State Transport Leasing Company

Public Joint Stock Company
“State transport leasing company”

Consolidated Financial Statements
For the Year Ended
31 December 2017
and Independent Auditors’ Report

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Independent Auditor's report

To the Shareholder and the Board of Directors
Public Joint Stock Company «State transport leasing company»

Opinion

We have audited the consolidated financial statements of Public Joint Stock Company "State transport leasing company" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 и 26 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 40% 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 8 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Assets leased out under operating leases comprise 39% 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; - with the involvement of our valuation specialists 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 of these assets.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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 scepticism 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:

Shevarenkov E.V.
JSC "KPMG"
Moscow, Russia
28 April 2018

Акционерное общество ОГРН 1027700125628 КПМГ KPMG Москва

(all amounts in millions of Russian roubles unless otherwise indicated)

	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	6	12 525	9 495
Derivative financial instruments		58	449
Advances to suppliers	9	35 818	39 654
Receivables on cancelled lease agreements and other receivables	10	8 439	8 370
Loans granted		-	254
Inventories	11	961	1 148
VAT receivable		3 983	6 593
Income tax receivable		148	270
Net investment in leases	7	135 916	70 891
Assets leased out under operating leases	8	134 371	88 140
Investment property	12	6 223	5 974
Fixed assets and Intangible assets	13,14	134	65
Deferred tax assets	15	2 009	794
Total assets		**340 585**	**232 097**
Liabilities			
Loans received	16	87 726	52 323
Finance lease liabilities	17	17 620	31 021
Bonds issued	18	157 049	86 138
Trade and other payables	20	11 708	3 669
Advances received		782	944
Deferred tax liabilities	15	405	-
Income tax payable		-	61
Other than income tax payable	21	34	56
Total liabilities		**275 324**	**174 212**
Equity			
Share capital	22	68 637	57 359
(Accumulated loss)/Retained earnings		(3 190)	645
Currency translation difference		(186)	(119)
Total equity		**65 261**	**57 885**
Total liabilities and equity		**340 585**	**232 097**

Approved for issue and signed by the General Director of Public Joint Stock Company "State transport leasing company" on 28 April 2018.

Shaplyko D.V., First Deputy General Director

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

(all amounts in millions of Russian roubles unless otherwise indicated)

	Note	2017	2016
Finance lease interest income	23	13 300	7 826
Other interest income	23	1 389	1 174
Operating lease income		15 069	13 052
Interest expense	23	(17 502)	(13 809)
Operating lease expenses		(2 087)	(1 218)
Depreciation of assets leased out under operating leases	8	(6 742)	(4 898)
		3 427	**2 127**
(Charge) recovery of provision for impairment losses on interest bearing assets	7	(1 852)	1 572
		1 575	**3 699**
Administrative expenses	24	(1 958)	(1 497)
Other operating income and recovery of provisions	25	1 092	565
Other operating expenses and charge of provisions	25	(2 491)	(482)
Net foreign exchange translation gain (loss)		477	(544)
Impairment losses on non interest-earning assets	10	(2 966)	(1 114)
Gain (loss) from disposal of inventories and their writing down to net realizable value		(165)	5
(Loss)/profit before taxation		**(4 436)**	**632**
Income tax benefit/(expense)	15	601	(427)
(Loss)/profit for the year		**(3 835)**	**205**
Other comprehensive loss, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Currency translation difference		(67)	(125)
Total items that are or may be reclassified subsequently to profit or loss		(67)	(125)
Other comprehensive loss, net of income tax		**(67)**	**(125)**
Total comprehensive (loss) income for the year		**(3 902)**	**80**

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

(all amounts in millions of Russian roubles unless otherwise indicated)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from lessees (except for interest received)		28 923	22 702
Interest received from lessees		13 189	4 441
Proceeds from disposal of repossessed equipment		698	939
Cash paid to suppliers of equipment for leasing purposes		(136 776)	(81 581)
Cash paid for insurance of leased equipment		(159)	(217)
Interest received other than from lessees		1 656	1 010
Interest paid		(18 018)	(12 782)
Government grants related to compensation of interest expenses		864	-
Receipts on taxes other than income tax		11 123	4 974
Net proceeds from derivative financial instruments		263	1 113
Administrative and other expenses paid		(2 267)	(1 364)
Net other operating (expenses paid) income received and expenses on operating lease		(4 896)	(1 843)
Net cash flows used in operating activities before tax		**(105 400)**	**(62 608)**
Income tax paid		(128)	(367)
Net cash flows used in operating activities		**(105 528)**	**(62 975)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Placement of deposits		(129)	(348)
Withdrawal of deposits		129	408
Purchase of investment property		(526)	(577)
Proceeds from disposal of investment property		96	-
Net cash flows used in investing activities		**(430)**	**(517)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received		75 245	54 492
Loans and finance lease liabilities paid		(48 870)	(59 424)
Bonds issued		78 131	61 300
Bonds repaid		(6 932)	(14 506)
Dividends paid	22	-	(35)
Shares issued	22	11 278	12 413
Net cash flows from financing activities		**108 852**	**54 240**
Effect of exchange rate changes on cash and cash equivalents		136	(880)
Net (decrease) increase in cash and cash equivalents		**3 031**	**(10 132)**
Cash and cash equivalents at the beginning of the year	6	9 495	19 627
Cash and cash equivalents at the end of the year	6	**12 525**	**9 495**

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

(all amounts in millions of Russian roubles unless otherwise indicated)

	Share capital	(Accumulated loss)/Retained earnings	Currency translation difference	Total equity
Balance as at 1 January 2016	**44 946**	**475**	**6**	**45 427**
Total comprehensive income				
Profit for the year	-	205	-	205
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Currency translation difference	-	-	(125)	(125)
Total items that are or may be reclassified subsequently to profit or loss	-	-	(125)	(125)
Total other comprehensive income	-	-	(125)	(125)
Total comprehensive loss	**-**	**205**	**(125)**	**80**
Dividends declared and paid (Note 21)	-	(35)	-	(35)
Ordinary shares issued (Note 21)	12 413	-	-	12 413
Balance as at 31 December 2016	**57 359**	**645**	**(119)**	**57 885**
Total comprehensive loss				
Loss for the year	-	(3 835)	-	(3 835)
Other comprehensive loss				
Items that are or may be reclassified subsequently to profit or loss:				
Currency translation difference	-	-	(67)	(67)
Total items that are or may be reclassified subsequently to profit or loss	-	-	(67)	(67)
Total other comprehensive loss	-	-	(67)	(67)
Total comprehensive loss	**-**	**(3 835)**	**(67)**	**(3 902)**
Ordinary shares issued (Note 21)	11 278	-	-	11 278
Balance as at 31 December 2017	**68 637**	**(3 190)**	**(186)**	**65 261**

(all amounts in millions of Russian roubles unless otherwise indicated)

1. Principal activities

Public Joint Stock Company “State transport leasing company” (the Company) was incorporated in the Russian Federation as a Closed Joint Stock Company “Leasing Company of Civilian Aviation” on 12 November 2001.

The Company’s principal business activity is provision of finance and operating leases to companies within the Russian Federation and CIS.

