STLC

ANNUAL REPORT FOR

2016

AND THE FIRST HALF OF

2017

State
Transport
Leasing
Company

06 1. **ABOUT THE COMPANY**

06 1.1. STLC in figures
08 1.2. Operations
11 1.3. Highlights of 2016
16 1.4. Highlights of H1 2017
20 1.5. Business model

24 2. **MESSAGES FROM EXECUTIVES**

24 2.1. Message from the Chairman
26 2.2. Message from the Chief Executive Officer

30 3. **STRATEGIC REPORT**

30 3.1. Market review
34 3.2. Operating review
39 3.3. STLC's role in government programs to develop transport sector
40 3.4. Financial review
44 3.5. Strategy and development plans

50 4. **CORPORATE GOVERNANCE**

50 4.1. STLC corporate governance practices
51 4.2. General Meeting of Shareholders
52 4.3. Board of Directors
59 4.4. Board committees
62 4.5. Corporate Secretary
63 4.6. Executive management bodies (management)
65 4.7. System of remuneration for members of Board of Directors and management bodies
67 4.8. Risk management and internal control
69 4.9. Internal Audit
70 4.10. External Audit
71 4.11. Business ethics and anticorruption practices
72 4.12. Information for shareholders

78 5. **CORPORATE SOCIAL RESPONSIBILITY**

78 5.1. Priorities and principles of engagement with stakeholders
80 5.2. Human Resources policy
82 5.3. Sponsorships and philanthropy
83 5.4. Energy conservation and energy efficiency

86 6. **IFRS CONSOLIDATED FINANCIAL STATEMENTS**

160 7. **STATEMENT OF RESPONSIBILITY**

161 8. **CONTACTS**

CONTENTS

06 -------- 1.1. STLC in figures
08 -------- 1.2. Operations
11 -------- 1.3. Highlights of 2016
16 -------- 1.4. Highlights of H1 2017
20 -------- 1.5. Business model

1

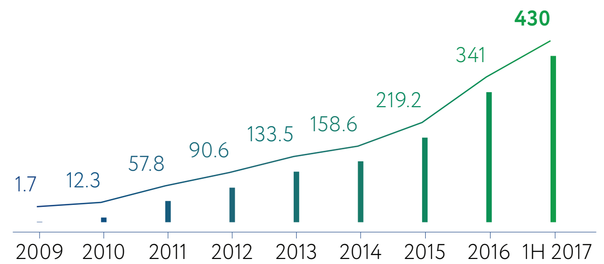
ABOUT THE COMPANY

1.1.

STLC IN FIGURES

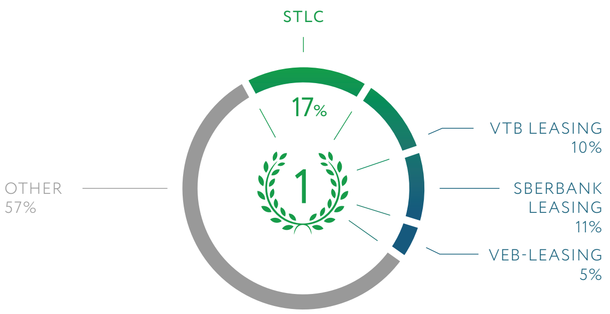
STLC is one of the leading companies on the Russian leasing services market.

STLC became the largest leasing company in Russia in the first half of 2017 by leasing portfolio, which exceeded 430 billion rubles.[1]

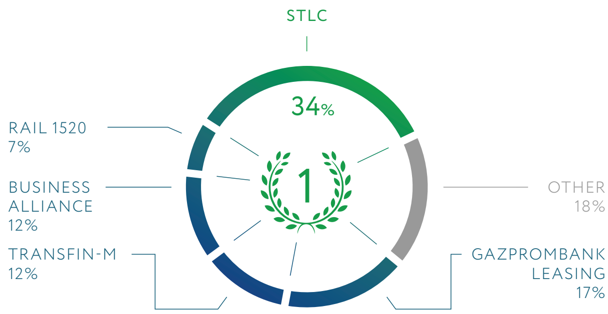


Growth of STLC leasing portfolio, bln RUB[2]

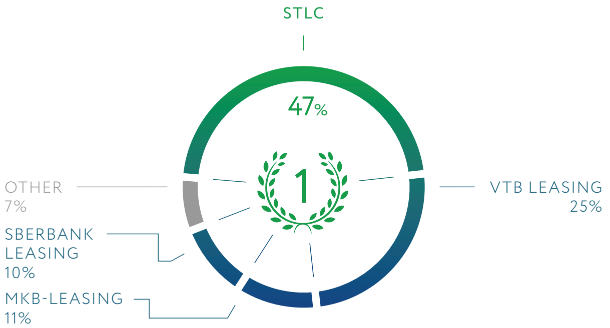
STLC holds leading positions in leasing of aircraft, railway and water transport by the volume of new business[3].



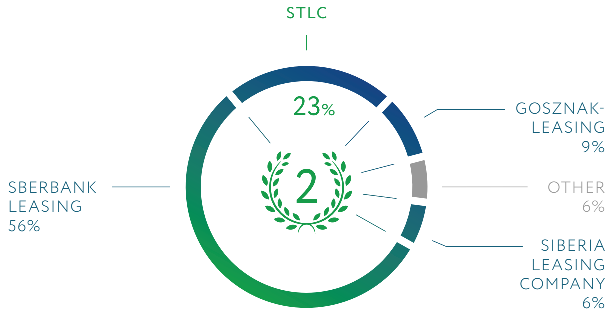
STLC – №1 by total new business volume in 2016



STLC – №1 in railway transport leasing in 2016



STLC – №1 in aircraft leasing in 2016



STLC – №2 in water transport leasing in 2016

[1-3] Source: Expert RA.

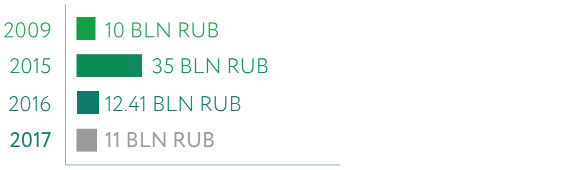
BEST PRIMARY EUROBOND OFFERING[4]

Ba2	BB-	BB
Stable	Positive	Stable
Moody's	S&P Global Ratings	Fitch Ratings

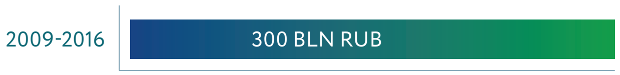
International credit ratings

100%
FEDERAL GOVERNMENT OWNERSHIP

STLC is a state company, 100% of shares in which are owned by the federal government. The Company receives strong support from the government and is a strategic tool for implementing state policy and programs to develop Russia's transport sector.

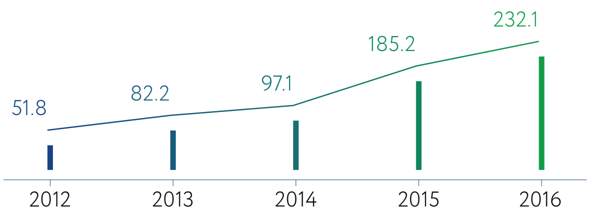


Investment in STLC charter capital, bln RUB



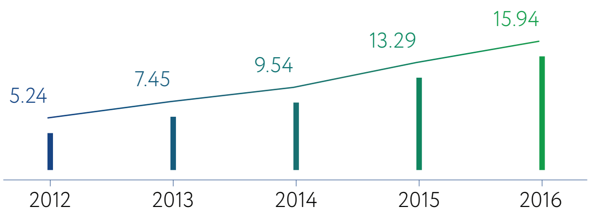
Transport sector investments

- 12.41 billion rubles received for recapitalization in 2016
- Additional state investment of up to 11 billion rubles in STLC capital planned by the end of 2017
- 300 billion rubles invested in transport sector in 2009–2016



Assets, bln RUB

STLC's assets grew to 232.1 billion rubles as of December 31, 2016 on the back of new business growth and an increase in assets leased under operating leases, including with equity financing from the federal budget. STLC's leasing portfolio reached 160.7 billion rubles in 2016[5].



Interest income growth, bln RUB

Interest income increased along with other indicators in 2016, growing in proportion to the growth of the portfolio.

[4] STLC's debut offering of Eurobonds on the Irish Stock Exchange in July 2016, totaling $500 million, won the award for Best International Primary Eurobond Deal in 2016 at the Cbonds Awards.

[5] Portfolio calculated as the sum of net investment in finance leasing (before provisions) and the value of assets under operating lease, according to IFRS.

1.2.

OPERATIONS

1. OUR MISSION

STLC is a tool of state policy for the management and sustainable development of Russia's transport sector that facilitates government efforts to support the sector, develop efficient transport infrastructure, raise extra-budgetary investment and support domestic transport engineering, while increasing the Company's investment appeal and operating efficiency.

2. OUR OBJECTIVES

Implement state support for the transport sector

– Government leasing programs
– Development of Russia's transport potential

Raise extra-budgetary investment in the development of the transport sector

– Use government leverage and optimize the cost of financing

Support domestic transport engineering

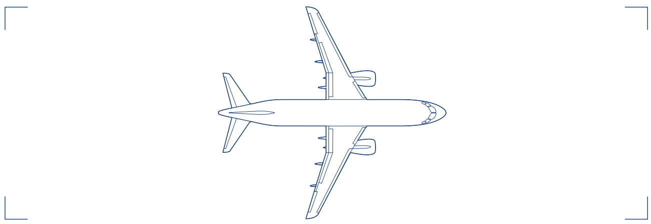
– Support demand for the products of Russia's transport engineering sector

Increase the investment appeal and operating efficiency of STLC

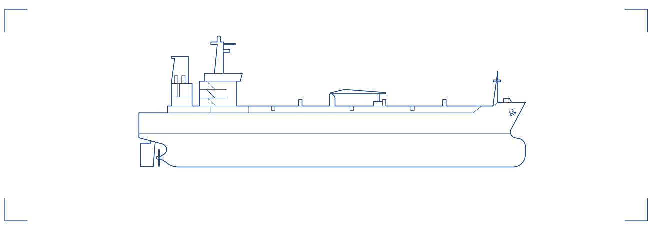
– Increase the efficiency of operating processes and improve governance systems
– Improve the quality of assets while maintaining positions in key segments of the transport leasing market

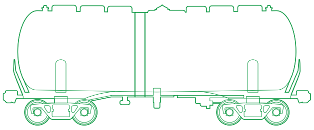
3. KEY AREAS OF BUSINESS

Aviation
Leasing of aircraft (long-haul and regional airplanes, helicopters), as well as airport and navigation equipment. The leasing portfolio included 71 aircraft of various types, not including helicopters and small aircraft, as of December 31, 2016.



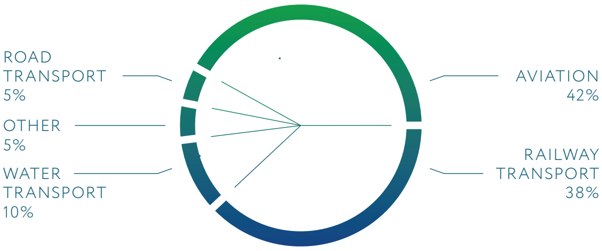
Water transport
Leasing of marine and river vessels, including bulk carriers, oil tankers, freight and passenger ferries, as well as port equipment. The leasing portfolio included 55 vessels of various types as of December 31, 2016.





Railway transport

Leasing of gondola cars, tank cars, boxcars, flatcars, hopper cars and other types of railcars, and implementation of passenger train leasing programs. The leasing portfolio included 30,300 railcars as of December 31, 2016.



Leasing portfolio by segment in 2016[6]

Other

– Leasing of passenger vehicles (buses, urban electric transport)
– Leasing of road construction equipment and other specialized vehicles and machinery
– Leasing of equipment for small-scale thermal power generation, the chemical industry, engineering and other sectors
– Development of transport and logistics complexes

4. KEY PROJECTS

SSJ-100 airliner leasing program

Passenger train leasing program for suburban services

Helicopter leasing program as part of air ambulance program

Program to increase energy efficiency in transportation

Project to localize production of L-410 aircraft in Sverdlovsk Region

Program to build transport infrastructure

Program to develop water transport and ferry services in Sakhalin Region as part of the federal Far East and Trans-Baikal Development Program

[6] The sum of net investment in finance leasing (before provisions) and the value of assets under operating lease, according to IFRS.

5. KEY CLIENTS

6. STABLE FUNDING

- Efficient diversification of funding structure
- High capital adequacy thanks to recapitalization and continuous improvements in operating efficiency
- Steady reduction of funding costs as a result of optimizing credit portfolio, securing credit ratings from international agencies and entering international capital market
- Substantial borrowing potential thanks to high capital adequacy and state support
- Access to international capital markets through wholly owned Irish operating company GTLK Europe
- Successful experience raising capital on local and international debt markets

1.3.

HIGHLIGHTS OF 2016

20.06.2016

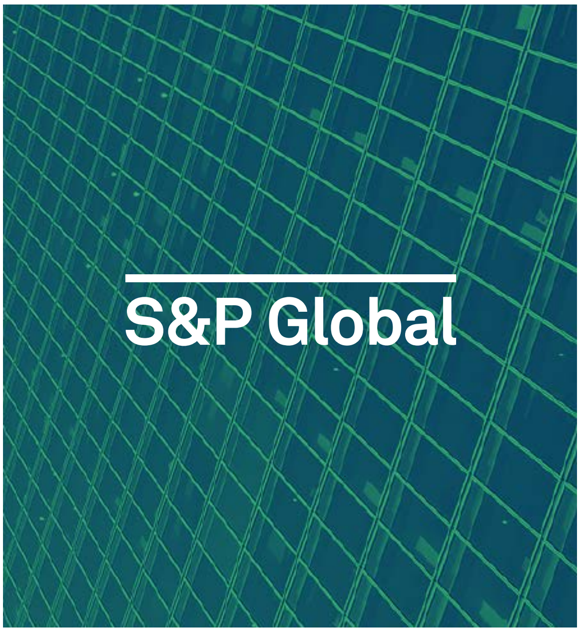
19.07.2016

FITCH RATINGS ASSIGNS STLC RATING OF 'BB-'

Fitch Ratings assigned STLC long-term Issuer Default Ratings (IDR) in foreign and local currencies of 'BB-' with Negative Outlooks, as well as a short-term IDR in foreign currency of 'B' and a national long-term rating of 'A+(rus)', Outlook Stable. This was the second BB grade rating that STLC received from leading international rating agencies in 2016.

STLC SUCCESSFULLY PLACES DEBUT FIVE-YEAR EUROBOND ISSUE OF $500 MILLION

STLC placed a debut Eurobond issue of $500 million on the Irish Stock Exchange under U.S. Regulation S with a coupon yield of 5.95%. The bonds have a semiannual coupon period and mature on July 19, 2021, with payment of the face value of the issue due on the date of maturity. The bonds were primarily bought by long-term investors from the UK, Switzerland and other European countries. The issuer was GTLK Europe Limited, STLC's wholly owned European operating company. The STLC Eurobond issue was assigned ratings of 'BB-' by Fitch Ratings and 'Ba3' by Moody's Investors Service.



17.08.2016

24.10.2016

S&P UPGRADES STLC CREDIT RATINGS

S&P Global Ratings raised STLC's long-term counterparty credit rating to 'BB-' from 'B+' and Russia national scale rating to 'ruAA-' from 'ruA+' with Stable Outlook. STLC thus received BB grade ratings from all three leading international rating agencies. S&P noted the high likelihood of STLC receiving state support considering its important role in implementing state policy to modernize Russia's transport sector and the Company's strong link with the Russian government, which wholly owns STLC. S&P therefore reassessed STLC's capital, leverage and earnings to 'strong' from 'adequate' and its stand-alone credit profile to 'b+' from 'b.'

FITCH RAISES STLC RATING OUTLOOK TO STABLE

Fitch Ratings changed the outlook for STLC's long-term credit rating of 'BB-' to Stable from Negative. As a result, STLC has BB grade credit ratings from all three leading international rating agencies.

29.11.2016

30.11.2016

RUSSIAN GOVERNMENT ORDERS CAPITAL INJECTION OF 5 BILLION RUBLES INTO STLC

Russian Prime Minister Dmitry Medvedev signed an order on November 24 to recapitalize STLC by 5 billion rubles in 2016. The allocated budget funds will be used to extend the government leasing program for the Sukhoi SuperJet 100 (SSJ-100) and support localization of production of L-410 aircraft in Russia.

STLC AND YAMAL AIRLINES SIGN FIRM CONTRACT FOR 13 SSJ-100 JETS

Yamal Airlines is a strategic partner of STLC. The companies signed an agreement at the MAKS Air Show in 2015 for the delivery of up to 25 SSJ-100 airliners. STLC delivered nine SSJ-100 jets to the airline in 2016.

30.11.2016

STLC AND RUSSIAN HELICOPTERS SIGN CONTRACT FOR DELIVERY OF 27 MI-8AMT, MI-8MTV-1 AND ANSAT HELICOPTERS

STLC and Russian Helicopters signed a contract at Moscow Transport Week for the delivery of 13 medium-lift multirole Mi-8AMT helicopters, 10 Mi-8MTV-1 helicopters and four Ansat light helicopters.

30.11.2016

STLC SIGNS CONTRACT WITH URAL CIVIL AVIATION WORKS FOR DELIVERY OF FIVE L-410 AIRCRAFT

The contract provides for the acquisition of five L-410 aircraft and was signed as part of the Russian government order to recapitalize STLC. The contract is worth 2 billion rubles, part of which will be raised on the market. Budget funding will finance at least 50% of the contract.

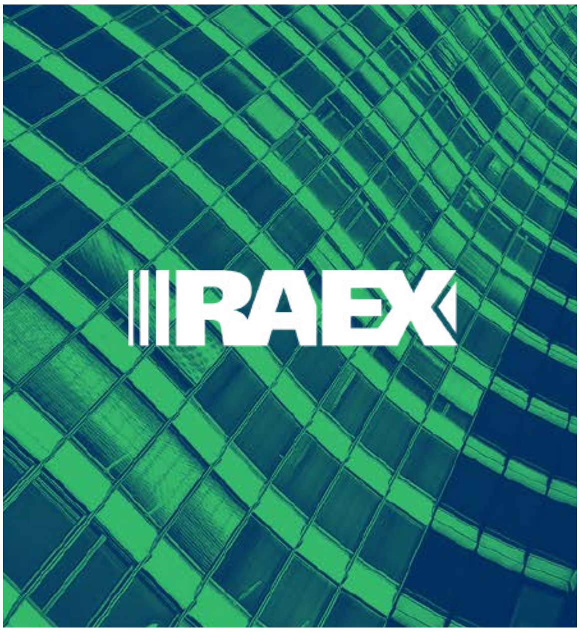
21.12.2016

STLC AND GAZPROMBANK SIGN STRATEGIC COOPERATION AGREEMENT AND LOAN CONTRACT FOR UP TO 30 BILLION RUBLES

The loan agreement will enable Gazprombank to syndicate the loan among other Russian banks. The first tranche raised under the agreement made it possible to finance the purchase of four new SSJ-100 jets intended for Yamal Airlines.

1.4.

HIGHLIGHTS OF H1 2017



20.02.2017

15.03.2017

STLC BECOMES LEADING RUSSIAN LEASING COMPANY BY NEW BUSINESS VOLUME

Rating agency RAEX (Expert RA) and the United Leasing Association (ULA) reported the preliminary results of a study of the Russian leasing market in 2016, showing that STLC became the market leader by volume of new business.

STLC accounted for about 44% of new business in the fourth quarter of 2016, as the Company's new business grew by 119.5%. The Company was also first by the amount of new lease agreements, which reached 170 billion rubles.

