor the Company's performance, reviewing management accounts on the performance of the loan and lease portfolio. Such review is designed to ensure that the terms of the documentation have been complied with and that no unforeseen risks have arisen.

(a) Capital risk management

The capital managed by the Company comprises of ordinary shares outstanding and capital contributions from the Parent. The Company is not subject to externally imposed capital requirements.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customers or counterparty to a financial instrument fails to meet to its contractual obligations and arises principally from the Group's receivables from customers.

During the normal course of purchasing aircraft and ships, the Company may be required to advance funds to finance the acquisition of the aircraft or vessels. The director's note that these advances accordingly represent a significant credit exposure to the Company for the period from the advancing of the funds until the Company acquires the aircraft which can take several months. In the event of insolvency of the seller of the aircraft before the Company acquires the aircraft, the Company would be an unsecured creditor in respect of any amount advanced in purchasing the aircraft or ships.

The credit risk on operating lease is mitigated by the title of ownership over some assets under operating lease and the lessee performance is monitored on a continuous basis.

The credit risk on finance lease is mitigated by the title of ownership over some assets under finance lease and the lessee performance is monitored on a continuous basis.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to the credit risk at the reporting date was:

	Consolidated As at 2015 US$	Consolidated As at 2014 US$	Company As at 2015 US$	Company As at 2014 US$
Net investment in finance lease	90,771,731	84,757,581	10,198,343	10,955,833
Trade and other receivables	2,994,638	7,708,573	1,590,683	5,479,082
Cash and cash equivalents	19,098,314	11,261,023	2,888,125	7,734,199
	112,864,683	103,727,177	14,677,151	24,169,114

Net investment in finance lease
The Group's ability to succeed is dependent on the financial strength of these customers and their ability to both compete effectively in the market place and manage the competitive environment in which they operate. If the lessee experiences financial difficulties, this may result in defaults or the early termination of the finance leases. At 31 December 2015, the Group operated as a finance lessor to two airlines (2014: five) and the Group has remained in one charter hire (2014: one).

The following table shows the percentage of assets held by each finance lessee and their geographical location for the Group and Company as at 31 December 2015:

Group		
Airline	**Geographical location**	**% of assets held**
1 Airline lessee	Russia	11.24%
1 Airline lessee	Kazakhstan	43.64%
1 Charter lessee	Malta	45.13%
		100%

Company		
Airline	**Geographical location**	**% of assets held**
1 Airline lessee	Russia	100%

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Net investment in finance lease (continued)

The following tables show the percentage of assets held by each finance lessee and their geographical location for the Group and Company as at 31 December 2014:

Group		
Airline	**Geographical location**	**% of assets held**
4 Airline lessee	Russia	85.77%
1 Airline lessee	Kazakhstan	7.04%
1 Charter lessee	Malta	7.19%
		100%

Company		
Airline	**Geographical location**	**% of assets held**
1 Airline lessee	Russia	100%

The tables below presents the credit and default risk relating to finance lease receivables by gross carrying amount:

	Neither past due nor impaired 2015 US$	Past due and impaired 2015 US$	Past due and not impaired 2015 US$	Total 2015 US$
Consolidated				
Measured at amortised cost:				
Finance lease receivable	90,771,731	-	-	90,771,731
Past due and not impaired				
Past due 1-30 days	-	-	-	-
Past due 31-90 days	-	-	-	-
Past due 91-120 days	-	-	-	-
Past due > 120 days	-	-	-	-
	-	-	-	-
Company				
Measured at amortised cost:				
Finance lease receivable	10,198,343	-	-	10,198,343
Past due and not impaired				
Past due 1-30 days	-	-	-	-
Past due 31-90 days	-	-	-	-
Past due 91-120 days	-	-	-	-
	-	-	-	-

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Net investment in finance lease (continued)