The Company’s registered office is located at 629008, Russia, Yamalo-Nenetsky avtonomny okrug, Salehard, ulitsa Respubliki, 73, office 100.

As at 31 December 2017 and 2016 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 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 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
STLC Europe Seven Leasing Limited	599109	Ireland	23 February 2017
STLC Europe Eight Leasing Limited	599120	Ireland	22 February 2017
STLC Europe Nine Leasing Limited	606952	Ireland	30 June 2017
STLC Europe Ten Leasing Limited	607932	Ireland	13 July 2017
STLC Europe Eleven Leasing Limited	615290	Ireland	14 November 2017
GTLK Malta Four Limited	C82877	Malta	6 October 2017
GTLK Malta Five Limited	C83767	Malta	30 November 2017
CBM Ireland Leasing Limited	573029	Ireland	22 December 2017

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 million.

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.

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 recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity-accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the foreign exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on the retranslation are recognised in the consolidated statement of profit or loss and other comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, settlement accounts and short-term deposits in banks. Deposits in banks are classified as cash and cash equivalents if initial contractual maturities of such deposits are less than 3 months.

Leases

The Group's lease transactions are classified as either finance or operating leases at inception in accordance with IAS 17 "Leases". A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease is considered to be the date when the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

Finance leases - Group as lessor

The gross investment in a lease is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor. Minimum lease payments are the payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor.

The net investment in a lease is the gross investment in a lease less unearned finance income and is recorded in “net investment in leases” in the consolidated statement of financial position. The unearned finance income is amortised to finance lease interest income over the lease term to produce a constant percentage return on the net investment in a lease. Any allowance for possible losses under finance leases is charged to expense and is recorded as a reduction to the net investment in leases through an impairment allowance.

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

In case the Group finances the purchase of the equipment (through advance payments to the equipment supplier) for leasing purposes during the period between the inception of the lease and commencement of the lease, finance lease income begins to be recognized in the consolidated statement of profit or loss and other comprehensive income from the date of commencement of the lease.

Any advance payments made by the lessee prior to commencement of the lease are recorded as advances received and subsequently adjust finance lease receivable upon commencement of the lease.

Finance leases - Group as lessee

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the Group’s consolidated statement of financial position.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases – Group as lessor

The Group recognizes assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating lease is recognized in profit or loss for the year on a straight-line basis over the lease term.

Operating leases – Group as lessee

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. Assets held under leases classified as operating leases are not recognised in the Group’s consolidated statement of financial position.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and

effective hedging instruments)

- upon initial recognition, designated as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

During 2017 and 2016 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 2017 and 2016 the Group did not hold any investments in this category.

<u>Recognition</u>

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

<u>Measurement</u>

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

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.

<u>Value added tax (VAT)</u>

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.

<u>Other operation taxes</u>

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 assets

<u>Financial assets carried at amortized cost</u>

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

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

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

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

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

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

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

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Equipment purchased for leasing purposes

The Group records capital expenditures related to acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenditures are accumulated until the equipment is ready for use and then are transferred to the lessee.

Settlements on equipment purchased for leasing purposes are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Property and equipment and assets leased out under operating leases

Items of property and equipment and assets leased out under operating leases are stated at cost less accumulated depreciation and impairment losses. Where an item of property and equipment and assets leased out under operating leases comprises major components having different useful lives, they are accounted for as separate items of property and equipment and assets leased out under operating leases.

Depreciation

Depreciation is charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of the individual assets.

Depreciation commences on the date of acquisition. Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. The estimated useful lives are as follows:

Aircraft	15-25 years
Railroad rolling stock	22-32 years
Premises	30 years
Equipment and machinery	3-5 years
Vehicles	5 years
Other	5-7 years

The Group has adopted a component based depreciation accounting model for certain groups of its assets (such as aircraft). Under this approach, depreciation of certain parts of the relevant assets with a cost that is significant in relation to the total cost of such assets is calculated separately. Useful life of these parts may differ from the overall useful life of the relevant assets. The Group estimates depreciation of certain components based on their actual utilisation (not useful life) whenever this depreciation method allows for a more accurate estimate of the pattern of consumption of the future economic benefits embodied in such components. The Group reviews its assumptions on useful life and/or utilisation on a regular basis.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licences. Intangible assets acquired are measured the financial statements on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Contingent assets and liabilities

Contingent liabilities are not recognised in the consolidated financial statements but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Interest income and expenses

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available–for–sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Fee and commission income and expense

Fees, commissions and other income and expense items are recorded on an accrual basis when the service has been provided.

General and administrative expenses

All expenses incurred by the Group other than those recorded in the separate lines of the consolidated statement of profit or loss and other comprehensive income are recorded as general and administrative expenses. General and administrative expenses are recognized on the accrual basis in the period to which they relate.

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.

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.

5. New standards and interpretations

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2017, 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.

(all amounts in millions of Russian roubles unless otherwise indicated)

The Group has developed the provision calculation methodology in accordance with the requirements of IFRS 9 and is currently finalizing its assessment on potential impact of implementation of IFRS 9 on 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 2018. 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 2017	**31 December 2016**
Banks from the range rated BBB	1 886	442
Banks from the range rated BB	10 627	8 730
Banks from the range rated B	-	104
Other banks	12	219
Total cash and cash equivalents	**12 525**	**9 495**

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 2017 the amount of cash and cash equivalents restricted in use to implementation of certain federal programmes was RUB 4 524 million (31 December 2016: RUB 1 163 million).

As at 31 December 2017 cash and cash equivalents include deposits of RUB 4 852 million (31 December 2016: RUB 7 281 million). The interest rate on the deposits varies from 1,0% to 7,1% (31 December 2016: from 1,57% to 10,25%) 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 2017	**31 December 2016**
Gross investments in leases	247 036	124 256
Unearned income	(109 970)	(51 705)
Net investment in leases gross of impairment allowance	**137 066**	**72 551**

(all amounts in millions of Russian roubles unless otherwise indicated)

Less impairment allowance	(1 150)	(1 660)
Net investment in leases	**135 916**	**70 891**

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 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 operators;
- Passenger transport enterprises, including taxi services;
- Government authorities of the Russian Federation, its federal entities or municipal entities.

Non-commercial lease programmes are operated in a number of industries for which:

- certain measures of governmental support are deemed to be necessary, including those driven by an increased social importance of an industry;
- no highly developed market environment for raising the production capacities funding exists as at the current moment;
- risk levels are high, with the return levels being low, which in turns makes an industry less attractive for private investments (i.e. private leasing companies and banking organisations);
- implementation of innovative technologies is a necessity;
- substitution of imported goods and domestic vendors specific support are required.

(all amounts in millions of Russian roubles unless otherwise indicated)

Leased assets should be new and produced or assembled in the Russian Federation. The lease terms under non-commercial leases vary from 3 to 15 years.

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 20 years.

