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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE US SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE US OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE US OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY US PERSON OR TO ANY US ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view this prospectus or make an investment decision with respect to the securities, investors must not be a US person (within the meaning of Regulation S under the Securities Act). This prospectus is being sent at your request and by accepting the e-mail and accessing this prospectus, you shall be deemed to have represented to us that you are not a US person; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the US, its territories and possessions (including Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia; and that you consent to delivery of such prospectus by electronic transmission.

You are reminded that this prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and Credit Suisse Securities (Europe) Limited, Goldman Sachs International, LLC “Investment Company of Vnesheconombank “VEB Capital” and Raiffeisen Bank International AG, (the **Managers**) or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of VEB-Leasing Invest Limited as issuer in such jurisdiction.

Under no circumstances shall this prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the final form prospectus. This prospectus may only be communicated to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply.

Under Russian law, the Notes are securities of a foreign issuer. The Notes are not eligible for “offering”, “advertisement”, “placement” and “circulation” in the Russian Federation unless and to the extent otherwise permitted under Russian law.

This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of VEB-Leasing Invest Limited, Open Joint-Stock Company “VEB-Leasing”, the Managers or any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from the Managers.

VEBLEASING

US\$400,000,000 5.125 per cent. Loan Participation Notes due 2016
issued by, but with limited recourse to,

VEB-LEASING INVEST LIMITED

for the sole purpose of financing a loan to

OPEN JOINT-STOCK COMPANY “VEB-LEASING”

Issue Price: 100 per cent.

VEB-Leasing Invest Limited, a company organised and existing as a private limited company under the laws of Ireland (the **Issuer**), is issuing an aggregate principal amount of US\$400,000,000 5.125 per cent. Loan Participation Notes due 2016 (the **Notes**) for the sole purpose of financing a loan (the **Loan**) to Open Joint-Stock Company “VEB-Leasing” (VEBL or the **Borrower**) pursuant to a loan agreement dated 23 May 2011 between the Issuer, as lender, and the Borrower (the **Loan Agreement**). The Issuer will account to Noteholders for amounts of interest in respect of the Notes equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan is equal to 5.125 per cent. per annum, payable semi-annually in arrear, on 27 May and 27 November in each year, commencing on 27 November 2011, as described under “*Terms and Conditions of the Notes – 5. Interest*”.

Subject to the provisions of the Trust Deed (as defined herein), and as further described under “*Terms and Conditions of the Notes*”, the Issuer will charge as security for its payment obligations in respect of the Notes and under the Trust Deed (i) its rights to all payments of principal, interest and additional amounts (if any) payable by the Borrower under the Loan Agreement; (ii) its rights to receive all sums which may become payable by the Borrower under any claim, award or judgment relating to the Loan Agreement; and (iii) amounts deposited in an account of the Issuer pursuant to the Loan Agreement, in each case to Citicorp Trustee Company Limited (the **Trustee**), as trustee for the benefit of the holders of the Notes (the **Noteholders**). Furthermore, under the terms of the Trust Deed, the Issuer will assign all of its rights under the Loan Agreement, except for any Reserved Rights (as defined in the Trust Deed and described under “*Terms and Conditions of the Notes*”) and rights subject to the charge, to the Trustee for the benefit of the Noteholders.

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make such payment will constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement excluding amounts paid in respect of Reserved Rights. The Issuer will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of VEBL in respect of the financial servicing of the Notes.**

Except as set forth herein under “*Taxation*”, payments in respect of the Notes (and the Loan) will be made without any deduction or withholding on account of taxes. As set forth more fully in the Loan Agreement, VEBL may prepay the Loan at its principal amount, in whole but not in part, together with accrued interest, if (i) VEBL or the Issuer must deduct or withhold certain taxes from payments they make in respect of the Loan or the Notes, respectively; or (ii) it becomes illegal for the Notes or the Loan to remain outstanding. Upon such occurrence, the Issuer will, subject to the receipt of the relevant funds from VEBL, prepay the principal amount of all Notes outstanding, together with accrued interest.

Except as otherwise expressly provided in this Prospectus and in the Trust Deed, no proprietary or other direct interest in the Issuer’s rights under or in respect of the Loan Agreement, or in any rights that the Issuer may receive by way of assignment in respect of the Loan, exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will be entitled to enforce any provision of the Loan Agreement or have direct recourse to the Borrower.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS” ON PAGE 21.

The Notes and the Loan have not been, and will not be, registered under the US Securities Act of 1933, as amended (the **Securities Act**), and, subject to certain exceptions, may not be offered and sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S under the Securities Act (**Regulation S**)). The Notes may be offered and sold to certain persons in offshore transactions in reliance on Regulation S. The Notes are not eligible for “offering”, “advertisement”, “placement” and “circulation” in the Russian Federation unless and to the extent otherwise permitted under Russian law.

The Prospectus has been approved by the Central Bank of Ireland (the **Central Bank**) as the competent authority under Directive 2003/71/EC (the **Prospectus Directive**). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. There is no assurance that a trading market in the Notes will develop or be maintained. Reference to the Notes being “listed” (and all related references) shall mean that such Notes have been admitted to trading on the Main Securities Market.

The Notes will be offered and sold in the minimum denomination of US\$200,000 or higher integral multiples of US\$1,000 in excess thereof. The Notes will initially be represented by interests in a global unrestricted Note in registered form (the **Global Certificate**), which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) on 27 May 2011 (the **Issue Date**). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. See “*Summary of the Provisions Relating to the Notes in Global Form*”. Individual definitive Notes in registered form (**Definitive Certificates**) will only be available in certain limited circumstances as described herein.

Joint Lead Managers

Credit Suisse

Goldman Sachs International

VEB Capital

Co-Manager

Raiffeisen Bank International

The date of this Prospectus is 23 May 2011

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the **Prospectus Regulations**) and for the purpose of giving information with respect to the Issuer, VEBL and VEBL and its subsidiaries and affiliates taken as a whole (the **Group**), VEB, the Loan and the Notes, which, according to the particular nature of the Issuer, VEBL, the Group, VEB, the Loan and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and VEBL. Each of the Issuer and VEBL accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and VEBL (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

In addition, VEBL, having made all reasonable enquiries, confirms that (i) this Prospectus contains all information with respect to VEBL, the Group, VEB, the Loan and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus with regard to VEBL are in every material particular true and accurate and not misleading; (iii) to the best knowledge of VEBL, the statements contained in this Prospectus relating to the Group and VEB are in every material particular true and accurate and not misleading; (iv) the opinions, expectations and intentions expressed in this Prospectus with regard to VEBL are honestly held, have been realised after considering all relevant circumstances and are based on reasonable assumptions; (v) there are no other facts in relation to VEBL, the Group, VEB, the Loan and the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (vi) all reasonable enquiries have been made by VEBL to ascertain such facts and to verify the accuracy of all such information and statements. Accordingly, save as set out in the paragraph above, the immediately preceding sentence, and save as set out below, VEBL accepts responsibility for the information contained in this Prospectus.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, any of the Issuer, VEBL or any Manager (as defined in “*Subscription and Sale*”) to subscribe for or purchase any Notes. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. The Issuer, VEBL and the Managers each require any person into whose possession this Prospectus comes to inform themselves about and to observe any such restrictions.

The Notes and the Loan have not been and will not be registered under the Securities Act, and, subject to certain exemptions, may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S). For a description of these and certain further restrictions on offers, sales and transfers of the Notes and the distribution of this Prospectus, see “*Subscription and Sale*”.

In making an investment decision, prospective investors must rely on their own examination of the Issuer and VEBL and the terms of this Prospectus, including the risks involved. No person is authorised to provide any information or to make any representation not set forth in this Prospectus. Any information or representation not so set forth must not be relied upon as having been authorised by or on behalf of any of the Issuer, VEBL, the Trustee or any Manager. The delivery of this Prospectus at any time does not imply that the information set forth in it is correct as at any time after its date.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer and VEBL after the date of this Prospectus. None of the Issuer, VEBL, or any Manager or any of their respective representatives makes any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. Each investor should consult with their own advisers as to the legal, tax, business, financial and related aspects of the purchase of the Notes.

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

To the fullest extent permitted by law, the Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by a Manager or on its behalf in connection with the Issuer, VEBL or the issue and offering of the Notes. Each

Manager accordingly disclaims all and any liability, whether arising in tort or contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement. The websites of VEBL and its subsidiaries do not form any part of the contents of this Prospectus.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Issuer, VEBL and the Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of the Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which the Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions. Such investors should consult their legal advisers regarding such matters.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE MANAGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS, AND NOTHING CONTAINED IN THIS PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE MANAGERS ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER AND VEBL AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

In connection with the issue of the Notes, Goldman Sachs International (or persons acting on its behalf) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that Goldman Sachs International (or persons acting on its behalf) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by Goldman Sachs International (or person(s) acting on its behalf) in accordance with all applicable laws and rules.

This document has been filed with and approved by the Central Bank. The Prospectus approved by the Central Bank will be filed with the Irish Companies Registration Office in accordance with Regulation 38(1)(b) of the Prospectus Regulations.

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Notes. The Issuer does not intend to provide post-issuance reporting with respect to the Notes or the Loan.

ENFORCEABILITY OF JUDGMENTS

VEBL is a joint stock company incorporated under the laws of the Russian Federation. All VEBL's directors and executive officers named in this Prospectus reside in the Russian Federation. Moreover, the majority of the assets of VEBL and substantially all of the assets of its directors and officers are located in the Russian Federation. As a result, it may not be possible for the Noteholders to:

- effect service of process within the United Kingdom upon any of VEBL's directors or executive officers named in this Prospectus; or
- enforce, in the English courts, judgments obtained outside England against VEBL or any of its directors and executive officers named in this Prospectus in any action.

In addition, it may be difficult for the Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English laws. Courts in the Russian Federation will generally recognise judgments rendered by a court in any jurisdiction outside the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in the Russian Federation that provides for the recognition and enforcement of foreign court awards. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions (including the United Kingdom) and no relevant federal law on enforcement of foreign court judgments has been adopted in Russia, as a result of which new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against VEBL or its officers or directors. However, VEBL is also aware of at least two instances in which Russian courts have recognised and enforced foreign court judgments (including a judgment of an English court), on the basis of the principle of reciprocity and (in the case of enforcement of an English court judgment) the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgment or deprive the Issuer and/or the Noteholders of effective legal recourse for claims related to the investment in the Notes.

The Loan Agreement will be governed by English law and will provide for disputes, controversies and causes of action brought by any party thereto against the Company to be settled by arbitration in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) (the **LCIA Rules**). The place of such arbitration shall be London, England. The Russian Federation and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the **New York Convention**). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

The Arbitrazh Procedural Code of the Russian Federation (the **Arbitrazh Procedural Code**) sets out the procedure for the recognition and enforcement of foreign arbitral awards by Russian courts. The Arbitrazh Procedural Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the New York Convention.

The Arbitrazh Procedural Code and other Russian procedural legislation could change, and other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the LCIA Rules and the application of English law to the Loan Agreement may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Statements. VEBL's audited annual consolidated financial statements as at and for the years ended 31 December 2010 and 2009, together with audit reports (the **VEBL Financial Statements**) included in this Prospectus beginning on page F-2 have been prepared in accordance with International Financial Reporting Standards (**IFRS**), as issued by the International Accounting Standards Board, in effect at the time of preparing the VEBL Financial Statements. The VEBL Financial Statements were audited by Ernst & Young LLC (**E&Y**). The business address of E&Y is Sadovnicheskaya Nab., 77, building 1, Moscow 115035, Russian Federation. E&Y is a member of the Non Profit partnership "Russian Audit Chamber". E&Y have expressed an unqualified opinion on the VEBL Financial Statements as at and for the years ended 31 December 2010 and 2009.

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

Market Data. Market data used in this Prospectus, including statistics in respect of VEBL's volumes and market share, has been extracted from official and industry sources and other sources VEBL believes to be reliable including, without limitation, in the sections headed "*Risk Factors*", "*Business*" and "*Industry*". Such information, data and statistics may be approximations or estimates or use rounded numbers. VEBL has relied on the accuracy of this information without independent verification. VEBL confirms that this information has been accurately reproduced and that, as far as VEBL is aware, and is able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. VEBL notes that neither these independent sources nor the Managers accept liability for the accuracy of any such information and prospective investors are advised to consider such information with caution.

In particular, VEBL has cited:

- Expert RA, a leading Russia-based ratings agency for industrial enterprises (**ExpertRA**), whose report for the year ended 31 December 2010 can be found at: <http://www.raexpert.ru/researches/leasing>;
- Gazman, V. (2011) "Leasing in Russia – 2010: Results of an Empirical Study", published by *Leasing Revue* (<http://www.leasrev.ru>) (**Leasing in Russia 2010**),

which, in each case, are independent sources. VEBL confirms that this information has been accurately reproduced and that, as far as VEBL is aware and is able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

In addition, some of the information contained in this Prospectus has been derived from the official data of Russian government agencies. The official data published by Russian federal, regional and local governments is substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russian Federation in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable.

CURRENCIES AND EXCHANGE RATES

In this Prospectus, references to “US Dollars” or “US\$” are to the currency of the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia (the **United States** or **US**), references to “roubles” or “RUB” are to the currency of the Russian Federation and references to “Euro” or “€” are to the currency introduced at the start of the third stage of European Economic and Monetary Union, pursuant to the Treaty establishing the European Community, as amended from time to time.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the Rouble and the US Dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation (**CBR**). These rates differ from the actual rates used in the preparation of the VEBL Financial Statements and other financial information appearing in this Prospectus.

Years ended 31 December	Roubles per 1 US Dollar			
	High	Low	Average ⁽¹⁾	Period end
2008	29.38	23.12	24.98	29.38
2009	36.42	28.67	31.93	30.24
2010	31.77	28.93	30.37	30.48

Note:

(1) The average of the exchange rates for each day during the year.

Month	Roubles per 1 US Dollar	
	High	Low
January 2011	30.63	29.67
February 2011	29.80	28.94
March 2011	28.90	28.16
April 2011	28.52	27.50
May 2011 (through 20 May 2011)	28.12	27.26

The Rouble/US Dollar exchange rate as quoted by the CBR on 20 May 2011 was RUB 27.96 = US\$1.00.

No representation is made that the US Dollar amounts referred to in this Prospectus could have been or could be converted into roubles or US Dollars, as the case may be, at the above exchange rates or at all.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are “forward-looking” within the meaning of Section 27A of the Securities Act and Section 21E of the US Securities Exchange Act of 1934. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe”, “expect”, “anticipate”, “intend”, “estimate”, “forecast”, “project”, “will”, “may”, “should” and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear in a number of places in this Prospectus including, without limitation, “*Risk Factors*”, “*Business*”, “*Industry*”, “*Financial Review*” and “*Risk Management*”, and include statements regarding:

- strategies, outlook and growth prospects;
- future plans, expectations, projections and potential for future growth;
- plans or intentions relating to acquisitions;
- future revenues and performance;
- integration of VEBL’s businesses within the Group, including recently acquired businesses;
- liquidity, capital resources and capital expenditures;
- growth in demand for VEBL’s properties;
- economic outlook and industry trends;
- developments of VEBL’s markets;
- the impact of regulatory initiatives;
- VEBL’s competitive strengths and weaknesses; and
- the strengths of VEBL’s competitors.

The forward-looking statements in this Prospectus are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management’s examination of historical operating trends, data contained in VEBL’s records and other data available from third parties. Although VEBL believes that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and which are beyond VEBL’s control and VEBL may not achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein, important factors that, in VEBL’s view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in political, social, legal or economic conditions in the Russian Federation, including significant declines in Russia’s gross domestic product;
- changes in the policies of the Russian government, including the President and his administration, the Prime Minister, government ministers and their offices and the Prosecutor General and his office;
- increased interest rates and operating costs;
- fluctuations in the purchase price or value of assets leased or to be leased;
- VEBL’s ability to service its existing indebtedness;
- VEBL’s relationship with VEB and the VEB Group (each as defined in “*Risk Factors*” below);
- VEBL’s ability to fund its future operations and capital needs through borrowing or otherwise;
- VEBL’s ability to implement successfully any of its business strategies;
- VEBL’s ability to obtain necessary regulatory approvals;
- changes in customer preferences;
- VEBL’s ability to identify lease portfolios to acquire and successfully complete acquisitions and developments;
- competition in the marketplace;
- changes in tax rates or taxation policy;
- changes in accounting standards or practices;

- inflation, fluctuation in exchange rates and the availability of foreign currencies;
- the impact of general business and global economic conditions; and
- VEBL's success in identifying other risks relating to its business and managing the risks of the aforementioned factors.

The foregoing list is not exhaustive. When relying on forward-looking statements, potential investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which VEBL, the Group and the VEB Group operate. Such forward-looking statements speak only as at the date on which they are made. Except to the extent required by law, neither VEBL nor any of its agents, employees or advisers intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained in this Prospectus.

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OVERVIEW

The following overview should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information and the VEBL Financial Statements which are set out elsewhere in this Prospectus. See "Risk Factors" for a discussion of certain factors that should be considered by potential investors prior to an investment in the Notes.

Overview

VEBL is a leading Russian transportation and equipment finance leasing company, whose registered office is at building 141, 29 Verejskaya Street, Moscow 121357, Russian Federation. It is integrated within, and a subsidiary of, VEB, Russia's principal state-owned development bank established pursuant to the laws of the Russian Federation, which, directly and indirectly, owns 100 per cent. of the share capital of VEBL.

VEBL provides finance leasing services to Russian private and state-owned enterprises, such as Aeroflot, Transaero, UTair, Freight One (a subsidiary of Russian Railways), Sovcomflot and Volgafлот. Such finance leases are principally provided for the leasing of transportation assets in the air, maritime and rail sectors, and large and high-tech equipment principally for the energy sector, in each case produced by leading Russian and international manufacturers, such as Boeing and Sukhoi in the aviation sector, Admiralty Shipyards in the maritime sector, Uralvagonzavod in the rail sector and Siemens in the energy sector. Since 2010, VEBL has also been active in the small and medium enterprises (SME) sector, where it is principally engaged in the leasing of motor vehicles for corporate use.

VEBL is the leasing arm of VEB. Since acquiring its Controlling Stake (as defined in "*Business – History and Relationship with VEB*"), VEB has integrated VEBL within the VEB Group. VEBL's strategy, corporate governance and risk management practices are prescribed by VEB, and certain significant leasing transactions entered into by VEBL must be approved by VEB. VEBL is able to leverage off VEB's position as the state-owned development bank of the Russian Federation, with access to VEB's client base in relation to their leasing requirements. In addition, VEBL also has its own clients, both through its head office in Moscow and, in relation to the SME sector, through its chain of over 50 regional outlets located in Moscow, St. Petersburg and over 40 other large cities in the Russian Federation.

VEBL is a key player in many of the leasing sectors in which it operates. Both ExpertRA and Leasing in Russia 2010 ranked VEBL as the largest leasing company by volume of transactions and third largest by size of leasing portfolio in the Russian Federation as at 31 December 2010. Since 2009, VEBL has taken part in the Leaseurope Ranking of European Leasing Companies. In 2009, VEBL was ranked 34th among European leasing companies and first among Russian domestic leasing companies, in each case by volume of total new business.

As at 31 December 2010, VEBL had RUB 75,224,443 thousand in total assets (as compared to RUB 19,393,758 thousand as at 31 December 2009); RUB 70,477,071 thousand in total liabilities (as compared to RUB 16,713,880 thousand as at 31 December 2009) and RUB 4,747,372 thousand in total equity (as compared to RUB 2,679,878 thousand as at 31 December 2009).

For the year ended 31 December 2010, VEBL generated interest income of RUB 4,030,520 thousand (as compared to RUB 2,161,508 thousand for the year ended 31 December 2009); net interest income (after impairment of interest-earning assets) of RUB 2,031,786 thousand (as compared to RUB 1,330,052 thousand for the year ended 31 December 2009), non-interest income of RUB 239,791 thousand (as compared to RUB 551,329 thousand for the year ended 31 December 2009) and a net profit for the year of RUB 891,034 thousand (as compared to RUB 967,057 thousand for the year ended 31 December 2009).

Strategy

As a subsidiary of VEB and the leasing arm of the VEB Group, VEBL's strategy is prescribed by, and aligned with that of, VEB.

VEB's strategy as the Russian Government's principal development bank and one of the key institutions for the implementation of the Russian Government's investment and development policy, is to increase the competitiveness and diversification of the Russian economy, and to promote investment activity in sectors that are of strategic importance to the Russian Government, rather than focusing on generating profit.

In alignment with VEB's general priorities for the development of the Russian economy, VEBL's strategic objectives in relation to finance leasing (as prescribed by VEB) are to:

- provide finance leasing services to aid the development of new, and modernise existing, infrastructure (including in the transportation and energy sectors);
- assist the development of the Russian SME sector through finance leasing services; and
- provide financial support to investment projects, which are considered to be strategically important to the development of the Russian economy, but which do not attract sufficient financial resources from the private sector or other non-specialist market investors.

As a member of the VEB Group, VEBL's strategy is not primarily commercially driven. Pursuant to the above strategies, VEBL intends to meet its strategic objectives and consolidate its strong position in the Russian domestic market by:

- diversifying and expanding further its lease portfolio;
- broadening its client base;
- strengthening and expanding its regional outlet network and its SME business;
- strengthening and further developing strategic partnerships with other members of the VEB Group; and
- diversifying its sources of funding.

For a more detailed discussion of VEBL's strategy, see "*Business – Strategy*".

Competitive Strengths

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

- VEB's ownership, support, market recognition and client base;
- access to funding;
- strong and experienced senior management;
- experience in executing complex leasing transactions; and
- substantial network of outlets located across the Russian Federation.

For a more detailed discussion of VEBL's competitive strengths, see "*Business – Competitive Strengths*".

Risk Factors

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

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The selected consolidated financial information set forth below has been prepared in accordance with IFRS and derived from the VEBL Financial Statements and should be read in conjunction with the VEBL Financial Statements included elsewhere in this Prospectus. The selected consolidated financial information of VEBL should also be read in conjunction with “Financial Review”.