RUSSIAN GOVERNMENT INJECTS 1.978 BILLION RUBLES INTO STLC FOR VANINO-KHOLMSK FERRY PROJECT

The Russian government injected 1.978 billion rubles into STLC's equity as part of the federal program for Development of Russia's Transport System (2010-2020) for a project to build two automobile and train ferries to operate on the Vanino-Kholmsk line. The government also injected 3.565 billion rubles into STLC equity under the program in December 2016.

16.05.2017

25.05.2017

FITCH RATINGS UPGRADES STLC RATINGS TO 'BB'

Fitch Ratings raised STLC's long-term issuer default ratings in foreign and local currencies from 'BB-' to 'BB' with Stable Outlooks. Fitch also raised the senior unsecured debt rating to 'BB.'

STLC SIGNS AGREEMENT WITH RUSSIAN HELICOPTERS FOR ANNUAL DELIVERY OF UP TO 64 HELICOPTERS

The highlight of the HeliRussia-2017 show for STLC was the signing of an agreement with Russian Helicopters for the delivery of up to 64 helicopters annually in 2018–2020: 50 Mi-AMT-/MTV-1, 10 Ansat and four Mi-171A2 made by Kazan Helicopters and the Ulan-Ude Aviation Plant. In executing this agreement, STLC will provide orders and pay for 100% of production of Ansat helicopters in 2018 and 30-50% of production of civilian Mi-8 helicopters.

26.05.2017

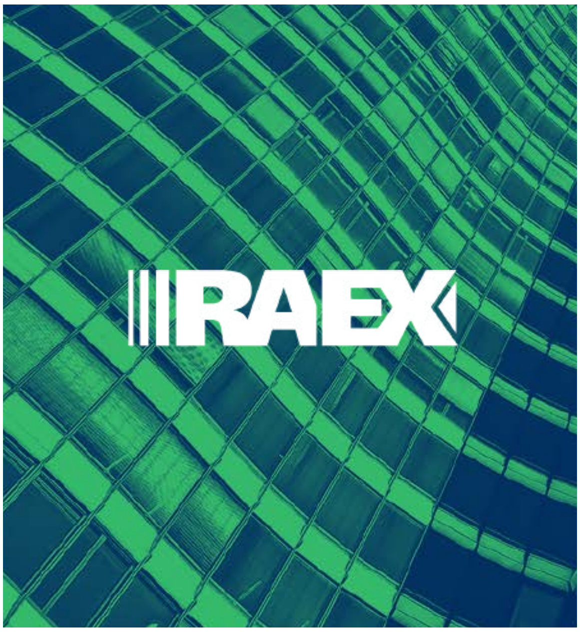
GAZPROMBANK ANNOUNCES SUCCESSFUL SYNDICATION OF LOAN FOR STLC

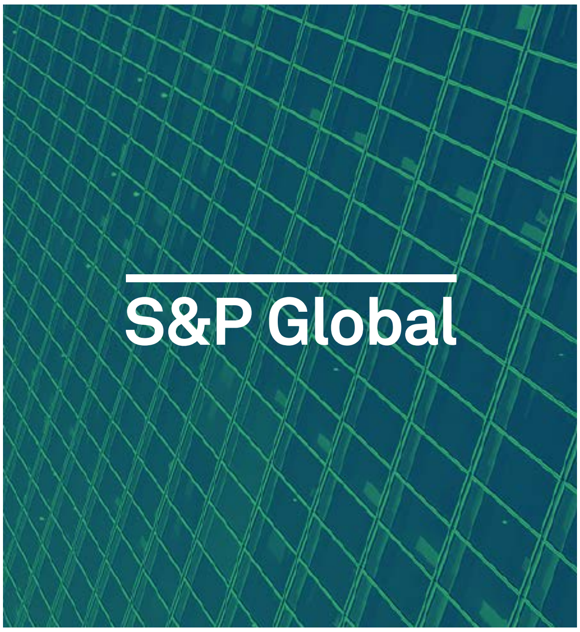
The syndicate of creditors to lend STLC 30 billion rubles to finance a program to acquire 32 SSJ-100 airliners was finally formed. Bids from banks to participate in the loan significantly exceeded the amount of required financing, demonstrating the market's strong interest in the project. In addition to Gazprombank, the syndicate includes Russian Regional Development Bank (RRDB), ICBC Bank and Credit Bank of Moscow (CBM) as co-organizers, and Banca Intesa and the Bank of China as participants. In a joint effort with Gazprombank, STLC thus managed to raise funds from foreign investors for the program to develop Russia's aircraft industry.

31.05.2017

STLC SUCCESSFULLY PLACES NEW SEVEN-YEAR EUROBOND ISSUE OF $500 MILLION

STLC placed a new Eurobond issue of $500 million on the Irish Stock Exchange under U.S. Regulation S with a coupon yield of 5.125%. The bonds have a semiannual coupon period and mature on May 31, 2024, with payment of the face value of the issue due on the date of maturity. Like STLC's debut Eurobond offering a year ago, the new issue drew strong interest from international investors. The issuer was GTLK Europe DAC, STLC's wholly owned European operating company registered in Ireland. The STLC Eurobond issue was assigned ratings of 'BB' by Fitch Ratings and 'Ba3' by Moody's Investors Service.





08.08.2017

17.08.2017

STLC RANKED RUSSIA'S LARGEST LEASING COMPANY IN H1 2017

RAEX and the United Leasing Association reported the preliminary results of a study of the Russian leasing market in the first half of 2017, showing that STLC became the largest leasing company in the country by leasing portfolio, which exceeded 430 billion rubles. STLC's new business totaled 55.4 billion rubles, up 70% from the first half of 2016. The Company also ranked first by new contracts, which totalled 103.4 billion rubles.

S&P GLOBAL RATINGS UPGRADES OUTLOOK FOR STLC LONG-TERM RATINGS TO POSITIVE FROM STABLE

S&P Global Ratings revised the outlook for STLC's long-term foreign and local currency credit ratings to Positive from Stable, affirming the long-term ratings at 'BB-' and the short-term rating at 'B.' The agency said the outlook upgrade reflects the increasing importance of STLC as a government policy tool to modernize and develop Russia's transport sector. "The positive outlook on STLC reflects our view that, over the next 12 months, an ongoing solid pipeline of government programs involving the company as a policy tool will continue to support STLC's market share and balance-sheet growth, resulting in a strong public policy role," S&P said in a press release.

1.5.

BUSINESS MODEL

CREATING VALUE

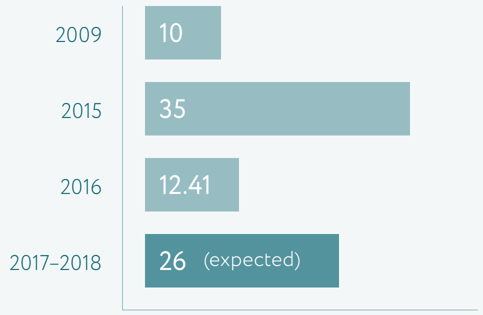
GOVERNMENT SUPPORT

- Transport Ministry of Russia
- Industry and Trade Ministry of Russia
- Specialized federal agencies

EXTRA-BUDGETARY SOURCES OF FINANCING

- Banks
- Bondholders
- Other sources of financing

INCREASE OF CHARTER CAPITAL BY GOVERNMENT (BLN RUB.)



RAISED IN 2009–2016

- **40 billion rubles** in form of exchange-traded bonds denominated in rubles
- **$170 million** in form of exchange-traded bonds denominated in USD
- **96.9 billion rubles, $351 million, EUR2 million** in form of loans
- **$1 billion** in form of two issues of Eurobonds

PRINCIPLE OF PROGRAM CO-FINANCING:

1 RUBLE of government budget funds → 5 RUBLES from extra-budgetary sources

INVESTED IN RUSSIAN TRANSPORT SECTOR:

300 BILLION RUBLES IN 2009–2016

- Risk management
- Maintaining credit rating
- Diversification of financing sources and expansion of geography of borrowing

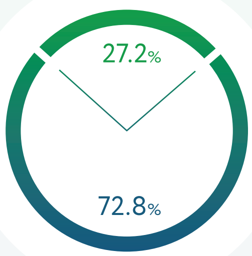
LEASING PROGRAMS

NONCOMMERCIAL LEASING (27.2%)

Implementation of government programs:

- Development of SSJ-100 operating lease
- Development of helicopter leasing under air ambulance program
- L-410 aircraft localization project
- Development of water transport leasing and ferry services
- Passenger train leasing program for suburban services
- Regional energy efficiency programs in transport sector

Reinvestment of income, meaning the use of repayable funds of leaseholders under programs financed with funding from the federal budget, in further implementation of leasing programs exceeded 16.2 billion rubles in 2009–2016.



COMMERCIAL LEASING (72.8%)

Air, railway and water transport, other sectors

Commercial leasing is a standard leasing program under which lease agreements are concluded on market terms. Such leasing projects are carried out with a return of more than 10% per year.

- Commercial leasing programs do not have special requirements for leaseholders other than for their financial position and solvency
- Lease agreements are financed by borrowed funds from third parties
- Duration of leases under commercial lease agreements, as a rule, ranges from three to ten years
- Down payment ranges from 5.0% to 30.0% of original price of leased asset

CREATED VALUE

GOVERNMENT AND SOCIETY

- Implementation of government programs in transport
- Support for domestic manufacturers of transport equipment
- Contribution to GDP
- Tax revenues

SOCIETY

- Development of Russia's transport sector
- Development of transport infrastructure
- Improvement of quality of life

CUSTOMERS AND PARTNERS

- High quality leasing services
- Reliable equipment
- Support for business development
- Provision of firm orders for partners

PRIVATE INVESTORS/BONDHOLDERS

- Work with reliable borrower
- Openness and transparency in relations with investors

EMPLOYEES

- Jobs
- Salaries and social benefits
- Training and career growth

MEDIA

- Clear understanding of the Company's business

24 2.1. Message from the Chairman
26 2.2. Message from the Chief Executive Officer

2

MESSAGES FROM EXECUTIVES

2.1.

MESSAGE FROM THE CHAIRMAN

Dear colleagues and partners!

In 2016 STLC confirmed its status as the key instrument of government support for the development of Russia's transport sector and the domestic transport engineering industry. Last year and the first half of 2017 were marked by an improvement in the market situation and rapid growth of the Company's business, significantly strengthening its leading positions on the leasing market.

STLC made a sizeable contribution to the development of operating leases of domestic aircraft. STLC began implementing a project in 2015 to stimulate sales of Sukhoi SuperJet 100 (SSJ-100) airliners through the mechanism of operating leases. The Company received an additional capital injection of 4 billion rubles in December 2016 in order to develop the project and lease another four SSJ-100 planes. Both Russian and foreign airlines are showing interest in leasing the SSJ-100. Exports of Russian high-tech products could become a priority area of STLC's business. The Company has all of the prerequisites for this, including all the necessary competencies and an established leasing platform in its subsidiary GTLK Europe.

STLC launched two new important programs in the area of aviation last year, one to support the domestic helicopter industry and another to support production of the L-410 aircraft in Russia. In December 2016, the government allocated 3.85 billion rubles for STLC's capital that was used to co-finance the acquisition of 29 helicopters (13 Mi-8AMT, 10 Mi-8MTV-1 and six Ansat) to add to the fleets of Russian airlines. Taking into account the possibility of outfitting all the delivered helicopters with special medical modules, this program will help to develop air ambulance services and make it possible to provide emergency medical aid to residents of remote areas of the country.

As part of support for manufacturing the L-410 aircraft in Russia, STLC received budget allocations in the amount of 1 billion rubles that were used for advances on the production of five aircraft. STLC raised the remaining 1 billion rubles with bank loans. We plan to lease all five L-410 to airlines in 2017.

STLC also actively developed its water transport leasing business in 2016. The Company entered into a contract for the construction of two automobile and train ferries for service on the Vanino-Kholmsk line. Government financing in the amount of 5.54 billion rubles was allocated for this project in December 2016-March 2017, and we plan to borrow about another 4.45 billion rubles. The construction of the ferries will make it possible to utilize capacity at the Amur Shipyard, create new jobs in the Far East and improve transport services between Sakhalin Island and mainland Russia.

Another milestone for the Company was its first deal with passenger rail transport. STLC delivered seven modern, comfortable Russian-made EP2D electric trains to Central Suburban Passenger Company (CSPC) in 2016. The project continued to rapidly develop in 2017, with STLC delivering 13 trains of the same model to CSPC. We plan to continue to update the electric train fleets of passenger companies that provide commuter services. STLC also continued in 2016 to pursue the objectives set by the government under programs to increase energy efficiency in transport and develop transport infrastructure.

In addition to implementing current leasing programs, the Company plans to roll out new programs to develop the transport sector and transport engineering, including financing to manufacture domestic Il-96 and Il-114 aircraft. The Company's priorities continue to be to provide financing for the implementation of government programs and the business plan with extra-budgetary sources, to reduce the cost of financing and to diversify borrowing sources.

In pursuing its national mission, STLC has been working closely with the government, its sole shareholder, since it was founded. For this purpose, the Board of Directors includes representatives of two relevant ministries – the Transport Ministry and Industry and Trade Ministry, as well as independent directors. Every project is implemented on the principles of co-financing, with the Company raising up to 5 rubles from extra-budgetary sources for the development of Russia's transport sector for every ruble of government funding.

I would like to express my gratitude to the Company's management and members of the Board of Directors for their productive work and high level of professionalism. I would like to separately thank Alexei Germanovich and Yevgeny Serper, who have left the Board, for their contribution to the Company's development, and wish fruitful work to new Board members Oleg Bocharov and Maxim Novikov.

The high efficiency and sense of responsibility of STLC employees ensured that the Company met all of its strategic objectives. I am confident that the concerted efforts of our whole team will enable STLC to continue to play an increasingly important role as an instrument of government policy for the development of Russia's transport system, support of the domestic transport engineering sector and updating transport fleets.

Respectfully yours,
Yu.M. Medvedev

Chairman, PJSC STLC

2.2.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear colleagues and partners!

Last year and the first half of 2017 were a period of rapid growth for STLC. As a result, our Company became the leader in Russia by leasing portfolio. That said, STLC's chief priority was and remains pursuing government objectives to develop Russia's transport sector and transport engineering industry. We not only managed to substantially increase the volume of current projects in this area, but also launch a number of new important programs of national importance.

MARKET RECOVERY

The Russian leasing market rebounded from the 2014-2015 economic crisis in 2016 amid signs of an improvement in the macroeconomic situation. The leasing business grew by 36% to 742 billion rubles in 2016 after contracting by 20% in 2015 and 13% in 2014, rating agency RAEX (Expert RA) reported. As a result, new business volume on the market last year reached the 2011 level.

The leasing market continued its growth trajectory in 2017, in large part thanks to the ongoing positive trends in the Russian economy and the implementation of government programs to subsidize leasing. In addition, a number of major leasing deals agreed in the fourth quarter of 2016 were executed in early 2017, resulting in the highest volume of new business for the first half in six years. RAEX's baseline forecast projects that Russia's leasing market will continue to grow and could exceed 850 billion rubles in 2017.

BUSINESS DEVELOPMENT

STLC took full advantage of the favorable trends in 2016 and 2017 in order to improve its positions on the market. STLC became the leader on the Russian market by new business volume in 2016, as the value of leased assets surged 157% year-on-year to 122.8 billion rubles by the valuation method of RAEX. In the fourth quarter of 2016 alone, STLC accounted for about 53% of total new business volume in Russia. STLC continued to grow in 2017, becoming the leader by amount of new lease contracts in the first half of the year, as well as the largest leasing company in Russia by leasing portfolio, which topped 430 billion rubles.

STLC's priority continued to be the implementation of programs with state support in the transport sector, which the Chairman of the Board of Directors discussed in detail in his message.

Under the program to stimulate sales of the Sukhoi SuperJet 100 (SSJ-100), 16 airliners were received from the manufacturer in 2015-2016, and we plan to take delivery of another 16 in 2017 and four more in 2018. STLC began implementing two new important programs in the aviation sector last year: to support the domestic helicopter industry and support the localization of production of the L-410 aircraft in Russia. As a result, STLC's portfolio now includes virtually all domestically manufactured aircraft, accessible to Russian and international carriers thanks to flexible financing terms and an established system of after-sales services.

In the water transport segment, STLC concluded a contract for the construction of two automobile and train ferries for service on the Vanino-Kholmsk line, a vital transport link that is the chief means for delivering freight and passengers to and from Sakhalin Island. STLC also continued to work actively on ordering and leasing river and marine vessels built at Russian shipyards.

The freight rail transport segment, which has historically been important for STLC, enjoyed a recovery after the government decided to prohibit the use of freight cars that have outlived their service life. This made it possible to reduce the speculative surplus that had formed on the market in recent years and provide work for railcar manufacturers, who have had few orders in the past few years. STLC also entered the passenger rail transport market for the first time in 2016, delivering seven domestic electric trains to Central Suburban Passenger Company (CSPC).

Looking ahead, aviation continues to be the most important segment, currently accounting for the largest share in our portfolio. We are working hard to provide Russian airlines with new, modern planes manufactured in Russia, and thanks in large part to our efforts and the support of our shareholder the number of operators of Russian aircraft has grown considerably recently.

However, STLC seeks to balance the proportion of long-haul and regional aircraft, water and railway transport in its leasing portfolio. We are seeing strong demand in the water transport segment and will continue to finance the construction of river-sea vessels and passenger river vessels. We also plan to further develop leasing of passenger and freight cars in order to set the stage for railway fleet updates, and are looking closely at the locomotive segment.

DIVERSIFICATION OF FINANCING

In order to more efficiently raise extra-budgetary funding, STLC's team has devoted a great deal of attention to diversifying sources of borrowing and reducing their cost. This was also facilitated by positive changes in the situation on financial markets.

STLC's creditworthiness has been given high marks by international rating agencies. We received "BB" grade credit ratings from all three of the world's leading rating agencies in 2016: "Ba2" from Moody's, "BB-" from Fitch and a rating upgrade from "B+" to "BB-" from S&P. Our rating assessments continued to improve in 2017, as Moody's upgraded the rating outlook to "stable" from "negative," Fitch raised our rating by one rung to "BB" (outlook "stable") and S&P revised the outlook to "positive" from "stable," particularly noting the Company's growing importance for the government.

We also received a rating of "A+ (RU)" from Russian rating agency ACRA with a "stable" outlook. The rating from ACRA allows STLC bonds to be included in the Bank of Russia's Lombard list, the Level 1 listing of the Moscow Exchange and the investment portfolios of nongovernmental pension funds.

Diversifying its sources of financing, STLC entered international capital markets in the summer of 2016, successfully placing a debut issue of Eurobonds totaling $500 million that CBonds called the best Eurobond offering of the year. The Company repeated this success in May 2017, placing Eurobonds for the same amount on even better terms.

A substantial portion of the proceeds from the Eurobond issues went toward improving our debt situation, making it possible to structurally improve our debt portfolio and significantly reduce the weighted average cost of funding.

The results of 2016 confirm the importance of the goals and challenges that our Company faces and its growing role in supporting Russia's transport infrastructure. All of our success would not have been possible without the concerted efforts of STLC's team, the support and understanding of our shareholder, and our partners and investors. Together we will continue to develop our business for the benefit of Russia's transport sector.

Respectfully yours,
S.N. Khramagin

Chief Executive Officer, PJSC STLC

30 3.1. Market review
34 3.2. Operating review
39 3.3. STLC’s role in government programs to develop transport sector
40 3.4. Financial review
44 3.5. Strategy and development plans

3 STRATEGIC REPORT

3.1.