The outstanding contractual maturities of the net investment in leases as at 31 December 2017 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**
Less than one month including overdue	2 342	(1 437)	905	(80)	825
From one to three months	4 560	(2 535)	2 025	(15)	2 010
From three to six months	6 868	(3 923)	2 945	(22)	2 923
From six months to one year	11 944	(7 701)	4 243	(36)	4 207
From one year to five years	91 819	(50 360)	41 459	(354)	41 105
More than five years	129 503	(44 014)	85 489	(643)	84 846
Total	**247 036**	**(109 970)**	**137 066**	**(1 150)**	**135 916**

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**
Less than one month including overdue	6 223	(833)	5 390	(758)	4 632
From one to three months	2 118	(1 369)	749	(19)	730
From three to six months	3 383	(2 182)	1 201	(45)	1 156
From six months to one year	6 515	(4 271)	2 244	(95)	2 149
From one year to five years	53 354	(26 884)	26 470	(355)	26 115
More than five years	52 663	(16 166)	36 497	(388)	36 109
Total	**124 256**	**(51 705)**	**72 551**	**(1 660)**	**70 891**

(all amounts in millions of Russian roubles unless otherwise indicated)

The term analysis of the gross investment in leases and the present value of minimum lease payments is as follows:

	31 December 2017		**31 December 2016**	
	Gross investment in leases	**Present value of minimum lease payments**	**Gross investment in leases**	**Present value of minimum lease payments**
Less than one month including overdue	2 342	2 328	6 223	6 217
From one to three months	4 560	4 447	2 118	2 052
From three to six months	6 868	6 539	3 383	3 180
From six months to one year	11 944	10 880	6 515	5 809
From one year to five years	91 819	64 987	53 354	35 219
More than five years	129 503	47 885	52 663	20 074
Total	**247 036**	**137 066**	**124 256**	**72 551**

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 2017 is as follows:

	Gross investment in leases	**Unearned income**	**Net investment in leases gross of impairment allowance**	**Impairment allowance**	**Net investment in leases**
USD	32 835	(9 169)	23 666	(176)	23 490
EUR	54	(1)	53	-	53
RUB	214 147	(100 800)	113 347	(974)	112 373
Total	**247 036**	**(109 970)**	**137 066**	**(1 150)**	**135 916**

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	29 656	(9 227)	20 429	(205)	20 224
EUR	125	(8)	117	(1)	116
RUB	94 475	(42 470)	52 005	(1 454)	50 551
Total	**124 256**	**(51 705)**	**72 551**	**(1 660)**	**70 891**

Impairment of net investment in leases

Movement in allowance for impairment is as follows:

	2017	**2016**
Balance at the beginning of the year	1 660	3 232
Net (recovery) charge	1 852	(1 572)
Reclassification (see Note 10)	(2 362)	-

(all amounts in millions of Russian roubles unless otherwise indicated)

Balance at the end of the year	**1 150**	**1 660**

Other information about net investment in leases

As at 31 December 2017 net investment in leases with ten largest lessees amount to 65,8% of net investment in leases gross of impairment allowance, or RUB 90 169 million (31 December 2016: 59,8%, or RUB 43 383 million).

As at 31 December 2017 the amount of gross investment in leases on contracts that have been signed but have not commenced is RUB 127 245 million (31 December 2016: RUB 63 451 million).

As at 31 December 2017 and 31 December 2016 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 2017 net investment in leases in total amount of RUB 59 281 million (31 December 2016: RUB 28 439 million) related to assets used to collateralize loans received.

(all amounts in millions of Russian roubles unless otherwise indicated)

8. 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 2016	**77 589**	**12 199**	**89 788**
Additions	22 300	5 368	27 668
Disposals (transfer to finance lease)	-	(7 618)	(7 618)
Translation difference	(12 382)	-	(12 382)
Balance at 31 December 2016	**87 507**	**9 949**	**97 456**
Additions	55 176	664	55 840
Disposals (transfer to finance lease)	(371)	(116)	(487)
Translation difference	(3 210)	-	(3 210)
Balance at 31 December 2017	**139 102**	**10 497**	**149 599**
Accumulated depreciation			
Balance at 1 January 2016	**(5 557)**	**(316)**	**(5 873)**
Depreciation charge	(4 557)	(341)	(4 898)
Translation difference	-	158	158
Balance at 31 December 2016	1 297	-	1 297
Depreciation charge	(6 287)	(455)	(6 742)
Disposals	148	125	273
Aircraft maintenance events expenses	81	-	81
Translation difference	476	-	476
Balance at 31 December 2017	**(14 399)**	**(829)**	**(15 228)**
Carrying amount			
At 1 January 2016	**72 032**	**11 883**	**83 915**
At 31 December 2016	**78 690**	**9 450**	**88 140**
At 31 December 2017	**124 703**	**9 668**	**134 371**

(all amounts in millions of Russian roubles unless otherwise indicated)

Maturity breakdown of non-cancellable minimum cash inflows (including VAT) from operating lease is presented below:

	31 December 2017	31 December 2016
Less than one year	26 697	18 821
From one year to five years	75 485	45 377
More than five years	77 986	50 870
Total	**180 168**	**115 068**

As at 31 December 2017 the aircraft of total carrying value of RUB 22 599 million 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 17 620 thousand (31 December 2016: RUB 39 260 million and RUB 31 021 million, respectively).

As at 31 December 2017 assets leased out under operating leases of total carrying value of RUB 47 160 million (31 December 2016: RUB 27 014 million) were pledged to secure loans received.
The Group registered pledges in respect of certain aircraft of total carrying value of RUB 10 285 million 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 2017 and 31 December 2016 Aeroflot Group was the largest lessee under operating lease agreements in terms of carrying value of leased assets: 32,2 % of assets leased out under operating leases were leased to Aeroflot Group (2016: 44,5%).

Maturity breakdown of non-cancellable minimum cash outflows from operating lease is presented below:

	31 December 2017	31 December 2016
Less than one year	1 813	1 909
From one year to five years	7 251	7 636
More than five years	9 733	12 159
Total	**18 797**	**21 704**

Impairment tests in respect of aircraft of total carrying value of RUB 38 945 million 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 85 758 million 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 4,1%-8%.

Discount rates applied for domestically produced aircraft were adjusted to reflect governmental grants related to compensation of interest expenses on bank loans.

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 9 668 million are based on the following judgements:

(all amounts in millions of Russian roubles unless otherwise indicated)

- 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 2017.