Financial Condition as at 31 December 2010 and 2009

	As at 31 December			
	2010		2009	
	(US\$ thousands) ⁽¹⁾	(RUB thousands)	(US\$ thousands) ⁽²⁾	(RUB thousands)
Assets				
Cash and cash equivalents	70,420	2,146,410	40,373	1,220,892
Amounts due from credit institutions	—	—	19,305	583,776
Derivative financial assets	2,161	65,860	19,208	580,856
Net investment in leases	1,552,938	47,333,556	404,432	12,230,015
Loans receivable	239,596	7,302,903	24,734	747,952
Equipment purchased for leasing purposes	67,145	2,046,578	30,877	933,715
Advances issued to leasing equipment suppliers	374,691	11,420,569	85,583	2,588,021
Property and equipment	37,221	1,134,489	835	25,252
VAT receivable	98,184	2,992,640	5,149	155,718
Current income tax assets	80	2,437	261	7,902
Deferred income tax assets	240	7,308	—	—
Other assets	25,318	771,693	10,571	319,659
Total assets	2,467,994	75,224,443	641,328	19,393,758
Liabilities				
Amounts due to credit institutions	1,928,570	58,782,811	412,245	12,466,298
Borrowings payable	110,606	3,371,258	59,682	1,804,789
Debt securities issued	174,221	5,310,258	—	—
Derivative financial liabilities	2,382	72,604	2,347	70,988
Advances received from lessees	62,967	1,919,234	27,785	840,203
Amounts payable to equipment suppliers	11,002	335,342	31,288	946,157
Current income tax liabilities	2	68	56	1,685
Deferred income tax liabilities	16,445	501,231	12,874	389,315
Other liabilities	6,045	184,265	6,430	194,445
Total liabilities	2,312,240	70,477,071	552,707	16,713,880
Equity				
Share capital	137	4,172	138	4,172
Additional paid-in capital	90,034	2,744,246	80,409	2,431,558
Treasury shares	(2,844)	(86,701)	(30,947)	(935,841)
Currency translation differences	554	16,894	75	2,262
Retained earnings	67,873	2,068,761	38,946	1,177,727
Total equity	155,754	4,747,372	88,621	2,679,878
Total equity and liabilities	2,467,994	75,224,443	641,328	19,393,758

Note:

- (1) For convenience, these figures have been translated into US\$ at the RUB/US\$ exchange rate published by the CBR as at 31 December 2010, which was 30.48 per US\$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the Rouble amounts have been or could be converted into US Dollars at this rate or at any other rate.
- (2) For convenience, these figures have been translated into US\$ at the RUB/US\$ exchange rate published by the CBR as at 31 December 2009, which was 30.24 per US\$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the Rouble amounts have been or could be converted into US Dollars at this rate or at any other rate.

Results of Operations for the two years ended 31 December 2010 and 2009

The following table sets out VEBL's profit for the year and the principal components thereof for the two years ended 31 December 2010 and 2009:

	Year ended 31 December			
	2010		2009	
	(US\$ thousands) ⁽¹⁾	(RUB thousands)	(US\$ thousands) ⁽²⁾	(RUB thousands)
Interest income				
Finance leases	118,776	3,620,285	65,081	1,968,051
Amounts due from credit institutions	1,458	44,453	2,215	66,991
Loans receivable	12,001	365,782	4,182	126,466
	132,235	4,030,520	71,478	2,161,508
Interest expenses				
Amounts due to credit institutions	(55,295)	(1,685,381)	(25,256)	(763,744)
Debt securities issued	(6,408)	(195,318)	—	—
Amounts payable to equipment suppliers	(1,787)	(54,457)	(3,112)	(94,093)
	(63,490)	(1,935,156)	(28,368)	(857,837)
Net interest income	68,745	2,095,364	43,110	1,303,671
Reversal of allowance/(allowance) for impairment of interest-earning assets	(2,086)	(63,578)	872	26,381
Net interest income after impairment of interest earning assets	66,659	2,031,786	43,982	1,330,052
Fees and commission income	135	4,119	—	—
Fee and commission expenses	(639)	(19,469)	(289)	(8,753)
Net gains/(losses) from derivative financial instruments	(2,907)	(88,600)	22,544	681,740
Net gains/(losses) arising from foreign currencies:				
– conversion transactions	435	13,262	(1,366)	(41,318)
– translation differences	5,468	166,664	(3,923)	(118,643)
Share of profit/(loss) of associates	(698)	(21,262)	—	—
Other income	5,568	169,727	977	29,550
Non-interest income/(expense)	7,866	239,791	18,232	551,329
Personnel expenses	(11,325)	(345,180)	(4,097)	(123,897)
Depreciation of property and equipment	(1,709)	(52,094)	(342)	(10,339)
Other operating expenses	(22,941)	(699,247)	(21,040)	(636,248)
Allowance/(reversal of allowance) for impairment of other assets	(1,450)	(44,208)	38	1,142
Non interest expense	(37,425)	(1,140,729)	(25,441)	(769,342)
Profit before income tax expense	36,596	1,115,498	36,484	1,103,286
Income tax expense	(7,364)	(224,464)	(9,312)	(281,590)
Net income for the year from discontinued operations	—	—	4,807	145,361
Profit for the year	29,232	891,034	31,979	967,057

Note:

(1) For convenience, these figures have been translated into US\$ at the RUB/US\$ exchange rate published by the CBR as at 31 December 2010, which was 30.48 per US\$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the Rouble amounts have been or could be converted into US Dollars at this rate or at any other rate.

(2) For convenience, these figures have been translated into US\$ at the RUB/US\$ exchange rate published by the CBR as at 31 December 2009, which was 30.24 per US\$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the Rouble amounts have been or could be converted into US Dollars at this rate or at any other rate.

OVERVIEW OF THE OFFERING

The following overview contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “The Loan Agreement” and “Terms and Conditions of the Notes” (the **Conditions**) appearing elsewhere in this Prospectus.

The Issuer	VEB-Leasing Invest Limited, a private company incorporated and existing as a limited liability company under the laws of Ireland.
The Borrower	Open Joint-Stock Company “VEB-Leasing”, an open joint-stock company registered on 23 February 2003 under the laws of the Russian Federation, with its registered office at building 141, 29 Verejskaya Street, 121357, Moscow, Russian Federation, telephone number +7 495 981 4240, and with a principal state registration number of 1037709024781.
The Offer	US\$400,000,000 5.125 per cent. Loan Participation Notes due 2016.
Issue Price of the Notes	100 per cent. of the principal amount of the Notes.
Issue Date	27 May 2011
Maturity Date	27 May 2016
Interest	On each Payment Date, or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan is equal to 5.125 per cent. per annum.
Form of the Notes	The Notes will be issued in registered form in minimum denominations of US\$200,000 or higher integral multiples of US\$1,000 in excess thereof. The Notes will be represented by the Global Certificate, without interest coupons. The Global Certificate will be exchangeable for Definitive Certificates in the limited circumstances specified in the Global Certificate.
Trustee	Citicorp Trustee Company Limited
Registrar	Citigroup Global Markets Deutschland AG
Principal Paying Agent	Citibank, N.A., London Branch
Initial Delivery of Notes	On or before the Issue Date, the Global Certificate will be deposited with a common depository for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee of Euroclear and Clearstream, Luxembourg.
Limited Recourse	The Notes are limited recourse secured obligations of the Issuer. The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement less any amount in respect of the Reserved Rights. See “ <i>Terms and Conditions of the Notes – I. Status</i> ”.
Security	<p>The Notes will be secured by a charge (the Charge) in favour of the Trustee for the benefit of the Noteholders, of:</p> <ul style="list-style-type: none">(a) all rights to principal, interest and additional amounts (if any) payable by VEBL to the Issuer under the Loan Agreement;(b) the right to receive all sums that may be or may become payable by VEBL under any claim, award or judgment relating to the Loan Agreement; and

- (c) all the rights, title and interest in and to all sums of money held from time to time in an account specified in the Loan Agreement, together with the debts represented thereby (including interest earned on the account, if any),

provided, in each case, that Reserved Rights, and any amounts in respect thereof, are excluded from the Charge.

Furthermore, under the terms of the Trust Deed, the Issuer will assign absolutely all of its rights under the Loan Agreement, except for any Reserved Rights, to the Trustee for the benefit of the Noteholders.

Redemption by the Issuer

If VEBL prepays the Loan pursuant to the Loan Agreement, whether for tax reasons or by reason of increased costs or illegality, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at 100 per cent. of the principal amount, together with the accrued and unpaid interest and additional amounts (if any) all as more fully described in “*Terms and Conditions of the Notes – 6. Redemption*”.

Change of Control

If a Put Event has occurred (as defined in the Loan Agreement) each holder of a Note will have the option to require the Issuer to redeem such Note on the Put Settlement Date at its principal amount together with interest accrued, if any, to (but excluding) the Put Settlement Date, as further described in “*Terms and Conditions of the Notes – 6(D) Change of Control*”.

Withholding Tax or Increased Costs

All payments in respect of the Notes by or on behalf of the Issuer will be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland or any political subdivision or any authority thereof or therein having the power to tax, other than as required by law. In the event that any deduction or withholding is required by law, the Issuer will be required (subject to certain limited exceptions) to make such additional payments as shall result in the receipt by Noteholders of such amount as would have been received by them had no such deduction or withholding been required. The sole obligation of the Issuer in this respect will be to account to the Noteholders for sums equivalent to the sums received from VEBL under the Loan Agreement.

If any payments to be made by VEBL under the Loan Agreement become subject to any tax imposed by the Russian Federation or Ireland (or following the enforcement of the security created by the Trust Deed, the then jurisdiction of the Trustee) or any taxing authority thereof, or certain other circumstances result in the Issuer incurring any increased costs associated with the Loan, VEBL will be required to pay an additional amount necessary to compensate the Issuer for the tax withheld or the increased cost to the Issuer.

Events of Default and Relevant Events

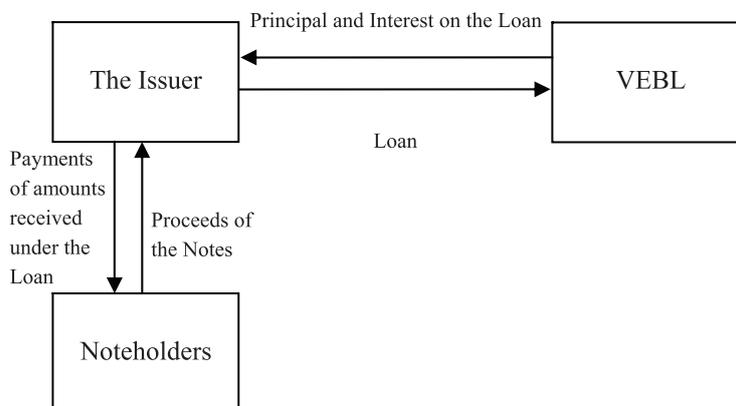
If either an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) occurs, the Trustee may, subject to the provisions of the Trust Deed:

- (a) in the case of an Event of Default, declare all amounts payable by VEBL under the Loan Agreement to be due and payable and to do all such other acts in connection therewith that the Trustee may direct; or
- (b) in the case of a Relevant Event, enforce the security created by the Trust Deed.

	<p>Upon repayment of the Loan following an Event of Default, the Notes will be redeemed and repaid at their principal amount, together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.</p>
Selling Restrictions	<p>United Kingdom, United States, Ireland and Russia. See “<i>Subscription and Sale</i>”.</p>
Further Issuances	<p>The Issuer may, from time to time and without the consent of the Noteholders, create and issue further notes on the same terms as the existing Notes (except for the first payment of interest). Such further notes may be consolidated and form a single series with such existing Notes.</p>
Ratings	<p>The Notes have been rated:</p> <p>(a) “BBB” by Fitch Ratings Limited (Fitch); and</p> <p>(b) “BBB” by Standard & Poor’s Ratings Services (S&P).</p> <p><i>A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid or paid on a particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating. Each of Fitch and S&P, is established in the European Union and has applied to be registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.</i></p>
Negative Pledge	<p>The Issuer will have the benefit of a negative pledge granted by VEBL, as fully described in the Loan Agreement.</p>
Listing	<p>Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list and trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.</p>
Security Codes	<p>ISIN: XS0630950870</p> <p>Common Code: 063095087</p>
Governing Law	<p>The Notes, the Loan Agreement and the Trust Deed, and any non-contractual obligations arising out of or in connection with them, shall be governed by and construed in accordance with English law.</p>
	<p>An investment in the Notes involves a high degree of risk. See “<i>Risk Factors</i>”.</p>

DESCRIPTION OF THE TRANSACTION

The following overview contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “The Loan Agreement” and “Terms and Conditions of the Notes” appearing elsewhere in this Prospectus.



The transaction will be structured as a loan (the **Loan**) from the Issuer to VEBL. The Issuer will issue the Notes, which will be secured limited recourse loan participation notes issued for the sole purpose of funding the Loan to VEBL. The Notes are limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for payment of principal, interest and additional amounts (if any) received and retained (net of tax) by it under the Loan. In the event that the amount due and payable by the Issuer under such Notes exceeds the sums so received or recovered and retained (net of tax), the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer will charge, by way of a charge in favour of the Trustee, for the benefit of the Noteholders as continuing security for its payment obligations in respect of the Notes:

- all rights to principal, interest and additional amounts (if any) payable to the Issuer by VEBL under the Loan Agreement;
- the right to receive all sums that may be or become payable by VEBL under any claim, award or judgment relating to the Loan Agreement; and
- all the rights, title and interest in and to all sums of money held from time to time in an account specified in the Loan Agreement, together with the debts represented thereby (including interest earned on the account, if any),

provided, in each case, that Reserved Rights, and any amounts in respect thereof, are excluded from the Charge. In addition, the Issuer will assign to the Trustee certain administrative rights under the Loan Agreement. See “*Terms and Conditions of the Notes*”.

In addition, the Issuer with full title guarantee will assign absolutely to the Trustee for the benefit of itself and the Noteholders all the rights, title, interest and benefits, both present and future, that may accrue to the Issuer as lender under or pursuant to the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to commence proceedings to enforce the obligations of VEBL thereunder). As a consequence of such assignment, the Trustee will assume the rights of the Issuer under the Loan Agreement as set forth in the relevant provisions of the Trust Deed.

The Issuer will covenant in the Trust Deed not to agree to any amendments to or modification or waiver of, and not to authorise any breach of, the Loan Agreement unless the Trustee has given its prior written consent or unless authorised to do so by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders, except in respect of Reserved Rights. The Issuer will agree to act at all times in accordance with any instructions of the Trustee with respect to the Loan Agreement, except as provided in the Trust Deed and except in respect of Reserved Rights. The Trustee will notify the Noteholders of any amendments, modifications, waivers or authorisations made with the Trustee’s consent in accordance with “*Terms and Conditions of the Notes — 14. Notices*”, which

amendments, modifications, waivers or authorisations will be binding on the Noteholders. The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the performance of the Loan.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes imposed and levied by or on behalf of Ireland or any other jurisdiction in which the Issuer is resident for tax purposes, except as required by law. If any deduction or withholding is required by law, the Issuer must, except in certain limited circumstances, pay additional amounts to the extent it receives corresponding amounts from VEBL pursuant to the Loan Agreement. In addition, payments under the Loan Agreement will be made without deduction or withholding for or on account of taxes, as such term is defined in the Loan Agreement (**Taxes**), except as required by law. If any deduction or withholding is required by law with respect to payments under the Notes or the Loan Agreement, VEBL must, except in certain limited circumstances, increase the amounts payable under the Loan Agreement to ensure that the Issuer receives a net amount equal to the full amount it would have received had payment not been made subject to Taxes.

VEBL may prepay the Loan at its principal amount, together with accrued and unpaid interest and additional amounts (if any), if VEBL must increase the amount payable or pay additional amounts on account of the Taxes in respect of which it is required to pay additional amounts under the Loan Agreement or if it must pay additional amounts on account of certain costs incurred by the Issuer. As set forth in the Loan Agreement, the Issuer may, at its own discretion, require VEBL to prepay the Loan if it becomes unlawful for the Loan or the Notes to remain outstanding. The Loan has characteristics that demonstrate a capacity to produce funds to service any payments due and payable on the Notes.

RISK FACTORS

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

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

Risks Relating to VEBL's Business and Industry

Controlling Shareholder and Relationship with VEB

VEBL is, directly and indirectly, 100 per cent owned and controlled by State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (**VEB**). As at the date of this Prospectus, 66.2 per cent. of VEBL's total issued share capital was held directly by VEB, 13.45 per cent. by Closed Joint Stock Company "Globex Commercial Bank" (a majority-owned subsidiary of VEB) (**Globexbank**) and 18.97 per cent. by LLC "Investment Company of Vnesheconombank "VEB Capital" (a wholly-owned subsidiary of VEB) (**VEB Capital**). The remaining 1.38 per cent. of the issued share capital of VEBL is held by VEB-Leasing Europe S.á r.l. which is a wholly-owned subsidiary of VEBL. As such, VEB is able to exert influence over VEBL's Board of Directors (of the five members of VEBL's Board of Directors, two are senior managers of VEB) and, through its shareholding, ultimately determine the outcome of most corporate matters. Historically, VEB has exerted significant control over VEBL's strategy, policies and operations.

VEB has integrated VEBL within the group of subsidiary companies controlled by VEB (the **VEB Group**), with VEBL acting as the VEB Group's leasing arm. VEBL's corporate governance and risk management practices are prescribed by VEB and certain significant leasing transactions entered into by VEBL must be approved by VEB. VEB has also provided, and continues to provide, VEBL with important management, advisory, financial and staffing support. In addition, many of VEBL's management and back-office functions, including treasury, risk management, IT and human resources, are integrated with those of VEB.

In terms of both funding and revenues, VEBL has historically been, and continues to be, reliant on VEB to a significant extent. VEB is a significant source of VEBL's funding. As at 31 December 2010, approximately 31 per cent. of VEBL's total debt funding was provided by way of loans from VEB and other members of the VEB Group, as compared to approximately 74 per cent. as at 31 December 2009. However, VEB is not providing any guarantees in connection with the Notes or the Loan.

Although VEBL retains autonomy to determine day-to-day commercial matters, its overall strategy and, therefore, indirectly the focus of its lease portfolio is prescribed by VEB. Given its role as the Russian state development bank, VEB's strategic priorities, and therefore VEBL's strategy and lease portfolio concentrations, may not necessarily reflect the priorities of VEBL's competitors. Further, VEB's mandate as a development bank may mean that it does not focus on profit and that certain of the projects it undertakes or finances, and to which VEBL provides finance leasing, may not be projects that other banks or leasing companies would consider commercially viable and may therefore involve increased risks for VEBL in terms of both credit and net profit. VEBL is also dependent for a significant part of its business upon a number of large value transactions derived from projects undertaken or financed by VEB, in its role as the Russian state development bank, particularly in the energy sector. In addition, VEBL enters into finance lease agreements with various state-owned bodies, which may originate from the fact that VEB is itself state-owned and may be on terms that may not be the same as the market may give on account of the above strategic priorities of VEB. All of these factors may mean that VEBL may not make commercial returns on such activities which may affect its financial condition and results of operations.

The interests of VEB and VEBL's management may, in some circumstances, conflict with the interests of Noteholders and any such conflict could have a material adverse effect on a Noteholder's investment in the Notes. In addition, any change in VEB's relationship with VEBL, particularly in relation to the provision of funding by VEB, or the referral of leasing transactions, or its ownership,

or a failure by VEBL to source alternative funding, or a shift in government policy towards VEB resulting in the loss of state-owned customers, or in VEB or VEBL's status; together with the risks inherent in providing finance leasing in relation to development projects which may not be considered commercially viable, could have a material adverse effect on VEBL's business, financial conditions and results of operations and the value of the Notes.

Foreign currency risk

A significant portion of VEBL's lease portfolio is denominated in foreign currencies. Foreign currency risk arises where VEBL's assets denominated in a foreign currency are either greater or lesser than its liabilities in that currency. Although VEBL typically funds itself on a matched basis and seeks to mitigate imbalances in the foreign currency structure of its assets and liabilities through foreign exchange rate derivative financial instruments and contractual provisions in its lease agreements allowing VEBL to change the currency of payment, a significant change in VEBL's foreign currency assets or liabilities as against its rouble denominated assets or liabilities could materially adversely affect VEBL's business, financial condition, results of operations and prospects and the value of the Notes.

The continued expansion of VEBL's lease portfolio depends to an increasing extent upon its ability to obtain adequate funding

VEBL operates with a high degree of leverage and its continued growth depends, in part, on its ability to obtain adequate funding from a variety of sources. VEBL is increasingly reliant on alternative sources of funding other than loans obtained from VEB and the VEB Group. As at 31 December 2010, VEB and other members of the VEB Group provided approximately 31 per cent. of VEBL's debt funding, as compared to approximately 74 per cent. as at 31 December 2009 (see "*Selected Financial Review – Funding*"). In addition, access to the capital markets is set to become an important source of funding for VEBL as an alternative to bank loans. VEBL issued its first debt capital markets instruments, being interest bearing non-convertible bonds in an aggregate principal amount of RUB 5 billion, in the Russian domestic market in July 2010, with a further issue of such bonds in an aggregate principal amount of RUB 15 billion in April 2011. VEBL cannot, however, provide any assurance that it will be able to continue to source debt financing from third party financial institutions or access the domestic or international capital markets to issue new debt or refinance its current borrowings, on favourable terms, or at all. If VEBL does not do so, to the extent that it is not otherwise able to source funding from VEB, it may be unable to increase the size of its lease portfolio and grow its business, which could have a material adverse effect on VEBL's business, financial condition, results of operations and prospects and the value of the Notes.

During 2008 and 2009, the worldwide financial crisis and consequential disruptions experienced in the global inter-bank and capital markets led to reduced liquidity and increased costs of funding. Borrowers experienced a reduction in available financing both in the inter-bank and short-term funding market, as well as in longer term capital markets and bank finance instruments. This scarcity of funding resulted in significant increases in the costs of financing across these markets, for both investment grade and non-investment grade borrowers. Although credit conditions in the Russian Federation and internationally have generally improved during 2010 and in 2011 to the date of this Prospectus, which has afforded VEBL the opportunity to obtain significant additional debt financing, both in the form of loans from third-party banks (in addition to funding sourced from VEB and members of the VEB group) and to issue bonds in the domestic capital markets (see "*Selected Financial Review – Funding*") and, in turn, to significantly increase its net investment in leases for the year ended 31 December 2010, as compared to the year ended 31 December 2009 (see "*Selected Financial Review – Key Factors affecting the Results of Operations – Operating Environment: Availability of Credit and Customer Demand*"), there can be no assurance that such conditions will continue to prevail, or improve. The availability of credit to emerging markets borrowers is also significantly influenced by investor confidence in such markets as a whole. Consequently, any factors that impact market confidence – for example, a decrease in credit ratings, or state or central bank intervention in one market – could affect the price or availability of funding for entities within all emerging markets. Accordingly, any decrease in investor confidence within the emerging markets could have a negative effect on the price or availability of funding within such markets. Any deterioration in economic conditions in the Russian Federation or internationally, or decrease in investor confidence, could result in reduced liquidity and increased costs of funding, which, in turn, could affect the continued expansion of VEBL's lease portfolio, which would be likely to have a

material adverse effect on VEBL's business, financial condition, results of operations and prospects and the value of the Notes.

VEBL may fail to properly manage its growth

VEBL's operations have experienced significant growth in recent years, and whilst current plans are for VEBL to grow organically, VEBL may also make significant acquisitions in the future, including acquisitions of lease portfolios. Furthermore, since 2010 VEBL has been expanding its operations into the SME sector and expanding its networks to accommodate such new business. Such continued growth, whether organic or by acquisition, would require significant allocation of capital and, depending on the nature of the acquisition, management resources, further development of VEBL's financial, internal controls and information technology systems, continued upgrading and streamlining of its risk management systems and additional training and recruitment of management and other key personnel. In addition, VEBL is reliant to a significant extent on VEB for the allocation and development of such resources. At the same time, VEBL must maintain a consistent level of customer services and current operations to avoid loss of business or damage to its reputation. There can be no assurance that VEBL will be able to sustain its current levels of growth in the future, or that VEB will continue to provide the necessary funding and capital support to enable it to do so, which could have a material adverse effect on VEBL's business, financial condition, results of operations and prospects and the value of the Notes.