Consolidated	Neither past due nor impaired 2014 US$	Past due and impaired 2014 US$	Past due and not impaired 2014 US$	Total 2014 US$
Measured at amortised cost:				
Finance lease receivable	83,796,432	-	961,149	84,757,581
Past due and not impaired				
Past due 1-30 days	-	-	735,917	735,917
Past due 31-90 days	-	-	223,105	223,105
Past due 91-120 days	-	-	2,127	2,127
	-	-	961,149	961,149

Company	Neither past due nor impaired 2014 US$	Past due and impaired 2014 US$	Past due and not impaired 2014 US$	Total 2014 US$
Measured at amortised cost:				
Finance lease receivable	10,955,655	-	178	10,955,833
Past due and not impaired				
Past due 1-30 days	-	-	13	13
Past due 31-90 days	-	-	26	26
Past due 91-120 days	-	-	139	139
	-	-	178	178

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each lessee. The lessees operate in a competitive and volatile market and perform based on their ability to react and cope with the market conditions. If the lessees experience financial difficulties, it may result in a default or the early termination of the leases.

The Company mitigates credit risk by ensuring that appropriate procedures are in place. The Parent has a risk management team that assesses the creditworthiness of the lessee initially before entering a transaction and on an on-going basis. The relevant documentation is submitted to the directors when a transaction is being presented to the directors. The Group closely monitors the economic environment and has taken all the necessary efforts to support the economic stability of the Group in the current environment.

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Trade and other receivables (continued)

The tables below presents the receivables past due and the risk relating to the trade and other receivables by their carrying amount:

	Neither past due nor impaired 2015 US$	Past due and impaired 2015 US$	Past due and not impaired 2015 US$	Total 2015 US$
Consolidated				
Measured at amortised cost:				
Trade and other receivables	2,994,638	6,829,880	-	9,824,518
Past due and impaired				
Past due 1-30 days	-	-	-	-
Past due 31-90 days	-	589,800	-	589,800
Past due 91-120 days	-	1,672,183	-	1,672,183
Past due > 120 days	-	4,567,897	-	4,567,897
	-	6,829,880	-	6,829,880

	Neither past due nor impaired 2015 US$	Past due and impaired 2015 US$	Past due and not impaired 2015 US$	Total 2015 US$
Company				
Measured at amortised cost:				
Trade and other receivables	1,590,683	33,697	-	1,624,380
Past due and impaired				
Past due 1-30 days	-	-	-	-
Past due 31-90 days	-	-	-	-
Past due 91-120 days	-	-	-	-
Past due > 120 days	-	33,697	-	33,697
	-	33,697	-	33,697

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Trade and other receivables (continued)

	Neither past due nor impaired 2014 US$	Past due and impaired 2014 US$	Past due and not impaired 2014 US$	Total 2014 US$
Consolidated				
Measured at amortised cost:				
Trade and other receivables	3,548,126	-	4,160,447	7,708,573
Past due and not impaired				
Past due 1-30 days	-	-	926,245	926,245
Past due 31-90 days	-	-	2,645,026	2,645,026
Past due 91-120 days	-	-	589,176	589,176
	-	-	4,160,447	4,160,447
Company				
Measured at amortised cost:				
Trade and other receivables	865,235	-	4,613,847	5,479,082
Past due and not impaired				
Past due 1-30 days	-	-	1,425,903	1,425,903
Past due 31-90 days	-	-	2,844,103	2,844,103
Past due 91-120 days	-	-	343,841	343,841
	-	-	4,613,847	4,613,847

Cash and cash equivalents
Cash and cash equivalents are not perceived as being exposed to significant credit risk as they are held in reputable banks or financial institutions. The Moody's credit long term rating of the banks in which the Company has held cash deposits is A2 (2014: A2) for Barclays Bank Plc Baa2 (2014: Ba1) for Bank of Ireland and for ICBC (London) PLC A1 (2014: A2). There are no credit ratings available for the lessees. The directors monitor the credit ratings of the financial institutions and the financial performance of the lessees on a continuous basis.