The joint industry breakdown of net investment in leases and net book values of assets leased out under operating leases as at 31 December 2017 is as follows:

	Net investment in leases (gross of impairment allowance)	Assets leased out under operating leases	Total	%
Aircraft industry and airport services	14 279	124 703	138 982	51,20
Railroad transport	78 699	9 660	88 359	32,55
Naval transportation and port facilities	22 520	-	22 520	8,30
Cargo and passenger motor transport	16 307	-	16 307	6,01
Road construction	2 641	-	2 641	0,97
Trading activities	1 692	-	1 692	0,62
Machinery construction	866	-	866	0,32
Other industries	62	8	70	0,03
Total	**137 066**	**134 371**	**271 437**	**100,0**

The joint industry breakdown of net investment in leases and net book values of assets leased out under operating leases as at 31 December 2016 is as follows:

	Net investment in leases (gross of impairment allowance)	Assets leased out under operating leases	Total	%
Aircraft industry and airport services	5 385	78 690	84 076	52,32
Railroad transport	36 788	9 402	46 189	28,74
Naval transportation and port facilities	17 630	-	17 630	10,97
Cargo and passenger motor transport	7 934	-	7 934	4,94
Food production	2 455	-	2 455	1,53
Machinery construction	993	-	993	0,62
Road construction	965	-	965	0,60
Other industries	401	48	449	0,28
Total	**72 551**	**88 140**	**160 691**	**100,0**

Comparative information reclassification

During 2017 the Group revised industry classification of certain lessees. Comparative information was reclassified to conform to changes in presentation of these consolidated financial statements. The effect of stated above changes on the industry breakdown as at 31 December 2016 is as follows:

(all amounts in millions of Russian roubles unless otherwise indicated)

	Before reclassification	The effect of the reclassification	After reclassification
Railroad transport	33 419	3 369	36 788
Cargo and passenger motor transport	11 303	(3 369)	7 934

9. Advances to suppliers

Advances to suppliers represent prepayments for assets to be leased.

As at 31 December 2017 advances issued to five largest domestic lease equipment suppliers amounted to 75% of the total advances issued.

As at 31 December 2016 advances issued to five largest domestic lease equipment suppliers amounted to 84% of the total advances issued.

As at 31 December 2017 and 2016 there were no signs of impairment of advances to suppliers.

10. Receivables on cancelled lease agreements and other receivables

	31 December 2017	31 December 2016
Receivables on cancelled lease agreements	6 765	5 104
Advances paid to suppliers (other than payments for leasing assets and property and equipment)	239	446
Prepaid expenses	626	391
Receivables on operating lease agreements	1 470	943
Other taxes receivables	3	5
Lease premium	2 249	2 247
Other receivables	5 381	3 991
Less impairment allowance	(8 294)	(4 757)
Total trade and other receivables	**8 439**	**8 370**

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 million and RUB 255 million respectively. These losses have been capitalized and are being amortized to profit or loss over the lease term of 12 years. See note 8 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. 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 2 087 million (2016: RUB 1 218 million).

As part of the transaction the Group received upfront rental payments of RUB 2 566 million (2017: no payments of this type), 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.

(all amounts in millions of Russian roubles unless otherwise indicated)

Movement in the allowance for impairment is as follows:

	2017	**2016**
Balance at the beginning of the year	4 757	4 984
Net charge	2 966	1 114
Write-offs	(1 791)	(1 260)
Reclassification (see Note 7)	2 362	-
Translation difference	-	(81)
Balance at the end of the year	**8 294**	**4 757**

The Group evaluates impairment of receivables on cancelled lease agreements and other receivables on an individual basis.

11. 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 2017 would be RUB 9.6 million higher (2016: RUB 11.5 million).

The breakdown of inventories is presented below:

	31 December 2017	**31 December 2016**
Equipment and vehicles repossessed after the termination of lease agreements	913	596
Spare part supply	34	547
Other inventories	14	5
Total inventories	**961**	**1 148**

12. Investment property

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 2017, the book value of the “Yuzhnouralskiy” logistics hub was RUB 4 636 million less accumulated depreciation of RUB 111 million (as at 31 December 2016: RUB 4 747 million).

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 2017.

Impairment tests supported by future cash flows calculations are based on the following key judgements:

- discount rate applied was 14,92%. Key judgements applied for impairment tests are attributable to Level 3 of the fair value hierarchy.

(all amounts in millions of Russian roubles unless otherwise indicated)

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 million. The fair value estimate was prepared by an independent appraiser applying the comparative approach.

13. Property and equipment

Fixed assets are presented vehicles, computer equipment and property (building).

14. Intangible assets

Intangible assetsare primarily represented by software, licenses and certificates.

15. Taxation

Income tax expense

	2017	**2016**
Current tax charge	(197)	(160)
Deferred tax assets/liabilities movement due to origination and reversal of temporary differences	798	(267)
Income tax expense for the year	**601**	**(427)**

Reconciliation of effective tax rate

	2017	**2016**
(Loss) profit before tax	(4 436)	632
Income tax at the applicable tax rate	887	(126)
Non-taxable expenses	(119)	(243)
Recognition of current tax liability (not recognized in prior periods)	(239)	-
Recognition of deferred tax liability (not recognized in prior periods)	-	(132)
Income (loss) taxed at lower tax rates	72	74
Income tax expense for the year	**601**	**(427)**

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 2017 and 2016, the rate applicable when the asset or liability will reverse. Applicable tax rate for GTLK Europe DAC and its subsidiaries is 12.5%.

(all amounts in millions of Russian roubles unless otherwise indicated)

Movement in temporary differences

Movements in temporary differences for 2017 are as follows:

	31 December 2016	Recognized in profit or loss	Translation difference	31 December 2017
Net investment in leases	(2 177)	(2 041)	65	(4 153)
Other payables and receivables	1 185	796	-	1 981
Loans received	(43)	(190)	-	(233)
Inventories	152	39	-	191
Property and equipment and investment property	6	35	-	41
Tax loss carried forward	1 671	2 159	(53)	3 777
Net deferred tax assets	**794**	**798**	**12**	**1 604**
Deferred tax assets	**794**	**-**	**-**	**2 009**
Deferred tax liabilities	**-**	**-**	**-**	**(405)**

Movements in temporary differences for 2016 are as follows:

	31 December 2015	Recognized in profit or loss	Translation difference	31 December 2016
Net investment in leases	(341)	(1 891)	55	55
Other payables and receivables	1 255	(70)	-	-
Loans received	-	(43)	-	-
Inventories	119	33	-	-
Property and equipment and investment property	4	2	-	-
Tax loss carried forward	-	1 702	(31)	1 671
Net deferred tax assets	**1 037**	**(267)**	**24**	**794**

Tax losses carried forward may be deducted from the tax base for the reporting periods starting on or after 1 January 2017 and ending on or before 31 December 2020, the maximum deduction amount being not more than 50% of the relevant tax base. No limitations apply for deduction for tax periods starting 1 January 2021.

Deferred tax assets are only recorded when the probability of realisation of that assets against future taxable income is more likely. The Group in assessing the above probability the Group considers whether it is probable that future taxable income amount would be enough to cover the total amount of temporary differences, non-deductible costs and unused tax credits. Deferred tax assets may be reduced to the extent that the probability that some or all of such assets will not be realized no longer exists.

When accounting for deferred tax assets, management of the Group believes it is more likely than not that the Group will generate future taxable income sufficient to realise the benefits of these deductible differences.

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.