The nature of VEBL's business and the industry concentrations in VEBL's lease portfolio make it vulnerable to volatility and to downturns in certain sectors

The nature of finance lease transactions, which tend to relate to the financing of big-ticket assets which customers will not necessarily acquire on a regular basis, means that VEBL's assets, revenues and ultimately net profit are subject to significant volatility from one period to the next. VEBL's lease portfolio also has relatively high industry concentrations. As at 31 December 2010, the transportation sector accounted for 82 per cent. of VEBL's aggregate net investment in leases (before allowance for impairment) overall, with the rail, air and maritime transport sectors accounting for 41 per cent., 26 per cent. and 15 per cent., respectively, of VEBL's aggregate net investment in leases. The only other material sector represented in VEBL's lease portfolio is the power industry, which represented 13 per cent. of VEBL's aggregate net investment in leases (before allowance for impairment) as at 31 December 2010. Further, as at 31 December 2010, VEBL's largest lessee (a third party) represented 21 per cent. of VEBL's aggregate net investment in leases (before allowance for impairment), with the second-largest lessee (also a third party) representing 10 per cent. of VEBL's aggregate net investment in leases (before allowance for impairment). VEBL's financial condition is therefore extremely sensitive to downturns in the transportation and power industry sectors and the financial condition of VEBL's largest customers. Although VEBL continues to take measures to diversify its lease portfolio, including its move into the SME sector (see "*Business – Strategy*"), there can be no assurance that it will be able to achieve or maintain a greater level of diversification in its lease portfolio, and a failure to do so could have a material adverse effect on VEBL's business, financial condition, results of operations and prospects and the value of the Notes.

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

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

VEBL seeks to obtain representations from the suppliers and lessees of used equipment, including, *inter alia*, that:

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

See "*Business – Terms of Finance Lease Agreements*".

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

If a lessee defaults on its lease, VEBL could incur losses

If a lessee does not make lease payments to VEBL when due, or violates the terms of its lease in another material way, VEBL may terminate the lease and attempt to recover the leased asset. If VEBL terminates a finance lease early due to the lessee's default, the portion of VEBL's net investment in leases representing the terminated finance lease is derecognised and recognised in the preceding carrying amount of the respective line of the consolidated statement of financial position, depending on VEBL's intent in respect of the equipment received back from the finance lease: Property and equipment (if VEBL plans to use such equipment in operating lease); Equipment purchased for leasing purposes (if VEBL plans to use such equipment in finance lease); or Assets held for sale (if VEBL plans to sell such equipment). If such asset is subsequently sold, VEBL may reflect the gain or loss from the sale in its consolidated income statement and record the receipt of cash or other receivables in its consolidated statement of financial position. Upon recovery of the asset, VEBL may not be able to arrange for a new lease or to sell the asset immediately, if at all. VEBL would then be exposed to lost lease revenues and might not be able to recover the entire amount, or any, of its original investment in the equipment. The costs of recovering an asset upon a lessee's default, enforcing the lessee's obligations under the lease, and transporting, storing, repairing and finding a new lessee or purchaser for the asset may be high, may negatively affect the value of VEBL's investment in the equipment, and could have a material adverse effect on VEBL's business, financial condition, results of operations and prospects and the value of the Notes. See “– Business – Credit Risk Analysis – Defaults”.

If a lessee files for bankruptcy, VEBL may have difficulty enforcing the terms of the lease and may incur losses

If a lessee files for bankruptcy, the remaining term of the lease could be shortened or the lease could be rejected by the bankruptcy court, which could result in, among other things, any unpaid pre-bankruptcy lease payments being cancelled as part of the bankruptcy proceedings. If a lease is rejected in a bankruptcy, VEBL would bear the cost of retrieving and storing the asset, and then have to re-sell or re-lease the asset in order to mitigate its losses. In such circumstances, VEBL may not be able to arrange for a new lease or to sell the asset immediately, if at all and this risk is compounded by the fact that many leased assets (particularly in the energy and manufacturing sectors) are non-liquid assets that have been designed to meet a specific customer's requirements. VEBL would then lose the expected lease revenues and might not be able to recover the entire amount, or any, of its original investment in the equipment. This could have a material adverse effect on VEBL's business, financial condition, results of operations and prospects and the value of the Notes.

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

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

based on the value of the funds invested in the asset, rather than on the basis of residual value or the credit profile of the lessee.

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

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

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

There is a lack of reliable credit quality information about lessees in the Russian Federation

Due to a lack of frequent and reliable information on lessees in the Russian Federation, VEBL historically has had to rely, to a large extent, on statutory financial statements of its lessees (which are not prepared under IFRS or other international GAAP) to evaluate their financial performance and monitor credit quality. The limited scope of the assessment and monitoring procedures based on such statutory financial statements, together with insufficient internal coordination of the collection of information from lessees and the analysis of such information between VEB and VEBL, and between the relevant departments within VEBL, could result in VEBL not being aware of events of default or potential events of default under a lessee's other financial commitments on a timely basis. VEBL has taken, and continues to take, steps to coordinate and accelerate data collection and analysis to prevent such deficiencies in the future, however, the general limitations of frequent and reliable information about lessees in the Russian Federation may result in VEBL not being able to undertake a full credit analysis of each of its lessees, particularly in relation to customers in the SME sector (see "*—VEBL is exposed to increased credit risk associated with its SME leasing operations*" below) which could have a material adverse effect on VEBL's business, financial condition, results of operations and prospects and the value of the Notes.

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

The Russian leasing market is relatively young, having emerged in the late 1990s. It has been growing steadily since 2001, on average by approximately 60 per cent. per annum, in terms of the aggregate value of lease portfolios. According to ExpertRA, in 2010 the aggregate value of lease portfolios totalled approximately US\$38.7 billion, as compared to US\$31.8 billion for 2009, an increase of 22 per cent. The volume of new business in 2010 was US\$23.9 billion, as compared to US\$9.9 billion for 2009, an increase of 2.4 times and the volume of lease payments increased to US\$11.5 billion in 2010, as compared to US\$10.1 billion in 2009, an increase of 14 per cent. Nonetheless, in comparison to leasing industries in North America or Western Europe, the Russian leasing industry is relatively young and undeveloped, the legal framework is not without inconsistency, and there cannot be any assurance that the substantial growth experienced in recent years will be sustained or maintained.

The development of the leasing market remains tied to demand from core sectors of the economy and, in the case of VEBL, to VEB's continued role as the state development bank. During the worldwide financial downturn, certain industries which were traditionally key demand sectors for the Russian leasing market, such as the construction industry, suffered significant downturns, from which they have yet to recover. Although VEBL has sought to reduce its dependence on such sectors – for example, the construction industry represented only 1 per cent. of VEBL's aggregate net investment in leases as at 31 December 2010 as compared to nil as at 31 December 2009 – and has diversified its

portfolio to reduce its exposure to any one industry – with rail, air and maritime transport services, as well as the energy sector, representing 41 per cent., 26 per cent., 15 per cent. and 13 per cent., respectively, of VEBL’s aggregate net investment in leases as at 31 December 2010, as compared to 10 per cent., 18 per cent., nil and 54 per cent., respectively, as at 31 December 2009 – a significant market downturn affecting most of these sectors, or other sectors in which VEBL is active, or the Russian economy as a whole, could have a material adverse effect on VEBL’s business, financial condition, results of operations and prospects and the value of the Notes.

Further, although VEBL is insulated to a certain extent from the effects of downturns as a result of its position in the VEB Group and as a result of VEB’s status as the state development bank and the key vehicle through which the Russian Government pursues its economic stabilisation and development policies, if VEB were to have its role diminished, or the Russian Government significantly changed its policies in this regard, it could have a material adverse effect on VEBL’s business, financial condition, results of operations and prospects and the value of the Notes (see “– *Controlling Shareholder and Relationship with VEB*” above).

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

Despite the development of the Russian leasing market over the last years, barriers to entry for new players are low, which has resulted in the appearance of new, aggressive, fast-growing participants in the sector, including leasing companies with foreign ownership. As a result, the leasing sector is rapidly undergoing a process of consolidation. For this reason the market is continuing to exhibit rapid rates of growth and changes in industry and ownership structure. During the initial stages of its development, the leasing market’s growth was created by separate subdivisions of banks. By the start of 2007, the size of the leasing market had reached a scale that enabled certain specialised leasing companies to compete with banks on equal terms.

The Russian market for financial and leasing services remains highly competitive and is characterised by factors that vary based upon product and geographic region. It is expected to become increasingly competitive as a result of continued financial sector reform and improvements in the quality of management at many Russian banks and leasing companies. Lessees are also placing increased demands on lease transactions. However, not all leasing companies can adjust to the changing market conditions and remain competitive. At present a key factor for the leasing market development is the search for long-term financing for further growth of the leasing companies’ business. In addition, competition is based on pricing, terms and structure.

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

VEBL is exposed to increased credit risk associated with its SME leasing operations

VEBL is subject to increased credit risks associated with its SME leasing operations. Few customers in the SME leasing sector have credit histories, and, as a result, VEBL has to primarily rely on the information provided by them in making its credit decisions. In addition, such customers are more likely to default on their payments, necessitating higher impairment provisions and reducing the overall credit quality of VEBL’s customer base. Although it is developing its approach to assessing the creditworthiness of such customers, there can be no assurance that VEBL will correctly assess their creditworthiness as the scoring techniques and checks used by VEBL to determine the creditworthiness of potential customers may not always present a complete and accurate picture of each potential customer’s financial condition. As a result, VEBL may be exposed to credit risks that it may not be able to accurately assess and provide for. Although these risks are mitigated in part by the larger margins typically charged by VEBL on its finance leases with SME customers, as compared to those with larger private and state owned enterprises, VEBL’s failure to correctly assess credit risk and manage related increased exposure to credit risk could have a material adverse effect on its business, results of operations, financial condition and prospects and the value of the Notes.

VEBL may not be able to achieve its strategic objective of strengthening its position in the SME leasing sector

One of VEBL's strategic objectives is to strengthen its position in the SME leasing sector, with a view, if market conditions allow, to it representing up to 10 to 15 per cent. of its aggregate lease portfolio in the medium term. In order to support the strengthening of its SME leasing operations, VEBL intends to increase penetration of the regional markets by developing its network of regional outlets, so as to increase VEBL's customer base and consequently the volume of leases entered into. However, VEBL has limited practical experience in the SME leasing sector and there can be no assurance that the development of VEBL's network of regional offices will lead to a successful increase in its SME leasing operations in line with its strategy. In addition, successful implementation of this strategy will require an upgrade of VEBL's computer systems, in order to provide a secure virtual network connecting VEBL's regional outlets with its head office in Moscow, which may require significant capital expenditure. Any failure in VEBL's achieving this strategic objective could have a material adverse effect on its business, results of operations, financial condition and prospects and the value of the Notes.

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

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

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

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

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

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

Risks Relating to the Russian Federation

Emerging markets, such as Russia, are subject to greater risks than more developed markets, including significant legal, economic and political risks

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

Political and Social Risks in the Russian Federation

Political instability in the Russian Federation could recur

Since 1991, the Russian Federation has sought to transform itself from a one-party state with a centrally-planned economy to a market-oriented economy. Political conditions in the Russian Federation were highly volatile in the 1990s, which negatively affected the Russian Federation's business and investment climate. However, the situation has stabilised since 2000 under President Vladimir Putin. For example, the heads of regions (e.g., the governor of a region) are now nominated by the President and appointed by the legislatures of regions.

The most recent State Duma elections held on 2 December 2007 resulted in a further increase in the share of the aggregate vote received by the pro-presidential party, United Russia. On 7 May 2008, Mr. Putin's chosen successor, Dmitry Medvedev, was inaugurated as President, and, on 8 May 2008, Mr. Putin became Prime Minister. While the Russian political system and the relationship between the President, the Government and the Russian parliament currently appear to be stable, there remains potential for political instability, including if the Russian economy should contract (as happened during the recent global economic downturn), and if such contraction resulted in a deterioration in living standards in the Russian Federation. Shifts in governmental policy and regulation in Russia, which are less predictable than in many Western countries, could negatively affect the Russian economic and political environment in the near term. VEBL's business, financial condition and results of operations could be materially adversely affected if political instability recurs or if reform policies are reversed or become ineffective. Claims brought by the Russian authorities against several major Russian companies have raised questions regarding the progress of the market and political reforms in the Russian Federation and have resulted in both significant fluctuations in the market price of Russian securities and a negative effect on foreign direct and portfolio investment in the Russian economy, over and above the general market turmoil recently. Any similar actions by the Russian authorities which result in a further negative effect on investor confidence in Russia's business and legal environment could have a further material adverse effect on the Russian securities market and prices of Russian securities or securities issued or backed by Russian entities or entities which have significant operations in Russia, including the Notes.

Deterioration of Russia's relations with other countries as well as domestic and regional political conflicts could negatively affect the Russian economy and economies in neighbouring regions and result in a significant decrease in demand for securities of Russian companies

Over the past several years, the Russian Federation has been involved in conflicts with other countries. On several occasions, this has resulted in the deterioration of Russia's relations with other members of the international community, including the United States and various countries in Europe. For example, a military conflict in August 2008 between the Russian Federation and Georgia ended with Russian recognition of the independence of South Ossetia and Abkhazia has resulted in the deterioration of Russia's relations with the EU, the United States and certain former Soviet Union countries. Following these events, the Russian stock exchanges experienced heightened volatility and significant overall price declines. Because the performance of Russia's economy is closely tied to oil prices, the Russian stock exchanges have historically been negatively impacted by reduced prices for Urals oil. However, large external reserves, which were US\$497 billion as of 11 March 2011, have offered relatively significant protection to the Russian economy against such fluctuations (source: CBR). The emergence of new or escalated tensions between the Russian Federation and other countries, including any escalation of such conflicts, or the imposition of economic or other sanctions in response to the tensions, could negatively affect economies in the

region, including the Russian economy, and, thus, adversely affect VEBL's business, results of operations, financial condition and prospects or the value of the Notes.

Conflict between central and regional authorities and other conflicts in the Russian Federation create an uncertain operating environment

The Russian Federation is a federation of 83 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear. This lack of consensus may have a material adverse effect on VEBL's long-term planning efforts and may create uncertainties in VEBL's operating environment, both of which may prevent VEBL from implementing its business strategy.

In addition, ethnic, religious, historical and other divisions in the Russian Federation have, on occasion, given rise to tensions and, in certain cases, military conflict and terrorist attacks. The Russian Federation has suffered a number of terrorist attacks resulting in significant loss of life and damage to property and in 2010, the Russian Federation was the subject of further terrorist violence, including bombings on the Moscow metro system and an attack on a Moscow airport in 2011. Recent terrorist activity worldwide and the armed conflicts in the Middle East have had a significant effect on international and domestic financial and commodity markets. Any future acts of terrorism or armed conflicts in the CIS or internationally could have an adverse effect on the financial and commodities markets and the economy in Russia/CIS and/or internationally, which could also have a material adverse effect on VEBL's business, financial condition, results of operations and prospects, and may be directed at assets that VEBL leases. Furthermore, as the Russian Federation produces and exports large amounts of crude oil and gas, any acts of terrorism or armed conflicts causing disruptions to Russian oil and gas exports could negatively affect the Russian economy and, thus, adversely affect VEBL's business, results of operations, financial condition and prospects and the value of the Notes.

Organised Crime and Corruption could harm VEBL's business.

The local and international press have reported high levels of organised crime, corruption and extortion in Russia, including selective investigations and prosecutions to further the personal or commercial interests of certain favoured companies or individuals. The local and international press have also reported allegations of criminal conduct or corruption on the part of Russian companies or individuals within Russian companies or the Russian government. In addition, the Russian press and other non-traditional media are suspected of publishing biased articles and reports in return for payment. To the extent that such reports are true and such organised crime, corruption and/or extortion are directed at VEBL, this could have a material adverse effect on VEBL's business, results of operations, financial condition and prospects and the value of the Notes.

Economic Risks Relating to the Russian Federation

Fluctuations in the global economy have an immediate impact on the Russian economy

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world as evidenced by the recent global financial crisis. Financial problems or an increase in the perceived risks associated with investing in emerging economies dampen foreign investment in Russia. In the recent global financial crisis, Russian businesses faced severe liquidity constraints because of their dependence on foreign capital, which further negatively impacted the Russian economy.

In addition, since the Russian Federation produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in mid-2008 and subsequently fell dramatically by the end of 2008 and in early 2009 as a result of the recent financial crisis. Oil prices have since rebounded to approximately US\$90 per barrel but remain extremely volatile. Further price volatility may continue to negatively influence the Russian economy.

Moreover, the value of the rouble generally moves in line with the price of crude oil. In the global financial crisis in late 2008 and early 2009, the rouble experienced a significant decline in value as crude oil prices plummeted and the Russian government used a significant portion of its foreign exchange reserves to support the value of the rouble. The Russian government may not be able to avert a similar significant decline in the value of the rouble in the future and may also be forced to introduce restrictive currency regulations.

Fluctuations in the global economy leading to disruption in the Russian economy and a decline in the value of the rouble could have a material adverse effect on VEBL's business, financial condition, results of operations and prospects and the value of the Notes.

The Russian Federation is subject to significant economic downturns

The Russian economy has been subject to abrupt downturns in the past. In particular, in August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its rouble-denominated securities, the CBR ceased its support of the rouble and a temporary moratorium was imposed on certain foreign currency payments. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation; a substantial decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets.

These problems were aggravated by the near collapse of the Russian banking sector after the events of August 1998, as evidenced by the termination of the banking licences of a number of major Russian banks. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies and resulted in the losses of bank deposits in some cases.

From 2000 to 2008, the Russian economy experienced positive trends, such as annual increases in the gross domestic product, a relatively stable rouble, strong domestic demand, rising real wages and reduced rates of inflation. However, these trends were interrupted by the global financial crisis in late 2008, which led to a significant decrease in the gross domestic product and industrial production, a crisis of bank liquidity, a significant depreciation of the rouble against the US Dollar and euro, a rise in unemployment and an increase in the inflation rate. The Russian government used a significant portion of its stabilisation fund and foreign exchange reserves, increased government spending and took other measures to stabilise the Russian economy.

In July and August 2010, a series of fires broke out across Western Russia and around Moscow, covering at one stage over 193,000 hectares. The fires, combined with a summer of drought and record high temperatures, resulted in a decline in the Russian harvest, and accordingly an increase in demand for imported grain, reported to be Russia's largest import demand for over ten years. The costs associated with controlling and reducing the fires, containing environmental concerns and repairing the damage caused by the fires may have an adverse impact on the Russian economy.

Any deterioration in the general economic conditions in the Russian Federation could have a material adverse effect on VEBL's business, financial condition, results of operations and prospects and the value of the Notes.

Exchange rates and exchange controls restrictions could adversely affect the value of investments in the Russian Federation.

The rouble remains largely non-convertible outside the Russian Federation. A market exists within the Russian Federation for the conversion of roubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. According to the CBR, foreign currency and gold reserves fell from approximately US\$597.0 billion on 1 August 2008 to US\$384.1 billion on 1 March 2009. Such reserves increased to US\$447.7 billion by December 2009 and to US\$476.3 billion by September 30, 2010, but are still likely to fluctuate going forward. Although the Russian Federation's current foreign currency and gold reserves may be sufficient to sustain the domestic currency market in the short term, there can be no assurance that the currency market will not further deteriorate in the medium or long term due to the lack of foreign currency funding available in the global markets. The lack of growth of the Russian currency market in the medium or long term may adversely affect VEBL's business, financial condition and results of operation and the value of the Notes.

Inflation could have a material adverse effect on VEBL's results of operations

The Russian Federation has experienced high levels of inflation since the early 1990s. Inflation increased significantly after the 1998 financial crisis, reaching a rate of 84.4 per cent. that year. According to Rosstat, the inflation rate was 9.0 per cent. in 2006, 11.9 per cent. in 2007, 13.3 per cent. in 2008, 8.8 per cent. in 2009 and 8.8 per cent. in 2010. Russian companies, including VEBL, have generally experienced inflation-driven increases in their costs that are linked to the general price level in the Russian Federation, such as for supplies and materials, as well as for salaries. High rates of inflation in the Russian Federation could increase VEBL's costs and decrease VEBL's operating margins, which could have a material adverse effect on VEBL's business, financial condition, results of operations and prospects.

The lack of availability and reliability of statistical information in the Russian Federation makes business planning inherently uncertain and may impair the ability of VEBL to plan effective strategies.

Statistical data, including official data, published in the Russian Federation is substantially less complete and reliable and may be produced on different bases from those published in countries with more developed market economies. Due to the lack of availability of alternative reliable sources of country-specific data, Russian companies necessarily rely to some extent on this statistical data in their business planning. As a result, assumptions made by Russian companies in their business plans may prove to be incorrect. The lack of accurate statistical data for use in business planning may contribute to the overall volatility of the Russian economy and may adversely affect the profitability of many of VEBL's corporate customers, which would have a material adverse effect on its business, financial condition, results of operations and prospects and the value of the Notes.

In addition, some of the information contained in this Prospectus has been derived from the official data of Russian government agencies. Any discussion of matters relating to the Russian Federation in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable

Legal and Regulatory Risks and Uncertainties in the Russian Federation

Weaknesses relating to the Russian legal system create an uncertain environment for investment and business activity

The Russian Federation is still developing the legal framework required to support a market economy. Several fundamental Russian laws have only recently become effective. The recent enactment of much of Russian law and the rapid evolution of the Russian legal system can result in ambiguities, inconsistencies and anomalies in the application of law throughout the Russian Federation. The following risks relating to the Russian legal system create uncertainty with respect to the legal and business decisions that we make, many of which uncertainties do not exist in countries with more developed market economies:

- inconsistencies between and among the Russian constitution, federal law, presidential and governmental and ministerial decrees, and conflicts between federal, regional and local legislation;
- lack of fully developed corporate and securities laws;
- lack of judicial and administrative guidance on interpreting legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- the relative inexperience of judges and courts in interpreting legislation, particularly business and corporate legislation;
- lack of an independent judiciary and alleged corruption within the judiciary;
- difficulty in enforcing court orders;
- a high degree of discretion on the part of governmental authorities which could result in arbitrary actions; and
- poorly developed bankruptcy procedures that are subject to abuse.

These weaknesses hinder VEBL's business and the businesses of other companies operating in the Russian Federation, which could have a material adverse effect on VEBL's business, financial condition, results of operations and prospects and the price of the Notes.

The judiciary's lack of independence and governmental discretion could prevent investors or VEBL from obtaining effective redress through the court system

The independence of the judicial system and its immunity from economic, political and nationalistic influences remains imperfect. The Russian judicial systems can be slow or unjustifiably swift. Additionally, court claims are often used in furtherance of political and commercial aims and, in the past, private property has been effectively expropriated without fair compensation. Judicial decisions in the Russian Federation can be unpredictable and may not provide effective redress. An inability to obtain adequate relief and effective remedies through the court system could have a material adverse effect on VEBL's business, financial condition, results of operations and prospects and the price of the Notes.