Loans and receivables
Loans and receivables are recognised in the Statement of Financial Position initially at fair value and subsequently measured at amortised cost. The directors assess regularly the loans for impairment. During the year, the directors assessed the loans for impairment and provided for the loans to the extent that they have concerns over their recoverability.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk is the risk that changes in market prices will affect the Company's income or the value of the Company's financial assets or other financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk. Market risk embodies the potential for both loss and gains and includes interest rate risk, currency risk and price risk. The Company is exposed to the market risk of the financial instruments.

(i) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company has fixed and variable interest rates on the loans and the facility agreements and is exposed to fluctuations in interest rates.

The following table details the Company's consolidated exposure to interest rate risks in 2015:

2015 Consolidated	Non – Interest Bearing US$	Interest Bearing At fixed rate US$	Interest Bearing At variable rate US$	Total US$
Net investment in finance lease	-	49,807,590	40,964,141	90,771,731
Cash and cash equivalents	19,098,314	-	-	19,098,314
Trade and other receivables	2,994,638	-	-	2,994,638
Total assets	**22,092,952**	**49,807,590**	**40,964,141**	**112,864,683**
Liabilities				
Finance lease liability	-	-	(551,939,965)	(551,939,965)
Loans	-	(166,590,551)	(288,062,262)	(454,652,813)
Other liabilities	(4,440,000)	-	-	(4,440,000)
Trade and other payables	(2,321,686)	-	-	(2,321,686)
Total liabilities	**(6,761,686)**	**(166,590,551)**	**(840,002,227)**	**(1,013,354,464)**
Net exposure	**15,331,266**	**(116,782,961)**	**(799,038,086)**	**(900,489,781)**

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The following table details the Company's consolidated exposure to interest rate risks in 2014:

2014 Consolidated	**Non – Interest Bearing**	**Interest Bearing At fixed rate**	**Interest Bearing At variable rate**	**Total**
	US$	**US$**	**US$**	**US$**
Net investment in finance lease	-	42,535,038	42,222,543	84,757,581
Cash and cash equivalents	3,649,871	-	7,611,152	11,261,023
Trade and other receivables	7,708,573	-	-	7,708,573
Total assets	**11,358,444**	**42,535,038**	**49,833,695**	**103,727,177**
Liabilities				
Finance lease liability	-	-	(208,636,659)	(208,636,659)
Loans	-	(134,820,838)	(266,287,060)	(401,107,898)
Other liabilities	(6,024,511)	-	-	(6,024,511)
Trade and other payables	(1,503,764)	-	-	(1,503,764)
Total liabilities	**(7,528,275)**	**(134,820,838)**	**(474,923,719)**	**(617,272,832)**
Net exposure	**3,830,169**	**(92,285,800)**	**(425,090,024)**	**(513,545,655)**

As at the year end, the total variable interest bearing liabilities were US$840,444,501 (2014: US$474,923,719). The amount of interest paid during the year end on the variable interest bearing liabilities was US$37,430,965 (2014: US$24,493,169).The interest is calculated at a fixed rate of 3.9% - 8.35% (2014: 4.85 – 5.65 %%) plus LIBOR rate. If the interest was to increase/decrease by 5% the interest payable on liabilities would increase/decrease by US$42,022,225 (2014: US$23,746,185).

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The following table details the Company's exposure to interest rate risks in 2015:

2015 Company	**Non – Interest Bearing**	**Interest Bearing At fixed rate**	**Interest Bearing At variable rate**	**Total**
Assets	**US$**	**US$**	**US$**	**US$**
Net investment in finance lease	-	10,198,343	-	10,198,343
Cash and cash equivalents	2,888,125	-	-	2,888,125
Loans and receivables	-	499,617,823	-	499,617,823
Other assets	2,901,063	-	-	2,901,063
Total assets	**5,789,188**	**509,816,166**	**-**	**515,605,354**
Liabilities				
Finance lease liability	-	(212,515,618)	-	(212,515,618)
Loans	-	(177,344,323)	(288,164,933)	(465,509,256)
Trade and other payables	(47,460,861)	-	-	(47,460,861)
Total liabilities	(47,460,861)	**(389,859,941)**	**(288,164,933)**	(727,485,735)
Net exposure	**(41,671,673)**	**119,956,225**	**(288,164,933)**	**(211,880,381)**