(all amounts in millions of Russian roubles unless otherwise indicated)

The remaining contractual maturity of loans received is as follows:

	31 December 2017	31 December 2016
Less than one month	933	385
From one to three months	4 792	2 221
From three to six months	10 334	6 388
From six months to one year	4 245	7 683
From one year to five years	30 789	22 929
More than five years	36 633	12 717
Total loans received	**87 726**	**52 323**

The currency breakdown of loans received is as follows:

	31 December 2017	31 December 2016
USD	15 410	12 562
RUB	72 316	39 761
Total	**87 726**	**52 323**

As at 31 December 2017 and 31 December 2016 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 2017	31 December 2016
Banks from the range rated A and higher	1 152	10 560
Banks from the range rated BBB	-	2 918
Banks from the range rated BB	80 014	34 729
Banks from the range rated B	5 760	3 375
Other banks	800	741
Total loans received	**87 726**	**52 323**

During the first 6 months of 2017 the Group recognized the provision for its obligations under a certain agreement in the amount of RUB 1 423 million. Within the second half of 2017 there was a recovery of the relevant provisions of RUB 17 million. The remaining provision in the amount of RUB 1 423 million was reclassified and presented as loans received. The reclassification was due to disambiguation of the unconditional nature of the obligation to settle the aforementioned amount under the relevant loan agreement. In December 2017 all outstanding liabilities under the relevant agreement were cash-settled in full.

In 2017 The Group received a loan from a government agency on preferable terms under the state programme of transportation industry support in the Russian Federation. Relevant funds were advanced to a supplier under a contract for building Vanino-Kholmsk ferries in accordance with the terms of the aforementioned programme. In accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” a market interest rate was applied upon initial recognition of the loan. The difference between the value calculated at the market interest rate and the face value of the loan of RUB 1 165 million was applied to reduce the amount of relevant advances issued.

(all amounts in millions of Russian roubles unless otherwise indicated)

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 2017	31 December 2016
Future minimum lease payments	22 831	39 547
Interest expenses to be paid	(5 211)	(8 526)
Present value of minimum lease payments	**17 620**	**31 021**

The remaining contractual maturities of finance lease liabilities as at 31 December 2017 are as follows:

	Total payments under finance lease liabilities	Repayment of interest	Repayment of principal
Less than one month	228	(86)	142
From one to three months	422	(163)	259
From three to six months	647	(250)	397
From six months to one year	1 282	(478)	804
From one year to five years	9 823	(2 946)	6 877
More than five years	10 429	(1 288)	9 141
Total finance lease	**22 831**	**(5 211)**	**17 620**

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

	Total payments under finance lease liabilities	Repayment of interest	Repayment of principal
Less than one month	403	(133)	270
From one to three months	679	(251)	428
From three to six months	1 039	(385)	654
From six months to one year	2 063	(741)	1 322
From one year to five years	16 083	(4 648)	11 435
More than five years	19 280	(2 368)	16 912
Total finance lease	**39 547**	**(8 526)**	**31 021**

A term analysis of the gross investment in leases and the present value of minimum lease payments is as follows:

	31 December 2017		31 December 2016	
	Gross investment in leases	Present value of minimum lease payments	Gross investment in leases	Present value of minimum lease payments
Less than one month	228	215	403	346
From one to three months	422	417	679	673
From three to six months	647	632	1 039	1 019
From six months to one year	1 282	1 226	2 063	1 986
From one year to five years	9 823	6 837	16 083	13 874
More than five years	10 429	8 293	19 280	13 123
Total	**22 831**	**17 620**	**39 547**	**31 021**

(all amounts in millions of Russian roubles unless otherwise indicated)

As at 31 December 2017 accrued interest under finance leases in the amount of RUB 12 million were recognized as finance lease liabilities and accrued expenses (31 December 2016: RUB 57 million). The average effective interest rate on finance leases as at 31 December 2017 is 5,7% (31 December 2016: 4.7%).

As at 31 December 2017 and 31 December 2016 all finance lease liabilities are nominated in USD.

18. Bonds issued

From 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 2017 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	1 500 000	September 2013	September 2018	-	9,50%
Series BO-01 (tap issue)	1 875 000	August 2015	September 2018	-	9,50%
Series BO-02	1 500 000	September 2013	September 2018	-	9,50%
Series BO-02 (tap issue)	2 355 000	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	8,90%
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	8,15%
Series BO-08	5 000 000	September 2016	September 2026	September 2021	11,10%
Series 001P-01	2 169 000	September 2016	September 2031	-	8,71%
Series 001P-01 (tap issue)	910 315	December 2016	September 2031	-	8,71%
Series 001P-02	6 394 382	December 2016	November 2031	-	9,00%
Series 001P-03	10 000 000	February 2017	January 2032	February 2024	11,00%
Series 001P-04	10 000 000	April 2017	April 2032	April 2023	9,85%
Series 001P-05 (USD 170 mln)	9 792 034	August 2017	August 2024	-	4,90%
Series 001P-06	19 867 000	September 2017	September 2032	-	9,75%
Eurobonds (USD 500 mln)	28 800 100	July 2016	July 2021	-	5.95%
Eurobonds (USD 500 mln)	28 800 100	May 2017	May 2024	-	5,125%

(all amounts in millions of Russian roubles unless otherwise indicated)

As at 31 December 2016 bonds issued are as follows:

	Nominal amount (balance)	**Issue date**	**Principal amount final maturity**	**Offer date**	**Nominal coupon interest rate as at 31 December 2015**
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 issued by the Company is held by other companies of the Group. Corresponding amounts are therefore not reflected as liabilities of the Group in these consolidated financial statements.

BO-01, BO-02, 001P-01, 001P-02, 001P-05 and 001P-06 series bonds notionals are depreciable.

In 2017 the Company placed an issue of 001P-03 series bonds in the nominal amount of RUB 10 000 million (at par) under the terms of the previously registered Exchange Bonds Programme 001P (the Programme), an issue of 001P-04 series bonds in the nominal amount of RUB 10 000 million (at par), an issue of 001P-05 series bonds in the nominal amount of USD 170 million (at par) and an issue of 001P-06 series bonds in the nominal amount of RUB 20 000 million (at par) under the Programme.

In May 2017 the Group placed an issue of Eurobonds listed on Dublin Stock Exchange in the notional amount of USD 500 million (at par). The due date date is 7 years from the placement date, the coupon rate being fixed.

On 29 December 2017 the Group repurchased BO-07 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 13 million. All the bonds repurchased were subsequently placed to third party bondholders on the option date. Transactions were carried out at 100.4 per cent of the face value of the bonds.

(all amounts in millions of Russian roubles unless otherwise indicated)

19. Reconciliation between changes in liabilities and financial cash flows

	Loans received	Finance lease liabilities	Bonds issued	Total
Balance as at 1 January 2017	**52 323**	**31 021**	**86 138**	**169 482**
Debt issuance	75 245	-	78 131	153 376
Debt principal repayment	(37 223)	(11 647)	(6 932)	(55 802)
Costs associated with debt issuance	(429)	-	(400)	(829)
Прочие изменения				
Interest accrued	6 102	1 237	11 027	18 366
Interest repaid	(6 231)	(1 277)	(10 510)	(18 018)
Fair value adjustment	(1 165)	-	-	(1 165)
Translation difference	(896)	(1 714)	(405)	(3 015)
Balance as at 31 December 2017	**87 726**	**17 620**	**157 049**	**262 395**

20. Trade and other payables

	31 December 2017	31 December 2016
Security deposits of clients	693	412
Trade payables	372	60
Payables on equipment purchased for leasing purposes	7 018	32
Provision for bonuses	44	103
Provision for unused vacations	44	43
Deferred lease income	2 637	2 472
Other payables	900	547
Total trade and other payables	**11 708**	**3 669**

21. Other than income taxes payable

	31 December 2017	31 December 2016
Property tax	24	36
Social taxes	6	15
Transport tax	4	5
Total other than income taxes payable	**34**	**56**

22. Share capital

Registered, issued and fully paid share capital comprised:

	31 December 2017			31 December 2016		
	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	6 863 713	10	68 637 130	5 735 879	10	57 358 790
Total equity	6 863 713	**10**	**68 637 130**	**5 735 879**	**10**	**57 358 790**

(all amounts in millions of Russian roubles unless otherwise indicated)

In March 2017 PJSC "STLC" has received RUB 1 978 million from the sole shareholder as a share capital contribution.