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

VEBL's operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licences, permits, approvals and authorisations, as well as with ongoing compliance with existing laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licences, permits, approvals and authorisations and in monitoring licensees' compliance with the terms thereof.

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

Selective or arbitrary government action could harm VEBL's business and result in a deterioration of the investment climate in Russia

Governmental authorities in the Russian Federation have a high degree of discretion and can act selectively or arbitrarily, without hearing or prior notice, and sometimes act in a manner that is inconsistent with legislation or influenced by political or commercial considerations. Standard & Poor's, a provider of independent credit ratings, has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." Selective and arbitrary governmental actions, if taken or threatened against VEBL or its shareholders or other companies in Russia, could have a material adverse effect on VEBL's business, results of operations and financial condition and the investment climate which may result in a decline in the price of the Notes.

Taxation Risks Relating to the Russian Federation

Russian tax law and practice are not fully developed and are subject to frequent changes

VEBL is subject to a broad range of taxes and charges imposed at the federal, regional and local levels, including but not limited to, corporate income tax, value added tax (VAT), property tax, payroll related insurance payments and other taxes.

Laws related to these taxes, such as the Russian Tax Code, have been in force for a short period of time relative to tax laws in more developed market economies, and the Russian Government's implementation of such legislation is often unclear or inconsistent. Historically, the system of tax collection in the Russian Federation has been relatively ineffective, resulting in continual changes in the interpretation of the existing laws by various authorities.

Although Russia's tax climate and the quality of tax legislation have generally improved with the introduction of the Tax Code, the possibility exists that the Government may impose arbitrary or onerous taxes, fines and penalties in the future, which could adversely affect the business of VEBL.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax regulations exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to inconsistent enforcement of these regulations in practice.

Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws differently. The current practice is that private clarifications to specific taxpayers' queries with respect to particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities and there can be no assurance that the Russian tax authorities will not take positions contrary to those set out in such clarifications. During the past several years the tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a

result of tax audits of companies operating in various industries, including the financial industry. In some instances the Russian tax authorities have applied new interpretations of tax laws retroactively.

In practice, taxpayers often have to resort to court proceedings to defend their position against the tax authorities. Court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

The Russian tax system is, therefore, impeded by the fact that, at times, it still relies heavily on the inconsistent judgments of local tax officials and fails to address many of the existing problems. It is, therefore, possible that transactions and activities of VEBL that have not been challenged in the past may be challenged in the future.

In its decision No. 138-O of 25 July 2001, the Constitutional Court of the Russian Federation introduced the concept of “a taxpayer acting in a bad faith” without clearly stipulating the criteria for its application. Similarly, this concept is not defined in the Russian tax law or other Russian laws. Nonetheless, in practice this concept has been used by the tax authorities to invalidate the taxpayer’s reliance on the letter of the tax law. Based on the available practice the tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53, which introduced a concept of an “unjustified tax benefit”, defined mainly by reference to specific examples of such tax benefits (e.g., tax benefits obtained as a result of a transaction that has no reasonable business purpose), which may lead to the disallowance of their application. To date, there is little practice on the interpretation and application of this concept by the tax authorities or the courts, but it is apparent that the tax authorities actively seek to apply it when challenging tax positions taken by taxpayers. Although the intention of this Ruling was to combat the abuse of the tax law, based on court cases relating to Ruling No. 53 that have been brought to date, it can be concluded that the tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been initially intended by the Supreme Arbitration Court. Importantly, VEBL is aware of cases where this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date, however, in many cases where this concept has been applied, the courts have ruled in favour of taxpayers, but there is no assurance that the courts will follow these precedents in the future. Tax declarations together with related documentation are subject to review and investigation by a number of authorities, which are empowered under Russian law to impose fines and penalties on taxpayers. Generally, tax declarations remain subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that the tax authorities have reviewed a year does not prevent any tax declarations relating to that year from being further reviewed by the tax authorities during the three-year limitation period. In particular, a repeat tax audit may be conducted by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, or in connection with the reorganisation/liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable.

In addition, on 14 July 2005, the Russian Constitutional Court issued a decision that allows the statute of limitation for tax liabilities to be extended beyond the three year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax inspection. The Tax Code provides for the extension of the three-year statute of limitations if the taxpayer actively obstructed the conduct of a tax audit, which created insurmountable obstacles for the tax audit. Because the terms “obstructed” and “insurmountable obstacles” are not specifically defined in Russian law, the tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced in the course of their tax audit with obstruction by the taxpayer, and use that as a basis to seek tax adjustments and penalties beyond the three-year period. The statute of limitations is therefore not entirely effective with respect to liability for payment of taxes in Russia.

Transfer pricing legislation in the Russian Federation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions (except for those conducted at state regulated prices and tariffs), provided that the transaction price differs upwards or downwards from the market price by more than 20 per cent. “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties characterised by significant price fluctuations (i.e., if the price applied under such transactions differs from prices applied under similar transactions by more than 20 per cent. within a short period of time). Special transfer pricing rules apply to transactions with

securities and derivatives. Transfer pricing rules currently in effect are vaguely drafted, generally leaving wide scope for their interpretation by the tax authorities and courts. Moreover, in the event that the tax authorities assess a transfer pricing adjustment, the transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction.

There is a plan to introduce substantial amendments to the Russian transfer pricing legislation. A new draft law amending the transfer pricing legislation was approved by the Russian Parliament in the first reading on 19 February 2010 with the second and third readings which are expected to take place in 2011. At this point it cannot be predicted with absolute certainty when these amendments will be enacted, if at all, and what effect they may have on taxpayers, including VEBL. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse effect on VEBL's business, financial condition, results of operations, prospects and the trading price of the Notes.

In May 2009, the Russian President included in his Budget Message regarding the Budget Policy for 2010-2012 the proposal for legislative changes to the anti-avoidance mechanism with respect to double tax treaty benefits in cases where the ultimate beneficiaries of income do not reside in the relevant tax treaty jurisdictions. A law envisaging the introduction of the concept of an "actual recipient of income" to the Tax Code was drafted in late 2009. Although the draft law neither uses the term "beneficial owner" nor defines the term "actual recipient of income" (which is used in Russian official versions of all double taxation treaties), it is likely that the intent of the proposed amendments is to introduce a concept of beneficial ownership in the domestic tax legislation, and to combat the abuse of double taxation treaties where the beneficiaries of income reside in jurisdictions that do not have double taxation treaties with Russia. Further, in May 2010, the Government also proposed in its Main Directions of Russian Tax Policy for 2011-2013 legislative changes to the anti-avoidance mechanism with respect to double tax treaty benefits, as well as creating tax incentives to move organisations from offshore to Russia. As noted in the Directions, such changes related to tax treaties are based on the provisions of the OECD Model Tax Convention. The abovementioned draft law, if enacted in its current form, would add to the existing uncertainty and instability in the application of double tax treaties in Russia. It is currently uncertain if and when the draft law may be introduced. In fact, there has been no progress with this legislation since late 2009. It is also unclear how, if adopted, it will be interpreted and applied by the tax authorities and/or courts in practice and what effect it may have on taxpayers, including VEBL.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, Russian tax laws are unclear with respect to the deductibility of certain expenses. This uncertainty could possibly expose VEBL to significant fines and penalties and to enforcement measures, despite the VEBL's best efforts at compliance, and could result in a greater than expected tax burden.

It should also be noted that Russian law does not provide for a possibility of group relief or fiscal unity. Consequently, no losses eligible for reducing the tax liability of one Russian legal entity in the VEBL Group may be used to reduce the tax liability of any other Russian legal entity of the VEBL Group. However, a new draft law on tax consolidation regime was approved by the Russian Parliament in the first reading on 22 October 2010 with the second and third readings scheduled for 2011. The draft law introduces consolidated tax reporting that may enable the consolidation of the final results of taxpayers which are part of one group for corporate tax purposes. It is currently uncertain if and when the draft law may be introduced, how it will be interpreted and applied by the tax authorities and/or courts in practice and what effect it may have on taxpayers, including VEBL.

Despite the Russian Government's steps to reduce the overall tax burden in recent years in line with its objectives, the possibility exists that the Government may impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the VEBL business, financial condition or results of operations.

The Russian tax authorities may, in the future, take a more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and activities which have not been challenged in the past may be challenged in the future.

The Russian tax authorities are increasingly taking a "substance over form" approach. While certain reductions in the rates, such as for profits tax, have been effected, it is expected that Russian tax legislation will become more sophisticated. The possibility exists that the Government may introduce additional revenue-raising measures. Although it is unclear how such measures would operate, the introduction of any such measures may affect the VEBL overall tax efficiency and may result in

significant additional taxes becoming payable. Although the VEBL will continue to seek to minimise such exposures through legitimate tax planning, it cannot offer prospective investors any assurances that additional tax exposures will not arise while the Notes are outstanding and any such additional tax exposure could have a material adverse effect on the VEBL business, financial condition or results of operations.

VEBL operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax laws currently in effect do not provide detailed rules on the taxation of foreign companies in Russia. The Russian Tax Code contains a concept of permanent establishment in the Russian Federation as a means for taxing foreign legal entities which carry out regular entrepreneurial activities in the Russian Federation beyond preparatory and auxiliary activities. However, the practical application of the concept of a permanent establishment under Russian law is not well developed and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international rules, may be at risk of being treated as having a permanent establishment in the Russian Federation and be liable to Russian taxation and have obligations to withhold Russian taxes from payments to foreign individuals and legal entities as a tax agent. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities and/or the courts to their interpretation and application, VEBL could become subject to additional taxation in the Russian Federation in respect of our operations outside the Russian Federation.

Although the VEBL Group intends to conduct its affairs so that foreign entities of the VEBL Group are not treated as having a permanent establishment in Russia, no assurance can be given that activities of these foreign entities will not be treated as creating a permanent establishment. The effect of having a permanent establishment would be to subject the affected entity to Russian tax in a manner similar to the taxation of a Russian legal entity.

Furthermore, Russian tax legislation in effect as of the date of this Prospectus does not contain a concept of the corporate tax residency. Russian companies are taxed on their worldwide income whilst foreign entities are taxed in the Russian Federation on income attributable to a permanent establishment and on a Russian source income. The Government in its Main Directions of Russian Tax Policy for 2009-2011 has proposed the introduction to the domestic tax law of a concept of tax residency for legal entities. According to the proposals, a company would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. No assurance can be currently given as to whether and when these amendments will be enacted, their exact nature, their potential interpretation by the tax authorities and the possible impact on VEBL. It is impossible to rule out that, as a result of the introduction of these changes to the Russian tax legislation, certain non-Russian companies of VEBL might be deemed to be Russian tax residents, subject to all applicable Russian taxes, which could have a material adverse effect on the business, prospects, financial condition and results of operations of the VEBL.

These facts create tax risks in the Russian Federation that may be substantially more significant than typically found in countries with more developed tax systems.

Historically, the main Russian entities of VEBL have been paying significant amounts of tax due to the scale of their operations. Consequently, the introduction of new taxes or introduction of amendments to the currently effective taxation rules may have a substantial impact on the overall amount of tax liabilities of the respective entities. Although each of the entities concerned undertakes internal procedures aimed at minimising the potential tax risks, while the approach to the management of tax liabilities and tax risks within VEBL has been conservative, there is no assurance that the Russian entities of VEBL will not be required to make substantially larger tax payments in the future, which may affect the financial results of VEBL. In addition to creating a substantial tax burden, these risks and uncertainties complicate VEBL's tax planning and related business decisions, potentially exposing it to significant additional taxes, fines and penalties and enforcement measures, and could adversely affect VEBL's business, financial condition and results of operations.

Risks Relating to the Notes and the Trading Market

Payments under the Notes are limited to the amount of certain payments received under the relevant Loan Agreement

The Issuer is only obliged to make payments under the Notes to Noteholders in an amount equal to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer from VEBL pursuant to the Loan Agreement less any amounts in

respect of the Reserved Rights. Consequently, if VEBL fails to meet its payment obligations under the Loan Agreement in full, this will result in the Noteholders of the Notes receiving less than the scheduled amount of principal, interest and additional amounts (if any) on the relevant due date.

There is no direct recourse of the Noteholders to VEBL

Except as otherwise expressly provided in the “*Terms and Conditions of the Notes*” and in the Trust Deed, the Noteholders will not have any proprietary or other direct interest in the Issuer’s rights under or in respect of the Loan Agreement. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement, or have direct recourse to VEBL, except through action by the Trustee under the Charge (as defined in the “*Terms and Conditions of the Notes*”) or any assignment of rights, including any rights under a Loan Assignment.

In addition, Noteholders should be aware that neither the Issuer nor the Trustee accepts any responsibility for the performance by VEBL of its obligations under the Loan Agreement. See “*Terms and Conditions of the Notes – 1 Status*”.

The lack of a public market for the Notes could reduce their value

There may not be an existing market for the Notes at the time they are issued. The Notes are expected to be listed on the Irish Stock Exchange and traded on the Main Securities Market. However, there can be no assurance that a liquid market will develop for the Notes, that the holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value.

VEBL’s payments under the Loan and the Issuer’s payments under the Notes may be subject to withholding tax

In general, interest payments on borrowed funds made by a Russian legal entity or an organisation to a non-resident legal entity or organisation having no registered presence and/or no permanent establishment in the Russian Federation are subject to Russian withholding tax at a rate of 20 per cent., for legal entities, unless the withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty. Based on the professional advice VEBL has received, it believes that interest payments to the Issuer on the Loan should not be subject to Russian withholding tax under the terms of the agreement between the Government of Ireland and the Government of the Russian Federation for the avoidance of double taxation with respect to taxes on income signed on 29 April 1994 (the **Russia-Ireland double tax treaty**). However, there can be no assurance that such an exemption will be available. There is at least one instance when the tax authorities (albeit unsuccessfully) tried to challenge application of double tax treaty benefits under a similar structure. At this stage it is difficult to predict whether this would remain an isolated case.

In circumstances where payments under the Loan Agreement become payable to the Trustee pursuant to the security arrangements described herein, benefits of the Russia-Ireland double tax treaty will cease and payments of interest under the Loan Agreement to the Trustee should be made subject to Russian income tax withholding at a rate of 20 per cent., or such other rate as may be in force at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty under such circumstances. In addition, whilst some Noteholders may be eligible for an exemption from, or a reduction in, Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice under such circumstances.

If the interest payments under the Loan are subject to any withholding of Russian or Irish tax, VEBL will be obliged under the terms of the Loan Agreement to pay such additional amounts as may be necessary so that the net payments received by the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging VEBL to gross-up interest payments will be enforceable under Russian law.

There is a risk that gross-up for withholding tax will not take place and that interest payments made by VEBL under the Loan Agreement will be reduced by Russian income tax withheld by VEBL at the rate of 20 per cent., or such other rate as may be in force at the time of payment. See “*Taxation*”. If VEBL is obliged to pay additional amounts, it may (without premium or penalty), subject to certain conditions, prepay such Loan in full. In such case, all outstanding Notes of the corresponding Series would each be redeemable at par together with accrued and unpaid interest and

additional amounts, if any, to the date of the redemption. See “*Terms and Conditions of the Notes – 6. Redemption and Purchase*”.

Tax might be withheld on dispositions of the Notes in Russia, reducing their value

If a non-resident Noteholder that is a legal entity or organisation, which, in either case, is not organised under Russian law and which holds and disposes of the Notes otherwise than through its permanent establishment in Russia, sells any Notes and receives proceeds from a source within Russia, there is a risk that the part of the payment, if any, representing accrued interest may be subject to a 20 per cent. Russian withholding tax (even if the disposal resulted in a capital loss), although such tax may be reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities.

Where proceeds from a disposition of the Notes are received from a source within the Russian Federation by an individual non-resident Noteholder, a withholding tax would be charged at a rate of 30 per cent. on the gross amount of proceeds from disposal of the Notes less any available duly documented cost deductions. Although such tax may be reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities, in practice individuals would not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia, whilst obtaining a refund of the taxes withheld can be extremely difficult, if not impossible. Further, even though the Tax Code requires only a Russian professional asset manager or broker, or another person (including a foreign company with a permanent establishment or, arguably, any registered presence in the Russian Federation or an individual entrepreneur located in Russia) acting for the benefit of the taxpayer under an asset management agreement, brokerage service agreement, agency agreement, a commission agreement or commercial mandate agreement to withhold the tax from payment to an individual associated with disposition of securities, there is no guarantee that other Russian companies or foreign companies with a registered permanent establishment or, arguably, a mere registration in the Russian Federation or an individual entrepreneur located in the Russian Federation would not seek to withhold the tax. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See “*Taxation*”.

In addition, while some Noteholders might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice.

Examiners, preferred creditors under Irish law and floating charges may impose additional risks on the Notes Centre of Main Interest

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

Examinership

Examinership is a court procedure available under the Irish Companies (Amendment) Act 1990, as amended (the **1990 Act**) to facilitate the survival of Irish companies in financial difficulties.

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances, negative pledges given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may,

subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

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

The fact that the Issuer is a special purpose entity and that all its liabilities are of a limited recourse nature means that it is unlikely that an examiner would be appointed to the Issuer.

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

- (i) the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and
- (ii) a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular:

- (i) under the terms of the Trust Deed, the Notes will be secured in favour of the Trustee for the benefit of itself and the Noteholders by security over the Loan Agreement and sums held in the related account with the Principal Paying Agent. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for PAYE and VAT;
- (ii) under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that even a charge which purports to be taken as a fixed charge, such as the Charge, may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and
- (iii) in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

USE OF PROCEEDS

The Issuer will lend an amount equivalent to US\$400,000,000, being the gross proceeds of the Notes, to VEBL.

VEBL intends to use such gross proceeds for general corporate purposes.

Total commissions and expenses relating to the offering of the Notes are expected to be approximately US\$2,940,000. The net proceeds that VEBL will receive from the offering, after deducting estimated commissions and expenses incurred in connection with the offering, will be approximately US\$397,060,000.

CAPITALISATION

The following table sets out VEBL's cash, short-term debt (including current portion of long-term debt), long-term debt, equity and consolidated capitalisation as at 31 December 2010, and as adjusted for the issue of Notes, and is derived from, and should be read in conjunction with, the VEBL Financial Statements:

	As at 31 December 2010	As at 31 December 2010	As adjusted for the issue of Notes	As adjusted for the issue of Notes
	<i>(RUB thousands)</i>	<i>(US\$ thousands)⁽¹⁾</i>	<i>(RUB thousands)</i>	<i>(US\$ thousands)⁽¹⁾</i>
Cash and cash equivalents	2,146,410	70,420	2,146,410	70,420
Short-term debt (including current portion of long-term debt) ⁽²⁾	16,479,037	540,651	16,479,037	540,651
Long-term debt ⁽³⁾	50,985,290	1,672,746	63,177,290	2,072,746
Total Debt ⁽⁴⁾	67,464,327	2,213,397	79,656,327	2,613,397
of which secured	18,311,816	600,782	18,311,816	600,782
of which unsecured	49,152,511	1,612,615	61,344,511	2,012,615
Equity				
Share capital	4,172	137	4,172	137
Additional paid-in capital	2,744,246	90,034	2,744,246	90,034
Treasury shares	(86,701)	(2,844)	(86,701)	(2,844)
Currency translation differences	16,894	554	16,894	554
Retained earnings	2,068,761	67,873	2,068,761	67,873
	4,747,372	155,754	4,747,372	155,754
Total capitalisation ⁽⁵⁾	55,732,662	1,828,500	67,924,662	2,228,500

Notes:

- (1) For convenience, these figures have been translated into US\$ at the RUB/US\$ exchange rate published by the CBR as at 31 December 2010, which was 30.48 per US\$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the Rouble amounts have been or could be converted into US Dollars at this rate or at any other rate.
- (2) Short-term debt comprises amounts due to credit institutions, borrowings payable and debt securities issued with remaining contractual maturities of less than one year.
- (3) Long-term debt comprises amounts due to credit institutions, borrowings payable and debt securities issued with remaining contractual maturities of one year or more.
- (4) Total debt is the sum of short-term and long-term debt. Cash and cash equivalents is presented for information only.
- (5) Total capitalisation is the sum of long-term debt and total shareholders' equity.

On 11 January 2011 VEBL sold its 84,771 shares in VEBL that it previously held as treasury shares to VEB-Leasing Europe S.á r.l., which is a wholly-owned subsidiary of VEBL. As a result of this transaction, the number of shares of VEBL held directly by VEBL decreased to zero and VEB-Leasing Europe S.á r.l. became a shareholder of VEBL.

On 4 February 2011 VEBL issued series 3, 4 and 5 non-convertible interest-bearing documentary registered bonds in the Russian domestic market, in an aggregate principal amount of RUB 15,000,000 thousand, with the first tranche bearing interest at 7.5 per cent. per annum and the other two tranches at 8.6 per cent. per annum. Each series matures in 2021, with a put option exercisable in respect of the series 3 bonds in 2014 and in respect of the series 4 and series 5 bonds in 2016.

On 28 February 2011, the shareholders of VEBL adopted a resolution to issue additional shares with an aggregate par value of RUB 4,000,000 (the **Additional Capital**). On 28 March 2011, VEBL entered into a share purchase agreement with VEB, in accordance with the terms of which VEB agreed to purchase the Additional Capital at a premium, with an aggregate purchase price of RUB 10,000,000 thousand, payable in two equal tranches. The shares with an aggregate nominal value of RUB 2,000,000 were transferred immediately to VEB, with the first tranche of the purchase price paid on 29 March 2011. As a result, VEB increased the size of its shareholding in VEBL to 66.20 per cent. (from 50 per cent. plus one share as at 31 December 2010), with VEBL's other shareholders (all members of the VEB Group) having their shareholdings adjusted downwards accordingly. The second tranche is due to be paid not later than 30 September 2011, and the remaining shares with an aggregate nominal value of RUB 2,000,000 will be transferred to VEB within two business days

following the date of payment of the second tranche. As a result of the second tranche, VEB's shareholding in VEBL will increase to 74.47 per cent. and VEBL's other shareholders (all members of the VEB Group) will have their shareholdings adjusted downwards accordingly.

Except as described above, there have been no material changes in the Group's consolidated capitalisation since 31 December 2010.

BUSINESS

Overview

VEBL is a leading Russian transportation and equipment finance leasing company, whose registered office is at building 141, 29 Verejskaya Street, Moscow 121357, Russian Federation. It is integrated within, and a subsidiary of, VEB, Russia's principal state-owned development bank established pursuant to the laws of the Russian Federation, which, directly and indirectly, owns 100 per cent. of the share capital of VEBL.