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The following table details the Company's exposure to interest rate risks in 2014:

2014 Company	**Non – Interest Bearing**	**Interest Bearing At fixed rate**	**Interest Bearing At variable rate**	**Total**
	US$	**US$**	**US$**	**US$**
Assets				
Net investment in finance lease	-	10,955,833	-	10,955,833
Cash and cash equivalents	123,047	-	7,611,152	7,734,199
Loans and receivables	-	404,364,502	-	404,364,502
Other assets	9,135,211	-	-	9,135,211
Total assets	**9,258,258**	**415,320,335**	**7,611,152**	**432,189,745**
Liabilities				
Finance lease liability	-	(225,528,658)	-	(225,528,658)
Loans	-	(145,275,004)	(266,287,061)	(411,562,065)
Trade and other payables	(23,863,537)	-	-	(23,863,537)
Total liabilities	(23,863,537)	(370,803,662)	(266,287,061)	(660,954,260)
Net exposure	**(14,605,279)**	**44,516,673**	**(258,675,909)**	**(228,764,515)**

As at the year end, the total variable interest bearing liabilities was US$288,504,536 (2014: US$266,287,061). The amount of interest paid as the year end on the variable interest bearing liabilities was US$17,684,356 (2014: US$15,332,113).The variable interest is calculated at a fixed rate of 4% - 8.35% plus LIBOR rate. If the interest was to increase/decrease by 5% the interest payable on liabilities would increase/decrease by US$14,425,227 (2014: US$13,314,353).

(ii) Foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to non-US$ currencies is not significant. There is minimal foreign currency exposure due to minimal euro assets/liabilities being held. As a result no sensitivity analysis has been included.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Foreign currency risk (continued)

The following tables outline the currency profile of the Company in as at 31 December 2015 and 31 December 2014:

Consolidated Currency profile 2015	**Euro US$**	**US Dollar US$**	**Total US$**
Assets			
Net investment in finance lease	-	90,771,731	90,771,731
Cash and cash equivalents	277,478	18,820,836	19,098,314
Other assets	24,029	905,280,068	905,304,097
Total assets	301,507	1,014,872,635	1,015,174,142
Liabilities			
Net investment in finance lease	-	(551,939,965)	(551,939,965)
Loans	-	(454,652,813)	(454,652,813)
Trade and other payables	-	(6,761,684)	(6,761,684)
Total liabilities	-	(1,013,354,462)	(1,013,354,462)
Net exposure	**301,507**	**(1,518,173)**	**(1,819,680)**

Company Currency profile 2015	**Euro US$**	**US Dollar US$**	**Total US$**
Assets			
Net investment in finance lease	-	10,198,343	10,198,343
Cash and cash equivalents	253,378	2,634,747	2,888,125
Loans and receivables	-	499,617,823	499,617,823
Other assets	31,216	215,058,773	215,089,989
Total assets	284,594	727,509,686	727,794,280
Liabilities			
Net investment in finance lease	-	(212,515,618)	(212,515,618)
Loans	-	(465,509,256)	(465,509,256)
Trade and other payables	-	(47,460,860)	(47,460,860)
Total liabilities	-	(725,485,734)	(725,485,734)
Net exposure	**284,594**	**2,023,952**	**2,308,546**

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Foreign currency risk (continued)