In December 2017 PJSC "STLC" has received RUB 9 300 million 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.

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 (2016: nil).

During 2017 the Company has not declared and paid dividends for 2016 (2016: RUB 35 million).

23. Net interest income

	2017	**2016**
Interest income		
Finance lease interest income	13 300	7 826
Other interest income	1 389	1 174
Total interest income	**14 689**	**9 000**
Interest expense		
Bank loans and bonds issued	(16 265)	(12 079)
Finance lease interest expense	(1 237)	(1 730)
Total interest expense	**(17 502)**	**(13 809)**

Interest expense for 2017 is reduced by the amount of governmental grants related to compensation of interest expenses of RUB 864 million (2016: nil).

24. Administrative expenses

	2017	**2016**
Salary and related social costs	1 204	938
Information and consulting services	222	162
Repossessing, storage and valuation expenses under cancelled lease agreements	-	70
Rent of premises	100	61
Advertising and representation expenses	84	35
Transportation expenses	44	47
Other administrative expenses	304	185
Total administrative expenses	**1 958**	**1 497**

(all amounts in millions of Russian roubles unless otherwise indicated)

25. Other operating income and expenses

	2017	2016
Other operating income		
Income from charges and penalties	522	304
Other income	570	261
Total other operating income	**1 092**	**565**
Other operating expenses		
Charges and penalties	(13)	(59)
Bank charges	(91)	(214)
Provision recognition	(1 423)	-
Other operating expenses	(964)	(209)
Total other operating expenses	**(2 491)**	**(482)**
Total other net operating income and expenses	**(1 399)**	**83**

26. Financial risk management

The operations of the Group result in credit, market and liquidity risks. In addition to these financial risks, the operations of the Group are also exposed to operational, business and other non-financial risks.

The Group has implemented a continuous risk management process in order to control the level of risks and restrict losses resulting from financial and non-financial risks. The risk management system is based on an integrated approach of identification, assessment, monitoring and control of risks accepted by the Group. The risk management policies and procedures are subject to continuous improvement and are implemented to comply with legal requirements and prudential norms, best practices and standards, and internal regulations of the Group.

Risk management structure

Risk management functions are implemented at all corporate governance levels and are allocated as follows.

<u>Board of Directors</u> 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.

<u>Leasing Council</u> 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.

<u>Risk Management Department</u> 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.

(all amounts in millions of Russian roubles unless otherwise indicated)

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. Assessment includes the following: financial analysis of the counterparties, evaluation of the lease asset market value and liquidity, identification and assessment 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 2017 the derivative financial instruments transactions are entered into with a financial institution rated BB- (S&P scale).

Exposure to credit risk without taking into account any collateral and netting agreements is as follows:

	Note	31 December 2017	31 December 2016
Cash and cash equivalents	6	12 525	9 495
Derivative financial instruments		58	449
Loans granted		-	254
Net investment in leases	7	135 916	70 891
Receivables on cancelled lease agreements and other receivables	8	8 439	8 370
Advances to suppliers	9	35 818	39 654
Total credit risk exposure		**192 756**	**129 113**

(all amounts in millions of Russian roubles unless otherwise indicated)

The Group has imposed certain limitations on its lease portfolio composition and lease transactions aimed to restrict the overall risk concentration levels and mitigate probable losses in case of downturn in specific sectors of economy and/or credit quality deterioration of specific lessees. The information about the credit quality of financial assets as at 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	**31 December 2016**
Net investment in leases		
Contracts for which no signs of impairment have been identified:		
- non-overdue	132 132	48 363
- overdue 1-30 days	3 320	9 123
- overdue 31-90 days	-	10 473
Total net investment in leases for which no signs of impairment have been identified	**135 452**	**67 959**
Impaired net investment in leases:		
- non-overdue	17	1 147
- overdue 1-30 days	-	2
- overdue 31-90 days	148	1
- overdue 91-180 days	250	2
- overdue more than 180 days	1 199	3 440
Total impaired net investment in leases	**1 614**	**4 592**
Total net investment in leases	**137 066**	**72 551**
Allowance for impairment	**(1 150)**	**(1 660)**
Total net investment in leases net of impairment allowance	**135 916**	**70 891**

(all amounts in millions of Russian roubles unless otherwise indicated)

Receivables on cancelled lease agreements and other receivables

	31 December 2017	31 December 2016
Other receivables for which no signs of impairment have been identified:		
- non-overdue	5 610	5 762
- overdue 1-30 days	78	93
- overdue 31-90 days	61	71
Total other receivables for which no signs of impairment have been identified	**5 749**	**5 926**
Impaired receivables on cancelled lease agreements and other receivables:		
- overdue more than 90 days	10 984	7 201
Total impaired receivables on cancelled lease agreements and other receivables gross of impairment allowance	**10 984**	**7 201**
Total receivables on cancelled lease agreements and other receivables gross of impairment allowance	**16 733**	**13 127**
Allowance for impairment	**(8 294)**	**(4 757)**
Total receivables on cancelled lease agreements and other receivables net of impairment allowance	**8 439**	**8 370**

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 2017 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 2017 impaired net investment in leases are secured by the underlying leased equipment. Recoverable value of the leased equipment is at least equal to the carrying value of impaired net investment in leases less impairment allowance.

For the net investment in leases which is not impaired the fair value of collateral was estimated at the commencement of the investment in leases and was not adjusted for subsequent changes to the reporting date. The recoverability of this net investment in leases is primarily dependent on the creditworthiness of the lessees rather than the value of collateral, and the current value of the collateral does not substantially impact the impairment assessment.

(all amounts in millions of Russian roubles unless otherwise indicated)

Impairment allowances for the impaired net investment in leases are based either on the analysis of estimated future cash flows generated by the business of a lessee, or on the fair value of the relevant lease assets adjusted to reflect a discount expected to be applicable to the sale transaction.