MARKET REVIEW

DEVELOPMENT OF LEASING MARKET IN 2016

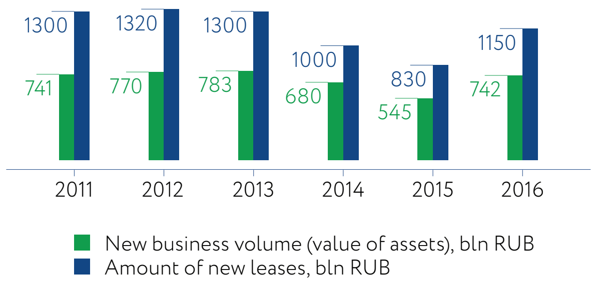
Russia's leasing market began to recover in 2016, with the volume of leasing business growing by 36% to 742 billion rubles after contracting by 20% in 2015 and 13% in 2014. As a result, the volume of new business in the reporting year reached the 2011 level.

The strong growth was in large part due to major deals made in the fourth quarter of 2016 that accounted for about 39% of new business for the whole year. Important factors in growth were the rapid development of auto leasing, which reached 10% of automobile sales, an increase in the number of regional deals thanks to the stabilization of the economy and an improvement in the terms of bank funding.

The recovery of the leasing market was also aided by the improvement in the economic situation in the country. Official statistics show a slowdown in the economic slump. Rosstat reported that Russian GDP declined by 0.2% in 2016 after contracting by 2.8% a year earlier, while industrial production grew by 1.1% after falling by 3.4% in 2015.

STLC became the market leader by new business volume in 2016, as the value of leased assets surged by 157% year-on-year to 122.8 billion rubles. Without STLC's business, the leasing market would have grown by 25% in 2016 instead of 36%. STLC's share of new business volume reached almost 17% in 2016.

The leasing portfolio in Russia stopped stagnating and grew to 3.2 trillion rubles as of January 1, 2017 from 3.1 trillion rubles as of January 1, 2016. The amount of new leases grew by 39% to 1.2 trillion rubles in 2016. The leasing business reached 1.2% of Russian GDP for the first time since 2013.



Dynamic of the leasing services market
(Source: Expert RA)

Expert RA reported that the amount of financed transactions in 2016 grew by 25%, something that was last seen on the market in 2013. With banks lowering lending rates, the share of loans in financed transactions grew to 60% in 2016 from 52% in 2015. The share of bonds, meanwhile, shrank to 3% in 2016 from 14% in 2015 as large companies began to use this source of financing less heavily.

LEASING COMPANIES IN RUSSIA CAN BE DIVIDED INTO FIVE MAIN TYPES:

- **Companies at state banks** – leaders in the leasing industry, with about 40% of the market by new business volume. Advantages: access to the financial resources and technology of parent banks. They lead in the largest segments of the leasing market: railway and air transport, freight road transport and specialized equipment (VTB Leasing, VEB Leasing, Sberbank Leasing).

- **State companies** – implement government programs to support businesses in various sectors of the economy and have margins that are lower than the market average. They hold leading positions in leasing aircraft, water transport and farm machinery (STLC, Goznak Leasing, Rosagroleasing, Ilyushin Finance & Co.).

- **Companies at financial corporations** – leasing divisions of banks or other financial institutions that are universal leasing companies with the most differentiated structure of new business and portfolio. They are focused on working with 'retail' segments of the leasing industry and highly liquid assets, such as automobiles and specialized equipment (Reso Leasing, Alfa Leasing, UniCredit Leasing).

- **Companies at manufacturers and dealers (captive)** – can offer their clients substantial discounts from the suppliers of the leased asset and have their own service centers. As a rule, they are leaders in narrowly specialized segments of the leasing market (Siemens Finance, Kamaz Leasing, Element Leasing).

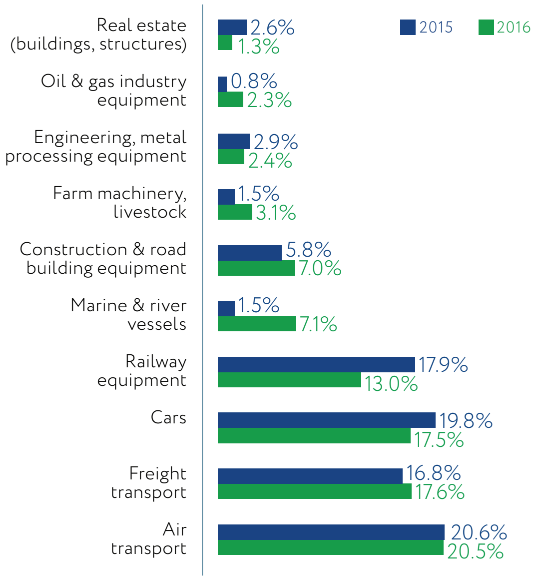
- **Independent companies** – distinguished by high operating efficiency and flexible approach to clients, with margins on par with the market average. They are focused on working with 'retail' segments of the leasing market and small and medium businesses (Europlan, Baltic Leasing, Stone XXI).

OPERATING RESULTS OF STLC AND COMPETITORS IN 2016*

	Ranking by new business 2016	2015	New business volume (value of assets) in 2016, mln RUB	Growth of new business 2016 / 2015, %	Amount of new leases in 2016, mln RUB	Leasing portfolio as of Jan 1, 2017, mln RUB
STLC	**1**	**4**	**122,753.2**	**157.0**	**188,332.9**	**337,600.6**
Sberbank Leasing Group	2	3	82,871.4	46.5	125,655.9	375,080.7
VTB Leasing	3	1	76,658.4	-1.3	114,744.3	380,416.3
Europlan	4	5	37,950.6	56.6	n/a	44,715.9
VEB Leasing	5	2	33,570.6	-56.0	48,303.2	524,659.7
Siemens Finance	6	6	27,232.6	26.5	43,021.3	34,810.1
Baltic Leasing Group	7	7	23,938.0	23.2	35,785.0	32,813.0

* Source: Expert RA.

Automobile leasing remained the largest segment of the market for the third consecutive year, with a share of 35%, though this was down slightly from 37% in 2015. By value, automobile leasing grew by 31% in 2016. Aircraft leasing was second by new business volume in 2016, retaining its market share of 21%. The railway transport segment continued to lose ground and saw its market share shrink to 13% from 18%.



Growth of Russian leasing market segments in 2015-2016 by new business (by value of assets) (Source: Expert RA)

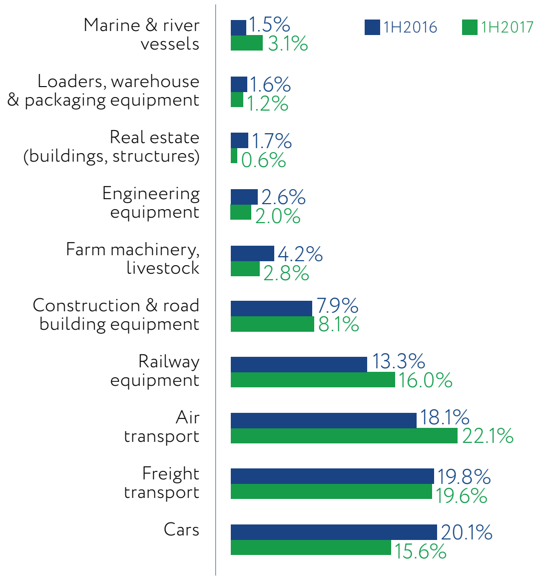
DEVELOPMENT OF THE LEASING MARKET IN H1 2017

New business volume (by value of assets) grew by 55% year-on-year to a record 427 billion rubles in the first half of 2017.

The leasing business continued to grow rapidly for the second consecutive year in large part thanks to the stabilization of the Russian economy and the implementation of government programs to subsidize leasing. In addition, a number of large leasing deals agreed in the fourth quarter of 2016 were carried out at the beginning of 2017, resulting in the highest volume of new business for the first half of the year in the past six years.

The amount of new lease agreements grew by 59% in the past year, as a result of which the leasing portfolio reached 3.24 trillion rubles as of July 1, 2017, up by 16% from a year earlier. However, the combined portfolio of leasing companies only grew by 1.3% to 3.4 trillion rubles at the end of the first half of 2017 from 3.2 trillion rubles at the end of 2016 due to the significant contraction of the portfolio of one market leader.

The air, railway and water transport segments demonstrated the strongest growth in the share of new business in the first half of 2017. The share of aircraft leasing grew by 4 percentage points year-on-year to 22.1%, the share of railway transport rose by 2.7 ppt to 16% and the share of water transport increased by 1.5 ppt to 3.1%.



Growth of Russian leasing market segments in H1 2016-H1 2017 by new business (by value of assets) (Source: Expert RA)

STLC's new business volume (by value of assets)[1] grew by 70% year-on-year to 55.48 billion rubles in the first half of 2017, according to the methodology of Expert RA. STLC's market share in new business grew to 13% in the first half of 2017 from 12% a year earlier. This put STLC in second place by new business on the market, between leader Sberbank Leasing with 95.74 billion rubles and VTB Leasing in third place with 34.98 billion rubles.

[1] Value of assets leased in new transactions before VAT.

The three leaders had a combined 39% share of new business volume in the first half of 2017, up from 34% a year earlier.

However, STLC was the leader by amount of new leases in the first half of 2017, which totaled 103.34 billion rubles due to leasing of expensive assets in major segments (air, railway and water transport).

The average amount of transactions on the Russian leasing market increased by 1.5 million rubles to 8 million rubles in the first half of 2017. STLC had the highest average transaction amount due to its specialization in leasing of capital-intensive equipment. If STLC is factored out, the average transaction in the first half of 2017 was 6.7 million rubles, Expert RA estimated.

OPERATING RESULTS OF STLC AND COMPETITORS IN H1 2017

	Ranking by new business		New business volume (value of assets) in 1H 2017, mln RUB	Growth of new business 1H 2017 / 1H 2016, %	Amount of new leases in 1H 2017, mln RUB	Leasing portfolio as of July 1, 2017, mln RUB
	1H 2017	1H 2016				
Sberbank Leasing Group	1	3	74,836	185	95,744	387,644
STLC	**2**	**2**	**55,476**	**70**	**103,463**	**430,646**
VTB Leasing	3	1	34,977	0	51,403	375,551
Europlan	4	5	26,363	79	n/a	48,048
TransFin-M	5	13	18,509	182	62,156	290,014
VEB Leasing	7	4	16,944	-2	23,528	414,347
Baltic Leasing Group	6	7	16,407	53	23,702	37,703

*Source: Expert RA.

MARKET FORECAST FOR 2017

The leasing market in Russia will continue to grow in 2017 and could exceed a record 850 billion rubles, Expert RA's baseline forecast projects. New business volume is expected to grow by at least 15%. The strongest growth, amounting to 70-75%, could be in the railway transport leasing segment thanks to the ongoing write-off of worn out railcars.

The automobile segment could grow by 30% on the back of Russia's economic recovery and government support. The revision of the terms of government programs as of July 1, 2017, which increased the subsidy for freight road transport and specialized equipment from 10% to 12.5%, will increase demand among clients. Leasing in the aircraft segment will continue to grow in the second half of 2017 thanks to the completion of major transactions that were structured in the first half of the year.

3.2.

OPERATING REVIEW

The main indicators characterizing STLC's operations are:

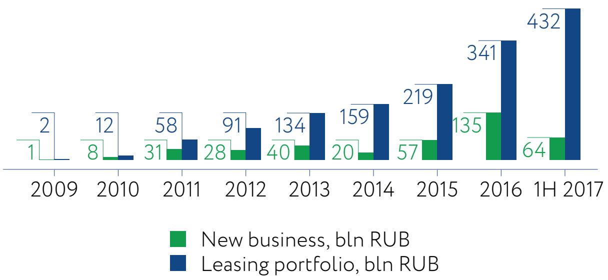
1. Leasing portfolio
Amount of leaseholders' obligations on current lease agreements and operating leases, less received advances and lease payments as of the end of the reporting period.

2. New business (investment in leasing)
Amount of funds invested in assets for finance and operating leases in the reporting period.

LEASING PORTFOLIO IN 2016

The leasing portfolio totaled 341 billion rubles[2] at the end of 2016, 55% more than at the end of 2015.

The strong growth of the leasing portfolio was due foremost to the rapid growth of new business volume in the reporting period, even taking into account the significant weakening of the U.S. dollar in 2016, which led to the revaluation of lessees' forex obligations on leases signed and included in the portfolio prior to 2016. Forex contracts accounted for more than 31% of the portfolio at the end of 2016.



STLC new business and leasing portfolio dynamics[3]

The leasing portfolio included 449 contracts as of December 31, 2016, including[4]:

- 121 noncommercial leasing contracts;
- 10 contracts signed as part of the noncommercial leasing program for energy efficient urban passenger transport;
- 17 contracts signed as part of measures to develop leasing of SSJ-100 airliners;
- 226 commercial leasing contracts;
- 75 operating lease agreements.

STLC's leasing portfolio is well diversified by key areas of business. Finance and long-term operating leases of air transport accounted for the largest share of the leasing portfolio at the end of 2016 with 42%. The share of railway transport increased to 38%, and water transport made up 10%.

Finance leases accounted for 45% or 72.6 billion rubles[5] of STLC's portfolio in 2016 when valuing the leasing portfolio as the sum of net investment in finance lease (before provisions) and the value of assets under operating lease, according to IFRS. The share of finance leases thus grew by 10 percentage points compared to 2015. The share of operating leases was 55% or 88.1 billion rubles[6] in 2016.

Commercial leasing makes up most of the portfolio. The program to develop noncommercial leasing of the Sukhoi SuperJet 100 (SSJ-100) accounts for a large share of programs being implemented with state participation.

Contracts with duration of more than ten years make up a large share of the portfolio.

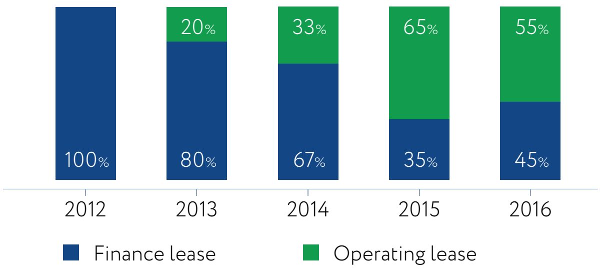
[2] According to management reporting data. The portfolio amounts to 160.7 billion rubles when calculated as the sum of net investment in finance lease (before provisions) and the value of assets under operating lease to IFRS.

[3] According to management reporting data.

[4] According to management reporting data.

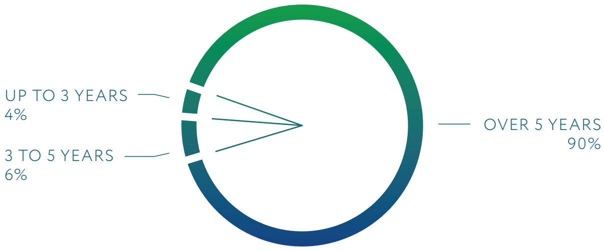
[5] According to IFRS data.

[6] According to IFRS data.

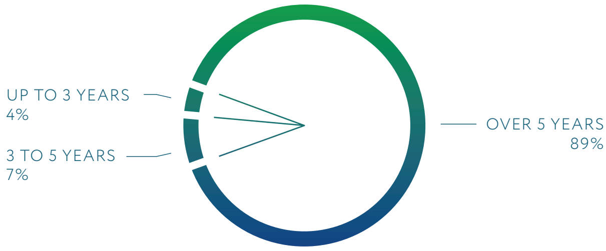


Change in structure of leasing portfolio
by type of leasing[7]

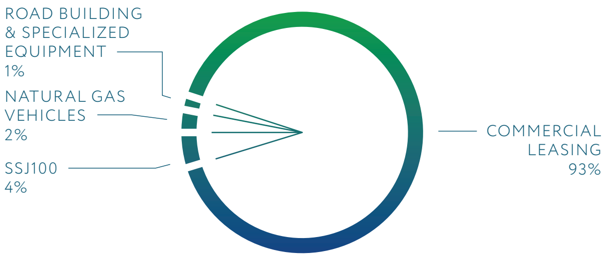
Structure of leasing portfolio
by type of transport, 2016[8]



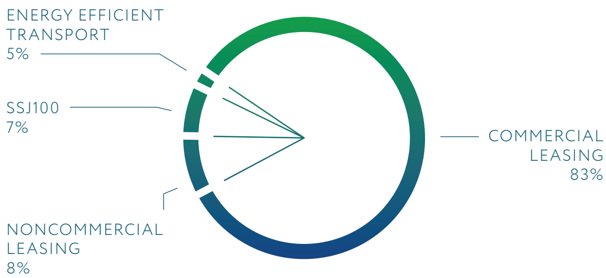
Structure of leasing portfolio
by duration of contracts, 2015[9]



Structure of leasing portfolio
by duration of contracts, 2016[10]



Structure of leasing portfolio
by program, 2015[11]



Structure of leasing portfolio
by program, 2016[12]

[7] Leasing portfolio calculated as the sum of net investment in finance lease (before provisions) and the value of assets under operating lease to IFRS.

[8] According to management reporting data. Portfolio calculated by balance of unrecovered investments (amount of investments in current contracts, less compensation of contractual value in received lease payments).

[9] According to management reporting data.

[10] According to management reporting data.

[11] According to management reporting data. Leasing portfolio calculated by balance of lease payments receivable.

[12] According to management reporting data. Leasing portfolio calculated by balance of lease payments receivable.

LEASING PORTFOLIO IN H1 2017

The Company's leasing portfolio topped 432.5 billion rubles in the first half of 2017, making STLC one of the leaders on the Russian market by portfolio volume[13]. The portfolio grew by about 27% compared to the end of 2016, in part thanks to the execution of deals made in 2016 and growth of new business.

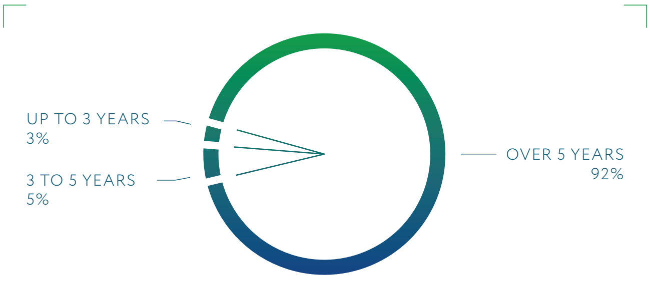
The leasing portfolio included 434 contracts[14] as of June 30, 2017, including:

- 88 noncommercial leasing contracts;
- 10 contracts signed as part of the noncommercial leasing program for energy efficient urban passenger transport;
- 34 contracts signed as part of measures to develop leasing of SSJ-100 airliners;
- 5 contracts under a helicopter leasing program;
- 218 commercial leasing contracts;
- 79 operating lease agreements.

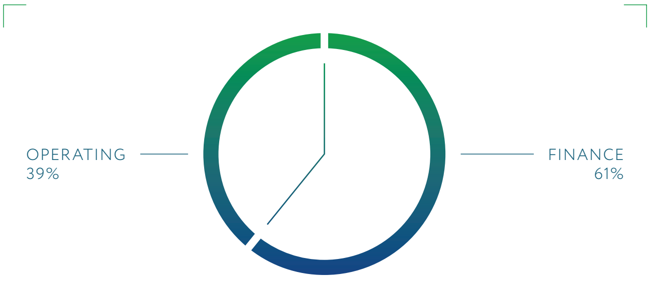
The share of air transport grew to 48%, the share of railway transport was 33%, and the share of water transport rose to 12% at the end of the first half of 2017 from 10% at the end of 2016.

Finance leases made up 50% or 100.2 billion rubles of the portfolio in the first half of 2017 and operating leases accounted for an equivalent share.

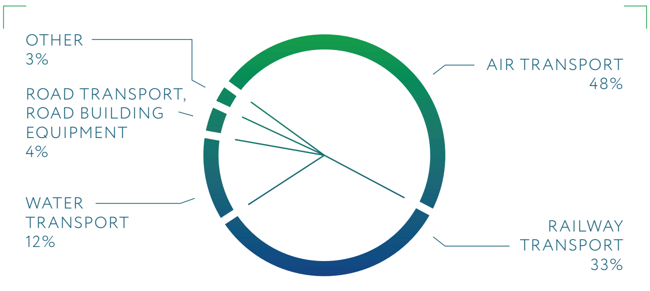
The share of contracts in the portfolio with duration of more than five years increased.