Consolidated Currency profile 2014	**Euro US$**	**US Dollar US$**	**Total US$**
Assets			
Net investment in finance lease	-	84,757,581	84,757,581
Cash and cash equivalents	148,582	11,112,441	11,261,023
Other assets	149,491	512,103,876	512,253,367
Total assets	298,073	607,973,898	608,271,971
Liabilities			
Net investment in finance lease	-	(208,636,659)	(208,636,659)
Loans	-	(401,107,898)	(401,107,898)
Trade and other payables	-	(7,528,275)	(7,528,275)
Total liabilities	-	(617,272,832)	(617,272,832)
Net exposure	**298,073**	**(9,298,934)**	**(9,000,861)**

Company Currency profile 2014	**Euro US$**	**US Dollar US$**	**Total US$**
Assets			
Net investment in finance lease	-	10,955,833	10,955,833
Cash and cash equivalents	122,965	7,611,234	7,734,199
Loans and receivables	-	404,364,502	404,364,502
Other assets	-	236,420,117	236,420,117
Total assets	122,965	659,351,686	659,474,651
Liabilities			
Net investment in finance lease	-	(225,528,659)	(225,528,659)
Loans	-	(411,562,065)	(411,562,065)
Trade and other payables	-	(23,863,536)	(23,863,536)
Total liabilities	-	(660,954,260)	(660,954,260)
Net exposure	122,965	(1,602,574)	(1,479,609)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at an unacceptably high cost. If the Company cannot meet its obligations under the various debt arrangements or its capital commitments, it may be subject to contract breach damages and may even be unable to continue to operate on a going concern basis.

In the management of liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Company's operations and mitigate the effects of fluctuations in cash flows. It monitors the risk of shortage of funds by regular analysis of cash flow movements, forecasts and adherence to all loan agreements.

The Company's ability to repay loans to the Parent and third party lenders is dependent on receipt of payment by the lessees on a timely basis. The loans from the Parent are non-recourse. The monitoring of the risk has been outsourced to the Parent, who manages risk from the group perspective.

	Consolidated As at 31 December 2015 US$	Consolidated As at 31 December 2014 US$	Company As at 31 December 2015 US$	Company As at 31 December 2014 US$
Loans from related parties	(148,893,232)	(128,111,233)	(158,893,232)	(128,111,233)
Interest payable on related parties	(17,697,319)	(6,709,605)	(18,451,091)	(6,709,605)
Loans from third parties	(288,035,715)	(266,250,000)	(288,035,715)	(266,250,000)
Interest payable on third parties	(1,518,893)	(1,518,086)	(1,518,893)	(1,518,086)
Finance lease liability	(551,939,965)	(208,636,659)	(212,515,618)	(225,528,659)
Other payables	(5,269,338)	(6,047,249)	(46,071,187)	(32,836,677)
	(1,013,354,462)	(617,272,832)	(725,485,736)	(660,954,260)

The following are the contractual maturities of financial liabilities, including estimated interest payments as at 31 December 2015:

Consolidated 2015	Carrying amount US$	Contractual cash flows US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans from related parties	(166,590,551)	(184,235,187)	(156,492,437)	-	(27,742,750)
Loans from third parties	(289,554,608)	(312,675,540)	(118,043,449)	(194,632,091)	-
Finance lease liability	(551,939,965)	(690,904,468)	(65,341,847)	(252,648,028)	(372,914,593)
Other payables	(5,296,338)	(5,296,338)	(5,296,338)	-	-
	(1,013,354,461)	(1,193,111,533)	(345,174,071)	(447,280,119)	(400,657,343)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

Company 2015	Carrying amount US$	Contractual cash flows US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans from related parties	(177,344,323)	(194,988,959)	(167,246,209)	-	(27,742,750)
Loans from third parties	(289,554,608)	(312,675,540)	(118,043,449)	(194,632,091)	-
Finance lease liability	(212,515,618)	(253,037,912)	(23,640,000)	(136,595,000)	(92,802,912)
Other payables	(46,071,187)	(46,071,187)	(46,071,187)	-	-
	(725,485,736)	(806,773,598)	(355,000,845)	(331,227,091)	(120,545,662)

The following are the contractual maturities of financial liabilities, including estimated interest payments as at 31 December 2014:

Consolidated 2014	Carrying amount US$	Contractual cash flows US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans from related parties	(134,820,838)	(160,609,505)	(2,709,152)	(130,157,603)	(27,742,750)
Loans from third parties	(267,768,086)	(303,974,263)	(32,227,486)	(271,746,777)	-
Finance lease liability	(208,636,659)	(261,853,700)	(23,366,486)	(94,176,949)	(144,310,265)
Other payables	(6,047,249)	(6,047,249)	(6,047,249)	-	-
	(617,272,832)	(732,484,717)	(64,350,373)	(496,081,329)	(172,053,015)

Company 2014	Carrying amount US$	Contractual cash flows US$	Less than 1 year US$	Between 2 and 5 years US$	After 5 years US$
Loans from related parties	(134,820,838)	(160,609,505)	(2,709,152)	(130,157,603)	(27,742,750)
Loans from third parties	(267,768,086)	(303,974,263)	(32,227,486)	(271,746,777)	-
Finance lease liability	(225,528,659)	(276,677,912)	(23,640,000)	(146,280,000)	(106,757,912)
Other payables	(32,836,677)	(32,836,677)	(32,836,677)	-	-
	(660,954,260)	(774,098,357)	(91,413,315)	(548,184,380)	(134,500,662)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(e) Operational risk exposure

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and infrastructure, and from external factors other than credit, markets and liquidity issues such as those arising from legal and regulatory requirements and generally accepted standards to corporate behaviour.

The Company was incorporated with the purpose of engaging in those activities outlined in the preceding paragraphs. Payroll and taxation functions have been outsourced to the TMF Administration Services Limited.

(e) Economic risk

The recent conflicts in Ukraine and related events have increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. The Group have taken all the necessary efforts to support the economic stability of the Group in the current environment.

30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITES

The following table shows the carrying value of the Group financial assets and liabilities:

Given the structure of the entity, the directors have considered the fair values of assets and liabilities and determined that the fair value equates to that of the carrying value at the reporting date as the finance lease and debt were acquired in 2013 and there have been no significant changes in credit risk or interest rates prior to yearend. The directors are of the view that the fair value of the assets and liabilities are the same as the carrying value at the reporting date and are deemed to be within Level 2 of the fair value hierarchy.

30.FAIR VALUE OF FINANCIAL ASSETS AND LIABILITES (CONTINUED)

Consolidated	As at 31 December 2015 US$ Carrying Value	As at 31 December 2015 US$ Fair Value	As at 31 December 2014 US$ Carrying Value	As at 31 December 2014 US$ Fair Value
Financial assets				
Net investment in finance lease	90,771,731	92,249,706	84,757,581	86,027,785
Cash and cash equivalents	19,098,314	19,098,314	11,261,023	11,261,023
Other assets	2,994,638	2,994,638	7,708,573	7,708,573
Total financial assets	112,864,683	114,342,658	103,727,177	104,997,381
Liabilities				
Finance lease liability	(551,939,965)	(551,939,965)	(208,636,659)	(208,636,659)
Loans and borrowings	(454,652,813)	(450,633,717)	(401,107,898)	(397,203,754)
Trade and other payables	(6,761,686)	(6,761,686)	(7,528,275)	(7,528,275)
Total financial liabilities	(1,013,354,464)	(1,009,335,368)	(617,272,832)	(613,368,688)
Net financial liabilities	**(900,489,781)**	**(894,992,710)**	**(513,545,655)**	**(508,371,307)**