Changes in estimates could affect the allowance for impairment for net investment in leases. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the allowance for impairment as at 31 December 2017 would be RUB 1 359 million lower/higher (31 December 2016: RUB 709 million 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 2017 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	12 525	-	-	-	-	-	-	12 525
Derivative financial instruments	-	51	34	-	-	-	-	85
Receivables on cancelled lease agreements and other receivables	249	497	1 113	1 491	3 778	1 311	-	8 439
Advances to suppliers	765	3 080	11 432	10 801	9 740	-	-	35 818
VAT receivable	-	2 500	1 483	-	-	-	-	3 983
Income tax receivable	-	-	148	-	-	-	-	148
Inventories	-	-	-	-	-	-	961	961
Property and equipment and Intangible assets	-	-	-	-	-	-	134	134
Net investment in leases	825	2 010	2 923	4 207	41 105	84 846	-	135 916
Assets leased out under operating leases	-	-	-	-	-	-	134 371	134 371
Investment property	-	-	-	-	-	-	6 223	6 223
Deferred tax assets	-	-	-	-	-	-	2 009	2 009
Total assets	**14 364**	**8 138**	**17 133**	**16 499**	**54 623**	**86 157**	**143 698**	**340 612**

(all amounts in millions of Russian roubles unless otherwise indicated)

	Demand (including overdue) and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	No stated maturity	Total
Liabilities								
Loans received	933	4 792	10 334	4 245	30 789	36 633	-	87 726
Finance lease liabilities	142	259	397	804	6 877	9 141	-	17 620
Bonds issued	10 056	4 233	3 016	14 725	72 195	52 824	-	157 049
Derivative financial instruments	-	-	27	-	-	-	-	27
Trade and other payables	1 323	2 645	3 968	918	1 099	1 755	-	11 708
Advances received	130	261	391	-	-	-	-	782
Deferred tax liability	-	-	-	-	-	-	405	405
Other than income taxes payable	34	-	-	-	-	-	-	34
Total liabilities	**12 618**	**12 190**	**18 133**	**20 692**	**110 960**	**100 353**	**405**	**275 351**
Net position	**1 746**	**(4 052)**	**(1 000)**	**(4 193)**	**(56 337)**	**(14 196)**	**143 293**	**65 261**
Accumulated maturity gap	**1 746**	**(2 306)**	**(3 306)**	**(7 499)**	**(63 836)**	**(78 032)**	**65 261**	

The above maturity analysis does not take into account cashflows generated under operating lease transactions. The underlying assets leased out under operating leases are presented in the "No stated maturity" category. In January-April of 2018 the Company has placed three issues of exchange bonds with a notional amount of RUB 10 000 million each.

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	9 495	-	-	-	-	-	-	9 495
Derivative financial instruments	-	-	490	-	-	-	-	490
Loans granted	254	-	-	-	-	-	-	254
Net investment in leases	4 632	730	1 157	2 148	26 115	36 109	-	70 891
Receivables on cancelled lease agreements and other receivables	348	696	1 043	2 087	3 073	1 123	-	8 370
Advances to suppliers	3 007	6 015	9 022	18 044	3 566	-	-	39 654
VAT receivable	-	5 751	842	-	-	-	-	6 593
Income tax receivable	-	-	270	-	-	-	-	270
Inventories	-	-	-	-	-	-	1 148	1 148
Property and equipment and Intangible assets	-	-	-	-	-	-	65	65
Assets leased out under operating leases	-	-	-	-	-	-	88 140	88 140
Investment property	-	-	-	-	-	-	5 974	5 974
Deferred tax assets	-	-	-	-	-	-	794	794
Total assets	**17 736**	**13 192**	**12 824**	**22 279**	**32 754**	**37 232**	**96 121**	**232 138**

(all amounts in millions of Russian roubles unless otherwise indicated)

	Demand (including overdue) and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	No stated maturity	Total
Liabilities								
Loans received	385	2 221	6 388	7 683	22 929	12 717	-	52 323
Finance lease liabilities	270	428	654	1 322	11 435	16 912	-	31 021
Bonds issued	1 634	2 693	1 420	11 667	57 290	11 434	-	86 138
Derivative financial instruments	-	39	-	1	1	-	-	41
Trade and other payables	85	169	254	477	1 030	1 654	-	3 669
Advances received	157	315	472	-	-	-	-	944
Income tax payable	61	-	-	-	-	-	-	61
Other than income taxes payable	56	-	-	-	-	-	-	56
Total liabilities	**2 648**	**5 865**	**9 188**	**21 150**	**92 685**	**42 717**	**-**	**174 253**
Net position	**15 088**	**7 327**	**3 636**	**1 129**	**(59 931)**	**(5 485)**	**96 121**	**57 885**
Accumulated maturity gap	**15 088**	**22 415**	**26 051**	**27 180**	**(32 751)**	**(38 236)**	**57 885**	

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 2017:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	Total gross amount of outflow	Total carrying amount
Liabilities								
Loans received	1 396	6 277	12 347	7 808	51 856	42 845	**122 529**	**87 726**
Finance lease liabilities	228	422	647	1 282	9 823	10 429	**22 831**	**17 620**
Bonds issued	10 167	4 294	3 127	16 005	91 241	92 888	**217 722**	**157 049**

The table below summarizes the undiscounted cash flow for listed above liabilities as at 31 December 2016:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	Total gross amount of outflow	Total carrying amount
Liabilities								
Loans received	825	3 325	7 704	10 024	33 216	15 190	**70 284**	**52 323**
Finance lease liabilities	403	679	1 039	2 063	16 083	19 280	**39 547**	**31 021**
Bonds issued	1 914	3 789	2 710	16 136	73 262	17 420	**115 231**	**86 138**

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 2017:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	Total amount of cash flows
Inflows	-	109	67	36	-	-	**212**
Outflows	-	-	0	(37)	-	-	**(37)**

(all amounts in millions of Russian roubles unless otherwise indicated)

The table below presents the term analysis of undiscounted cash flow profile for derivative financial instrument transactions as estimated at the spot rates as at 31 December 2016:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years	Total amount of cash flows
Inflows	-	-	620	3	7	-	**630**
Outflows	-	(95)	-	-	-	-	**(95)**

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 2017:

	USD	EUR	RUB	Total
Assets				
Cash and cash equivalents	2 719	6	9 800	12 525
Derivative financial instruments	-	-	58	58
Receivables on cancelled lease agreements and other receivables	3 580	-	4 859	8 439
Advances to suppliers	2 204	-	33 614	35 818
Income tax receivable	-	-	148	148
VAT receivable	-	-	3 983	3 983
Inventories	-	-	961	961
Net investment in leases	23 490	52	112 374	135 916
Property and equipment and Intangible assets	-	-	134	134
Assets leased out under operating leases	72 933	-	61 438	134 371
Investment property	-	-	6 223	6 223
Deferred tax assets	-	-	2 009	2 009
Total assets	**104 926**	**58**	**235 601**	**340 585**
Liabilities				
Loans received	15 410	-	72 316	87 726
Finance lease liabilities	17 620	-	-	17 620
Bonds issued	67 744	-	89 305	157 049
Trade and other payables	3 561	-	8 147	11 708
Advances received	-	-	782	782
Deferred tax liability	405	-	-	405
Other than income taxes payable	-	-	34	34
Total liabilities	**104 740**	**-**	**170 584**	**275 324**
Net balance position	**186**	**58**	**65 017**	**65 261**
Nominal value of derivative financial instruments	**(6 297)**	**(53)**	**6 350**	**-**

(all amounts in millions of Russian roubles unless otherwise indicated)