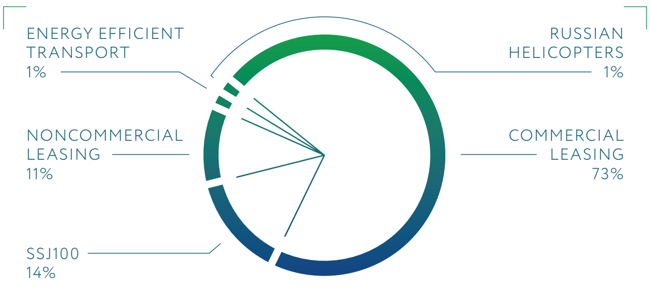
Structure of leasing portfolio by duration of contracts , H1 2017[17]



Structure of leasing portfolio by type of leasing, H1 2017[18]



Structure of leasing portfolio by type of transport, H1 2017[19]



Structure of leasing portfolio by program, H1 2017[20]

[13] According to results of Expert RA study.
[14] According to management reporting data.
[15] According to IFRS data.
[16] According to management reporting data.
[17] By amount of remaining obligations of clients, based on management reporting data.
[18] By balance of unrecovered investment, based on management reporting data.
[19] According to management reporting data.
[20] According to management reporting data. Leasing portfolio calculated by balance of lease payments receivable.

NEW BUSINESS IN 2016

STLC became the leader on the Russian market in 2016 by new business volume[21], which totaled 134.6 billion rubles, up twofold from 57 billion rubles in 2015 and the highest figure since 2011. Operating leases accounted for about 57% of the Company's new business, which helped push up the overall share of operating leases on the Russian market to 15% from 12% in 2015.

The growth of STLC's new business was driven primarily by deferred demand, as well as the signing of the following transactions:

- Operating leases for seven Airbus A320-214 airliners and three Airbus A319-111;
- Contracts to lease seven electric trains built by Demikhovsky Engineering Plant;
- Finance lease for RSD49 dry cargo vessel with duration of 10 years;
- Finance leases for eight cargo vessels;
- Finance lease for oil tanker with duration of five years.

Noncommercial leasing generated about 31% of new business in 2016, including:

- 1.7% under noncommercial leasing program for energy efficient urban passenger transport;
- 26.3% under SSJ-100 program;
- 3% under other noncommercial leasing.

Commercial leasing generated 68.9% of new business in 2016, including:

- 47.2% finance leases;
- 21.7% operating leases.

NEW BUSINESS IN H1 2017

Investments made in line with new contracts signed in the first half of 2017 totaled about 64.5 billion rubles[22], 92% more than in the same period of 2016.

The growth was driven primarily by the launch of new leasing programs with government participation and the extension of existing programs:

- STLC was recapitalized by 4 billion rubles[23] in December 2016 to implement a project to develop leasing of four SSJ-100 airliners. The received budget funding was used for advances to finance the manufacture of four aircraft, and operating lease agreements for four jets were signed with Azimuth Airlines in the second quarter of 2017.
- STLC also received a capital injection of 3.85 billion rubles[24] in December 2016 to co-finance the acquisition of 29 helicopters (six Ansat, 13 Mi-8AMT and 10 Mi-8MTV-1) manufactured by Russian Helicopters. The goal of the project is to bolster the aircraft fleet of Russian airlines as part of a Russian government project to ensure timely provision of emergency medical aid to residents of remote regions of Russia.

Noncommercial leasing generated 33.52 billion rubles or 52% of new business in the first half of 2017, including:

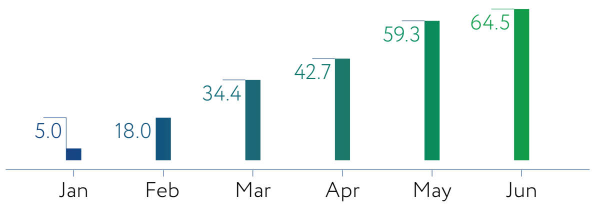
- 18.44 billion rubles or 28.6% under SSJ-100 program;
- 1.82 billion rubles or 2.8% of under development of helicopter leasing;
- 13.25 billion rubles or 20.6% as part of reinvestment.

[21] According to results of Expert RA study.
[22] According to management reporting data.
[23] In accordance with Russian government resolution №1485, dated December 26, 2016.
[24] In accordance with Russian government resolution №1486, dated December 26, 2016.

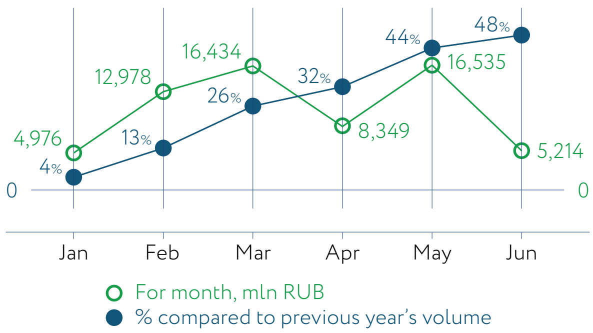
Investment as part of new 2017 contracts under the noncommercial leasing program for energy efficient urban passenger transport were not carried out in this period.

Commercial leasing generated 30.97 billion rubles or 48% of new business in the first half of 2017, including:

- 25.13 billion rubles or 39% finance leases
- 5.83 billion rubles or 9% operating leases



Investment in assets under finance and operating lease agreements (cumulative), bln RUB[25]



Growth of new business, H1 2017 (after exchange rate differences in valuation of forex transactions)[26]

[25] According to management reporting data.
[26] According to management reporting data.

3.3. STLC'S ROLE IN GOVERNMENT PROGRAMS TO DEVELOP TRANSPORT SECTOR

STLC provides government support for Russia's transport sector by extensively using the tools of noncommercial leasing. Under noncommercial leasing programs, STLC provides leasing services and concessional financing for segments of the transport sector that require state support, attracting funds into the sector from both budgetary and extra-budgetary sources. This, in turn, makes it possible to provide orders for domestic manufacturers, which facilitates the implementation of import substitution programs. In addition, as part of the implementation of state support for the transport sector, STLC helps to realize Russia's transit potential and develops transport infrastructure projects using leasing mechanisms.

As of December 2016, more than four rubles in funding was raised from extra-budgetary sources for every ruble of government funds injected into STLC capital. STLC had invested more than 300 billion rubles in Russia's transport sector as of the end of 2016, while investment from the government amounted to 57.4 billion rubles.

The goals and objectives set out in STLC's Long-term Development Program (LDP) reflect the Company's special role in supporting Russia's transport sector. They include:

1) Provide government support through the implementation of leasing programs in segments important for the development of the country's transport sector (noncommercial leasing programs, programs/projects with state participation).

2) Raise extra-budgetary investment in the development of the transport sector by using the mechanism of co-financing for programs and projects, leveraging equity, proceeds from investment and borrowed funds.

3) Support Russia's transport engineering sector by creating and developing demand for the sector's products within the context of the implementation of government priorities to promote import substitution.

STLC develops and implements noncommercial leasing programs together with relevant federal government agencies based on instructions/orders of the Russian government and on the condition that the Company's operating and financial performance will not deteriorate. STLC uses the following criteria to select segments for implementing noncommercial programs:

- Need for state support, social importance of segment;
- Underdevelopment of market mechanisms for updating plant and equipment;
- Low return on investment in segment, lack of appeal for private investors;
- Need for import substitution of equipment and support for domestic manufacturers.

Noncommercial leasing programs are an effective tool for implementing government policy that makes it possible to bring private investment into the transport sector. As part of the implementation of noncommercial leasing programs, STLC:

- Provides concessional lease financing for segments of the transport sector that require state support;
- Raises budgetary and extra-budgetary funds for the development of segments of the transport sector;
- Develops noncommercial leasing programs and includes them in relevant federal targeted programs;
- Develops the leasing services market;
- Stimulates demand for domestic machinery and equipment;
- Participates in the development and/or amendment of regulations aimed at developing transport leasing (including operating leases) and easing access to leasing services for transport companies;

3.4.

FINANCIAL REVIEW

STLC KEY FINANCIAL INDICATORS

	2012	2013	2014	2015	2016	1H 2017[27]	Change (2016/2015)	Change (2016/2015) %
Assets, mln RUB	51,785	82,217	97,086	185,203	232,097	261,638	46,894	25.3
Net investment in leasing, mln RUB	38,456	53,345	55,600	42,350	70,892	99,462	28,542	67.4
Net profit (loss), mln RUB	95	124	251	39	205	(1 702)	166	427.5
ROAE (return on average equity)[28]	0.93%	1.24%	2.55%	0.19%	0.17%	- 0.9%	- 0.02	- 10.5
ROAA (return on average assets)[29]	0.22%	0.20%	0.30%	0.03%	0.04%	–	0.01	33.3

The Company prepared its consolidated financial statements for 2016 and the first half of 2017 in accordance with International Financial Reporting Standards (hereinafter, IFRS). These financial statements underwent an audit by JSC KPMG, the results of which confirmed that the statements are a faithful representation in all material respects of STLC Group's financial position according to IFRS.

FINANCIAL REVIEW FOR 2016

STLC's revenue grew by 5.4 billion rubles or 32% year-on-year to 22.1 billion rubles in 2016[30]. The strong growth was driven primarily by the development of the operating lease segment.

STLC's net profit to IFRS grew by 427.5% year-on-year to 205 million rubles in 2016 amid the reduction of provisions and growth of gross revenue on both finance and operating leases.

The Company's financial result improved in 2016 compared to the previous year despite the need to constantly assess the adequacy of provisions for impairment. In 2014–2015, amid the unstable economic situation, there was instability in the inflow of lease payments. In 2016, the Company was forced to terminate contracts with a number of the most problematic customers and resort to arbitration court. In accordance with Resolution No. 17 of the Supreme Arbitration Court of the Russian Federation "On Certain Issues Related to the Lease Purchase Contract," dated March 14, 2014, accrued but unpaid lease payments to STLC on these contracts were treated as a 2016 loss in the amount of 1.815 billion rubles.

However, improvements in the approach to provisioning for impairment, as well as constant work with troubled receivables enabled the Company to reduce the overall level of provisions made in 2016. The main factors for this were:

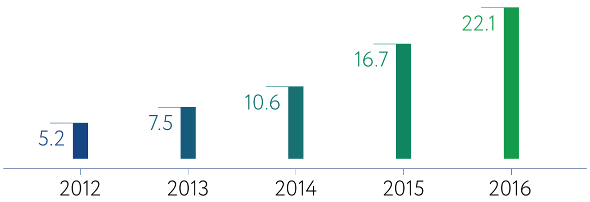
- Constant work with overdue debt, starting on the tenth day from when it is accrued, has a positive impact on both collection of existing (accrued) debt and on preventing customers from falling into deep arrears;
- Improving the model for collective assessment of credit risks made it possible to refine calculations and avoid excessive provisioning that would have taken place if the approach had not changed;
- Including macroeconomic indicators in the model made it possible to reflect the influence that the gradual recovery of the Russian economy that became evident in 2016 had on the improvement of the credit quality of the Company's leasing portfolio.

[27] Unaudited data.

[28-29] According to management reporting.

[30] Revenue calculated as the sum of interest income from finance lease transactions, operating lease income and other interest income (to IFRS).

The combination of these factors, coupled with the organic growth of the leasing portfolio, enabled the Company to increase the net return on leasing transactions, despite pressure from the decline of the balance of other operating income and expenses.

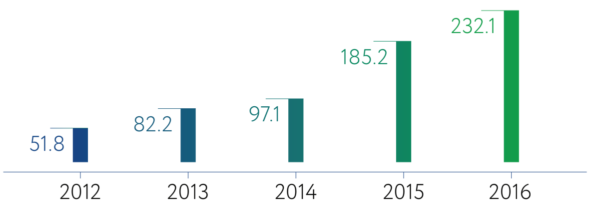


STLC revenue, bln RUB [31], bln RUB

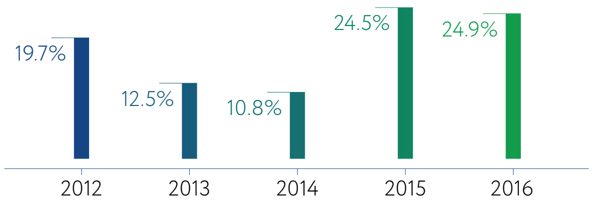
ASSETS

The Company's assets totaled 232.097 billion rubles as of December 31, 2016, up by 46.894 billion rubles or 25.3% from December 31, 2015. The strong growth of STLC assets was driven by the development of the operating lease segment and growth of net investment in leasing in 2016, as well as an increase in the amount of paid-in equity capital by 12.41 billion rubles.

The 27.4% increase in equity capital, from 45.427 billion rubles at the end of 2015 to 57.885 billion rubles at the end of 2016, significantly increases STLC's borrowing potential and prospects for development.



STLC assets[32], bln RUB



Capital adequacy ratio
(equity capital/assets)

LIQUIDITY AND DEBT BURDEN

The structure of STLC Group's funding is characterized by a balance between capital (25%), received loans (23%), finance lease obligations (13%), ruble bonds (24%), foreign currency bonds (13%) and other liabilities (2%).

STLC Group's total loan obligations stood at 169.482 billion rubles as of December 31, 2016, including:

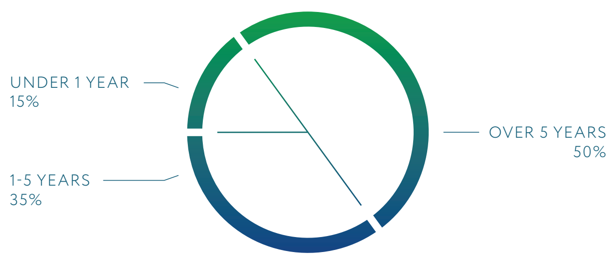
- 83.066 billion rubles on bank loans, including finance lease obligations (of which $717 million in foreign currency);
- 85.353 billion rubles on issued bonds (of which $500 million in foreign currency).

Structure of STLC Group funding, 2016

[31] Revenue calculated as the sum of interest income from finance lease transactions, operating lease income and other interest income (to IFRS).

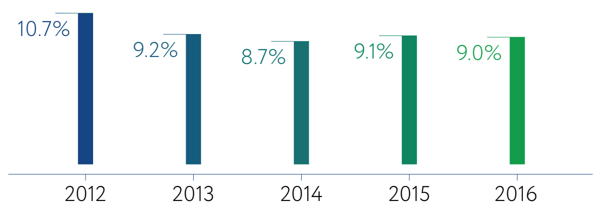
[32] According to IFRS data.

The Company's debt portfolio is also balanced by duration. Debt with duration of less than one year amounts to 15% of the debt portfolio, debt with duration of one to five years amounts to 50% and debt with duration of more than five years amounts to 35%.



STLC Group debt portfolio by duration, 2016[33]

The weighted average cost of funding (before breakdown by currency) decreased to 9.0% in 2016 from 9.1% in 2015.



Cost of STLC Group funding, 2016[34]

The loan portfolio[35] is well balanced by currency, with 56% denominated in Russian rubles and 44% in U.S. dollars. The leasing portfolio[36], meanwhile, breaks down into 54% ruble obligations, 46% obligations in U.S. dollars and less than 0.5% obligations in euros. Forex obligations made up 52% or 43.495 billion rubles[37] of STLC Group's debt on bank loans.

As part of its work with banks, the Company managed to get a reduction of current interest rates on a number of loan agreements.

As a result, the weighted average interest rate on received ruble loans was 12.1% for 2016, down from 13.3% a year earlier and lower than the average market interest rate of 13.04% on ruble loans in 2016.

The weighted average interest rate on STLC loans in U.S. dollars was 5.4% for 2016, well below the average market rate of 6.7% for the reporting year and little changed from the 5.3% rate on STLC dollar loans in 2015.

The Company expanded cooperation with Chinese financial institutions in 2016, financing the lease of seven new Airbus A320 airliners with CMB Financial Leasing Co.

The Company's cash and cash equivalents decreased to 9.49 billion rubles in 2016 from 19.62 billion rubles at the end of 2015, primarily due to spending of funds previously accumulated in accounts to form a liquidity reserve.

FINANCIAL REVIEW FOR H1 2017

STLC's revenue totaled 13.5 billion rubles in the first half of 2017[38]. However, the Company had a loss of 1.717 billion rubles[39] in the first half of 2017 compared to a profit of 10 million rubles in the same period of 2016.

The main factors that affected the decline of the financial result in the first half of 2017 were related to market and financial developments beyond STLC's control (increase in borrowing rates, the weakening of the U.S. dollar and narrowing of margin on forex transactions, negative trends in certain segments of the leasing market and so on).

[33] Debt burden calculated as the sum of bank loans, finance lease obligations (with duration of more than five years) and issued bonds (face value, duration calculated as the lesser between the offer date and final maturity date) to IFRS.

[34] Cost of funding – ratio of interest expenses accrued for the period to average value of obligations on which interest is accrued.

[35] Loan portfolio – sum of bank loans, finance lease obligations and issued bonds to IFRS.

[36] Leasing portfolio – sum of net investment in finance lease (before provisions) and value of assets delivered for operating lease to IFRS.

[37] In ruble equivalent at Central Bank of Russia exchange rate as of December 31, 2016.

[38] Revenue calculated as the sum of interest income from finance lease transactions, operating lease income and other interest income (unaudited data).

[39] Unaudited data.

An allowance for a certain financial obligation had a significant influence on the financial result. This event was related exclusively to the Company's review of internal estimates for certain indicators that can influence the amount of obligations upon execution. The final amount of cash outflow on the instrument will depend both on these indicators and the results of negotiations with the counterparty on a possible procedure to resolve mutual settlements. This loss is nonrecurring and will not affect STLC Group's own creditworthiness.

Financial results were also affected by impairment of assets (overdue debt on terminated contracts) and the write-off of provisions in the amount of 1.543 billion rubles. The Company believes that this change in provisions is not related to the deterioration of the creditworthiness of significant customers and/or individual segments of the leasing portfolio, but rather reflects the change in estimates regarding the credit quality of the portfolio in general and the growth of the leasing portfolio in the first half of 2017.

In addition, in this period there was a shift in delivery dates for assets, which precluded the recognition of revenue on investments made.

The Company's assets stood at 261.638 billion rubles on June 30, 2017, up by 29.541 billion rubles or 12.7% from December 31, 2016. The key reason for the growth of total assets was the increase in net investment in leasing and development of operating leases. The Company also received a capital injection of 2 billion rubles in the first half of 2017 as part of a project to develop the Vanino-Kholmsk ferry service.

The Company is taking all necessary steps to hedge risks where possible and is working actively to mitigate adverse effects in all areas: increasing efficiency of investment, working with investors and improving credit ratings, and increasing the efficiency of the structure of borrowing.

[40] Unaudited data.

3.5.

STRATEGY AND DEVELOPMENT PLANS

STLC'S STRATEGIC OBJECTIVES

In line with its tentatively approved Long-term Development Program (LDP) for 2016-2020, STLC pursues the following goals in its activities:

1. Implementation of government policy to support the transport sector

The Company's objective is to implement leasing programs in segments that are important for the development of the country's transport sector and require state support, such as noncommercial leasing programs, and programs/projects with state participation. These segments have underdeveloped market mechanisms for updating plant and equipment and a low return on investment, so they do not appeal to private investors. In implementing state support for the transport sector, STLC also facilitates the realization of Russia's transit potential and develops transport infrastructure projects using the mechanism of leasing.

2. Attracting extra-budgetary investment into the development of the transport sector

The Company uses a mechanism of co-financing for its programs and projects, leveraging its equity, proceeds from investment and borrowed funds. STLC's objective is to implement a systematic approach to attracting extra-budgetary investment, using new instruments to finance leasing programs, expanding the geography of borrowing and actively working with rating agencies to obtain/affirm credit ratings in order to optimize borrowing conditions.