VEBL provides finance leasing services to Russian private and state-owned enterprises, such as Aeroflot, Transaero, UTair, Freight One (a subsidiary of Russian Railways), Sovcomflot and Volgafлот. Such finance leases are principally provided for the leasing of transportation assets in the air, maritime and rail sectors, and large and high-tech equipment principally for the energy sector, in each case produced by leading Russian and international manufacturers, such as Boeing and Sukhoi in the aviation sector, Admiralty Shipyards in the maritime sector, Uralvagonzavod in the rail sector and Siemens in the energy sector. Since 2010, VEBL has also been active in the SME sector, where it is principally engaged in the leasing of motor vehicles for corporate use.

VEBL is the leasing arm of VEB. Since acquiring its Controlling Stake (as defined in “– *History and Relationship with VEB*” below), VEB has integrated VEBL within the VEB Group. VEBL's strategy, corporate governance and risk management practices are prescribed by VEB, and certain significant leasing transactions entered into by VEBL must be approved by VEB. VEBL is able to leverage off VEB's position as the state-owned development bank of the Russian Federation, with access to VEB's client base in relation to their leasing requirements. In addition, VEBL also has its own clients, both though its head office in Moscow and, in relation to the SME sector, through its chain of over 50 regional outlets located in Moscow, St. Petersburg and over 40 other large cities in the Russian Federation.

VEBL is a key player in many of the leasing sectors in which it operates. Both ExpertRA and Leasing in Russia 2010 ranked VEBL as the largest leasing company by volume of transactions and third largest by size of leasing portfolio in the Russian Federation as at 31 December 2010. Since 2009, VEBL has taken part in the Leaseurope Ranking of European Leasing Companies. In 2009, VEBL was ranked 34th among European leasing companies and first among Russian domestic leasing companies, in each case by volume of total new business.

As at 31 December 2010, VEBL had RUB 75,224,443 thousand in total assets (as compared to RUB 19,393,758 thousand as at 31 December 2009); RUB 70,477,071 thousand in total liabilities (as compared to RUB 16,713,880 thousand as at 31 December 2009) and RUB 4,747,372 thousand in total equity (as compared to RUB 2,679,878 thousand as at 31 December 2009).

For the year ended 31 December 2010, VEBL generated interest income of RUB 4,030,520 thousand (as compared to RUB 2,161,508 thousand for the year ended 31 December 2009); net interest income (after impairment of interest-earning assets) of RUB 2,031,786 thousand (as compared to RUB 1,330,052 thousand for the year ended 31 December 2009), non-interest income of RUB 239,791 thousand (as compared to RUB 551,329 thousand for the year ended 31 December 2009) and a net profit for the year of RUB 891,034 thousand (as compared to RUB 967,057 thousand for the year ended 31 December 2009).

History and Relationship with VEB

VEBL was established in 2003 as Oboronpromleasing by JSC “OPK” Oboronprom, a majority state-owned defence export and investment group (**Oboronprom**), to service companies in the defence industry. In April 2008, VEB acquired 50 per cent. plus one share of the total issued share capital of VEBL (the **Controlling Stake**), with Oboronprom holding 28.06 per cent. and LLC “Vertoletnaya Transportnaya Kompaniya” (VTK) holding the remaining 21.93 per cent. Following the acquisition of the Controlling Stake, VEB renamed the company Open Joint-Stock Company “VEB-leasing” in July 2008.

In November 2009, VEB acquired Oboronprom's remaining 28.06 per cent. in VEBL, giving VEB 78.07 per cent. of the share capital of VEBL.

In February and March 2010, VEB bought 19.9 per cent. of VTK's 21.93 per cent. stake. This stake was then sold by VEB to Globexbank (a majority-owned subsidiary of VEB). These transactions resulted in VEB having direct or indirect control of 97.97 per cent. of the share capital of VEBL.

In August 2010, VEB purchased the remaining 2.03 per cent. of the share capital of VEBL from VTK, giving it direct or indirect control of 100 per cent. of the share capital of VEBL.

In December 2010, VEB sold a 28.07 per cent. stake in VEBL to VEB Capital (another wholly-owned subsidiary of VEB and member of the VEB Group) in connection with VEB's internal corporate restructuring and, in January 2011, sold a 1.38 per cent. to Bellevue Industries S.á r.l. (now renamed VEB-Leasing Europe S.á r.l.), which is, in turn, a wholly-owned subsidiary of VEBL (and, as such, this stake represents treasury shares).

In February 2011, VEBL issued the Additional Capital (as defined in *Capitalisation* above), which was subscribed by VEB at a premium (see "*Capitalisation*" and "*Financial Review – Recent Developments*"). As a result of its acquisition of the Additional Capital, as at the date of this Prospectus, VEBL holds 66.20 per cent. of the total issued share capital of VEBL, with VEB Capital holding 18.97 per cent., Globexbank 13.45 per cent. and VEB-Leasing Europe S.á r.l. 1.38 per cent., respectively (see "*Shareholders*").

Since acquiring the Controlling Stake, VEB has integrated VEBL within the VEB Group; VEBL acts as the VEB Group's leasing arm, with all finance lease transactions undertaken through VEBL. VEBL's strategy, corporate governance and risk management practices are prescribed by VEB, and certain significant leasing transactions entered into by VEBL must be approved by VEB. VEB has also provided, and continues to provide, VEBL with substantial management, advisory, financial and staffing support. For instance, of the five members of VEBL's Board of Directors, two are senior managers of VEB.

VEBL has significantly diversified its lease portfolio following VEB's acquisition of its Controlling Stake, moving from serving the defence sector to focus on the economic sectors in which VEB is active, including transportation, energy, heavy industry and, more recently, the SME sector. In addition to sourcing its own business, VEBL provides finance leasing services to customers of VEB and other members of the VEB Group.

VEB

VEB is a state corporation, whose status, business, purposes, functions and powers are governed by Russian legislation. VEB principally operates in four capacities: (i) as a development bank; (ii) as one of the key state-owned vehicles for the stabilisation of the Russian economy and financial system; (iii) as an agent of the Russian government, including, in particular, in respect of the management of its debt obligations and those of other CIS countries, as well as obligations owed to the Russian Federation by debtor countries and other borrowers, and the management of certain pension funds; and (iv) as a universal depositary in the Russian Federation. VEB's core functions, investment and financial priorities, borrower limits and underlying principles for financing activities are prescribed principally in Federal Law No.82-FZ "On Bank of Development" of the Russian Federation (as amended) (the **Development Bank Law**) and the Memorandum "On Financial Policies" of State Corporation "Bank for Development and Foreign Economic Affairs (Vneshconombank)" approved by the Directive of the Government of the Russian Federation No. 1007-r on 27 July 2007 (as amended) (the **2007 Memorandum**). VEB is authorised to conduct banking operations without a licence from the Central Bank of the Russian Federation (**CBR**) and VEB is generally not required to comply with regulatory requirements set out by the CBR and which apply to commercial banks.

VEB's significant subsidiaries include six banking subsidiaries (four in the Russian Federation, one in Belarus and one in Ukraine), VEB Capital (which manages certain of VEB's investment assets and provides financial advisory services), VEB Engineering (which is primarily engaged in the provision of engineering support for VEB'S investment projects) and VEBL.

As the principal development bank of the Russian Federation, one of VEB's principal functions is to increase the competitiveness and diversification of the Russian economy, in particular, by promoting investment activity in sectors that are of strategic importance to the Russian government. As a development bank, VEB does not compete with commercial lending and financial institutions in providing finance to customers, but rather gives preference to investment projects, such as infrastructure projects, which are not typically eligible for financing on terms acceptable to commercial banks and other non-specialist market investors.

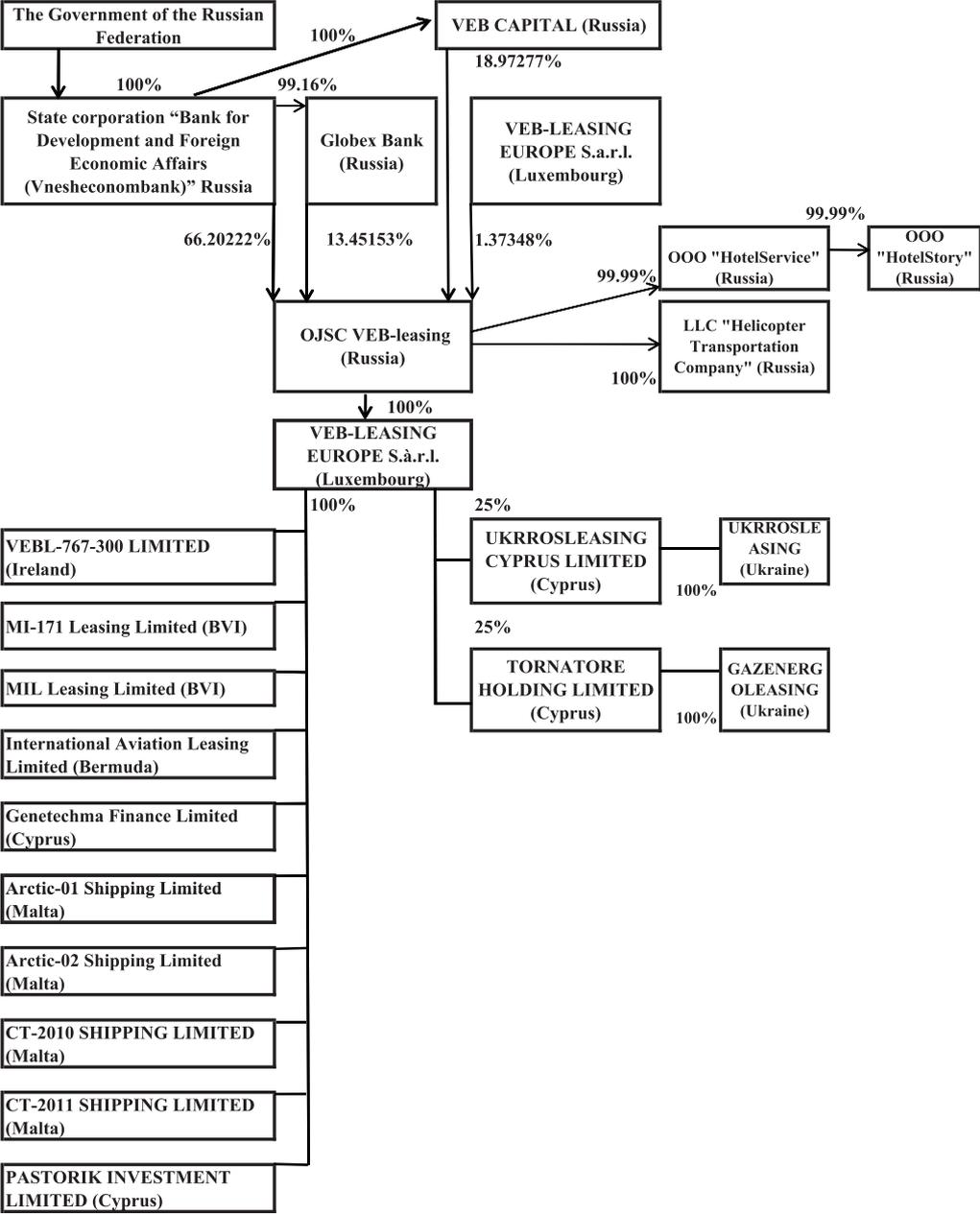
As an agent of the Russian government, VEB is also responsible for managing the debt obligations of the Russian Federation (and of the former Soviet Union as the same apply to the Russian Federation), as well as foreign debt obligations owed to the Russian Federation by other sovereign

states, financial institutions and commercial entities. In this capacity, VEB’s responsibilities include record-keeping, reconciliation, settlement and redemption activities.

VEB acts as a universal depository for a broad range of Russian and foreign securities. Acting in this capacity, VEB delivers a range of depository, settlement, information and custody services for investors and professional participants in the Russian securities and foreign exchange markets.

VEB operates out of its principal office in Moscow, three representative offices within the Russian Federation and eight foreign representative offices, located in the United States, India, Italy, China, South Africa, Germany, France and the United Kingdom.

Set out below is a chart showing the organisational structure of the VEB Group and of VEBL’s position within it, as well as VEBL’s subsidiaries:



VEBL’s Subsidiaries

VEBL has a number of subsidiaries, largely incorporated outside of the Russian Federation and held through VEB-Leasing Europe S.á r.l. These subsidiaries are corporate vehicles through which certain of the assets VEBL leases to customers are held, including those such as aircraft and maritime vessels, which are largely registered in the jurisdictions in which such subsidiaries are incorporated.

Strategy

As a subsidiary of VEB and the leasing arm of the VEB Group, VEBL's strategy is prescribed by, and aligned with that of, VEB.

VEB's strategy, as the Russian Government's principal development bank and one of the key institutions for the implementation of the Russian Government's investment and development policy, is to increase the competitiveness and diversification of the Russian economy, and to promote investment activity in sectors that are of strategic importance to the Russian Government, rather than focusing on generating profit.

In alignment with VEB's general priorities for the development of the Russian economy, VEBL's strategic objectives in relation to finance leasing (as prescribed by VEB) are to:

- provide finance leasing services to aid the development of new, and modernise existing, infrastructure (including in the transportation and energy sectors);
- assist the development of the Russian SME sector through finance leasing services; and
- provide finance leasing support to investment projects, which are considered to be strategically important to the development of the Russian economy, but which do not attract sufficient financial resources from the private sector or other non-specialist market investors.

As a member of the VEB Group, VEBL's strategy is not primarily commercially driven. Pursuant to the above strategies, VEBL intends to consolidate its strong position in the Russian domestic leasing market by:

- *diversifying and expanding further its lease portfolio* by increasing the volume of lease transactions entered into the transportation (comprising rail, air and maritime transportation) in energy and machinery and industrial equipment sectors, in order to ensure that VEBL is not overly dependent on any one sector, or related sectors, or on a particular client or group of clients, for the continued growth and success of its business (and is not overly-exposed to any one sector, or related sectors, or any one client or group of clients);
- *broadening its client base* in order to reduce reliance on a number of large client or groups of clients, in part by focusing on its track record of successfully structuring tailored and often complex leasing arrangements and through its entry into new leasing sectors (in particular the SME sector);
- *strengthening and expanding its regional outlet network and its SME business* by establishing more representative outlets in the most important cities and economically developed regions of the Russian Federation, in order to increase VEBL's geographical presence and to help achieve its strategic objective of assisting the development of the Russian SME sector. Although the SME sector represented only approximately 1 per cent. of VEBL's aggregate lease portfolio as at 31 December 2010, and related exclusively to the finance leasing of motor vehicles, VEBL intends to further develop its business in this sector going forward, with a view, if market conditions allow, to it representing up to 10 to 15 per cent. of its aggregate lease portfolio in the medium term. VEBL believes that such developments will ensure that it is well placed to take advantage of other types of finance leasing opportunities in the SME and retail sectors should these markets develop as anticipated;
- *strengthening and further developing strategic partnerships with other members of the VEB Group* by working with VEB to further expand the joint business development activities of VEBL and other VEB Group companies, improving each group members ability to cross-sell products, including the finance leasing services of VEBL (and VEBL believes that this will become more important if its SME business grows as anticipated) and working together to target new customers; and
- *diversifying its sources of funding* by increasing its exposure to the domestic and international capital markets, including through the issue of debt securities such as the Notes, and borrowing from a range of domestic and international banks.

Competitive Strengths

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

- *VEB's ownership, support, market recognition and client base:* VEBL is owned and controlled by VEB, which has integrated VEBL within the VEB Group, with VEBL acting as the VEB Group's leasing arm. This provides VEBL with important management, advisory, financial and staffing support from VEB and allows it to benefit strongly from the brand recognition and reputation of VEB, which is well known both within the Russian Federation and internationally as the state's principal development bank and one of the key vehicles for the implementation of the Russian government's policies for the stabilisation and development of the Russian economy and financial system. In addition, VEBL enjoys a leading position in its own right in the Russian finance leasing market, which VEBL believes it can leverage off to further grow and develop its business and expand into new leasing markets, especially in the SME and retail sectors. As part of the VEB Group, VEBL enjoys access to VEB's client base, and, in particular, to large infrastructure projects, and to capital-intensive clients, such as transportation and energy companies which look to finance leasing solutions to fund a large portion of their equipment requirements.
- *Access to funding:* VEBL operates in a capital-intensive industry and, accordingly, ease of access to funding is a key strength for its continued growth. VEB has provided and continues to provide VEBL with a large proportion of the financial support it requires. For example, for the year ended 31 December 2010, banks of the VEB Group provided VEBL with aggregate direct funding of RUB 18,207,944 thousand, or approximately 31 per cent., of VEBL's debt financing. At the same time, VEBL has been able to attract competitive funding from third-party domestic and international banks, and in the capital markets, which has allowed it to diversify its funding base (see "*Selected Financial Review – Funding*").
- *Strong and experienced senior management:* Each member of the senior management team of VEBL has extensive experience in leasing, banking and finance. Since VEBL's establishment, and in particular since VEB's acquisition of its Controlling Stake, the senior management team has guided VEBL through a period of growth and diversification, has dealt with the challenges of the global financial crisis, and has the experience to continue to implement VEBL's strategic objectives.
- *Experience in executing complex leasing transactions:* Through the experience of VEBL's senior management team, and its key employees, together with its experience in executing complex transactions (gained largely as a result of its participation in large-scale infrastructure projects, and equipment acquisitions for large energy and rail companies and airlines, through VEB), VEBL has offered and continues to be in a position to offer its customers a service tailored to their individual leasing requirements.
- *Substantial network of regional outlets located across the Russian Federation:* VEBL has a network of over 50 regional outlets, located in Moscow, St. Petersburg and over 40 other large cities in the Russian Federation. This network of outlets allows VEBL to target SME customers across the Russian Federation in the locations in which they operate, and is a key component of VEBL's strategy to increase the share of the SME sector as a proportion of its aggregate lease portfolio in the medium term.

Principal Business Activities

VEBL's primary business is the finance leasing of transportation assets, including aircraft, railway rolling stock and maritime vessels, high-tech equipment for use in the energy industry and modern industrial equipment, such as that used in the mining, road-building and metalworking industries. In addition, in 2010 VEBL commenced finance leasing services to SMEs in relation to motor vehicles for corporate use. The assets leased by VEBL are typically produced by leading Russian and international manufacturers, such as Boeing and Sukhoi in the aviation sector, Admiralty Shipyards in the maritime sector, Uralvagonzavod in the rail sector and Siemens in the energy sector. As the leasing arm of the VEB Group, VEBL is also engaged in large-scale projects, which are not typically eligible for finance leasing on terms acceptable to commercial banks and other non-specialist market investors, due largely to the scale and scope of such projects and the tenor of the leases required.

VEBL primarily engages in finance leasing, with operating lease arrangements constituting only an insignificant part of its revenue and total leasing portfolio. VEBL's finance leases have the following general characteristics:

- the lessee selects the asset to be purchased, with VEBL purchasing such asset and retaining legal title to the asset;

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

For a more detailed discussion of finance leasing, see “– *Finance Leases*” below.

By contrast, an operating lease is typically a shorter-term arrangement, whereby a lessee acquires the right to use an asset for a defined period of time in return for rental payments, but without the expectation of ownership at the end of the lease period.

VEBL is a key player in the leasing sectors in which it operates. Both ExpertRA and Leasing in Russia 2010 ranked VEBL as the largest leasing company by volume of transactions and third largest by size of leasing portfolio in the Russian Federation as at 31 December 2010. Since 2009, VEBL has taken part in the Leaseurope Ranking of European Leasing Companies. In 2009, VEBL was ranked 34th among European leasing companies and first among Russian domestic leasing companies, in each case by volume of total new business.

VEBL believes that its net investment in leases for any financial year (being the gross investment in Rouble terms that VEBL makes in assets in that financial year that are then leased to customers (on the terms of the relevant finance lease entered into with such customer) less unearned finance lease income and any allowance for impairment), when broken down by leasing sector provides a useful indicator as to the relative size of each such sector of its total lease portfolio. The following table sets out VEBL’s net investment in leases in each of its key leasing sectors for the years ended 31 December 2010 and 2009, together with the percentage share of its total lease portfolio represented by each sector:

Sector ⁽¹⁾	Year ended			
	31 December 2010		31 December 2009	
	Net investment in leases (RUB thousands)	Percentage of aggregate net investment in leases (%)	Net investment in leases (RUB thousands)	Percentage of aggregate net investment in leases (%)
Rail transportation	19,440,100	41	1,255,965	10
Air transportation	12,562,143	26	2,258,466	18
Maritime transportation	6,941,698	15	—	—
Energy industry	6,253,545	13	6,686,667	54
Aircraft industry	548,211	1	846,059	7
Industrial machinery	416,279	1	1,096,145	9
SME (vehicle leasing)	330,915	1	—	—
Construction industry	291,191	1	—	—
Military-industrial complex	69,730	0	134,758	1
Radioelectronic industry	53,425	0	77,525	1
Other	590,285	1	42,670	0
Total	47,497,522	100	12,398,255	100

(1) VEBL classifies net investment in leases due from each lessee by sector based on the industry in which the lessee operates.

Rail Transportation

The largest percentage share of VEBL’s net investment in leases as at 31 December 2010 was attributable to rail transportation. VEBL exposure to this sector currently relates to the finance leasing of freight rolling stock. As at 31 December 2010 this sector comprised 41 per cent. of VEBL’s aggregate net investment in leases, as compared to 10 per cent. as at 31 December 2009. The increase of the percentage share of rail transportation as at 31 December 2010 as compared to 31 December

2009 is attributable to both an increase in 2010 in demand from this sector for the renewal of rolling stock following the global financial crisis (which had impacted the ability of operators to make capital-intensive investments) and VEBL's strategic objective to assist in the modernisation and development of transportation infrastructure, including rail transportation (see “– *Strategy*” above) which resulted in VEBL entering into an increased number of rail transportation finance lease transactions in 2010.

VEBL's current significant lessees of Rail rolling stock include Freight One, which is a freight subsidiary of Russian Railways' (the state-owned Russian rail monopoly). VEBL currently leases approximately 1,300 freight wagons to Freight One.

As a result of the growing demand for rail rolling stock in the Russian Federation, particularly in relation to freight operations, in general market prices are currently considerably higher than the residual value of such rail rolling stock for the typical lease term in this sector. While VEBL has not experienced any such defaults to date, in the event of a default by any of VEBL's lessees in this sector, VEBL's general expectation is that it would consequently be able to sell the leased asset to a third-party purchaser at a lower than market value price, but one that is still higher than the asset's residual value under the terms of the lease, though this would be dependent on market conditions at the time of such disposal.

Rail rolling stock is also generally considered to be a safer asset than other types of leased assets as, given its nature and the rail system on which it is operated, it is not considered to be at great risk of theft or misappropriation, and, in addition, is subject to a strict monitoring system that enables a unit of rolling stock to be precisely located at any time.

Air Transportation

As a result of the increase in passenger and cargo air traffic over recent years, in combination with the deterioration of existing aircraft fleets in the Russian Federation and the need to replace these with newer and more efficient aircraft, Russian airlines are in the process of modernising their fleets. Accordingly, aircraft leasing has increasingly become a priority business line for VEBL, and the Russian leasing market as a whole. VEBL leased its first aircraft in 2009 and, since then, VEBL's fleet of leased aircraft currently in operation has increased to 10 planes (with 10 more in construction) and 12 helicopters. Air transportation represents the second largest group of assets in VEBL's lease portfolio, and, as at 31 December 2010, comprised 26 per cent. of VEBL's aggregate net investment in leases, as compared to 18 per cent. as at 31 December 2009.