Company	As at 31 December 2015 US$ Carrying Value	As at 31 December 2015 US$ Fair Value	As at 31 December 2014 US$ Carrying Value	As at 31 December 2014 US$ Fair Value
Financial assets				
Net investment in finance lease	10,198,343	10,696,130	10,955,833	11,508,706
Cash and cash equivalents	2,888,125	2,888,125	7,734,199	7,734,199
Other assets	505,604,045	505,604,045	413,218,077	413,218,077
Total financial assets	518,690,513	519,188,300	431,908,109	432,460,982
Liabilities				
Finance lease liability	(212,515,618)	(212,515,618)	(225,528,658)	(225,528,658)
Loans and borrowings	(465,509,256)	(461,490,161)	(411,562,065)	(407,657,921)
Trade and other payables	(47,460,861)	(47,460,861)	(23,863,537)	(23,873,537)
Total financial liabilities	(725,485,735)	(721,466,640)	(660,954,260)	(657,060,116)
Net financial liabilities	**(206,795,222)**	**(202,278,340)**	**(229,046,151)**	**(224,599,134)**

30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITES (CONTINUED)

The future commitment to long term loans can be seen in note 22 and the future obligation under finance lease can be seen in note 21.

There have been no capital commitments other than those stated above as at 31 December 2015.

There were no contingent liabilities at 31 December 2015 (2014: nil). Contingent liabilities are assessed continually to determine whether transfers of economic benefits have become probable. Where future transfers of economic benefits change from previously disclosed contingent liabilities, provisions are recognised in the year in which the changes in probability occur.

31. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

Key management comprises of three directors. Directors' fees are disclosed at note 9.

In addition to the disclosures set out herein please see note 19 in respect of loans and receivables.

There were no other contracts of any significance in relation to the business of the Company in which the directors had any interest, as defined in the Companies Act 2014, at any time during the period.

Parent and ultimate controlling party

The Group and Company has entered into a total of six loan agreements (2014: five loan agreements) with the Parent as at the year end. The total amount of these loans was US$148,893,232 (2014: US$128,111,233). As at the year end the outstanding amount with the Parent is US$166,590,551 (2014: US$134,820,838). The average fixed interest rate payable on the loans is 8.17% (2014: 7.5%) under the respective loan agreements.

Transactions with the Subsidiaries

The Company has entered into a number of transactions with the Subsidiaries during the year.

The Company entered into a new loan agreement with STLC Europe Two Leasing Limited at a fixed interest rate of 10%. The company incorporated two new subsidiaries during the year - STLC Europe Three Leasing Limited and STLC Europe Four Leasing Limited. The Company has made an investment in the share capital of both of these new subsidiaries which is recorded at cost. There were no other transactions with the Subsidiaries during the year.

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with the Subsidiaries (continued)

The following table summarises the inter-company loans given and received from/ by its subsidiaries:

	1 January 2015 US$	Issued US$	Interest US$	Repayment US$	31 December 2015 US$
Loan to GTLK 5 737 Limited	11,514,719	-	1,020,152	(1,444,020)	11,090,851
5 Loans to STLC Europe One Leasing Limited	62,359,389	-	3,047,861	(5,100,000)	60,307,250
2 Loans to GTLK BO2 Limited	55,853,081	-	2,488,350	-	58,341,431
2 Loans to GTLK BO3 Limited	74,714,876	-	3,635,200	-	78,350,076
Loan to GTLK Malta Limited	42,978,704	-	3,334,015	(4,457,468)	41,855,251
2 Loans to GTLK BO6 Limited	74,579,100	-	3,680,987	(2,135)	78,257,952
1 Loan to GTLK BO4 Limited	39,834,039	-	1,068,056	-	40,902,095
2 Loans to GTLK Lietuva 01 UAB	42,530,596	-	3,428,700	(5,039,990)	40,919,306
Loan to STLC Europe Two Leasing Limited	-	85,780,000	5,813,611	(2,000,000)	89,593,611
Loan from STLC Europe One Leasing Limited	(10,454,500)	-	(299,272)	-	(10,753,772)

The following table summarises the inter-company finance leases entered into with each subsidiary by the Company:

	1 January 2015 US$	Issued US$	Principal US$	Interest US$	Repayment US$	31 December 2015 US$
GTLK BO2 Limited	(49,492,168)	-	6,000,000	(2,318,234)	-	(45,810,402)
GTLK BO3 Limited	(68,024,199)	-	6,660,000	(3,395,125)	-	(64,759,324)
GTLK BO4 Limited	(37,184,953)	-	3,900,000	(1,099,188)	-	(34,384,141)
GTLK BO6 Limited	(70,827,339)	-	7,080,000	(3,814,412)	-	(67,561,751)

32. SIGNIFICANT SUBSEQUENT EVENTS

In March 2016, as a result of a lessee's merger with another airline, GTLK Europe assigned operating leases for five Boeing B737 aircraft to a new lessee. There was no changes to the company's existing rights and obligations under the assigned operating leases.