3. Supporting Russia's transport engineering sector

The Company's objective is to create and develop demand for the products of Russia's transport engineering sector within the context of the implementation of government priorities to promote import substitution.

4. Increasing the Company's investment appeal and operating efficiency

The Company's objective is to increase its value in the interests of its owner, the government of Russia, so it is increasing the efficiency of its operations, and improving governance systems and the quality of assets, while maintaining its positions in key segments of the transport leasing market.

STLC's business strategy for the period to 2020 is based on the following fundamental principles:

1. Development of leasing in areas in which the Company has the best competencies and competitive advantages.

2. Focusing efforts on fulfilling the Company's mission to support the implementation of government policy to develop Russia's transport sector and finance socially important areas. In the macroeconomic conditions of the next few years, the Company will provide support to domestic industry, develop import substitution and promote the transportation security of Russia.

3. Borrowing, taking into account the need to meet basic covenants and on the condition of optimizing the cost of capital (systematic approach to borrowing), in order to more effectively use the financial leverage of government investment in STLC equity.

4. Focusing efforts on improving the quality of assets, streamlining business processes and increasing operating efficiency.

STLC pursues different courses of action depending on the selected development scenario.

Baseline scenario:

- Focus of implementing current programs with government participation (Energy Efficiency, Sukhoi SuperJet 100) and a conservative approach to implementing commercial programs in light of weaker effective demand for leasing services and limited capacity of the credit market
- Focus of efforts to optimize internal processes and improve the quality of assets

STLC Group's overall investments in the development of the transport sector in 2016–2020 should total about 283 billion rubles in the baseline scenario. In this scenario, the Company will focus its efforts on developing markets in which it has the best competencies and competitive positions (aircraft, railway and water transport leasing), which will enable it to optimize procedures for preparing and implementing leasing deals and reduce risks.

Baseline+ scenario:

- More favorable external economic conditions for the development of the Russian economy, higher oil prices and a stronger ruble
- Moderate growth of the leasing market after 2018
- Growth of STLC investment in leasing programs/projects with government participation in 2016–2020

STLC's overall investments in the development of the transport sector in 2016–2020 should total about 387 billion rubles in the baseline+ scenario, 39% more than in the baseline scenario. In the baseline+ scenario, the Company will strengthen its role as a tool of state support for the transport sector and domestic engineering sector through leasing mechanisms thanks to an increase in its equity for implementing such programs and projects.

Target structure of STLC leasing portfolio in 2020, baseline scenario

Optimistic scenario:

- Growth of the leasing market and commensurate growth of demand from lessees
- Annual growth of Russian economy at rates that are comparable to global growth rates
- Growth of state support for the development of the transport sector through STLC:
  - Further expansion of state support for leasing of domestically manufactured aircraft, support for development of leasing of marine and river vessels
  - Growth in amount of extra-budgetary funds raised: multiplier effect of government investment and growth of investment in commercial leasing programs

In the event of the optimistic scenario, STLC will pursue a strategy of aggressive growth, and its investments in 2016–2020 could reach 553 billion rubles.

Under the LDP for 2016–2020, the Company will develop in the following areas of operation:

- Support for domestic airplane manufacturing
- Support for general aviation in Russia
- Support for domestic helicopter manufacturing
- Programs to increase energy efficiency in transport
- Program to update rolling stock for suburban rail services
- Program to stimulate the manufacture and sale of products of domestic shipbuilding
- Program to support development of train ferry services
- Development of transport infrastructure (Lavna and Vanino projects)
- Operating lease program for long-haul aircraft
- Freight rail transport leasing

DOCUMENTS THAT DETERMINE STLC'S DEVELOPMENT

STLC's development plans are reflected in its Long-term Development Program (LDP), an internal policy document that contains lists of resources and specific measures to ensure the achievement of the Company's strategic development goals by set deadlines, including current and anticipated operating results for the Company and its subsidiaries and affiliates. The targets for key performance indicators (KPI) set out in the LDP, as well as the list of policy measures and descriptions of areas of operation are based on consolidated data for STLC Group.

The Company now has an LDP for 2016–2020 that has been tentatively approved by STLC's Board of Directors (Minutes № 84/2017, dated February 17, 2017). The LDP for 2016–2020 was drafted on the basis of the LDP for 2015–2019, taking into account changes in the economic situation, the new market environment, as well as a number of material events that occurred in the Company's operations in 2016.

STLC's LDP goes through a mandatory approval process with the Russian Transport Ministry (including its federal agencies) and Economic Development Ministry. The draft LDP is also reviewed by the Expert Council of the Russian government and within the government of Russia.

Following the completion of the approval process in line with current legislation, the LDP is approved by the Company's Board of Directors taking into account the position of the Russian government and approving federal government bodies.

In line with the requirements of the Russian government, STLC prepares quarterly reports on the execution of the LDP and achievement of targeted KPI and annually ensures that an audit is done of the program's implementation by a specialized auditing company. In January 2016, according to the conclusion of the Russian government's Expert Council, STLC received the maximum possible points for the completeness and quality of information provided about the execution of the LDP and achievement of KPI, and on the audit of the program's implementation.

IMPLEMENTATION OF LDP IN 2016

The Company carried out the following main measures to implement its LDP in the reporting year:

1. Noncommercial leasing programs and programs with state participation:

1.1. Implementation of program to develop clean and energy efficient urban passenger transport.

1.2. Organization of operating leases for SSJ-100 airliners.

1.3. Development of promising noncommercial leasing programs and arrangement for their inclusion in relevant federal targeted programs.

2. Diversification of financing instruments:

2.1. Measures to raise funds on debt markets, including preparation and registration of multicurrency bond program.

2.2. Placement of foreign currency bonds.

2.3. Measures to affirm the Company's credit rating.

2.4. Other measures to raise extra-budgetary funds, develop cooperation with lenders.

3. Publicity and marketing to promote the Company on the market.

4. Measures to increase the Company's investment appeal:

4.1. Optimization of PJSC STLC corporate governance system in line with Corporate Governance Code.

4.2. Set of measures to increase operating efficiency.

4.3. Optimization of organizational structure and key business processes.

[41] STLC Group is understood to mean PJSC STLC, its subsidiaries and their subsidiaries, the operating results of which are taken into account when preparing consolidated financial statements to IFRS 10.

CHANGES IN DEVELOPMENT STRATEGY AND LDP

STLC reviewed the main provisions of the LDP scenarios in 2016, determined their new criteria and revised the list of policy measures and the composition and target values of KPI, adopting an updated LDP for 2016–2020 taking into account the following factors:

- Nature of the economic situation in 2016 (assumption that conservative trends in external factors will continue, taking into account the possible deterioration of the external economic environment, and the absence of radical changes in the economic growth model);
- Material events in STLC Group's operations that occurred in 2016 and are expected in 2017 (recapitalization of PJSC STLC for the implementation of leasing programs with state participation in the amount of 12.4 billion rubles in 2016 and up to 5.98 billion rubles in 2017);
- Substantial increase in STLC's portfolio in the amount of programs with high national and social importance (high level of risk and low return on investment, low appeal for private investors, need for state support mechanisms).

LDP KEY PERFORMANCE INDICATORS AND THEIR ACHIEVEMENT IN 2016

The following indicators were set as STLC's KPI for 2016, characterizing the Company's long-term development:

- Leasing portfolio: the sum of lessees' obligations on all current lease agreements and operating leases, less received advances and lease payments as of the end of the reporting period;
- Volume of new business: sum of lease payments on leases signed in the reporting period;
- Net profit: comprehensive income for the year as calculated in IFRS statement;
- Return on equity: ratio of net profit to average equity in the reporting period;
- Dividends: amount of dividend payments for the reporting period on the condition that the Company annually pays out at least 25% of IFRS net profit for the reporting period;
- Productivity: ratio of leasing portfolio to average number of employees in reporting period;
- Reduction of operating costs and indicators characterizing the Company's innovation activity were included in line with the requirements of a Russian government directive;
- Indicators characterizing the Company's implementation of the noncommercial leasing program for energy efficient urban passenger transport (in accordance with the program's targets), and measures to develop operating leases for SSJ-100 airliners.

STLC's actually achieved KPI for 2016 overall amounted to 163.4% of the targets approved in the LDP for 2014–2019.

The strong growth of new business, driven by deferred demand and deals not included in the sales plan when targets were set for 2016, had a decisive impact on the Company's results.

	Actual 2015	Target 2016 (LDP)	Actual 2016	% achievement of annual target (LDP)
Leasing portfolio, bln RUB	219.2	220.9	341.0	154%
New business volume, bln RUB	87.9	28.3	134.6	476%
Net profit to IFRS, mln RUB	0.059	76.4	80.0	105%
Return on equity (ROE), %	0.19	0.2	0.2	100%

50 4.1. STLC corporate governance practices
51 4.2. General Meeting of Shareholders
52 4.3. Board of Directors
59 4.4. Board committees
62 4.5. Corporate Secretary
63 4.6. Executive management bodies (management)
65 4.7. System of remuneration for members of Board of Directors and management bodies
67 4.8. Risk management and internal control
69 4.9. Internal Audit
70 4.10. External Audit
71 4.11. Business ethics and anticorruption practices
72 4.12. Information for shareholders

4

CORPORATE GOVERNANCE

4.1.

STLC CORPORATE GOVERNANCE PRACTICES

The Company builds its corporate governance system based on the requirements of Russian legislation and taking into account the provisions of the Corporate Governance Code recommended by the Bank of Russia[1] (hereinafter, Corporate Governance Code).

The Corporate Governance Code is a set of rules aimed at protecting the rights of shareholders and investors, and improving the quality and increasing the transparency of corporate governance. Although the provisions of the Corporate Governance Code are not mandatory, the Company makes a point of adhering to the main principles set out in the document.

Compliance with corporate governance best practices

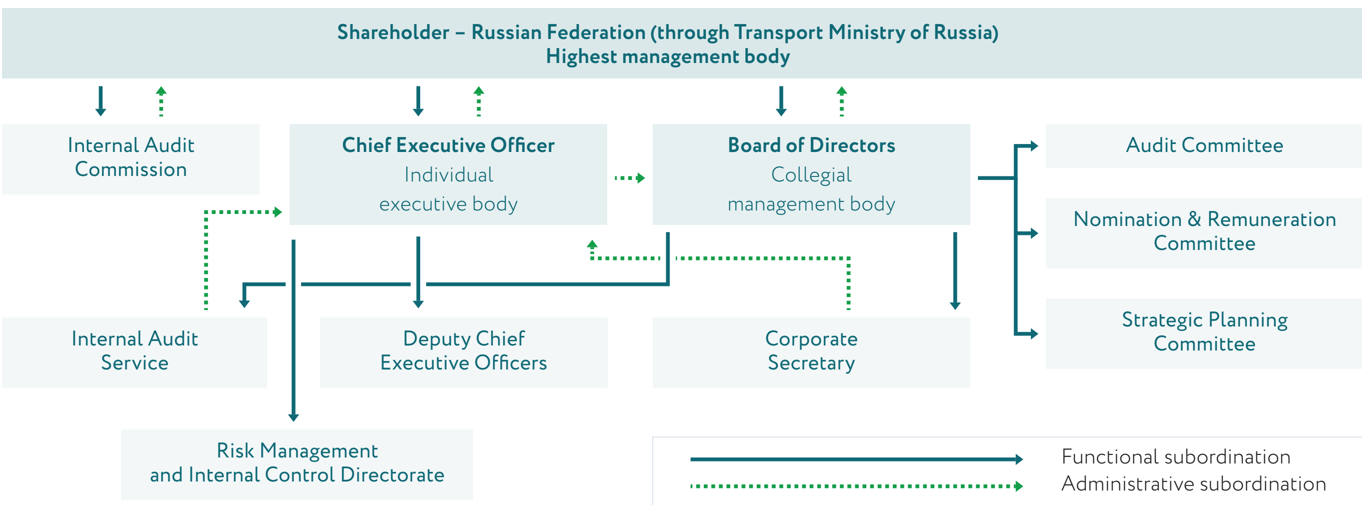
Optimizing STLC's corporate governance system in accordance with the Corporate Governance Code is one of the core measures aimed at implementing the Company's long-term development program.

The Company continuously monitors compliance and ensures the fulfillment of corporate governance requirements, observance of which is required for STLC bonds to be included in the Level 1 listing under the Listing Rules of the Moscow Exchange.

The particulars of corporate governance, specific procedures, principles and practices adopted by the Company are laid out in the following internal documents of PJSC STLC, which are available on the Company's website[2]:

- Charter of PJSC STLC, approved by order of the Transport Ministry of Russia, dated July 27, 2015 (№ MS-87-r, registered on August 4, 2015, current edition), with amendments to it;
- Regulation on the Board of Directors;
- Regulation on Remuneration of Members of the Board of Directors;
- Regulation on the Audit Committee of the Board of Directors;
- Regulation on the Strategic Planning Committee of the Board of Directors;
- Regulation on the Nomination and Remuneration Committee of the Board of Directors;
- Regulation on the Corporate Secretary of OJSC STLC;
- Regulation on the Internal Audit Commission of PJSC STLC;
- Regulation on Remuneration and Compensation of Members of Internal Audit Commission of PJSC STLC;
- Regulation on the Organization of the CEO's Communication Activities on the Interdepartmental Portal for Management of State Property

STLC corporate governance system



[1] Bank of Russia Letter On Corporate Governance, № 06-52/2463, dated April 10, 2014.

[2] https://www.gtlk.ru/information_disclosure/

4.2.

GENERAL MEETING OF SHAREHOLDERS

In compliance with Russian legislation and the STLC Charter, the Company annually holds an Annual General Meeting of Shareholders (AGM) no earlier than two months after and no later than six months after the end of the financial year.

Main goals and duties of AGM

Goal: Strategic management of the Company's business.

Duties:

- Approve new edition of/changes to the Company's Charter;
- Make decisions on distribution of profit;
- Make decisions on payment of dividends;
- Make decisions on reorganization and liquidation of the Company;
- Make decisions on increasing or decreasing charter capital;
- Determine the size and elect members of the Board of Directors;
- Elect/dismiss the CEO;
- Elect Internal Audit Commission;
- Make decisions on payment of remuneration to members of the Board of Directors and Internal Audit Commission;
- Confirm the auditor of the Company;
- Approve the Company's annual reports and annual financial statements;
- Other.

The AGM agenda must include issues specified by the Federal Law On Joint-stock Companies. The AGM can also consider other issues that fall within its authority under Russian legislation and the Charter.

An Extraordinary General Meeting (EGM) can be held on the initiative of the Board of Directors, or at the request of the Internal Audit Commission or the Company's auditor.

For the period that all voting shares in the Company are owned by the federal government, decisions on issues that fall under the authority of the General Meeting of Shareholders (GMS) are made solely by the Company's only shareholder and are formalized in writing. The provisions of the Federal Law On Joint-stock Companies regarding the timeframe for holding the AGM apply.

The authority of the GMS of STLC is exercised by the Transport Ministry of Russia, and decisions made by the GMS are formalized by a ministry act[3].

In 2016, the Company held the AGM, on June 30, 2016, and four EGM[4], at which decisions were made on issues such as election of the Internal Audit Commission, approval of the Regulation on Remuneration of Members of the Board of Directors, the placement of exchange-traded bonds and increasing charter capital, among others.

In the first half of 2017, the Company held the AGM, on June 30, 2017, and four EGM[5], at which the following issues were considered: approval of major transactions, participation in a leasing association and union of leasing companies, election of the CEO for a new term and increasing charter capital, among others. For details about the decisions of STLC's sole shareholder, see the Information Disclosure/Material Facts section on the Company's website[6].

[3] In accordance with Russian government Resolution No. 93 On Exercising the Rights of Shareholder of Open Joint-stock Company State Transport Leasing Company on Behalf of the Russian Federation, dated February 4, 2009.

[4] EGM dates in 2016: 23.03.2016, 21.04.2016, 07.07.2016, 11.11.2016.

[5] EGM dates in H1 2017: 23.03.2017, 31.05.2017, 20.06.2017, 28.06.2017.

[6] https://www.gtlk.ru/information_disclosure/

4.3.

BOARD OF DIRECTORS

The Board of Directors, STLC's collegial management body, establishes the main points of reference for the Company's business for the long term, assesses and approves the Company's key performance indicators and main business goals, and approves the Company's business plan and long-term development program.

Main goals and duties of Board of Directors

Goal: General management of the Company's business, with the exception of issues reserved to the exclusive jurisdiction of the GMS.

Duties:

- Approve the Company's business plan, long-term development program and strategy with the aim of increasing profit and competitiveness;
- Ensure the Company's financial stability;
- Set business priorities for the Company's executive bodies and monitor their execution;
- Formulate dividend policy;
- Formulate policy for issuing securities of the Company;
- Exercise control over execution of decisions of the GMS.

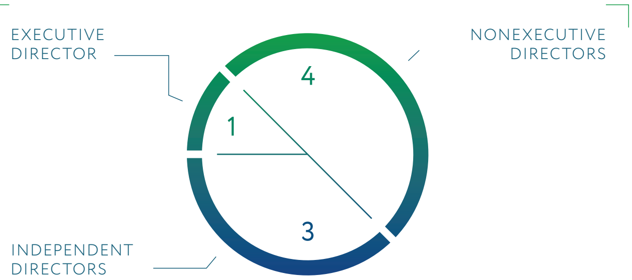
The Board of Directors has eight members[7]: four nonexecutive directors (including the Chairman and two representatives of Russian government ministries with the rank of deputy minister), one executive director and three independent directors.

Compliance with corporate governance best practices

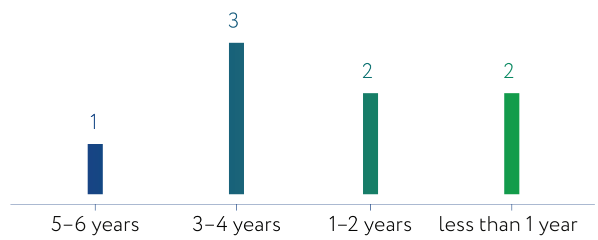
The composition of the Board of Directors is balanced, including in terms of the members' qualifications, experience, knowledge and business acumen, and enjoys the confidence of the Company's shareholder.

The size of the Board of Directors makes it possible to organize the Board's activities more efficiently, including the ability to form Board committees.

The Board of Directors includes a sufficient number of independent directors, who make up at least a third of the elected members of the Board.



Composition of Board of Directors



Board members' length of service on Board of Directors

[7] As of June 30, 2017.

BOARD OF DIRECTORS[8]

Yury Medvedev
Chairman

Board member since 2011

Year of birth: 1948.

Education:
– Tambov Chemical Engineering Institute – Chemical Engineering and Instrument Making;
– Stavropol State Technical University;
– All-Union Institute for Standardization and Metrology Hanyang University (Seoul);
– Geneva Executive Development Series;
– Oxford Brookes University.

Work experience:
2011-2013 – First Deputy CEO, Advisor to the CEO, Salut Gas-turbine Engineering Research and Production Center.
2013-2014 – Advisor to the CEO, JSC Moscow Communications Research Institute.
2015-2017 – Vice President and Chief of Staff, St. Petersburg International Mercantile Exchange (SPIMEX).

Participation in management bodies of other organizations:
Member of the boards of directors of JSC Concern Okeanpribor, OJSC Roskhimzaschita Corporation and Commercial Bank IRS JSC; Chairman of the board of directors of SPIMEX.

Andrei Boginsky

Board member since 2015

Year of birth: 1974.

Education:
– New Humanities University of the Moscow Education Center of Natalya Nesterova;
– Diplomatic Academy of the Russian Foreign Ministry – Bachelor's in management; global economy (Ph.D. in Economics, specialist in global economy).