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	-	6 456	9 495
Loans granted	-	-	254	254
Derivative financial instruments	-	-	449	449
Net investment in leases	20 224	116	50 551	70 891
Receivables on cancelled lease agreements and other receivables	3 257	-	5 113	8 370
Advances to suppliers	80	-	39 574	39 654
Income tax receivable	-	-	270	270
VAT receivable	-	-	6 593	6 593
Inventories	44	-	1 104	1 148
Property and equipment and Intangible assets	-	-	65	65
Assets leased out under operating leases	53 045	-	35 095	88 140
Investment property	-	-	5 974	5 974
Deferred tax assets	-	-	794	794
Total assets	**79 689**	**116**	**152 292**	**232 097**
Liabilities				
Loans received	12 563	-	39 760	52 323
Finance lease liabilities	31 021	-	-	31 021
Bonds issued	30 786	-	55 352	86 138
Trade and other payables	3 302	47	320	3 669
Advances received	460	-	484	944
Deferred tax liability	61	-	-	61
Other than income taxes payable	-	-	56	56
Total liabilities	**78 193**	**47**	**95 972**	**174 212**
Net balance position	**1 496**	**69**	**56 320**	**57 885**
Nominal value of derivative financial instruments	**(1 282)**	**(157)**	**1 439**	**-**

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 2017 and 2016, 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 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
USD	10,0	30,0	(15)	(360)
EUR	10,0	30,0	(5)	(17)

A 10% weakening of the RUB against the above currencies at the end of the comparable periods would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(all amounts in millions of Russian roubles unless otherwise indicated)

The Group enters into derivative financial instrument transactions to mitigate the impact of currency risks on its business. The following table demonstrates the sensitivity of the fair value of such instruments to exchange rates:

	Appreciation of RUB, %		**Effect on profit after tax**	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
USD	10,0	30,0	504	308
EUR	10,0	30,0	4	38

The Group has applied the following exchange rates:

	Average rate		**Reporting date spot rate**	
	2017	**2016**	**31 December 2017**	**31 December 2016**
RUB/USD	58,3529	67,0349	57,6002	60,6569
RUB/EUR	65,9014	74,2310	68,8668	63,8111

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.

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 2017 and 31 December 2016 is as follows:

	31 December 2017	**31 December 2016**
300 bp parallel fall	415	102
300 bp parallel rise	(415)	(102)

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, assessment, 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

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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 out in accordance with the procedures set out in the risk management and internal control policy.

27. Fair values of financial instruments

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of trading securities and bonds issued are based on quoted market prices or dealer price quotations. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table analyses the fair value of financial instruments not measured at fair value and for which carrying value does not equal fair value by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2017. 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	-	-	134 554	**134 554**	**135 916**
Loans received	-	-	92 972	**92 972**	**87 726**
Bonds issued	144 726	20 818	-	**165 544**	**157 049**

(all amounts in millions of Russian roubles unless otherwise indicated)

The fair value of financial instruments is categorised as at 31 December 2016 is as follows:

	Level 1	Level 2	Level 3	Total	Book value
Net investment in leases	-	-	69 754	**69 754**	**70 891**
Loans received	-	-	52 451	**52 451**	**52 323**
Bonds issued	76 428	10 613	-	**87 041**	**86 138**

Discount rates used for estimation of fair values of major financial assets and liabilities as at 31 December 2017 depend on its currency:

	31 December 2017	
	RUB	USD
Net investment in leases	12% - 14%	7% - 10%
Loans received	8% - 10%	4% - 6%

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%

The table below analyzes financial instruments measured at fair value as at 31 December 2017 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	-	58	-	**58**

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 liabilities				
Derivative financial instruments	-	449	-	**449**

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.

28. Capital management and capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of capital management are to ensure that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise the shareholder's value.

(all amounts in millions of Russian roubles unless otherwise indicated)

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 2017 and 31 December 2016 the gearing ratio is calculated as follows

	31 December 2017	**31 December 2016**
Total liabilities	275 324	174 212
Total equity	65 261	57 885
Gearing ratio	**4,2**	**3,3**

29. Commitments and contingencies

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian 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.

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Payments to suppliers

Non-cancellable payments to the suppliers of equipment for leasing purposes as at 31 December 2017 and 31 December 2016 including VAT are as follows:

	31 December 2017	31 December 2016
Less than one year	33 340	46 855
Between one and five years	18 736	4 350
Total	**52 076**	**51 205**

30. Related parties

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

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 the Russian Federation (100%) and managed by the Ministry of Transport of the Russian Federation. The Group has transactions with other government related entities including but not limited to lease of assets, rendering and receiving services, depositing and borrowing money, and use of public utilities.

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

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

The major outstanding balances as at 31 December 2017 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	-	9 377	3,2	**9 377**
Net investment in leases	-	19 550	12,9	**19 550**
Receivables on cancelled lease agreements and other receivables	-	2 332	-	**2 332**
Derivative financial instruments		58	-	**58**
Advances to suppliers	-	8 102	-	**8 102**
Liabilities				
Loans received	-	42 762	9,40	**42 762**
Advances received	-	78	-	**78**
Trade and other payables	2	6 702	-	**6 704**

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Carrying value of the aircraft leased out under operating leases to the government-related entities as at 31 December 2017 is RUB 62 772 thousand (31 December 2016: RUB 73 491 thousand).

As at 31 December 2017 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 2016 with related parties and their corresponding average effective interest rates are as follows:

	Key management personnel	State controlled entities and state bodies	%	Total
Assets				
Cash and cash equivalents	-	5 730	7,3	**5 730**
Net investment in leases	-	9 120	12,7	**9 120**
Receivables on cancelled lease agreements and other receivables	-	19	-	**19**
Derivative financial instruments		449		**449**
Advances to suppliers		15 833	-	**15 833**
Liabilities				
Loans received	-	19 760	11,8	**19 760**
Payables on equipment purchased for leasing purposes	-	14	-	**14**
Advances received	-	213	-	**213**
Trade and other payables	36	1	-	**37**

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 results of major transactions with related parties for 2017 are as follows:

	Key management personnel	State controlled entities and state bodies	Total
Finance lease interest income		1 978	**1 978**
Other interest income		705	**705**
Income from operating leases		8 700	**8 700**
Interest expense		(3 019)	**(3 019)**
Other operating expenses		(48)	**(48)**
Administrative expenses	(125)		**(125)**

(all amounts in millions of Russian roubles unless otherwise indicated)

The results of major transactions with related parties for 2016 are as follows:

	Key management personnel	State controlled entities and state bodies	Total
Finance lease interest income	-	868	**868**
Other interest income	-	557	**557**
Income from operating leases	-	10 628	**10 628**
Interest expense	-	(2 364)	**(2 364)**
Other operating expenses	-	(47)	**(47)**
Administrative expenses	(128)	-	**(128)**

Payments to suppliers

Non-cancellable payments to the suppliers of equipment for leasing purposes represented by government related entities as at 31 December 2017 and 31 December 2016 including VAT are as follows:

	31 December 2017	31 December 2016
Less than one year	17 235	38 851
Between one and five years	15 684	4 350
Total	**32 919**	**43 201**