VEBL's material lessees of aircraft include:

Transaero: Transaero is one of the largest privately-held airlines in the Russian Federation. Transaero is engaged in both scheduled and charter domestic and international passenger air transportation. Its activities also include cargo traffic and air transportation-related services. VEBL began leasing aircraft to Transaero in 2009 and currently leases 10 Boeing-manufactured aircraft.

Aeroflot: Aeroflot is the national flag carrier of the Russian Federation and the nation's largest airline. In 2010, Aeroflot and VEBL entered into a finance lease agreement for 10 Sukhoi Superjet 100 aircraft to be delivered to and leased by Aeroflot, in each case for a term of 12 years following delivery. These aircraft are currently in production.

UTair: UTair is an integrated air transport and aircraft services company with over 40 years of experience in the Russian air transport market. UTair operates one of the largest aircraft fleets in the Russian Federation and typically ranks among the top five largest Russian carriers by passenger volume. UTair is also one of the key helicopter operators in the Russian Federation. VEBL began leasing helicopters to UTair in 2009 and currently leases 12 helicopters.

Maritime Transportation

A key component of the Russian economy is oil and gas condensate. Oil and gas producers and refiners require large tankers and super-tankers to transport such products from the Russian Federation. VEBL signed its first lease agreement in this sector in 2010. Since then VEBL's fleet of ships has increased to two Panamax shuttle tankers, two chemical and oil carriers (both of which are currently under construction) and ten sea-river vessels (each of which is currently under construction). As at 31 December 2010, maritime transportation comprised 15 per cent. of VEBL's aggregate net investment in leases, as compared to nil as at 31 December 2009.

VEBL's material lessees of shipping include:

Sovcomflot: Sovcomflot is the largest Russian shipping company and one of the world's leading energy transporters, transporting a full range of crude oil, refined petroleum and liquefied gas products. It is typically among the five leading tanker owners in the world. Sovcomflot is a 100 per cent. Russian Government-owned company with approximately 6,000 sea-based and over 2,000 land-based personnel. VEBL began leasing vessels to Sovcomflot in 2010 and currently leases two vessels.

Volga Shipping Company: Volga Shipping (or Volgaflot) is one the biggest and oldest shipping transportation companies in the Russian Federation, celebrating its 168th anniversary in 2011. The Russian Federation owns 25.55 per cent. of the share capital of Volga Shipping. Volga Shipping's main activities include the transportation of goods on the inner waterways of the Russian Federation, international freight deliveries, tourist transportation and bulk oil transportation. Volga Shipping operates six fleet servicing bases, is a major shareholder of two large shipyards and operates approximately 300 vessels, including cargo boats, tugboats, self-propelled barges, three- and four-deck passenger liners, hydrofoil craft, displacement boats and oil tankers. In late 2009, VEBL and Volga Shipping entered into arrangements for the lease financing of the construction of a series of 10 RSD 44 project self-propelled multi-purpose dry-cargo carriers to be built at the Okskaya Shipyard, which, when constructed will be leased to Volga Shipping in accordance with the terms of the lease agreement.

Energy Industry

Following the liberalisation of the Russian energy sector from 1 July 2008, RAO United Energy Systems (UES) ceased to exist as a state-owned monopoly, and was transformed into various state- and privately-owned companies. One of the Russian Government's key stated aims in the reorganisation of the Russian energy sector was to ensure the implementation of a large-scale investment programme, driven by a shortage of (and corresponding high demand for) energy supply. The liberalisation and reorganisation of UES has led to leasing opportunities in respect of both power generation and power distribution, which VEBL, through VEB's involvement in large-scale energy infrastructure projects, has historically been, and continues to be, in a leading position to take advantage of. Accordingly, VEBL's management views this as one of its key strategic sectors to focus on in order to ensure VEBL's continued growth.

As at 31 December 2010, the energy industry represented the fourth largest group of assets in VEBL's lease portfolio, as compared to the largest as at 31 December 2009. As at 31 December 2010, the energy industry comprised 13 per cent. of VEBL's aggregate net investment in leases, as compared to 54 per cent. as at 31 December 2009, however the actual value of net investments in leases in this sector has not changed materially year-on-year, with net investments in leases in the energy industry of RUB 6,253,545 thousand as at 31 December 2010 and RUB 6,686,667 thousand as at 31 December 2009. Net investments in leases in other sectors, such as rail and air transportation, increased significantly as at 31 December 2010 as compared to 31 December 2009, resulting in a reduction in the energy industry's share of VEBL's total lease portfolio.

An example of VEBL operating in conjunction with VEB on a large energy project is the construction of the Kolomenskoye Co-Generation Gas-Turbine Power Plant (with a capacity of 136MW and located in the Southern Administrative District in Moscow), which commenced on 1 July 2009. Construction of the plant is intended to significantly reduce electric power shortages and enhance electric power security in the Moscow region. Project financing is being provided by VEB and other members of the VEB Group, including VEBL (in relation to leasing services). This is the first power engineering project to have been financed using project financing techniques in the Russian Federation. The total value of the project is approximately US\$240 million, with the VEB Group having provided approximately US\$187.2 million of such finance since March 2008. As at 31 December 2010, the project represented 10 per cent. of VEBL's net investments in leases.

SME (Vehicle Leasing)

As part of its strategy to diversify its lease portfolio and to assist in the development of the Russian SME sector in conjunction with VEB and other members of the VEB Group (see “– Strategy” above), VEBL entered the SME leasing market in 2010. To date, VEBL has focused on providing finance leasing services to SME customers in relation to motor vehicles for corporate use.

VEBL has developed a network of over 50 outlets in Moscow, St. Petersburg and over 40 other large cities in the Russian Federation, in order to provide SME leasing services in the locations convenient to such SME customers. Staff in each such outlet are tasked with sourcing potential customers and

completing lease applications. Each SME lease application is considered and approved at VEBL's Moscow headquarters and then, if approved, returned to the respective outlet for processing.

Although net investment in leases in the SME trade sector represented only 1 per cent. of VEBL's aggregate net investment in leases as at 31 December 2010 (RUB 330,915 thousand), VEBL intends to develop this sector such that, should market conditions permit, it could represent up to 10 to 15 per cent. of VEBL's aggregate net investment in leases in the medium term. In order to achieve this, VEBL intends to further expand its network of outlets over the coming years (and to approximately 70 in 2012).

Other

VEBL is also active in other leasing sectors, including, *inter alia*, equipment for heavy industry, the construction industry, and the radioelectronic industry. As at 31 December 2010, none of these sectors represented a material proportion of VEBL's aggregate net investment in leases.

Given the effects of the global economic downturn, VEBL has limited its exposure to the construction industry in particular, with the sector representing 1 per cent. of VEBL's aggregate net investment in leases as at 31 December 2010, as compared to nil as at 31 December 2009.

Key Competitors

According to Expert RA, as at 31 December 2010 more than 130 companies provided leasing services in the Russian Federation and, of these, over 20 had aggregate net investments in leases exceeding U.S.\$300 million. Despite this, VEBL's principal competitors in the sectors of the Russian domestic leasing market in which VEBL is principally active remain few in number, and are mostly limited to the leasing subsidiaries of state-owned banking groups.

VEBL regards VTB Leasing and Sberbank Leasing to be its two key competitors. VTB Leasing specialises in leasing of rail and air transportation assets and the leasing of construction and other industrial equipment. Sberbank Leasing has traditionally operated in the rail transportation sector, though has more recently expanded into the air transportation and telecommunication equipment sectors. Sberbank Leasing is also developing a regional outlet network in order to increase its exposure to the SME motor vehicle leasing sector, and VEBL anticipates that Sberbank Leasing will become one of its key competitors in that sector, should VEBL achieve its strategic objective of developing its SME leasing business.

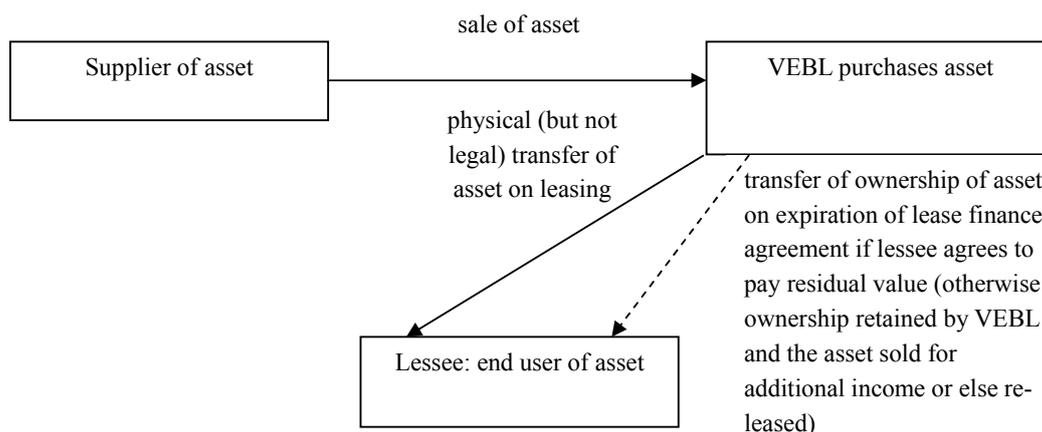
As at 31 December 2010, VEBL's Russian domestic leasing market share by volume of new business was 14.7 per cent., Sberbank Leasing's 13.6 per cent., and VTB Leasing's 12.9 per cent., in each case according to Expert RA. As at 31 December 2010, VEBL was ranked by Leasing in Russia 2010 as the second largest Russian leasing company by volume of new lease transactions in the rail transportation sector, with VTB Leasing first and Sberbank Leasing third; first in the air transportation sector, with Sberbank Leasing second and Ilyushin Finance Co. third; first in the maritime transportation sector, with VTB Leasing second and Gazprombank Leasing third; and third in the energy sector, with Sberbank leasing first and Privolzhskaya Leasing Company second.

Finance Leasing

Under VEBL's typical finance lease agreements, a prospective lessee identifies the asset to be financed and the supplier, with the agreement of VEBL. The asset is then purchased by VEBL and leased to the lessee for a pre-determined period. While on commencement of the lease the leased asset is physically transferred to the lessee, legal and beneficial title to the leased asset remains with VEBL throughout the life of the lease. On expiry of the lease term, after the final payment has been made, the lessee has the option (which it is not obliged to exercise) to buy the asset from VEBL for a residual sum. If the lessee does not opt to buy the asset, VEBL may sell the asset, retaining the sum exceeding the residual value as additional income. VEBL believes that the main advantage of finance leasing over other forms of lending is the ability for VEBL to reclaim the asset on default, as it retains legal and beneficial title, rather than relying exclusively on taking collateral, pledges, guarantees or other security interests over the asset (though depending on the credit profile of a prospective lessee, such additional credit enhancement measures may also be taken). As such, whether the defaulting lessee is in bankruptcy or otherwise, VEBL does not rank as a creditor in the same way as a lending bank would (save as to any unpaid interest due under the finance lease), as it is entitled to take back possession of the asset it legally owns.

Structure

The following diagram illustrates a typical finance leasing transaction:



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

Advantages of Finance Leasing

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

- lease payments are typically tax-deductible and therefore decrease a lessee's income tax base;
- assets under a finance lease agreement may be depreciated in a way more favourable to the lessee when compared to assets purchased outright by the lessee. Depreciation of leased assets may be accelerated by up to three times, and as property tax in the Russian Federation is payable on the value of the asset less depreciation, the lessee is liable to pay less property tax. Accelerated depreciation is, however, not mandatory, and VEBL can use depreciation in other ways as part of the structuring of its finance lease agreements, to achieve maximum tax efficiency for the lessee;
- leasing does not require the pledge of assets or guarantees by the lessee;
- since a lease is not a loan, any borrowing limit contained in the lessee's charter or any loan agreement to which it is party, will not affect the lessee's ability to enter into a lease, whereas a borrowing limit may affect the lessee's ability to enter into a loan. Finance leasing can also provide an alternative, cheaper source of funding for the lessee to conventional bank lending.

Lease Negotiation and Asset Procurement

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

Following agreement on the proposed transaction terms between VEBL and lessee, VEBL works with the asset supplier and/or contractors, and the lessee, in order to prepare and agree transaction documentation based on the agreed terms of the transaction. This may include payment guarantees,

performance guarantees, and surety or pledges by third parties in favour of VEBL (see “– *Finance Leasing – Terms of Finance Lease Agreements*” below). Once the transaction documentation has been completed, VEBL purchases the asset from the supplier and/or pays the contractor and ensures that the asset, once constructed if not already in existence, is supplied to the lessee.

In transactions in the SME motor vehicle sector, the process is different. VEBL has developed standard documentation to be used in all SME transactions, which comprises an application form completed at one of VEBL’s regional outlets by VEBL staff in conjunction with the potential lessee and a standard-form lease agreement. Applications for leasing services in this sector are sent to VEBL’s headquarters for credit analysis. If approved, the relevant outlet enters into the standard lease agreement with the lessee and arranges for purchase of the motor vehicle(s).

Terms of Finance Lease Agreements

As described above, accelerated depreciation is often key to determining the length of a finance lease agreement. The payment schedule varies from lessee to lessee, and may be continuous throughout the term of the finance lease agreement or incorporate an upfront grace period of between 12 and 18 months. The leasing payments are made up of principal, interest, margin and taxes. The interest rate payable by the lessee will depend on the margin, which, in turn, is dependent on VEBL’s expenses incurred in connection with the finance lease agreement and the credit quality of the lessee. Often, finance leases entered into by VEBL will also include provisions for payment guarantees, performance guarantees, and sureties or pledges by third parties in favour of VEBL.

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

The interest rate is determined on the basis of the particular lessee rather than the sector in which the lessee operates. Interest may be three-month or six-month fixed rate or LIBOR floating rate. All floating rate finance lease agreements are reviewed regularly by VEBL’s Financial Risk Management Committee, and the interest rate may be changed once per quarter in accordance with Russian leasing laws. Although VEBL typically secures financing to meet its obligations under a finance lease ahead of signing the agreement, the typical finance lease includes provisions to unilaterally amend the interest rate within agreed parameters and subject to certain conditions if, for example, VEBL’s cost of financing increase, or interest rates or market conditions change, in order to protect its margin on such lease agreement.

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

The development of the Russian leasing market in recent years has led to qualitative changes in the characteristics of leasing transactions, including increased sophistication in deal structuring and longer maturities. See “*Selected Financial Review – Analysis of Financial Condition as at 31 December 2010 and 2009 – Assets – Net investments in leases*” for a breakdown of the maturity profile of VEBL’s gross and net investment in leases as at 31 December 2010 and 2009.

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

Asset and Equipment Risks

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

- *Risk that the market value of the leased asset in the event of a default will be less than the remaining amount due under the lease.* In order to minimise this risk, VEBL structures payments due under a finance lease, and the residual final payment, based on accelerated depreciation of the leased asset, with the intention that, if there were a default, the market value of the leased asset will in general be higher than the depreciated book value of the asset and the unearned finance lease income.
- *Risk of loss, misappropriation, equipment failure and improper operation of equipment.* This risk is minimised, in most cases, by VEBL insuring the asset at the full value of its investment prior to delivery to the lessee (with the cost of such insurance built into the payments due under the lease) or, in the case of certain assets such as aircraft, by requiring the lessee to insure the asset in accordance with stringent international legal standards required for the operation of such assets (see “– Insurance”), and by regular monitoring of assets and equipment by VEBL.
- *Risk of loss or damage to equipment or assets in transport.* This risk is minimised through carriage insurance, pursuant to international regulations for shipments. Such insurance is arranged by VEBL, with the cost factored into payments due to VEBL by the lessee under the finance lease agreement.
- *Risk of non-delivery, or late or incomplete delivery.* This risk is minimised by VEBL procuring bank guarantees, letters of credit and surety guarantees from suppliers as part of the negotiations to purchase the asset.
- *Risk that a lessee lacks required permits to operate the equipment or asset.* This risk is minimised by ensuring that failure to obtain necessary approvals and permits is an event of default under the finance lease agreement and, if necessary, procuring that additional security, such as share pledges or surety guarantees are provided by the lessee.
- *Risk of incomplete equipment or asset certification.* This risk is minimised by VEBL only paying the balance due for the equipment or asset to the supplier after final delivery, upon presentation of the required certification and once the equipment has been thoroughly checked (often an initial down-payment is required by suppliers when the asset is first purchased).
- *Risks that the lessee lacks qualified personnel to operate the equipment.* This risk is minimised by undertakings from the lessee to properly train its employees in the use of the equipment.

Credit Risk Analysis

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

The credit analysis procedures employed by VEBL for managing credit risk are based on models and methodology determined by VEB and (other than for SME leasing transactions) include the following:

- expert pre-screening of any proposed leasing transaction before approval;
- use of credit risk limits in respect of any particular customer or sector;
- ongoing control and monitoring of the financial condition of all lessees to enable any potential defaults to be detected early;
- monitoring of credit risks of major lessees and concentrations of risk; and
- analysis of potential risk increases in respect of any individual or group of assets and lessees.

For SME leasing transactions, a more streamlined credit analysis procedure is used, reflecting the standardised nature and smaller value of such transactions and the larger margin charged (to reflect the increased risk of default). A prospective SME lessee will be asked to complete a standardised application form, which includes corporate and credit information and history, at the appropriate regional outlet. The regional outlet sends this form to VEBL’s headquarters in Moscow, where it is analysed and checks are made against available information with respect to such SME (including corporate registry checks as to good standing), and against the credit risk limits in place for the SME sector at that time, before an approval decision is made. Depending on the particular circumstances of the application, additional security, including pledges or guarantees in favour of VEBL, might be required before approval can be given.

VAT

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

Defaults

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

As at the date of this Prospectus, none of VEBL’s lessees are in default.

Enforcement and Collection Procedures

In accordance with the enforcement and collection procedures prescribed by VEB, the procedures VEBL follows for the collection of overdue payments and/or seizure of the leased asset include:

- active weekly monitoring of a lessee’s account during the first month payments are overdue, in order to determine whether payment of the overdue amount has been made;
- imposition of a penalty interest rate on overdue payments, typically 0.1 per cent. of the value of the overdue payment per day until payment is made, as typically provided for in VEBL’s finance lease agreements;
- procurement of a direct debit order in order for VEBL to collect overdue payments from the debtor lessee’s account, as typically provided for in VEBL’s finance lease agreements;
- attempt to procure of an out-of-court settlement with the debtor lessee, usually involving the early purchase of the leased property by the lessee;
- where an out-of-court settlement is not possible, initiation of court proceedings against the debtor lessee for repossession of the leased asset and, following receipt of court order for repossession of the asset (to which VEBL retains legal and beneficial ownership), use of bailiff services if needed in order to physically obtain such asset.

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

VEBL does not employ external debt recovery agencies in order to collect overdue payments (though, as noted above, it may use the services of bailiffs to recover leased assets where it is in possession of a court order to do so).

Insurance

The assets leased by VEBL to its customers are always covered by insurance policies, the terms of which are dependent on the type of leased asset. As a rule, such insurance policies are entered into by VEBL itself rather than by its customers and VEBL pays the insurance premiums, which are factored into the pricing of the related finance lease agreement. In relation to aircraft or certain sea/river vessels, the lessee is more commonly required to arrange comprehensive insurance, as such insurance is typically a legal requirement of the operation of such asset (especially internationally) and

provided by insurers outside of the Russian Federation. VEBL ensures that failure to arrange or maintain such insurance will always be an event of default under the appropriate lease agreement.

However, VEBL, or its leased assets, may not carry insurance coverage at levels comparable to those customary in other countries for a company of its size and nature and, under some circumstances, its insurance coverage may prove insufficient. The same is true of many Russian companies, as the Russian insurance sector is not fully developed and insurance is not widely relied upon to manage operational risk. This is particularly the case in the leasing sector, where the concept of residual value is still relatively new and yet to be properly understood by insurance companies. VEBL therefore insures its assets based on 100 per cent. of the invested funds in those assets rather than on the basis of residual value or the credit profile of the lessee.

VEBL does not maintain any key man insurance.

Information Technology

VEBL has information technology (IT) systems which fully support its leasing operations in the Russian Federation. The systems mainly operate on the basis of the 1C-Homenet Leasing 8.0 operating system.

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

VEBL believes that its current IT platform is sufficient to meet the needs of its business, and is comparable with peers in the Russian leasing market. However as it expands its SME business, VEBL intends to further develop its IT systems to ensure it can process applications, and monitor leases, in this sector as efficiently as possible.

Employees

General

The number of employees employed by the Group was 89 in 2008, 81 in 2009 and 347 in 2010. There was a slight decrease of personnel in 2009, as a result of a small number of employees voluntarily leaving VEBL. VEBL has not made any redundancies in the period under review. The significant increase in employee numbers in 2010 reflects the significant growth of the SME business of VEBL and expansion of the VEBL's presence in the regions of the Russian Federation (see "*Principal Business Activities – SMEs (Vehicle Leasing)*").

Social policy and Employee Benefits

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

VEBL provides an extensive training programme for new employees as well as ongoing training for existing employees. The training programme provides both internal and external professional training for employees at all levels. External training programmes are provided by a third party and relate to programmes for the improvement of employee's qualifications. Internal trainings are provided by the Division for the Development of Internal Communication and Education of the Sales Department of VEBL, and relate to trainings in sales and technological equipment. In addition, those employees who lack English language skills are provided with appropriate English language courses.

None of VEBL's employees are represented by a labour union or governed by a collective bargaining agreement. VEBL considers that its relationship with its employees is good.

Litigation

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

SELECTED FINANCIAL REVIEW

The following selected financial review covers the years ended 31 December 2010 and 2009. Unless otherwise specified, the financial information presented in this discussion has been extracted or derived from the VEBL Financial Statements without material adjustment. This section should be read in conjunction with the VEBL Financial Statements and the notes thereto, and the other financial information included elsewhere in this Prospectus.

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

Overview

VEBL is a leading Russian transportation asset, equipment and machinery finance leasing company offering finance leasing services to large Russian private and state-owned enterprises, such as Aeroflot, Transaero, UTair, the Russian Railways Group (and in particular its freight subsidiary, Freight One), Sovcomflot and Volgaflot. Such finance leases are principally extended in relation to the leasing of transportation assets in the air, maritime and rail sectors, and large and high-tech equipment principally for the energy sector, in each case produced by leading Russian and international manufacturers, such as Boeing and Sukhoi in the aviation sector, Admiralty Shipyards in the maritime sector, Uralvagonzavod in the rail sector and Siemens in the energy sector. Since 2010, VEBL has also been active in the SME sector, where it is principally engaged in the leasing of motor vehicles for corporate use out of its network of regional outlets.