In February and March 2016, STLC Europe Three Leasing Limited leased two Airbus A320 aircraft from a third-party lessor, which were then leased by STLC Europe Three Leasing Limited to a third-party lessee. In May 2016, STLC Three Leasing Limited entered into purchase agreement assignments, and sale and lease-back agreements in respect of a further two Airbus A320 aircraft which were leased by STLC Europe Three Leasing Limited to the same third-party lessee. As at the reporting date, the only other transactions that have occurred in the company are administration expenses.

In April 2016, GTLK 5 737 Limited entered into an operating lease agreement with a charter operator for two Boeing B737 aircraft. These aircraft underwent maintenance restoration work and were delivered to the lessee on 19 & 23 May 2016.

Two other Boeing B737 aircraft that were recognised as Assets Held for Sale as at 31 December 2015 remain unsold as at the date of this report. Management is committed to a plan to sell these aircraft. Both are available for immediate sale and management are actively looking for a buyer with the intention to sell by the end of the year. Management is actively marketing for sale at a sales price reasonable in relation to its fair value. Management are confident that the assets will be sold at a value equal to or greater than their booked value as at 31 December 2015.

In April 2016, STLC Europe Four Leasing Limited entered into purchase agreements for two Airbus A319 aircraft. These aircraft were on lease to a third party airline at the time of delivery and STLC Europe Four Leasing Limited assumed the rights and obligations of the original operating lease. This transaction was financed by a term loan with the Parent which was entered into on 25 February 2016.

On 10 February 2016, the company incorporated a new subsidiary, STLC Europe Five Leasing Limited. At the date of approval of these financial statements the only transactions that have occurred in the company are administration expenses.

On 30 May 2016, GTLK Europe Limited provided a guarantee for its parent PJSC STLC to a Russian bank (VTB Bank) in respect of PJSC STLC's obligations under loan agreements between VTB Bank as lender and PJSC STLC as borrower.

On 13 June 2016, the company incorporated a new subsidiary, GTLK Malta Two Limited. At the date of approval of these financial statements no transactions have occurred in the company.

There have been no other significant subsequent events since the year end until the date of signing of this report that would require adjustment or disclosure in these financial statements.

33. CHARGES

The Company has sixteen charges registered with the Companies Registration Office ("CRO") in favour of a number of third-party financiers.

GTLK 5 737 Limited has one charge registered with the Companies Registration Office in favour of a third party financier.

33. CHARGES (CONTINUED)

STLC Europe One Leasing Limited has eleven charges registered with the companies' registration office, in favour of a third-party financier.

STLC Europe Two Leasing Limited has five charges registered with the companies' registration office in favour of a third party financier.

34. IMMEDIATE AND ULTIMATE PARENT COMPANY

The Company is a wholly owned subsidiary of PJSC "State transport leasing company", a company incorporated under the laws of the Russian Federation with a registered address at Room 100, Bld. 73, ul. Respubliki, Salekhard, Yamalo-Nenetsky Avtonomny Okrug, Russian Federation, 629008 (the "Parent"). On 9 February 2015, OJSC State Transport Leasing Company changed its form of incorporation from OJSC to PJSC in accordance with changes in the laws of the Russian Federation and changed its registered address from Building 1, 31A Leningradsky Prospect, Moscow, Russia, 125284 to the above mentioned .

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board and authorised for issue on 14 June 2016.

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