Work experience:
2010-2012 – Deputy CEO for economics and finance, Zhukovsky Central Aerohydrodynamic Institute.
2012-2015 – Director of Aviation Industry Department, Industry and Trade Ministry of Russia.
2012-2017 – Deputy Industry and Trade Minister of Russia
2017-present – CEO, JSC Russian Helicopters.

Participation in management bodies of other organizations:
Member of the boards of directors of JSC Tactical Missiles Corporation, JSC United Instrument Manufacturing Corporation, JSC United Engine Corporation, JSC Russian Helicopters, RPC Istok JSC, JSC U-UAZ, PJSC Kazan Helicopter Plant, PJSC Progress Arsenyev Aviation Company, PJSC Rostvertol, JSC Kumertau Aviation Production Enterprise; member of the supervisory boards of the Zhukovsky Institute National Research Center and South Ural State University (National Research University).

[8] As of June 31.12.2016.

Fyodor Borisov
Independent director

Board member since 2014

Year of birth: 1973.

Education:
St. Petersburg State Polytechnic University (Polytechnic Institute) – International Economic Relations.

Work experience:
2005-present – Executive Director, Association of Pet Food Producers of Russia.
2008-present – General Director, Association of Advertisers.
2010-present – CEO, Transportphoto LLC.
2013-present – Chief Expert, Institute for Transport Economics and Transport Policy Studies at the National Research University Higher School of Economics.

Participation in management bodies of other organizations:
Member of the board of directors of the Union of Consumer Market Participants.

Yevgeny Dietrich

Board member since 2016

Year of birth: 1973.

Education:
– Moscow Engineering and Physics Institute – Applied Mathematics;
– Higher School of Privatization – Legal Studies.

Work experience:
2005-2012 – Deputy Director, Federal Road Agency.
2012-2015 – Deputy Director, Industry and Infrastructure Department of the Government of Russia.
2015 – Director, Federal Transport Oversight Service.
2015-present – First Deputy Transport Minister of Russia.

Participation in management bodies of other organizations:
Chairman of the supervisory board of Russian Road Research Institute (Rosdornii). Member of board of directors of Sheremetyevo International Airport.

Sergei Zemlyansky
Independent director

Board member since 2014

Year of birth: 1968.

Education:
– Ryazan Higher Airborne Red Banner Order Command School;
– Continuous Education Institute of the Financial University of the Russian Government – Banking and Insurance Economist;
– Skolkovo Moscow School of Management – MBA.

Work experience:
2007-present – Director of Advertising and Marketing, Stolitsa Stroyholding LLC.
2012-2013 – Senior Vice President, Novikombank CJSC.

Participation in management bodies of other organizations:
Member of the supervisory board of the Corporate and Project Management Research Institute.

Evgeny Serper

Board member since 2016

Year of birth: 1980.

Education:
- Samara State Technical University - Economist Manager;
- Samara State Technical University - Lawyer.

Participation in management bodies of other organizations:
Chairman of the board of directors of JSC Constanta Capital (independent director).

Sergei Khramagin

Board member since 2013

Year of birth: 1965.

Education:
– St. Petersburg State University – Political Economy;
– Herzen State Pedagogical University of Russia, Graduate School – Political Economy;
– Russian Presidential Academy of National Economy and Public Administration – National Economy.

Work experience:
2007-2012 – CEO, Raznoimport Holding LLC.
2012-present – CEO, PJSC STLC.

Participation in management bodies of other organizations:
Member of board of directors of Sukhoi Civil Aircraft Company.

Changes in the composition of the Board of Directors in 2016 and the first half of 2017:
Based on the results of the 2016 AGM, A.A. Germanovich and A.V. Tikhonov left the Board, and Yevgeny Dietrich joined the Board. Based on the results of the 2017 AGM, E.A. Serper left the Board, and Oleg Bocharov and Maxim Novikov joined the Board.

BOARD OF DIRECTORS WORK IN 2016

Meetings of the Board of Directors are held according to the Board's approved schedule and as needed. The Chairman of the Board can decide to hold an unscheduled meeting of the Board.

Compliance with corporate governance best practices

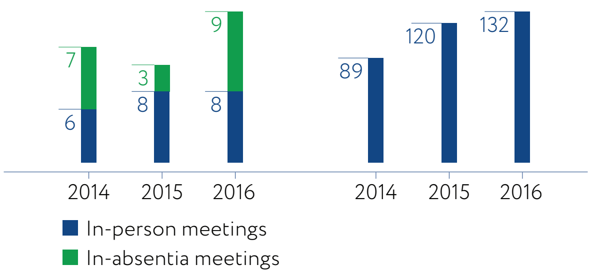
The Chairman of the Board takes the necessary steps to provide the information needed to make decisions on issues on the agenda to members of the Board in a timely manner.

All members of the Board of Directors have equal access to the Company's documents and information.

The Company's internal documents set out the procedure for preparing and conducting Board meetings, ensuring that members of the Board can properly prepare for them.

The most important issues are decided at Board meetings held in person.

The Board of Directors held 17 meetings in 2016 (eight in person and nine in absentia), at which it considered 132 issues.

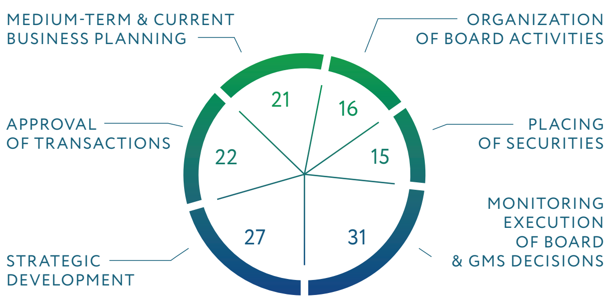


Number of in-person & in-absentia Board meetings held

Number of issues considered at Board meetings

TABLE 1. **NUMBER OF IN-PERSON AND IN-ABSENTIA BOARD MEETINGS HELD**

	2014	2015	2016
In-person meetings	6	8	8
Issues considered	66	108	107
In-absentia meetings	7	3	9
Issues considered	23	12	25
Total meetings	13	11	17
Issues considered	89	120	132



Breakdown of issues considered by Board of Directors in 2016

The main issues considered by the Board of Directors in 2016 included the following:

- Monitoring the execution of Board decisions, including consideration of annual and interim results of the Company's operations;
- Issues concerning the Company's strategic development, including approval of new strategic documents and policies;
- Issues concerning medium-term and current planning, including approval of the budget for general and administrative expenses, the Company's business plan and KPI;
- Approval of major transactions and interested-party transactions being made by the Company, and other issues.

At meetings in 2016, the Board considered approval of the:

- Business plan;
- Budget for general and administrative expenses;
- New version of the Regulation on Purchasing of Products for the Needs of PJSC STLC;
- Procedure for the use of charter capital and proceeds from its investment with regard to reimbursement of PJSC STLC charter capital;
- Regulation on Internal Audit at PJSC STLC;
- Procedure for Board control over the maximum parameters of issues of exchange-traded bonds placed under the Series 001R Exchange-traded Bonds Program;
- Policy for providing sponsorship support and charitable aid;
- Regulation on the Information Policy of PJSC STLC;
- New version of the Regulation on Remuneration of the CEO of PJSC STLC;
- New version of Risk Management and Internal Control Policy of PJSC STLC;
- Risk management strategy of PJSC STLC.

The Board also considered and approved:

- Proposals to amend STLC's Long-term Development Program for 2016 – 2020;
- Major and interested-party transactions;
- Reports on the risk management system;
- Reports on the execution of Board instructions;
- Reports on the results of Eurobond offerings;
- Reports on internal audit activities.

On a quarterly basis, the Board considered:

- Reports on the execution of STLC's Long-term Development Program and achievement of KPI;
- Unaudited reports on the Company's operations;
- Reports on financial and operating results, based on financial statements to RAS and IFRS;
- Reports on purchasing activities.

The Board tentatively approved the Company's annual report and annual financial statements. The Board also made a decision on PJSC STLC's participation in other companies.

The Board made the following recommendations to the shareholder:

- On the placement of exchange-traded bond Series BO-08;
- On the approval of the exchange-traded bonds program;
- On the distribution of profit;
- On increasing charter capital.

A self-evaluation of the work of Board members was conducted in 2016 by filling out a questionnaire on each Board member that was posted on the Interdepartmental Portal for Management of State Property. The issue of the self-evaluation of Board members was considered at a meeting of the Nomination and Remuneration Committee.

4.4.

BOARD COMMITTEES

Board committees – Audit Committee, Strategic Planning Committee and Nomination and Remuneration Committee – have been formed to help the Company's Board of Directors make sound and effective decisions.

Compliance with corporate governance best practices

The Board's Audit Committee and Nomination and Remuneration Committee are chaired by independent directors

The main responsibility of the committees is to preliminarily study issues that fall within the mandate of the Board of Directors in their area of activity and prepare recommendations for the Board.

Committees are formed and operate in accordance with the regulations on committees approved by the Board of Directors.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The committee has three members[9]:
– Committee Chairman Sergei Zemlyansky (Independent Director), Deputy Chairman of the board of directors of Russian Investment Alliance Bank (Independent Director);
– A.V. Kholopov, Deputy Department Director, Transport Ministry of Russia;
– Fyodor Borisov (Independent Director), General Director, Association of Advertisers .

Main goals and duties of Audit Committee

Goal: Assist the Board of Directors in the effective execution of its duties and protect the interests of shareholders as regards control over the Company's financial and business activities.

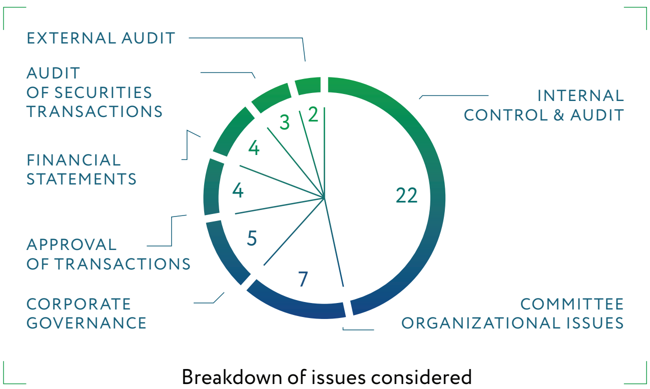
Duties:

- Monitor the effectiveness of the internal control system, risk management and corporate governance practices;
- Monitor accuracy of financial reporting;
- Monitor compliance with laws and regulations, and measures to combat unethical practices by Company employees and third parties;
- Monitor effectiveness of internal audit practices;
- Monitor external audit and its quality.

The Audit Committee held eight meetings in 2016, at which it considered 47 issues.

The main issues considered by the Audit Committee in 2016 included the following:

- Internal control and audit, including review of reports on internal audit activities and annual and interim operations of the Company, as well as approval of the Regulation on Internal Audit;
- Organizational issues concerning the Committee's activities;
- Corporate governance, including risk management and changes to the leasing policy;
- The Company's financial and operating results (financial statements);
- Approval of major and interested-party transactions being made by the Company, and other issues.



Breakdown of issues considered by Audit Committee in 2016

[9] As of December 31, 2016.

NOMINATION AND REMUNERATION COMMITTEE OF THE BOARD OF DIRECTORS

The committee has three members[10]:
– Committee Chairman Fyodor Borisov (Independent Director), General Director, Association of Advertisers;
– Alexei Germanovich, Chairman of Corporate Governance Committee of the Expert Advisory Council of the Federal Property Agency;
– Alexander Tikhonov, Department Director, Transport Ministry of Russia.

Main goals and duties of Nomination and Remuneration Committee

Goal: Work out recommendations for the Board of Directors and the shareholder (shareholders) on issues concerning staff planning (succession planning), the professional composition and performance of the Board, and the establishment of effective and transparent remuneration practices.

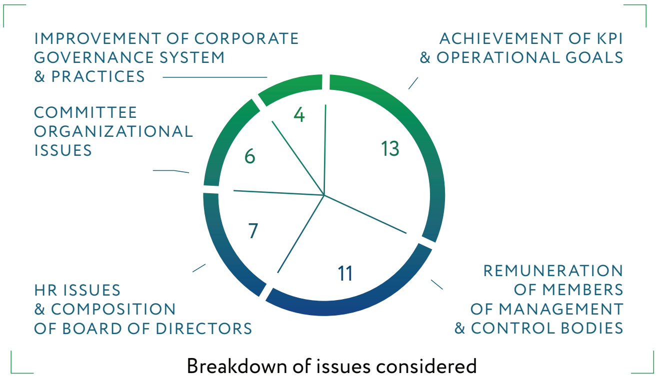
Duties:

- Evaluate the performance of members of the Company's Board of Directors and set priorities for strengthening the composition of the Board;
- Plan appointments to the Company, including to executive management bodies, and make recommendations to the Board on candidates for the position of Corporate Secretary and members of the Management Board;
- Develop and monitor the implementation of the Company's policy for remuneration of members of the Board of Directors, the Internal Audit Commission and Board committees, the CEO and other key management personnel, as well as criteria for evaluating the performance of the above-mentioned employees of the Company;
- Other.

The Nomination and Remuneration Committee held nine meetings in 2016, at which it considered 41 issues.

The main issues considered by the Committee in 2016 included the following:

- Results of meeting KPI and achievement of operational goals;
- Remuneration of members of management and control bodies, including issue of bonuses;
- HR issues and recommendations on the composition of the Board of Directors, including changes to the incentive system, setting priorities for strengthening the composition of the Board, recommendations on candidates, professional qualifications and independence of candidates nominated to the Board, and other issues.



Breakdown of issues considered by Nomination & Remuneration Committee in 2016

[7] As of December 31, 2016.

STRATEGIC PLANNING COMMITTEE OF THE BOARD OF DIRECTORS

The committee has three members[11]:
– Committee Chairman Sergei Khramagin, CEO, PJSC STLC;
– Yevgeny Dietrich, First Deputy Transport Minister of Russia;
– S.V. Yemelyanov, Department Director, Industry and Trade Ministry of Russia.

Main goals and duties of Strategic Planning Committee

Goal: Help improve the Company's long-term performance.

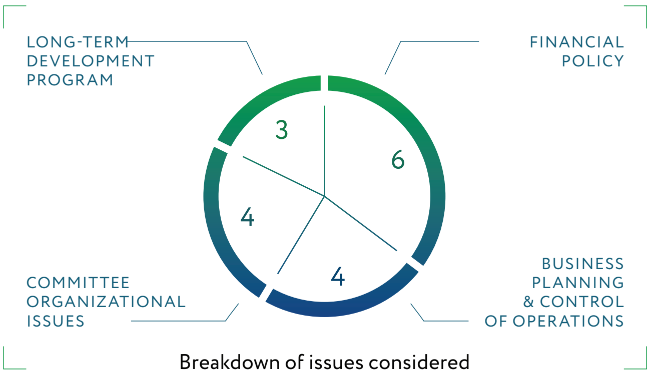
Duties:

- Determine strategic goals for the Company's business;
- Monitor implementation of the Company's long-term development program (development strategy);
- Make recommendations to the Board of Directors on revising the Company's current long-term development program (development strategy);
- Other issues as requested by the Board of Directors concerning the Board's mandate.

The Strategic Planning Committee held six meetings in 2016, at which it considered 17 issues.

The main issues considered by the Committee in 2016 included the following:

- Determining the Company's financial policy, including issues related to increasing the Company's charter capital;
- Business planning and control of operations, including approval of the Company's business plan;
- Long-term development program, including program progress report, and other issues.



Breakdown of issues considered by Strategic Planning Committee in 2016

[11] As of December 31, 2016.

4.5.

CORPORATE SECRETARY

The Corporate Secretary is administratively subordinate to the Company's CEO, but reports to and is supervised by the Chairman of the Board of Directors.

Compliance with corporate governance best practices

The Corporate Secretary ensures effective current relations with shareholders and coordination of the Company's efforts to protect the rights and interests of shareholders, and supports the efficient work of the Board of Directors

The procedure for appointing the Corporate Secretary, his/her status, authority, competencies and operating procedures are determined by the Company's Regulation on the Corporate Secretary.

Main goals and duties of Corporate Secretary

Goal: Support regular, effective relations between the Company's owners, its senior management and the Board of Directors.

Duties:

- Provide consultation to members of the Board of Directors, management and shareholders on issues of corporate law and governance;
- Preparation and organization of General Meetings of Shareholders;
- Implement statutes of the law in the area of information disclosure;
- Support the work of the Board of Directors;
- Cooperation with regulators, auditors, creditors and other interested parties;
- Organization of the storage of Company documents, correspondence with shareholders;
- Resolution of corporate disputes;
- Other.

The position of Corporate Secretary at STLC has been held since May 30, 2014 by Marina Yuryevna, the Company's Head of Corporate Governance (STLC Board of Directors Minutes №47/2014, dated June 2, 2014).

Marina Mesheryakova
Corporate Secretary, PJSC STLC

Year of birth: 1983.

Education:
Sholokhov Moscow State Pedagogical University – Lawyer specializing in Jurisprudence, 2005.

Work experience:
Dec. 1, 2005–Feb. 22, 2013 – Senior Legal Advisor in Corporate Relations Department, CJSC Atenon Law Firm.
Feb. 25-April 26, 2013 – Senior Legal Advisor in Corporate Governance Department, OJSC RZD Trading House.
April 29, 2013-present – Head of Corporate Governance, Legal Department, PJSC STLC.

4.6.

EXECUTIVE MANAGEMENT BODIES (MANAGEMENT)

Executive management bodies are responsible for issues concerning the Company's current operations, with the exception of issues reserved to the authority of the General Meeting of Shareholders and the Board of Directors.

STLC's individual executive body, the Chief Executive Officer, plays a key role in management of current operations and ensuring efficient implementation of the Company's strategic objectives.

Main goals and duties of Chief Executive Officer

Goal: Manage the Company's current operations.

Duties:

- Ensure execution of decisions made by the Company's GMS and Board of Directors;
- Conclude agreements and carry out other transactions in accordance with Russian law and the Company's Charter;
- Represent the employer in concluding the collective agreement in accordance with the procedure established by Russian law;
- Approve rules, instructions and other internal documents of the Company;
- Determine the organizational structure of the Company, approve staff schedule of the Company, its branches and offices;
- Organize efficient collaboration between the Company's structural divisions;
- Hire and dismiss employees;
- Decide other issues concerning the Company's current operations.

The position of CEO at PJSC STLC has been held by Sergei Khramagin since 2012.

Sergei Khramagin

Board member since 2013

Year of birth: 1965.

Education:
– St. Petersburg State University – Political Economy;
– Herzen State Pedagogical University of Russia, Graduate School – Political Economy;
– Russian Presidential Academy of National Economy and Public Administration – National Economy.

Work experience:
Has held executive positions at major Russian companies, such as Raznoimport Holding LLC and Raznoimport Venezuela SA since 2010.

Term of office under current contract is June 21, 2017 to June 20, 2022.

MANAGEMENT[12]

CEO
S.N. Khramagin

First Deputy CEO
A.V. Borisevich

Area of responsibility:
- Corporate finance
- Customer relations

First Deputy CEO
D.V. Shaplyko

Area of responsibility:
- Finance, economics, accounting
- Information technology
- Organizational development
- Risk management

Deputy CEO, Chief of Staff
I.Yu. Asabin

Deputy CEO, Legal Affairs
F.M. Martynov

Deputy CEO, Government Relations
A.S. Scherbakov

[12] As of June 30, 2017.

4.7. SYSTEM OF REMUNERATION FOR MEMBERS OF BOARD OF DIRECTORS AND MANAGEMENT BODIES

REMUNERATION OF BOARD OF DIRECTORS MEMBERS

The Company's policy in the area of remuneration for members of the Board of Directors is aimed at incentivizing service on the Board by highly qualified professionals with the experience and skills needed to improve the Board's performance, align the interests of Board members with the interests of the Company's shareholder and promote the Company's long-term, sustainable development.