As at 31 December 2010, VEBL had RUB 75,224,443 thousand in total assets (as compared to RUB 19,393,758 thousand as at 31 December 2009); RUB 70,477,071 thousand in total liabilities (as compared to RUB 16,713,880 thousand as at 31 December 2009) and RUB 4,747,372 thousand in total equity (as compared to RUB 2,679,878 thousand as at 31 December 2009).

For the year ended 31 December 2010, VEBL generated interest income of RUB 4,030,520 thousand (as compared to RUB 2,161,508 thousand for the year ended 31 December 2009); net interest income (after impairment of interest-earning assets) of RUB 2,031,786 thousand (as compared to RUB 1,330,052 thousand for the year ended 31 December 2009), non-interest income of RUB 239,791 thousand (as compared to RUB 551,329 thousand for the year ended 31 December 2009) and a net profit for the year of RUB 891,034 thousand (as compared to RUB 967,057 thousand for the year ended 31 December 2009).

Key Factors affecting the Results of Operations

Operating Environment: Availability of Credit and Customer Demand

The majority of VEBL's assets and investments in leases, and all of its significant customers, are located in, or have businesses related to, the Russian Federation. Further, VEBL's majority shareholder is VEB, which, in turn, is owned by the Russian Federation. As such, VEBL is significantly affected by Russian economic and its legal and business operating environment (see “*Risk Factors – Risks Relating to the Russian Federation*”).

The Russian economy is to a significant degree dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials. Dramatic falls in the prices of these commodities in the international market in the second half of 2008 and through 2009 resulted in sharp decreases in the revenues of the Russian government and of privately held Russian companies operating in these sectors, which in turn had a severely negative effect on the Russian economy overall. At the same time, the global economic downturn and turmoil in the global financial markets had a significant effect on the Russian economy, and the lack of liquidity and available credit at rates attractive to businesses, or at all, curtailed the capital expenditure of many companies, including state-owned enterprises, which, in turn, had a significant impact on VEBL's access to credit to fund its operations and the volume of new business VEBL was able to attract in 2009.

Commodity prices, and in particular the price of crude oil, strengthened significantly through the latter half of 2009 and 2010. During the same period, the Russian government has continued to pursue economic reforms and the development of its legal, tax and regulatory frameworks, including giving VEB a significant role as one of the key state-owned vehicles for the stabilisation and development of the Russian economy, all of which was intended to assist in the recovery from the

economic slowdown, and to ensure stability in Russia's continued development as a market economy. The upturn in the Russian economy as a result of these and other factors, together with VEB's key role in supporting Russia's continued economic development and economic stability, has allowed VEBL to secure significant credit funding, both from the VEB group and third-parties – amounts due to credit institutions stood at RUB 58,782,811 thousand as at 31 December 2010, a 372 per cent. increase as compared to RUB 12,466,298 as at 31 December 2009, with approximately 31 per cent. of such outstanding loans due to the VEB group as at 31 December 2010. It has also allowed VEBL to access Russia's domestic capital markets, with non-convertible bonds and promissory notes in a total principal amount of RUB 5,310,258 thousand issued as at 31 December 2010 (as compared to nil as at 31 December 2009). The resulting increase in interest expense, combined with the losses on derivative transactions that were entered into as hedges for such increased borrowings (see “– *Derivative Transactions*” below), and the time lag experienced between the increase in net investments in leases made by VEBL during the year ended 31 December 2010 and the consequent increase in net interest income (see “– *Growth of Lease Portfolio*” below), have had a negative effect on VEBL's net profit for the year ended 31 December 2010 (See “– *Funding*”). This availability of credit, together with the onset of Russia's economic recovery, which has led to increased demand for finance lease products from large Russian companies, allowed VEBL to increase its net investment in leases by 287 per cent. to RUB 47,333,556 thousand as at 31 December 2010, as compared to 12,230,015 thousand as at 31 December 2009.

There can be no assurance that Russia's economic recovery will continue at the current pace, or at all, and there continues to be uncertainty regarding further economic growth and access to and cost of capital, which could negatively affect VEBL's future financial position, results of operations and business prospects (see “*Risk Factors – Economic Risks Relating to the Russian Federation – Fluctuations in the global economy have an immediate impact on the Russian economy*”).

Growth of Lease Portfolio

During the year ended 31 December 2010, there was a significant increase in the size of VEBL's aggregate lease portfolio (with net investment in leases increasing by 287 per cent. to RUB 47,333,556 thousand as at 31 December 2010, as compared to RUB 12,230,015 thousand as at 31 December 2009), largely as a result of a combination of restored access to credit facilities and other financing, and an increase in customer demand for finance lease products as the condition of the Russian economy improved (see “– *Operating Environment*”, above). However, as the growth in net investment in leases was spread across the year, the full impact of such growth on net interest income will only be seen in 2011.

New SME Strategy and Expansion of Outlet Network

In 2010 VEBL began to implement its strategy to diversify from extending finance leases solely to large private and state-operated enterprises, and entered the SME market, in line with VEB's strategy (see “*Business – Strategy*”). To date, VEBL has targeted largely SME customers requiring finance lease arrangements for corporate motor vehicles. For the year ended 31 December 2010, this segment represented only approximately 1 per cent. of VEBL's aggregate lease portfolio, with net investment in leases in the trade sector of RUB 330,915 thousand as at 31 December 2010. Fees and commission income recognised in the consolidated income statement in the amount of RUB 4,119 thousand was generated for the year ended 31 December 2010, all of which was attributable to VEBL's SME business (as compared to nil for the year ended 31 December 2009). VEBL has invested in its outlet network during the period under review, with the network intended to service its SME and, in due course, retail, customer base. VEBL currently operates over 50 outlets across the Russian Federation.

Although the SME sector accounted for only approximately 1 per cent. of VEBL's aggregate lease portfolio for the year ended 31 December 2010, VEBL expects this proportion to increase (see “*Business – Strategy*” and “*Business – Principal Business Activities – Trade*”), as, it expects, will the SME sector's contribution to VEBL's financial results, especially given that, many of the costs associated with establishing this business, including those relating to the establishment of its outlet network have been charged in the year ended 31 December 2010 but the benefit of future revenues from this sector will be felt beyond this period.

Derivative Transactions

In the years ended 31 December 2010 and 2009, VEBL entered into a number of derivative transactions with domestic (and in 2009, foreign) counterparties. These transactions were entered into by VEBL in order to hedge against currency or interest-rate mismatches between VEBL's receivables

and its liabilities. VEBL records the value of derivative transactions on a fair value basis, with subsequent revaluations for each reporting period. For the year ended 31 December 2009, VEBL net realised gains from derivative financial instruments of RUB 681,740 thousand, comprising RUB 171,871 thousand of net realised gains arising from swap transactions and RUB 509,869 thousand of net unrealised gains arising from swap transactions. This was in contrast to net losses from derivative financial instruments of RUB 88,600 thousand for the year ended 31 December 2010, as, despite closing out one significant open swap transaction during the year ended 31 December 2010 resulting in net realised gains arising from swap transactions of RUB 428,012 thousand for that year, held by VEBL diminished such that VEBL also accounted for net unrealised losses on the fair value of unrealised derivative instruments arising from swap transactions of RUB 516,612 thousand for the year. Foreign exchange and interest rate market conditions were much more volatile in 2009 than in 2010, which resulted in larger foreign exchange and interest rate fluctuations in 2009 as compared to 2010. The relevant foreign exchange and interest rates are used to determine the fair value of an unrealised derivative instrument, and as a consequence, VEBL recognised significant net unrealised gains for 2009, as compared to net unrealised losses for 2010. Although VEBL recognised overall net gains arising from swap transactions for both the years ended 31 December 2010 and 2009, the significant net unrealised gains arising from swap transactions realised for the year ended 31 December 2009 and the net unrealised losses arising from swap transactions realised for the year ended 31 December 2010 had a significant positive effect on non-interest income, which amounted to RUB 551,329 thousand for the year ended 31 December 2009, and consequently on net profit for the year ended 31 December 2009, and a significant negative effect on non-interest income, which dropped to RUB 239,791 thousand for the year ended 31 December 2010, and consequently on net profit from the year ended 31 December 2010, respectively.

Principal Accounting Policies

VEBL's Principal Accounting Policies are described in note 3 to the VEBL Financial Statements.

Results of Operations for the two years ended 31 December 2010 and 2009

The following table sets out VEBL's profit for the year and the principal components thereof for the two years ended 31 December 2010 and 2009:

	Year ended 31 December	
	2010	2009
	<i>(RUB thousands)</i>	
Interest income		
Finance leases	3,620,285	1,968,051
Amounts due from credit institutions	44,453	66,991
Loans receivable	365,782	126,466
	4,030,520	2,161,508
Interest expenses		
Amounts due to credit institutions	(1,685,381)	(763,744)
Debt securities issued	(195,318)	—
Amounts payable to equipment suppliers	(54,457)	(94,093)
	(1,935,156)	(857,837)
Net interest income	2,095,364	1,303,671
Reversal of allowance/(allowance) for impairment of interest-earning assets	(63,578)	26,381
Net interest income after impairment of interest earning assets	2,031,786	1,330,052
Fees and commission income	4,119	
Fee and commission expenses	(19,469)	(8,753)
Net gains/(losses) from derivative financial instruments	(88,600)	681,740
Net gains/(losses) arising from foreign currencies:		
– conversion transactions	13,262	(41,318)
– translation differences	166,664	(118,643)
Share of profit/(loss) of associates	(21,262)	—
Other income	169,727	29,550
	239,791	551,329
Non-interest income/(expense)		
Personnel expenses	(345,180)	(123,897)
Depreciation of property and equipment	(52,094)	(10,339)
Other operating expenses	(699,247)	(636,248)
Allowance/(reversal of allowance) for impairment of other assets	(44,208)	1,142
	(1,140,729)	(769,342)
Profit before income tax expense	1,115,498	1,103,286
Income tax expense	(224,464)	(281,590)
Net income for the year from discontinued operations	—	145,361
Profit for the year	891,034	967,057

Profit for the year ended 31 December 2010 was RUB 891,034 thousand, a 8 per cent. decrease as compared to 967,057 thousand for the year ended 31 December 2009. Although this drop in net profit for the year was partially attributable to VEBL recording significantly stronger net gains from derivative financial instruments for the year ended 31 December 2009 as compared to the year ended 31 December 2010 (see “*Significant Factors affecting the Results of Operations – Derivative transactions*” above), a drop in income from discontinued operations for the year ended 31 December 2010 as compared to the year ended 31 December 2009, the costs of entry into the SME sector and costs associated with the establishment of VEBL's regional outlet network and subsequent approximate fourfold increase in personnel numbers (see “*Business – Employees*”), were also significant factors affecting profit for the year ended 31 December 2010. The cost of establishing and operating VEBL's SME outlets is chiefly reflected in increased personnel expenses – RUB 345,180

thousand for the year ended 31 December 2010, a 179 per cent. increase as compared to RUB 123,897 thousand for the year ended 31 December 2009. The decrease in net income was partly offset by a 53 per cent. increase in net interest income (after impairment of interest-earning assets) to RUB 2,031,786 thousand for the year ended 31 December 2010, as compared to RUB 1,330,052 thousand for the year ended 31 December 2009. See “– *Significant factors affecting the Results of Operations – New SME Strategy and Expansion of Outlet Network*” and “– *Derivative Transactions*”.

Interest income

Interest income for the year ended 31 December 2010 was RUB 4,030,520 thousand, a 86 per cent. increase, as compared RUB 2,161,508 thousand for the year ended 31 December 2009. This increase was largely due to an increase in the number of new finance leases extended (see “– *Analysis of Financial Condition as at 31 December 2010 and 2009 – Assets – Net Investments in Leases*”), which resulted in interest income attributable to finance leases increasing by 84 per cent. to RUB 3,620,285 thousand for the year ended 31 December 2010, as compared to RUB 1,968,051 thousand for the year ended 31 December 2009. Increase in interest income was also partially offset by a decrease in the interest rates charged by VEBL on its finance leases for the year ended 31 December 2010 as compared to the year ended 31 December 2009.

VEBL has also extended unsecured loans, with interest rates ranging from 9.7 – 16 per cent. per annum, with the two most significant being to support two associated companies active in the Ukrainian leasing market see “– *Analysis of Financial Condition as at 31 December 2010 and 2009 – Assets – Loans Receivable*”). The loans receivable portion of interest income for the year ended 31 December 2010 was RUB 365,782 thousand, a 189 per cent. increase, as compared RUB 126,466 thousand for the year ended 31 December 2009, due to a significant increase in the aggregate principal amount of loans extended. This is a result of the two most significant loans (being the loans to the Ukrainian leasing companies referred to above) being entered into in 2010. In addition, certain other loans extended previously, and for which VEBL recorded loans receivable income for the year ended 31 December 2009, were repaid during 2010, which had a negative impact on the loans receivable portion of interest income for the year ended 31 December 2010.

Interest expense

Interest expense for the year ended 31 December 2010 was RUB 1,935,156 thousand, a 126 per cent. increase, as compared to RUB 857,837 thousand for the year ended 31 December 2009. This increase was primarily due to the significant increase in the interest due to credit institutions – RUB 1,685,381 thousand for the year ended 31 December 2010, a 121 per cent. increase as compared to RUB 763,744 thousand for the year ended 31 December 2009, which was driven by a significant increase in amounts due to credit institutions to fund VEBL’s growth and which was partially offset by a decrease in the interest rates charged on amounts due to credit institutions for the year ended 31 December 2010 as compared to the year ended 31 December 2009. An interest expense of RUB 195,318 thousand was charged for the year ended 31 December 2010 in respect of debt securities issued in 2010, as compared to nil for the year ended 31 December 2009. See “– *Funding*”.

Net interest income

VEBL’s net interest income for the year ended 31 December 2010, after impairment of interest-earning assets, was RUB 2,031,786 thousand, a 53 per cent. increase as compared to RUB 1,330,052 thousand for the year ended 31 December 2009, reflecting the relative increases in interest income and interest expense discussed above and the significant growth of VEBL’s lease portfolio in 2010.

Fees and commission income

VEBL recorded fee and commission income of RUB 4,119 thousand for the year ended 31 December 2010, as compared to nil for the year ended 31 December 2009. This fee and commission income was generated as a result of VEBL’s entry into the SME leasing sector in 2010, with VEBL charging lease underwriting fees to SME customers (as it is usual practice in the SME sector, but not in relation to leases to large private or state-owned enterprises).

Fee and commission expense

Fee and commission expense increased by 122 per cent. to RUB 19,469 thousand for the year ended 31 December 2010, as compared to RUB 8,753 thousand for the year ended 31 December 2009. This increase was principally due to the increase in the size of VEBL’s loan portfolio, with certain transactions requiring VEBL to pay banking fees and commissions.

Non-interest income

Non-interest income decreased by 57 per cent. to RUB 239,791 thousand for the year ended 31 December 2010, as compared to RUB 551,329 thousand for the year ended 31 December 2009. This decrease was primarily attributable to VEBL realising net losses from derivative financial instruments of RUB 88,600 thousand for the year ended 31 December 2010 (despite realised gains arising from swap transactions of RUB 428,012 thousand for the year ended 31 December 2010, VEBL also accounted for unrealised net losses arising from swap transactions of RUB 516,612 thousand for the same year) as compared to net gains from derivative financial instruments of RUB 681,740 for the year ended 31 December 2009 (for a discussion as to the background to such derivative transactions, see “*Significant Factors affecting the Results of Operations – Derivative Transactions*”).

VEBL also purchased an aircraft (though a foreign subsidiary of VEBL) with a carrying value of RUB 1,032,782 thousand for use by members of the VEB Group for corporate purposes. VEBL realised other non-interest income of RUB 95,662 thousand for the year ended 31 December 2010 from other members of the VEB Group, as a result of VEBL’s operation of the aircraft.

Non-interest expense

Non-interest expense increased by 48 per cent. to RUB 1,140,729 for the year ended 31 December 2010, as compared to RUB 769,342 for the year ended 31 December 2009. This increase was primarily driven by an increase in personnel expenses, which increased by 179 per cent. to RUB 345,180 thousand for the year ended 31 December 2010, as compared to RUB 123,897 thousand for the year ended 31 December 2009, as a result of an approximately fourfold increase in the number of personnel employed by VEBL, principally to staff its expanded outlet network which expanded significantly in 2010 in order to support VEBL’s expansion into SME leasing (see “*Business – Employees*” and “– *Significant Factors affecting the Results of Operations – New SME Strategy and Expansion of Outlet Network*”).

Discontinued operations

For the year ended 31 December 2009, VEBL recorded net income from discontinued operations of RUB 145,361 thousand (as compared to nil for the year ended 31 December 2010), which resulted from the divestiture in 2009 of all of VEBL’s investment in 100 per cent. of the share capital of Aero-Kamov LLC, a company engaged in aviation equipment maintenance.

Analysis of Financial Condition as at 31 December 2010 and 2009

	As at 31 December	
	2010	2009
	<i>(RUB thousands)</i>	<i>(RUB thousands)</i>
Assets		
Cash and cash equivalents	2,146,410	1,220,892
Amounts due from credit institutions	—	583,776
Derivative financial assets	65,860	580,856
Net investment in leases	47,333,556	12,230,015
Loans receivable	7,302,903	747,952
Equipment purchased for leasing purposes	2,046,578	933,715
Advances issued to leasing equipment suppliers	11,420,569	2,588,021
Property and equipment	1,134,489	25,252
VAT receivable	2,992,640	155,718
Current income tax assets	2,437	7,902
Deferred income tax assets	7,308	—
Other assets	771,693	319,659
Total assets	75,224,443	19,393,758
Liabilities		
Amounts due to credit institutions	58,782,811	12,466,298
Borrowings payable	3,371,258	1,804,789
Debt securities issued	5,310,258	—
Derivative financial liabilities	72,604	70,988
Advances received from lessees	1,919,234	840,203
Amounts payable to equipment suppliers	335,342	946,157
Current income tax liabilities	68	1,685
Deferred income tax liabilities	501,231	389,315
Other liabilities	184,265	194,445
Total liabilities	70,477,071	16,713,880
Equity		
Share capital	4,172	4,172
Additional paid-in capital	2,744,246	2,431,558
Treasury shares	(86,701)	(935,841)
Currency translation differences	16,894	2,262
Retained earnings	2,068,761	1,177,727
Total equity	4,747,372	2,679,878
Total equity and liabilities	75,224,443	19,393,758

Assets

As at 31 December 2010, VEBL had total assets of RUB 75,224,443 thousand, an increase of 288 per cent. as compared to RUB 19,393,758 thousand as at 31 December 2009.

Cash and cash equivalents

As at 31 December 2010, VEBL had cash and cash equivalents of RUB 2,146,410 thousand, an increase of 76 per cent. as compared to RUB 1,220,892 thousand as at 31 December 2009. This increase was due to more cash being generated as a result of the increased investment in leases during the year ended 31 December 2010 as compared to the year ended 31 December 2009. A significant portion of cash and cash equivalents represents deposits with VEB and banks within the VEB group (RUB 1,808,521 thousand as at 31 December 2010, as compared to RUB 975,572 thousand as at 31 December 2009).

Amounts due from credit institutions

As at 31 December 2010, VEBL had nil amounts due from credit institutions, as compared to RUB 583,776 thousand as at 31 December 2009, RUB 373,750 thousand of which represented time deposits for more than 90 days with banks of the VEB group, which were repaid to VEBL by 31 December 2010. These time deposits were used for liquidity management purposes, with the funds used during 2010 towards the funding of the growth of VEBL's lease portfolio.

Derivative Financial Assets

As at 31 December 2010, VEBL RUB 65,860 thousand of derivative financial assets, a decrease of 89 per cent. as compared to RUB 580,856 thousand as at 31 December 2009. This decrease resulted from VEBL closing out the open swap transactions during the year ended 31 December 2010 that it had taken out in 2009 to hedge its currency and interest rate exposure at such time (see “*Significant Factors affecting the Results of Operations – Derivative Transactions*”).

Net investment in leases

As at 31 December 2010, VEBL had net investment in leases of RUB 47,333,556 thousand, an increase of 287 per cent. as compared to RUB 12,230,015 thousand as at 31 December 2009. This increase was due to the implementation of VEBL's strategy to actively grow its lease portfolio, together with improvements in VEBL's operating environment, including in relation to the availability of credit to finance investment in leases and in the Russian economy, which resulted in increased customer demand for leasing services (see “*Significant Factors affecting the Results of Operations – Operating Environment: Availability of Credit and Customer Demand*”). As at 31 December 2010, no equipment was pledged as collateral under VEBL's loan agreements, compared to equipment worth RUB 394,058 thousand as at 31 December 2009 (see *note 24 to the VEBL Financial Statements*).

The following table sets out the maturity profile of gross and net investment in leases as at 31 December 2010 and 2009:

	As at 31 December 2010				As at 31 December 2009			
	Less than 1 year	From 1 to 5 years	Over 5 years	Total	Less than 1 year	From 1 to 5 years	Over 5 years	Total
	<i>(RUB thousands)</i>							
Gross investment in leases	11,665,860	37,964,877	20,457,020	70,087,757	4,501,812	10,771,119	2,565,994	17,838,925
Less unearned finance income	(877,926)	(11,763,349)	(9,948,960)	(22,590,235)	(440,078)	(3,852,567)	(1,148,025)	(5,440,670)
Net investment in leases	10,787,934	26,201,528	10,508,060	47,497,522	4,061,734	6,918,552	1,417,969	12,398,255

For a breakdown of VEBL's net investment in leases by sector, see “*Business – Principal Business Activities*”.

Loans receivable

Loans receivable (less allowance for impairment losses) were RUB 7,302,903 thousand as at 31 December 2010, a 876 per cent. increase as compared to RUB 747,952 thousand as at 31 December 2009. As at 31 December 2010, this line item included loans to support two related companies active in the Ukrainian leasing market. The aggregate principal amount of the loans is RUB 6,755,547 thousand, and they accrue interest at 9.7 per cent. per annum and 10.9 per cent. per annum, respectively. These loans are in the process of being repaid according to the payment schedule agreed in the terms of the loans.

Equipment purchased for leasing purposes

Equipment purchased for leasing purposes amounted to RUB 2,046,578 thousand as at 31 December 2010, an increase of 119 per cent. as compared to RUB 933,715 thousand as at 31 December 2009. This line item represents equipment purchased by VEBL, which is to be transferred under finance lease agreements which VEBL has entered into with lessees. During the year ended 31 December 2010, the Group primarily purchased helicopters to be transferred to lessees. During the year ended 31 December 2009, the Group primarily purchased manufacturing equipment to be transferred to lessees.

Advances issued to leasing equipment suppliers

As part of the finance lease arrangements entered into with lessees, VEBL may agree to advance payment to an equipment supplier ahead of construction of an asset to be leased. Advances issued to leasing equipment suppliers were RUB 11,420,569 thousand as at 31 December 2010, an increase of 341 per cent. as compared to RUB 2,588,021 thousand as at 31 December 2009. As at 31 December 2010, advances issued to five major Russian suppliers of leasing equipment represented 71 per cent. of the total amount. As at 31 December 2009, advances issued to seven major Russian suppliers of leasing equipment represented 99 per cent. of the total amount.