Compliance with corporate governance best practices

The Board of Directors determines the Company's policy on remuneration and/or compensation of expenses of members of the Board, executive bodies and other key management personnel.

The level of remuneration paid by the Company is sufficient to attract, motivate and retain individuals with the competencies and qualifications that the Company requires.

The amount and procedure for paying remuneration to members of the Board of Directors, as well as the amount and procedure for paying compensation of expenses they incur in relation to executing their duties are defined by the Regulation on Remuneration and Compensation of Members of the Board of Directors of PJSC STLC.

The calculation of the amount of remuneration for members of the Board of Directors is considered by the Board's Nomination and Remuneration Committee and approved by the Board as a recommendation to the GMS. The amount of remuneration for members of the Company's Board of Directors is set by decision of the GMS.
Remuneration is paid on the condition that the member of the Board of Directors personally participates (is present) in at least 70%[13] of in-person meetings of the Board of Directors to which he/she was elected in the course of the corporate year[14].

The structure of remuneration includes base and additional portions of remuneration.

Base portion of remuneration

1,500,000 (one million five hundred thousand) rubles per corporate year, paid at the end of the corporate year and calculated based on actual duration of service as member of the Board of Directors.

Additional portion of remuneration

- The Chairman of the Board of Directors is paid 50% of the base portion of remuneration in proportion to the duration of service in this position in the corporate year.

On the condition that a member of the Board of Directors personally participates (is present) in at least 70% of in-person meetings of Board committees of which they are members in the corporate year:

- The chairman of a Board committee is paid 30% of the base portion of remuneration in proportion to the duration of service in this position in the corporate year;
- A member of a Board committee is paid 15% of the base portion of remuneration in proportion to the duration of service in this position in the corporate year.

The recommended amount of remuneration is not calculated for members of the Board of Directors who:

- Are persons subject to restrictions or prohibitions against receiving any payments from commercial organizations under current Russian law;
- Are executive bodies of the Company.

Members of the Board of Directors have the right to decline remuneration in full or in part by submitting such a request to the Company.

[13] Including participation in discussion of issues on the agenda and voting remotely, by tele- and video conferencing.

[14] In the event that the GMS decides to dismiss all members of the Board of Directors ahead of schedule (elect a new Board of Directors at an EGM), remuneration to members of the Board of Directors is paid on the condition that they personally participated (were present) in at least 70% of all in-person meetings of the Board of Directors, including participation in discussion of issues on the agenda and voting remotely, by tele- and video conferencing, during the respective part of the corporate year.

The Company compensates expenses actually incurred by members of the Board of Directors for the purposes of participating in meetings of the Board and Board committees of which they are members, such as travel, accommodation, food and so on.

The Company's practices in the area of remuneration and compensation of expenses of Board members make it possible to:

- Reflect the scale of the Company's operations and difficulty of managing the business;
- Take into account the responsibility of Board members, their authority and the time required to make balanced and effective decisions concerning the Company's business;
- Reflect the individual contribution of each member of the Board of Directors.

Pursuant to the decision of the AGM, remuneration paid to members of STLC's Board of Directors in 2017 for their work in 2016 amounted to:

- Andrei Boginsky – 657 534 rubles
- Fyodor Borisov – 1 950 000 rubles
- Sergei Zemlyansky – 1 950 000 rubles
- Yury Medvedev – 2 250 000 rubles

Remuneration was paid in full to all members of the Board of Directors.

REMUNERATION OF CEO

A new version of the Regulation on Remuneration of the Individual Executive Body of PJSC STLC was approved in December 2016 with changes to the incentive system for the CEO. The quarterly bonus was eliminated; the target amount of the bonus upon fulfillment (achievement) of approved KPI for the CEO in the reporting period was reduced to 100% of the annual salary from 110%; and section 3, "Nonrecurring Bonus in the Event of Bestowment of State and Government Awards," was amended.

Compliance with corporate governance best practices

The system of remuneration for the Company's CEO and other key management personnel links remuneration to the Company's results and their personal contribution to the achievement of these results.

For more details about the Company's general approaches to motivating employees, see the Corporate Social Responsibility section.

[15] Order № MS-122-r, dated June 30, 2017.

4.8.

RISK MANAGEMENT AND INTERNAL CONTROL

STLC has an effective risk management and internal control (RM/IC) system that is consistent with corporate governance best practices and was developed in compliance with current regulations and standards, including the:

- Corporate Governance Code approved by the CBR (letter dated April 10, 2014, № 06-52/2463);
- Methodological guidelines of Federal Property Agency, 2015;
- COSO ERM international standard for enterprise risk management, 2004;
- COSO Internal Control – Integrated Framework, 2013
- GOST R ISO 31000-2010 Risk Management – Principles and Guidelines, among others.

The RM/IC system is in effect at every level of management, ongoing and built into business processes in order to ensure the achievement of the Company's goals and objectives. The Company's current Risk Management and Internal Control Policy was approved by the Board of Directors. A risk oriented approach is factored into the decision making process. Information about key risks is regularly presented for consideration to the Board of Directors.

Compliance with corporate governance best practices

Principles and approaches to organizing the Company's RM/IC system are determined by the Board of Directors.

The Company has had an independent division, the Risk Management Directorate, since 2009 that reports to the CEO and Board of Directors and is responsible for analysing and assessing risks and developing measures to respond to them, as well as for coordinating interdepartmental cooperation on issues concerning risk management and internal control.

STLC'S RM/IC SYSTEM ENSURES RISK MANAGEMENT AT EVERY LEVEL:

Strategic level:

- Identification of risks and analysis of their impact on the achievement of STLC's strategic goals;
- Planning and control over execution of measures when implementing strategic initiatives;
- Performance reports on the management of the most significant risks are regularly submitted to the Board of Directors.

Compliance with corporate governance best practices

The RM/IC system provides for forecasting of all risks that affect the achievement of targets set by the LDP, planning of measures to minimize them and control over the achievement of LDP goals.

At the operating level, the following procedures are ongoing:

– Analysis and management of credit risk;

– Analysis and management of property risk;

– Analysis and management of interest risk;

– Analysis and management of currency risk;

– Analysis and management of corruption and security risks;

– Analysis and management of compliance risks;

– Analysis and management of insurance risks.

In accordance with STLC's internal regulations in the area of RM/IC:

- The Company periodically identifies, reassesses and prioritizes risks, assesses the degree of risk manageability, compiles risk registries and maps, prepares action plans to manage risks, and evaluates the effectiveness of implemented measures;
- The CEO of STLC approves an action plan to manage the most significant risks;
- The Company regularly calculates and makes provisions for possible losses.

The Company's main objective is to build a profitable and efficient portfolio with an acceptable level of risk that is controlled under the Risk Management Strategy approved by the Board of Directors.

INTERNAL AUDIT COMMISSION

STLC's Internal Audit Commission (IAC) is an elected body that exercises control over the Company's financial and business activities.

IAC operating procedures are defined by the Regulation on the Internal Audit Commission of PJSC STLC that was approved by order of the Transport Ministry of Russia in 2015 (№ MS-50-r, dated June 5, 2015).

Main goals and duties of IAC

Goal: Monitor the Company's financial and business activities and identify and assess risks arising as a result and in the process of the Company's operations.

Duties:

- Audit the Company's financial and business activities;
- Confirm the accuracy of data in reports and other financial documents of the Company or identify violations in the Company's operations;
- Prepare proposals/recommendations for improving the efficiency of asset management, and improving the risk management and internal control system.

Audits of the financial and business activities of the Company are conducted at the end of the Company's operations for the year, as well as at any time on the initiative of the IAC, by decision of the GMS or Board of Directors, or at the request of a shareholder holding at least 10% of voting shares. The subject of IAC audits are the Company's activities, including identification and assessment of risks arising as a result of and in the process of its financial and business activities.

In the course of audits, the IAC can check the Company's compliance with laws and other acts that regulate its activities, the legality of transactions made by the Company, the procedure for organizing the internal control system at the Company, and the Company's execution of orders issued by the president and government of Russia.

The IAC work schedule must include an audit of the Company's financial and business activities at the end of the year. The IAC submits its conclusion based on the results of the scheduled audit of the Company's financial and business activities for the year, including in regard to the accuracy of data included in the annual report and annual financial statements, to the Board of Directors.

A three-member IAC is elected by the GMS for the period until the next AGM according to the procedure established by Russian law and the Company's Charter.

Members of the IAC cannot simultaneously serve as members of the Board of Directors or hold other positions in the Company's management bodies.

Members of the IAC are accountable for unethical performance of their duties according to the procedure defined by current Russian law.

Composition of the Internal Audit Commission

IAC members from Dec 12, 2015 to March 22, 2016:

A.V. Kholopov, Department Section Head, Transport Ministry of Russia;

A. Yu. Vandyshev;

V.I. Golubev, CEO, CJSC LAT Assistance Company.

IAC members from March 23, 2016 to June 29, 2016:

V.I. Golubev, CEO, CJSC LAT Assistance Company;

A. E. Lisitsyn, Department Section Head, Transport Ministry of Russia;

A.V. Kholopov, Deputy Department Director, Transport Ministry of Russia.

IAC members from June 30, 2016 to June 29, 2017:

I.N. Golub, Deputy Head of Regulatory Support and Development of Civil Aviation Organizations, Transport Ministry of Russia;

V.I. Golubev, CEO, CJSC LAT Assistance Company;

A.V. Kholopov, Deputy Director of Property Relations and Regional Planning Department, Transport Ministry of Russia.

IAC members from June 30, 2017:

I.N. Golub, Deputy Head of Regulatory Support and Development of Civil Aviation Organizations, Transport Ministry of Russia;

V.I. Golubev, CEO, CJSC LAT Assistance Company;

A.V. Kholopov, Deputy Director of Property Relations and Regional Planning Department, Transport Ministry of Russia.

REMUNERATION OF IAC MEMBERS IN 2016

By decision of the GMS, during the period of performing their duties members of the IAC can be paid remuneration and/or compensation for expenses related to the performance of their duties. The amount of such remuneration and compensation is determined by decision of the GMS.

Pursuant to the decision of the AGM, remuneration for members of STLC's IAC in 2016 amounted to: V.I. Golubev – 53,460 rubles (before personal income tax). Remuneration was paid in full.

4.9.

INTERNAL AUDIT

The Company has created a separate division that is responsible for internal audit. The Internal Audit Service assesses the adequacy and effectiveness of the internal control system, assesses the effectiveness of the risk management system and evaluates corporate governance.

The goals, objectives, authority, responsibility and status of internal audit at the Company, as well as the scope and content of internal audit activities, are set out in the Regulation on Internal Audit at PJSC STLC, an internal regulation that was approved by the Board of Directors in its current version on August 2, 2016.

Documents regulating internal audit activities also include:

- Job descriptions of internal audit director and Internal Audit Service employees;
- Internal audit standards:
  - Procedure for planning and conducting internal audits of business processes at PJSC STLC;
  - Reporting to the Board;
  - Reporting on results;
  - Monitoring actions based on the results of measures (inspections);
  - Internal evaluations;
- Other documents regulating internal audit activities.

The internal audit director (director of the Internal Audit Service) is appointed and dismissed from his/her position by order of the CEO on the basis of decisions made by the Board of Directors on the appointment and dismissal of the internal audit director.

The functional and administrative accountability of internal audit are divided: internal audit functionally reports to the Board of Directors and administratively to the CEO of the Company.

The Regulation on Internal Audit at PJSC STLC provides for:

- Undergoing an external evaluation at least once every five years;
- Conducting an internal evaluation of the performance of internal audit (by self-evaluation) at least once every two years in accordance with the approved operating plan for internal audit.

External and internal evaluations of the quality of internal audit were not conducted in 2016 or the first half of 2017.

4.10.

EXTERNAL AUDIT

The Company annually engages external auditors to conduct an independent evaluation of the accuracy of its financial statements to International Financial Reporting Standards (IFRS) and Russian Accounting Standards (RAS).

The auditors to conduct the independent audits of the Company's financial statements to RAS and IFRS were chosen in accordance with the requirements of Point 4, Article 5 of Federal Law № 307-FZ On Auditing Activities, dated December 30, 2008, by holding a public tender according to the procedure established by Russian legislation on the contract system in purchasing of goods and services for state and municipal needs.

Under the STLC Charter, the auditor for conducting the independent audit of the Company's financial statements to RAS is confirmed by the General Meeting of Shareholders, in the person of the Transport Ministry of Russia.

AUDIT TO RAS

In line with the terms set in tender documentation for conducting the independent audit of the Company's financial statements to RAS, the bid submitted by CJSC HLB Vneshaudit was declared to be the winner of the tender.

The amount of remuneration for the auditor is determined in accordance with Federal Law №44-FZ On the Contract System in the Area of Purchasing Goods, Work and Services for Meeting State and Municipal Requirements, dated April 5, 2013.

Based on the results of the public tender, the amount of remuneration was set at 2,342,300 rubles. The actual amount of remuneration paid to the auditor for conducting the audit of annual financial statements for 2016 was 2,342,300 rubles.

The auditor confirmed that the annual financial statements are a faithful representation of the condition of the Company's business, and conducted an audit of the accuracy of tax reporting and analysis of tax risks.

AUDIT TO IFRS

In line with the terms set in tender documentation for conducting the independent audit of the Company's financial statements to IFRS, the bid submitted by JSC KPMG was declared to be the winner of the tender.

Under the contract signed in 2016, the auditor carried out an audit of the Company's financial statements for 2016. The actual amount of remuneration paid to the auditor was 7,493,000 rubles (including VAT).

4.11.

BUSINESS ETHICS AND ANTICORRUPTION PRACTICES

CODE OF ETHICS

STLC has a Code of Ethics that defines its corporate values and outlines the main rules of business conduct aimed at increasing the profitability, success and efficiency of the Company and improving its corporate culture.

For details about STLC's corporate values, see the Corporate Social Responsibility section.

STLC has a Corporate Ethics Commission to ensure the efficacy of the Code of Ethics. The Commission's responsibilities include:

- Collection and analysis of proposals to revise the Code of Ethics;
- Clarification of and enforcement of compliance with the standards and provisions of the Code of Ethics.

CONFLICTS OF INTEREST

A conflict of interest in respect to STLC's Code of Ethics is understood to mean any situation or circumstances in which the private interests of an employee and/or people close to them conflict or might conflict with the interests of the Company and therefore influence or might influence the employee's proper performance of their duties, including the making of decisions within the context of performing the duties of their position that could inflict harm on, violate the rights and legal interests of, or result in the loss of assets and/or tarnish the business reputation of the Company.

Company employees must avoid situations in which a conflict of interest arises for them.

FIGHTING CORRUPTION

Corruption in respect to STLC's Code of Ethics is understood to mean receiving or giving bribes, abuse of office, trading in influence, or an employee's illegal use of their position contrary to and to the detriment of the legal interests of the Company in order to reap benefits in the form of money, valuables, other property or services of a material nature and other property rights for themselves or third parties or to have such benefits illegally provided to such party by other individuals, as well as committing such actions in the name of or in the interests of a legal entity.

In its day-to-day operations, STLC follows Russian law in the area of combating corruption, abides by the provisions of the Corporate Governance Code and the requirements of relevant internal regulations, and affirms its commitment to global standards for fighting corruption.

The Company has preventive measures for all types of corporate fraud, distortion of financial reporting, corrupt actions, theft, willful damage and other abuses in regard to STLC assets, and maintains a general atmosphere of zero tolerance toward corrupt conduct.

ACCESS TO INSIDER INFORMATION

Insider information containing commercial secrets, personal data and other information about the Company's operations and development to a great extent determines its competitiveness on the market.

Disclosure of information of a confidential nature can hurt the interests and reputation of STLC, so every employee is obligated to observe the rules established by current legislation and set by the Company for handling confidential information obtained in the course of their work, including insider information, information containing commercial secrets and personal data. STLC's Board of Directors has approved procedures for access to insider information, and rules for protecting its confidentiality and enforcement of compliance with legislation on insider information.

Insider information includes precise and specific information included in the list of information the disclosure of which can have a substantial impact on the price of the Company's financial instruments.

Employees with insider information must not use it to derive personal benefits on the securities market or disclose it to persons close to them or any other persons. The list of STLC information that is considered insider information is designated in Appendix 1 of the Regulation on the Procedure for Access to Insider Information of PJSC STLC, Rules for Protecting its Confidentiality and Compliance with Legislation on Prevention of Unlawful Use of Insider Information and Market Manipulation.

Information for STLC insiders is posted on the Company's website[16].

[16] https://www.gtlk.ru/information_for_insiders/

4.12.

INFORMATION FOR SHAREHOLDERS

PJSC STLC SHARE CAPITAL[17]

	Number of shares	Par value of 1 share, '000 RUB	Par value, '000 RUB
Common shares	5 735 879	10	57 358 790
Total share capital[18]	5 735 879	10	**57 358 790**

PJSC STLC (hereafter STLC or the Company) received 12,413,380,000 rubles from its shareholder in December 2016 as a contribution to charter capital. This money was provided to finance the acquisition and/or construction of assets as part of the implementation of a number of government programs. These assets will subsequently be made available for finance or operating lease.

COMMON SHARES

All shares confer equal rights in regard to the Group's net assets. The owners of common shares have the right to receive dividends as they are declared, and also have the right to one vote per share at General Meetings of the Company's shareholders

Under Russian government Resolution No. 93 On Exercising the Rights of Shareholder of Open Joint-stock Company State Transport Leasing Company on Behalf of the Russian Federation, dated February 4, 2009, the Company's sole shareholder is the Russian Federation as represented by the Transport Ministry of Russia (the Russian Federation, through the Transport Ministry of the Russian Federation owns 100% of the Company's shares).

DIVIDEND POLICY

The Company's dividend policy is based on the Regulation on the Dividend Policy of OJSC STLC that was approved by the Company's Board of Directors on December 20, 2011 (Minutes №25/2011, dated December 20, 2011) and drafted in accordance with the legislation of the Russian Federation, the Company's Charter and other internal documents

The Company's dividend policy is aimed at achieving the following goals:

- Increasing the Company's investment appeal and its capitalization;
- Maintaining the Company's financial position at the required level and ensuring prospects for its development;
- Compliance with the Company's accepted practice of accrual and payment of dividends according to the legislation of Russia;
- Achieving an optimal balance between the interests of the Company and its shareholders;
- Ensuring transparency of the mechanism for determining the amount of dividends and their payment.

The decision to declare, pay or not pay dividends, including the decision on the size of the dividend, form, timing and procedure of its payment on shares of each category (type) is made by General Meetings of the Company's shareholders in accordance with the Company's Charter and on the basis of the recommendations of the Company's Board of Directors regarding the size of the dividend. The size of the dividend cannot be greater than recommended by the Board of Directors.

Under the requirements of Russian legislation, the amount of dividends that can be paid is limited by the amount of the Company's retained earnings, presented in the Company's financial statement prepared according to Russian Accounting Standards (RAS).

In 2016, the Company declared and paid out dividends for 2015 in the total amount of 35,064,000 rubles.

[17] As of December 31, 2016.
[18] Registered, issued and fully paid-in share capital.

The Company's AGM on June 30, 2016 determined that:

- the 20th (twentieth) day from the date on which the decision on payment of dividends is made is the date on which the persons who have the right to receive dividends are determined;
- the deadline for payment of dividends does not exceed 25 working days from the date on which the persons who have the right to receive dividends are determined.

According to the annual financial statement to RAS, the Company did not have a net profit for 2016, consequently there were no funds available for distribution as dividends.

LOANS AND BONDS

The success of STLC's business is due in large part to its extensive experience working with both Russian and foreign financial institutions, for which STLC is an attractive financial partner.

STLC's financial portfolio, in addition to federal budget funds, includes loans and bonds.

LIST OF STLC SECURITIES LISTED FOR EXCHANGE TRADING IN THE RUSSIAN FEDERATION

Type and form of security	Series	State registration No./ID No.	Date of state registration / Assignment of ID No.	Moscow Exchange quotation list	Date of issue	Date of maturity	Issue amount, RUB	Trading organizer
Certificated bearer bonds	1	4-01-32432-H	27.11.2012	Level 1	29.01.2013	23.01.2018	5 000 000 000	Moscow Exchange
	2	4-02-32432-H	27.11.2012	Level 1	01.02.2013	26.01.2018	5 000 000 000	
Exchange-traded certificated bearer bonds	BO-01	4B02-01-32432-H	28.08.2013	Level 1	24.09.2013	18.09.2018	11 250 000 000	Moscow Exchange
	BO-02	4B02-02-32432-H	28.08.2013	Level 1	26.09.2013	20.09.2018	12850 000 000	
	BO-03	4B02-03-32432-H	24.04.2014	Level 2	23.12.2014	10.12.2024	1 500 000 000	
	BO-04	4B02-04-32432-H	24.04.2014	Level 1	19.03.2015	06.03.2025	5 000 000 000	
	BO-05	4B02-05-32432-H	04.09.2015	Level 1	30.10.2015	17.10.2025	4 000 000 000	
	BO-06	4B02-06-32432-H	04.09.2015	Level 1	02.11.2015	20.10.2025	4 000 000 000	
	BO-07	4B02-07-32432-H	04.09.2015	Level 1	29.12.2015	16.12.2025	4 000 000 000	
	BO-08	4B02-08-32432-H	01.08.2016	Level 1	13.09.2016	01.09.2026	5 000 000 000	
	001R-01	4B02-01-32432-H-001P	14.09.2016	Level 1	23.09.2017	05.09.2031	4 259 080 000	
	001R-02	4B02-02-32432-H-001P	30.11.2016	Level 1	12.12.2016	24.11.2031	7 780 000 000	
	001R-03	4B02-03-32432-H-001P	03.02.2017	Level 1	09.02.2017	22.01.2032	10 000 000 000	
	001R-04	4B02-04-32432-H-001P	20.04.2017	Level 1	25.04.2017	06.04.2032	10 000 000 000	

More details about STLC's securities are available in the Information Disclosure section of the Company's website[19].

[19] https://www.gtlk.ru/information_disclosure/

INFORMATION POLICY AND INFORMATION DISCLOSURE

The Company has a policy of transparency in regard to its target audiences with due regard to corporate governance best practices in the area of information disclosure.

The priorities and standards of the Company's information policy toward its target audiences are stipulated in the Regulation on the Information Policy of PJSC STLC approved by the Board of Directors in December 2016 (Minutes №81/2016, dated December 9, 2016).

Principles of STLC information policy:

- **Consistency** – the Company regularly reports on its activities on an ongoing basis;
- **Promptness** – information about events taking place at the Company is prepared and communicated to target audiences as quickly as possible, while it is still current;
- **Objectivity** – official information distributed by the Company is based on actual facts and figures, and cannot be based on rumors or unsubstantiated assumptions;
- **Efficiency** – information materials must be prepared to a high professional standard and be easily understood by users;
- **Accessibility** – information materials published by the Company must be technically accessible for target audiences;
- **Cohesion** – the Company ensures the cohesion of the content of disclosed information by ensuring the integration of various types of corporate communications within one structural division;
- **Completeness and accuracy** – the Company provides complete information, without avoiding dissemination of negative information;
- **Observance of confidentiality and control over the proper use of confidential information** – the Company takes the necessary steps to ensure the security of this information.

The Regulation on the Information Policy of PJSC STLC specifies the means and forms of mandatory and voluntary information disclosure, and a list of information and documents subject to disclosure to the shareholder, investors and other stakeholders.

Information the Company is obligated to disclose is:

- Posted on the Company's official website (www.gtlk.ru and гтлк.рф);
- Published on the website of the information services agency that is authorized to disclose information about securities and other financial instruments (www.e-disclosure.ru);
- Disclosed in other ways that are consistent with current legislation.

The Company voluntarily discloses information in the following ways:

- Disclosure of information through the media;
- Disclosure of information through distribution of press releases and news bulletins;
- Disclosure of information on a webpage, the electronic address of which includes a domain name, the rights to which belong to the specified issuer (the Company's official website: www.gtlk.ru and гтлк.рф);
- Organization of public appearances by representatives of the Company;
- Holding meetings with representatives of the investment community, conferences, presentations and road shows;
- Sending requested information by email to interested parties;
- Publication of information in booklets, brochures and other similar media;
- Participation in conferences, seminars, presentations and other public events in Russia and abroad;
- Other means that are consistent with current legislatio.

78 5.1. Priorities and principles of engagement with stakeholders
80 5.2. Human Resources policy
82 5.3. Sponsorships and philanthropy
83 5.4. Energy conservation and energy efficiency

5

CORPORATE SOCIAL RESPONSIBILITY

5.1.

PRIORITIES AND PRINCIPLES OF ENGAGEMENT WITH STAKEHOLDERS

Responsible business practices are an integral part of STLC's work, which implies implementing the principle of active cooperation with stakeholders and timely disclosure of material information about all aspects of the Company's activities. Regular open communication with stakeholders enables STLC to take into account the expectations of partners and increase the efficiency of its business.

The Company has a Code of Ethics (for details about the Code of Ethics, see the Corporate Governance section) and a Regulation on Information Policy.

STLC actively engages with shareholders, investors, customers, employees, business partners, the public and government agencies.

Stakeholders	Principles of the Company's engagement with stakeholders
Shareholder	STLC's shareholder is the Russian Federation in the person of the Transport Ministry. The shareholder makes strategic decisions about the Company's development and controls the activities of its management in accordance with Russian law, the Charter and other internal documents of the Company.
Investors	STLC is the first Russian leasing company to enter not only Western, but also Asian financial markets and successfully raise financing for specific projects. Investors make decisions to invest in the Company's securities. This group includes development institutions, commercial banks, investment and brokerage companies, asset management companies, nongovernmental pension funds, insurance companies and other categories of investors, including individuals, who hold and/or are considering acquiring the Company's issue-grade securities.
Customers and business partners	STLC builds relations with customers and partners on the principles of responsible partnership and due diligence, both at the stage of establishing contractual relations and in the course of further cooperation. The Company's main customers are transport, logistics and construction companies, municipal transport and utility companies, regional government agencies, Russian and foreign airlines, and railway and marine transport operators, among others. The Company's business partners are Russian and foreign manufacturers and vendors of air, water and railway transport, automobiles and other equipment; and insurance companies, banks and other financial institutions. STLC aims to maintain long-term, stable, mutually beneficial relationships with customers. The Company's viability as a commercial entity aimed at earning and increasing profit depends on customer engagement.

Government agencies and society	STLC is committed to building and maintaining strong official relations with government agencies in accordance with Russian law. In its relations with regional government agencies and operations in the corresponding regions, STLC observes the law and the interests of local communities. STLC is not involved in political activities and does not finance political organizations, and does not make any attempts to unlawfully influence the decisions of government agencies or their representatives and senior officials.
Employees	The efficiency of the Company's operations depends directly on the performance of its employees. This group includes all Company employees, including employees of separate divisions. STLC builds relations with its employees on principles of long-term collaboration, respect and clear fulfillment of mutual obligations.
The public and media	The public has a significant influence on other target audiences of the Company. This audience also includes the media, which are the main instrument for communicating information about the Company to all target audiences. The media influence the Company's image and reputation. STLC enforces high ethical standards in relations with mass media outlets and does not allow the dissemination of false information, concealment and/or distortion of facts in its public activities or other public relations events. All contacts with the media are handled by the division responsible for public relations. Public appearances in the media and at events involving the media can be made by STLC executives or representatives authorized by them. The conveyance of information or documents to the media by unauthorized persons is a violation of corporate ethics. In order to ensure the quality of engagement with the media, STLC employees must promptly inform their direct superiors about requests (proposals) received from representatives of the media regarding the Company's activities.

5.2.

HUMAN RESOURCES POLICY

STLC's human resources (HR) policy is aimed at establishing a system of working with employees that best supports the achievement of the Company's goals and objectives.

STLC's priorities in the area of HR management in 2016 were to:

- improve organizational structures and update the base of documents that regulate the activities of employees
- provide the Company with qualified professionals to implement priority leasing programs
- support and develop the corporate culture

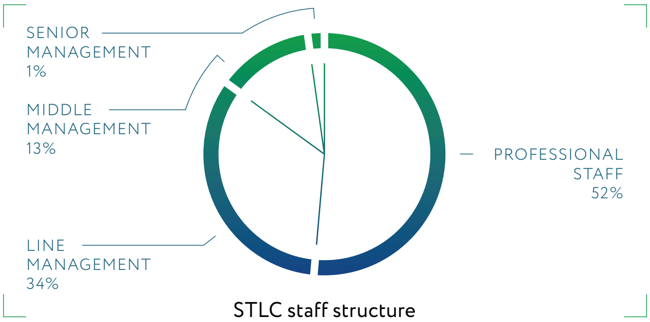
The average number of employees at STLC in 2016 was 228, which was 14 employees or 6.5% more than the annual average for 2015.

The Company's staff headcount as of December 31, 2016 was 253, up by 22 employees or 8.7% from a year earlier. The increase was due to the expansion of staff to handle the increase in workload and responsibilities of company divisions, as well as filling of vacancies.

Staff recruitment takes into account the need for specific professionals based on the qualification requirements of the position, including qualification requirements set by Russian law.

Staff turnover amounted to 17.5 % in 2016, which was up by 5 percentage points from 2015 due to the implementation of measures to change the organizational structure and redistribute responsibilities, and staff rotation.

Age breakdown of staff as of December 31, 2016



STLC staff structure

EMPLOYEE ENGAGEMENT

STLC is constantly working on improving the effectiveness of its employee engagement system in order to recruit and retain qualified employees and ensure that they are committed to achieving the best results. Financial incentives include guaranteed compensation (salary) and bonus pay based on the achievement of the goals of the department (individual goals) and the Company as a whole, as well as nonrecurring bonuses for outstanding achievements. Analysis of data from regular studies of pay at companies in the financial sector keeps the Company abreast of general trends in pay and enables it to offer competitive compensation.

The Company also recognizes its best employees with corporate awards and nominates employees for government awards for their personal achievements, active involvement in the Company's activities and personal contribution to the development of Russia's transport sector. In 2016, 29 employees were recognized with corporate awards and 11 employees received government awards.

In order to enhance the social security of employees, the Company's HR policy provides for an expansion on the list of benefits and compensation stipulated by the law. The Company provides voluntary health insurance for employees, offers compensation for employees' expenditures on health-related activities (sports, fitness, etc.) and provides financial support to employees in various circumstances.

The Company also regularly holds team building events to increase employee motivation and engagement. In order to promote health, get employees involved in sports and fitness, and develop its corporate culture, the Company held the STLC Spartakiad in 2016, which included a volleyball tournament and trials to pass the standards of the Ready for Labor and Defense All-Russian Sports and Fitness Complex.

TRAINING AND PROFESSIONAL DEVELOPMENT

Developing employees' competencies is one of the priorities of the Company's HR policy. External and internal training is planned and conducted annually to give employees the opportunity to acquire the latest knowledge and skills and upgrade their qualifications. Employees regularly undergo training to perform certain types of activities in accordance with the requirements of Russian law.

In 2016, 20% of employees underwent training to upgrade their qualifications and/or training in short-term courses and seminars.

Training events held inside the Company are aimed at teaching employees new work rules, standards and software, and educating them about the latest developments in various professional fields.

5.3.

SPONSORSHIPS AND PHILANTHROPY

The Company approved a Policy for Providing Sponsorship Support and Charitable Aid in 2016 that sets out the main principles and approaches to philanthropy.

STLC's sponsorship and charitable activities are aimed at supporting culture, science and education and disadvantaged groups of the Russian population, and promoting scientific and technological progress and healthy lifestyles. STLC provides sponsorship support and charitable aid to those in need.

SPONSORSHIP ACTIVITIES

STLC's sponsorship activities are aimed at improving the Company's image and promoting its business.

Priority is given to projects related to the Company's field of operations: transport, leasing, finance and the economy. Other sponsorship projects have lower priority.

Sponsorship support includes:

- Participation as a sponsor or partner in industry-related transport or finance events such as exhibitions, forums, conferences, roundtables and so on
- Participation as a sponsor or partner in cultural and public events aimed at developing and promoting Russia's transport sector
- Participation as a sponsor or partner in socially important events held by public post secondary educational institutions specializing in transport or finance

PHILANTHROPY

The goal of STLC's charitable activities is to promote the Company's image as a socially responsible organization.

The objectives of charitable activities are to:

- Help strengthen regional economies
- Provide social support for individuals
- Support a positive social climate in relation to the Company's local operations
- Help to realize initiatives to promote healthy lifestyles
- Help conduct events in the areas of education, science, sport, culture and spiritual personal development
- Contribute to strengthening peace, friendship and goodwill among ethnic groups, and preventing social, racial and religious conflicts
- Protect the environment and wildlife
- Protect buildings and sites of historical, cultural or nature conservation significance

5.4.

ENERGY CONSERVATION AND ENERGY EFFICIENCY

STLC is committed to the principles of rational resource use in its operations.

STLC rents 1,756.0 m2 of office space, and the Company cannot influence decisions concerning energy consumption made by the owner of this property. Given that most of STLC's electricity costs arise in the process of using rented space, the Company has decided that it does not make sense to develop and adopt an energy conservation program.

Program to develop clean and energy efficient urban passenger transport

STLC has launched a pilot noncommercial leasing program to deliver passenger vehicles that run on gas motor fuel to Russian regions under Russian government Order No. 767-R, dated May 13, 2013, On the Regulation of Relations in the Use of Gas Motor Fuel, Including Natural Gas as a Motor Fuel.

In order to deliver gas-powered and electric passenger vehicles on preferential terms, STLC uses repayable funds of leaseholders under noncommercial leasing programs. STLC invested more than 8 billion rubles in the development of the market for energy efficient vehicles in 2012-2017. As of June 30, 2017, STLC had purchased more than 1,100 energy efficient vehicles for the program.

STLC plans to expand its involvement in noncommercial leasing programs in Russian regions with developed or developing infrastructure for the use of gas motor fuel.

STLC'S USE OF ENERGY RESOURCES IN 2016

	Electricity		Water supply		Waste water disposal		Heat	
	kWh	Amount, RUB	м^3	Amount, RUB	м^3	Amount, RUB	Gcal	Amount, RUB
Total	457 485	2 388 276	2 221	56 230	2 221	47 698	326	443 337


Ростех
ВЕРТОЛЕТЫ
РОССИИ

6

IFRS CONSOLIDATED FINANCIAL STATEMENTS

(all amounts in thousands of Russian roubles unless otherwise indicate)

CONTENTS

87		Independent Auditors report
91		Consolidated statement of financial position
92		Consolidated statement of profit or loss and other comprehensive income
93		Consolidated statement of cash flows
94		Consolidated statement of changes in equity
95	1.	Principal activities
97	2.	Basis of preparation
98	3.	Significant accounting policies
108	4.	Use of estimates and judgments
109	5.	New standards and interpretations
111	6.	Cash and cash equivalents
112	7.	Net investment in leases
117	8.	Receivables on cancelled lease agreements and other receivables
118	9.	Advances to suppliers
119	10.	Inventories
120	11.	Property and equipment
121	12.	Assets leased out under operating leases
123	13.	Investment property
124	14.	Intangible assets
125	15.	Taxation
127	16.	Loans received
128	17.	Finance lease liabilities
130	18.	Bonds issue
132	19.	Trade and other payables
133	20.	Other than income taxes payable
134	21.	Share capital
135	22.	Net interest income
136	23.	Administrative expenses
137	24.	Other operating income and expenses
138	25.	Financial risk management
152	26.	Fair values of financial instruments
154	27.	Capital management and capital adequacy
155	28.	Commitments and contingencies
157	29.	Related parties

INDEPENDENT AUDITORS REPORT

JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123112

Telephone: +7 (495) 937 4477
Fax: +7 (495) 937 4400/99
Internet www.kpmg.ru

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.

Impairment of net investment in leases
Refer to the notes 7 and 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.

JSC KPMG
Moscow, Russian Federation
25 April 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	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.

Khramagin S.N.,
General Director

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	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.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	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.

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.e

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 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.

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.

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.

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.

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.

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**

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**

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).

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**

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).

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).

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**

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%.

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)**

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	Recognize 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).

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**

The remaining contractual maturities of finance lease liabilities as at 31 December 2016 are as follows:

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 liabilities	**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 interes	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 736z
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).

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.

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 2016
Series 01	5 000 000	ЯнJanuary 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**

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).

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**

23.

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.

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**

	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**

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.

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	-	-	-	-	-	-	19 494 726
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**

	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**

	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
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
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 gross amount of outflow
Inflows	34	242	619 715	3 026	6 896	-	**629 913**
Outflows	-	(95 030)	-	-	-	-	**(95 030)**

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 gross amount of outflow
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	31 020 934	-	-	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**	**-**

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.

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		

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.

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%

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	13% - 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 assets				
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 2016
Total liabilities	174 211 887	139 776 355
Total equity	57 885 017	45 426 702
Gearing ratio	**3,3**	**3,1**

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**

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.

	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.

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**

7.

STATEMENT OF RESPONSIBILITY

We confirm that, to the best of our knowledge, this Annual Report contains a faithful review of the development, business performance and condition of PJSC STLC (STLC), as well as a description of the main risks and uncertainties that STLC faces.

The consolidated financial statements of PJSC STLC for 2016, prepared to International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and financial results of STLC.

Chief Executive Officer
S.N. Khramagin

Chief Accountant
T.A. Plastinina

Forward looking statements

This Annual Report was prepared using information available to PJSC STLC as of the date thereof. Certain statements in this Annual Report regarding the business activities, economic indicators, financial condition, results of the business activities and operations of the Group, its plans, projects and anticipated results, as well as trends in tariffs, costs, anticipated expenses, prospects for development, economic forecasts for industries and markets, certain projects and other factors do not contain actual facts, but are of a forward looking nature. Forward looking statements that STLC might periodically make (but that are not included in this document) may also contain planned or expected data on revenue, profit (loss), dividends and other financial indicators and ratios. The words “intends,” “strives,” “projects,” “expects,” “estimates,” “plans,” “believes,” “anticipates,” “might,” “should,” “will” and other similar words or expressions usually indicate the forward looking nature of a statement. However, this is not the only way to indicate the forward looking nature of given information.

Forward looking statements, by their very nature, are associated with inherent risk and uncertainty of both a general and specific nature and there is a risk that assumptions, forecasts, projections and other forward looking statements will not actually materialize. In light of these risks, uncertainties and assumptions, STLC warns that, under the influence of a whole range of material circumstances, actual results might differ from those that are expressed directly or indirectly in such forward looking statements and are valid only as of the date of this Annual Report. STLC does not assert or guarantee that the business performance implied in forward looking statements will be achieved. STLC shall not be liable for losses that might be incurred by individuals or legal entities acting in reliance on forward looking statements. Such forward looking statements in every specific case represent only one of many possible scenarios and should not be considered to be the most likely. Except where required by applicable law, STLC disclaims any obligation to publish updates or amendments to forward looking statements based on either new information or subsequent events.

8.

CONTACTS

Headquarters:

73 Ul. Respubliki, Rm. 100
Salekhard, Yamalo-Nenets Autonomous District
629008

Moscow Division:

31A Leningradsky Prospekt, Bldg 1
Moscow 125284

Tel.: 8 (495) 221-00-12
8 (800) 200-12-99

Fax: 8 (495) 221-00-06

gtlk@gtlk.ru

Investor Relations Service:

Tel.: 8 (495) 221-00-12
8 (800) 200-12-99

gtlk@gtlk.ru

Press Service:

Fax: 8 (495) 221-00-12

pr@gtlk.ru