Property and equipment

Property and equipment amounted to RUB 1,134,489 thousand as at 31 December 2010, an increase of 4,393 per cent. as compared to RUB 25,252 thousand as at 31 December 2009. This increase primarily relates to the purchase of an aircraft for use by members of the VEB Group for corporate purposes, and in respect of which VEBL realised other income of RUB 95,662 thousand for the year ended 31 December 2010 (see “– *Results of Operations for the two years ended 31 December 2010 and 2009 – Non-interest income*”).

VAT receivable

VAT receivable amounted to RUB 2,992,640 thousand as at 31 December 2010, an increase of 1,822 per cent. as compared to RUB 155,718 thousand as at 31 December 2009. This increase was due to the growth in VEBL’s lease portfolio during 2010, and the commensurate increase in refundable VAT on assets purchased for such leases.

Liabilities

As at 31 December 2010, VEBL had total liabilities of RUB 70,477,071 thousand, an increase of 322 per cent. as compared to RUB 16,713,880 thousand as at 31 December 2009.

Amounts due to credit institutions

Amounts due to credit institutions, representing bank loans provided for leasing operations, amounted to RUB 58,782,811 thousand as at 31 December 2010, an increase of 372 per cent. as compared to RUB 12,466,298 thousand as at 31 December 2009. This increase reflects the increased borrowings VEBL made during the year ended 31 December 2010, taking advantage of improved credit conditions to fund its growth of leasing operations (see “ *Significant Factors affecting the Results of Operations – Operating Environment: Availability of Credit and Customer Demand*”). See “– *Funding*” below.

Borrowings payable

Borrowings payable relates to funding provided by United Shipbuilding Corporation, a non-banking related party of VEBL, to VEBL to finance major lease transactions, which amounted to RUB 3,371,258 thousand as at 31 December 2010, as compared to RUB 1,804,789 thousand as at 31 December 2009, an increase of 87 per cent. These borrowings are denominated in RUB (and bear an effective interest rate of 8.75 per cent. per annum) and US Dollars (with an effective interest rate of 5 per cent. per annum). See “– *Funding*” below.

Debt securities issued

Debt securities issued amounted to RUB 5,310,258 thousand as at 31 December 2010, as compared to nil as at 31 December 2009. In July 2010, VEBL issued its 5-year series 1 interest bearing non-convertible bonds in the Russian domestic market, with an aggregate principal value of RUB 5 billion. (see “– *Funding*” below). During 2010, VEBL purchased back some of these bonds in the open market and, as at 31 December 2010, an amount of RUB 3,786,413 thousand was outstanding. As at 31 December 2010, VEBL also had issued promissory notes to the value of RUB 1,523,845 thousand, payable on demand but not earlier than March 2011.

Advances received from lessees

Advances received from lessees amounted to RUB 1,919,234 thousand as at 31 December 2010, an increase of 128 per cent. as compared to RUB 840,203 thousand as at 31 December 2009. These payments represent advance payments required from lessees pursuant to certain types of leases in advance of delivery of the leased asset and therefore the increase was attributable to advances received under several new large lease arrangements entered into with lessees during the year ended 31 December 2010.

Amounts payable to equipment suppliers

Amounts payable to equipment suppliers were RUB 335,342 thousand as at 31 December 2010, a decrease of 65 per cent. as compared to RUB 946,157 thousand as at 31 December 2009. This decrease is primarily attributable to the shift in VEBL's lease portfolio from equipment to be constructed (and for which down payments are often required) in 2009, to assets such as railway rolling stock, which are typically purchased completed without the need for down payments. Depending on the nature of the asset being constructed and/or the identity of the customer, the customer may make down payments to equipment suppliers directly.

Equity

Total equity increased to RUB 4,747,372 thousand as at 31 December 2010, an increase of 77 per cent. as compared to RUB 2,679,878 thousand as at 31 December 2009. This increase is largely attributable to a decrease in the value of treasury shares held by VEBL (which amounted to RUB 86,701 thousand as at 31 December 2010, as compared to RUB 935,841 thousand as at 31 December 2009) as a result of the sale of RUB 849,140 thousand of such treasury shares to Globexbank (a related party and member of the VEB group) during the year ended 31 December 2010 (see *note 23 to the VEBL Financial Statements*), and an increase in retained earnings (RUB 2,068,761 as at 31 December 2010, as compared to RUB 1,177,727 as at 31 December 2009).

No dividends were declared in 2010 in respect of the year ended 31 December 2009.

Funding

VEBL funds its leasing operations primarily through a combination of loans from VEB and other banks within the VEB group, and third-party credit institutions, borrowings from non-bank entities within the VEB group and the issuance of promissory note and debt securities. Although VEBL had significantly reduced its reliance on funding from VEB, or other members of the VEB group, including Globexbank and Svyaz-Bank, each of which are related parties, during the year ended 31 December 2010, as compared to the year ended 31 December 2009, these entities still provide a significant portion of VEBL's funding requirements. As at 31 December 2010, approximately 31 per cent. of VEBL's total debt funding came from VEB or other VEB group entities, as compared to approximately 74 per cent. as at 31 December 2009.

As at 31 December 2010, RUB 58,782,811 thousand was due to credit institutions in respect of bank loans provided for leasing operations (as compared to RUB 12,466,298 thousand as at 31 December 2009). Approximately 31 per cent. of loans outstanding as at 31 December 2010 were granted by VEB and other banks within the VEB group, approximately 10 per cent. by VTB Bank OJSC and its subsidiaries and associated companies (the **VTB Group**), with the remaining loans granted by Deutsche Bank AG, Credit Suisse International, Goldman Sachs International, JP Morgan Chase Bank N.A. London Branch, Alfa-Bank and OJSC Sberbank. This compares to approximately 74 per cent. of loans outstanding extended by VEB and other members of the VEB group as at 31 December 2009, with 17 per cent. of loans outstanding granted by the VTB Group (see *note 18 to the VEBL Financial Statements*). The proportion of VEBL's total debt funding represented by bank loans has remained constant over the period under review, representing 87 per cent. as at 31 December 2010 and 2009.

As at 31 December 2010, borrowings in the aggregate amount of RUB 3,371,258 thousand had been received from United Shipbuilding Corporation, a non-banking related-party of VEBL, in order to finance major lease transactions, as compared to RUB 1,804,789 thousand as at 31 December 2009 (see *note 19 to the VEBL Financial Statements*). Borrowings payable represented 5 per cent. of VEBL's total debt funding as at 31 December 2010, as compared to 13 per cent. as at 31 December 2009.

In July 2010, VEBL issued its 5-year Series 1 interest bearing non-convertible bonds in the domestic market, in an aggregate principal amount of RUB 5 billion. The principal due on these bonds will be repaid in five equal tranches, of which the first tranche will be repaid in July 2013 and the remaining tranches semi-annually thereafter. Interest is payable on a semi-annual basis at the rate of 8.5 per cent. per annum. VEBL has provided a put option to bond holders, that may be exercised at par value in tranches of 1 million bonds on certain dates, the first of which is three years from the placement date. In July 2010, VEBL purchased some of these bonds back in the open market. As at 31 December 2010, RUB 3,786,413 thousand in aggregate principal amount of bonds were outstanding, as compared to nil as at 31 December 2009.

As at 31 December 2010, VEBL had issued for cash non-interest-bearing US Dollar-denominated promissory notes to third parties, with a nominal value of RUB 1,546,957 thousand, payable on demand but not earlier than March 2011. These notes were issued at a discount, providing an effective rate of 6 per cent. per annum. The booked liability in respect of these notes as at 31 December 2010 was RUB 1,523,845 thousand. Debt securities issued represented 8 per cent. of VEBL's total debt funding as at 31 December 2010, as compared to 0 per cent. as at 31 December 2009.

In addition, although VEBL attempts to fund on a matched basis wherever possible, VEBL enters into derivative transactions to hedge against interest rate or foreign currency fluctuations as required (see “– *Significant Factors affecting the Results of Operations – Derivative Transactions*”).

Recent Developments

On 11 January 2011 VEBL sold its 84,771 shares in VEBL that it previously held as treasury shares to VEB-Leasing Europe S.á r.l. which is a wholly-owned subsidiary of VEBL. As a result of this transaction, the number of shares of VEBL held directly by VEBL decreased to zero and VEB-Leasing Europe S.á r.l. became a shareholder of VEBL.

On 4 February 2011 VEBL issued series 3, 4 and 5 non-convertible interest-bearing documentary registered bonds in the Russian domestic market, in an aggregate principal amount of RUB 15,000,000 thousand, with the first tranche bearing interest at 7.5 per cent. per annum and the other two tranches at 8.6 per cent. per annum. Each series matures in 2021, with a put option exercisable in respect of the series 3 bonds in 2014 and in respect of the series 4 and series 5 bonds in 2016.

On 4 February 2011 VEBL purchased 99.99 per cent. of share capital of LLC HotelStroy for cash consideration of RUB 1,400,140 thousand at the direction of VEB (such transaction having been approved at the VEB level). This newly acquired subsidiary is engaged in the construction business in Russia, principally in relation to hotels in Sochi. Although not related to VEBL's principal business activities, this was viewed as an opportunistic acquisition given the demand for hotel capacity in Sochi ahead of the winter Olympic Games, due to be held in the city in 2014.

On 28 February 2011, the shareholders of VEBL adopted a resolution to issue additional shares with an aggregate par value of RUB 4,000,000 (the **Additional Capital**). On 28 March 2011, VEBL entered into a share purchase agreement with VEB, in accordance with the terms of which VEB agreed to purchase the Additional Capital at a premium, with an aggregate purchase price of RUB 10,000,000 thousand, payable in two equal tranches. The shares with an aggregate nominal value of RUB 2,000,000 were transferred immediately to VEB, with the first tranche of the purchase price paid on 29 March 2011. As a result, VEB increased the size of its shareholding in VEBL to 66.20 per cent. (from 50 per cent. plus one share as at 31 December 2010), with VEBL's other shareholders (all members of the VEB Group) having their shareholdings adjusted downwards accordingly. The second tranche is due to be paid not later than 30 September 2011, and the remaining shares with an aggregate nominal value of RUB 2,000,000 will be transferred to VEBL within two business days following the date of payment of the second tranche. As a result of the second tranche, VEB's shareholding in VEBL will increase to 74.47 per cent., with VEBL's other shareholders (all members of the VEB Group) will have their shareholdings adjusted downwards accordingly.

RISK MANAGEMENT

Risk is an integral element of VEBL's activities. VEB, as VEBL's major shareholder, prescribes VEBL's overall risk management policies and process. Within that framework, VEBL manages a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. VEBL believes that risk management is crucial to mitigating the impact of risk exposures on VEBL's financial stability.

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

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

Risk Management Structure

VEBL has a defined risk management structure to help manage VEBL's risks systematically. The Board of Directors is ultimately responsible for identifying and controlling risks as well as for defining the overall risk management approach and for approving the risk strategies and principles.

On VEBL and subsidiary level a number of committees and departments are established to coordinate day-to-day risk management. Risk management on a firm-wide level is overseen by the Finance Committee. The Finance Committee establishes major balance sheet parameters for use in asset and liability management and monitors compliance within VEBL with the assistance of its divisions.

Risk Analysis and Control Department (**RACD**) provides methodological support for the risk management process, assesses risks, prepares recommendations regarding management of risks for the Finance Committee (including setting of limits) and controls the compliance with these recommendations.

The Treasury Department of VEBL, *inter alia*, exercises the following functions: performs the management of VEBL's assets and liabilities in accordance with the Finance Committee decisions. In particular, the Treasury Department performs regular monitoring, forecasts VEBL's payment and currency position and is responsible for the liquidity, currency and interest rate risks of VEBL.

The Finance Committee, Treasury Department and RACD carry out risk management functions in respect of all kinds of financial risks: credit risk, market risk (interest rate and currency risks) and liquidity risk.

The Department for Investor Relations enters into hedging transactions in accordance with the Finance Committee decisions: interest rate swaps and currency swaps, forwards, therefore mitigating the exposure to currency and interest rate risks.

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

Risk management processes throughout VEBL are audited annually by the Internal Audit Commission that examines both the adequacy of the procedures and VEBL's compliance with the procedures. The Internal Audit Commission discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

Excessive risk concentration

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

Credit risk

VEBL is exposed to credit risk, being the risk of financial loss if a counterparty fails to meet its contractual obligations. VEBL's credit risk exposures arise principally from its finance leasing activities. VEBL structures the levels of credit risk it undertakes by placing limits on the amount of exposure in relation to a single counterparty or groups of counterparties, and in relation to the size of any individual leasing transaction. In addition, VEBL monitors credit risk by analysing the

financial position of counterparties, including SME customers. Credit risk management also involves regular monitoring of the ability of counterparties to pay amounts in full when due, analysis of the financial position of lessees and monitoring of the condition of leased-out equipment. Such risks are monitored on a revolving basis and subject to quarterly or more frequent review.

Generally, limits on the level of credit risk by counterparties and product are approved by the Finance Committee, and for certain significant transactions the limits are approved by the Board of Directors. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the VEBL Financial Statements and the disclosed financial commitments.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet of VEBL.

Credit-related commitments risks

With respect to undrawn loan commitments (or commitments related to providing lease equipment), VEBL is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the finance lease agreements.

For details of maximum exposure to credit risk for the components of statement of financial position, including derivatives, of VEBL, please refer to Note 27 of VEBL Financial Statements for the year ended 31 December 2010.

Credit quality per class of financial assets

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

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

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

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

For additional information and tables showing the credit quality by class of asset for respective lines on the statement of financial position based on VEBL credit rating system, please refer to Note 27 of VEBL Financial Statements for the year ended 31 December 2010.

Impairment assessment

The main considerations in undertaking a lease agreement impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, and violations of the original terms of the contract. VEBL addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances. VEBL determines the allowances appropriate for each individually significant lease agreement on an individual basis. Items considered when determining allowance

amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the residual value of leasing equipment (or the realisable value of collateral), and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date.

Collectively assessed allowances. Allowances are assessed collectively for losses on lease agreement to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant lease agreement where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. VEBL's management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by management to ensure alignment with VEBL's overall policy.

Write-off policy

Under Russian law, loans and receivables may only be written off with the approval of the Board of Directors and, in certain cases, only following an appropriate court decision.

Collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

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

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

During the year ended 31 December 2010, VEBL did not take possession of collateral on any of its finance leases, and VEBL did not have any repossessed collateral on its balance sheet as at 31 December 2010. It is VEBL's policy to dispose of repossessed property promptly and use the proceeds to reduce or repay the outstanding claim.

Collateral is taken to enhance an acceptable lease agreement proposal, rather than being used as the sole rationale for any lease agreement approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security must be detailed in the application for lease agreement facility form. Where practical, the account officer must have seen evidence of the existence of the collateral offered and wherever possible seen the actual collateral for themselves.

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

Risks related to leased properties and other collateral (real estate properties, inventories) such as damage and theft are generally insured on finance lease or loan agreements.

Geographical Concentration

Geographical concentration information is based on the geographical location of VEBL's counterparts. For more information on geographical concentration of VEBL's assets and liabilities, please refer to Note 27 of VEBL Financial Statements for the year ended 31 December 2010.

Liquidity risk and funding management

Liquidity risk is the risk that VEBL will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the management of VEBL arranges various funding sources, the majority of which it obtains from VEB Group (see Note 29 of VEBL Financial Statements for the year ended 31 December 2010), manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

VEBL manages its liquidity risk at the following three levels:

- VEBL and each of its subsidiary manages its liquidity on a stand-alone basis so that it is able to meet its obligations and to comply with regulatory requirements applicable to it;
- VEBL manages the Group's liquidity by re-allocating funds across the Group through intercompany loans; and
- the Board of Directors of VEBL manages VEBL's strategy for medium- and long-term financing.

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

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

For detailed analysis of financial liabilities as of 31 December 2010 based on contractual discounted repayment obligations, please refer to Note 27 of VEBL Financial Statements for the year ended 31 December 2010.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates. Both currency and interest rate positions are currently managed and monitored using other sensitivity analysis. VEBL has no significant concentration of market risk. As part of its overall risk management, VEBL uses derivatives to manage exposures resulting from changes in rates and exposures arising from transactions with foreign currencies. To mitigate and manage the market risk the Board of Directors and Finance Committee establish limits on potential losses, and the Finance Department monitors compliance with such limits. Limits on securities are approved by the Finance Committee and Board or Directors based on analysis performed by the Finance Department. VEBL is not greatly involved in trading operations due to nature of its core business.

Interest rate risk

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

Prepayment risk

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

Operational risk

Operational risk is the risk of losses arising from inadequate internal operating procedures, including failures, defects or errors of information, resulting from either human error or technological failings. VEBL manages the operational risk through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment procedures as well as assessment processes, including the use of Internal Control Unit which reports to the Board of Directors.

MANAGEMENT

Introduction

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

General Shareholders Meeting

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

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

- any change to VEBL's charter;
- any change to the size and composition of VEBL's authorised share capital;
- the election and early termination of powers of the members of the Board of Directors;
- the approval of certain major transactions and interested party transactions;
- the reorganisation or liquidation of VEBL;
- the approval of VEBL's independent auditor;
- the approval of VEBL's statutory annual reports and financial statements;
- the approval of dividends; and
- certain other matters provided for by law and VEBL's charter.

Board of Directors

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

A meeting of the Board of Directors may be called by the chairman of the Board of Directors at his own initiative or at the demand of a member of the Board of Directors, VEBL's independent auditor, the Internal Audit Commission, or the General Director. The Board of Directors meets when required, but typically at least two times a year.

The current members of the Board of Directors were elected by the General Shareholders' Meeting on 30 June 2010. The name, first year of appointment and position for each member of the Board of Directors are set out below:

Name	Year of Appointment	Position
Anatoly B. Ballo	2010	Chairman
Vyacheslav S. Solovyev	2008	Member, General Director
Vitaly V. Vavilin	2010	Member
Andrey Yu. Sapelin	2008	Member
Oleg V. Muradyan	2008	Member

The business address of the Board of Directors is 7 Dolgorukouskaya Street, Moscow 127006, Russian Federation.

Anatoly B. Ballo has been a member of the Board of Directors of VEBL since July 2010 and Chairman of the Board of Directors of VEBL since December 2010. Since 2007 Mr. Ballo has been

Deputy Chairman of the Management Board of VEB. From 2005 to 2007, Mr. Ballo was a department director and directorate director of Vnesheconombank of the USSR. From 2002 to 2005, Mr. Ballo served as a Deputy Department Head of JSC Foreign Trade Bank. From 2000 to 2002, Mr. Ballo was a consultant to Vnesheconombank of the USSR. From 1992 to 2000, Mr. Ballo worked for the Russian Project Financing Bank as a lead expert, manager, executive secretary of the board, executive director and financial director. During 1992, Mr. Ballo served as a chief expert to the CBR. From 1991 to 1992, Mr. Ballo was a lead expert for Gosbank of the Soviet Union. From 1983 to 1991, Mr. Ballo worked as economist and researcher at the Research Institute of Scientific and Technical Information and Construction Materials Industry Management of the Soviet Union Construction Materials Ministry. Mr. Ballo was born in 1961 and graduated from the Moscow Finance Institute in 1983 with a degree in international economic relations.

Vyacheslav S. Solovyev has been a member of the Board of Directors and General Director of VEBL since 2008. From 2003 to 2008, Mr. Solovyev served as First Deputy General Director of OJSC VTB-Leasing. Mr. Solovyev was born in 1976.

Vitaly V. Vavilin has been a member of the Board of Directors of VEBL since July 2010. Since 2009, Mr. Vavilin has been President and Chairman of the Management Board of Globexbank. From 2008 to 2009, Mr. Vavilin was a consultant to the President of Globexbank. From 1999 to 2008, Mr. Vavilin was Chairman of the Management Board of JSC “National Trade Bank”. Mr. Vavilin was born in 1963.

Andrey Yu. Sapelin has been a member of the Board of Directors of VEBL since 2008. Since November 2007, Mr. Sapelin has been Industry Department Head of VEB. In 2007, he was Head of the Corporate Finance Department of VEB. Since 2005 to 2007, Mr. Sapelin was Director of Investment Department of JSC VTB Bank. Mr. Sapelin was born in 1965.

Oleg V. Muradyan has been a member of the Board of Directors of VEBL since 2008. Since 2007 Mr. Muradyan has been a consultant to the Office of the Chairman of the Management Board of VEB. From 2002 to 2007, Mr. Muradyan was Senior Vice-President of JSC VTB Bank. Mr. Muradyan was born in 1951.

General Director

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

Vyacheslav S. Solovyev was appointed as the General Directors of VEBL on 5 June 2008. See “*Management—The Board of Directors—Vyacheslav S. Solovyev*”.

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

- operate in the name of VEBL, including representing VEBL’s interests, concluding transactions and signing documents without a power of attorney;
- dispose VEBL’s assets to carry out a day-to-day activity;
- adopt internal documents of VEBL;
- open bank accounts;
- issue powers of attorney;
- sign employment contracts; and
- decide other matters in the normal course of business.

The business address of the General Director is 7 Dolgoroukouskaya Street, Moscow 127006, Russian Federation.

Internal Audit Commission

VEBL’s Internal Audit Commission is a statutory audit commission required under Russian legislation governing joint stock companies. The Internal Audit Commission oversees VEBL’s financial and economic activity. The exact composition of the Internal Audit Commission is determined by a decision of the Annual General Shareholders’ Meeting and its members serve until the next Annual General Shareholders’ Meeting. Members of the Internal Audit Commission may not also be members of the Board of Directors or the General Directors of VEBL.

The current members of the Internal Audit Commission were appointed by the General Shareholders' Meeting on 30 June 2010 and are set out below.

Name	Position
Igor A. Chikhirev	Member
Olga A. Lapshina	Member
Vyacheslav E. Ulupov	Member

The business address of the members of the Internal Audit Commission is 7 Dolgorukouskaya Street, Moscow 127006, Russian Federation.

Interest of Directors and Officers

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

SHAREHOLDERS

The following table sets out information on VEBL's shareholders presented as of the date of this Prospectus and based on the information available to VEBL:

Name of Shareholder	Percentage of total issued share capital held
VEB ⁽¹⁾	66.20
VEB Capital ⁽²⁾	18.97
Globexbank ⁽³⁾	13.45
VEB-Leasing Europe S.á r.l. ⁽⁴⁾	1.38
Total	100.0

Notes:

(1) VEB is 100 per cent. owned by the Russian government.

(2) VEB Capital is 100 per cent. owned by VEB which, in its turn, is 100% owned by the Russian government.

(3) Globexbank is 99.16 per cent. owned by VEB which, in its turn, is 100% owned by the Russian government.

(4) VEB-Leasing Europe S.á r.l. is 100 per cent. owned by VEBL

On 28 February 2011, the shareholders of VEBL adopted a resolution to issue additional shares with an aggregate par value of RUB 4,000,000 (the **Additional Capital**). On 28 March 2011, VEBL entered into a share purchase agreement with VEB, in accordance with the terms of which VEB agreed to purchase the Additional Capital at a premium, with an aggregate purchase price of RUB 10,000,000 thousand, payable in two equal tranches. The shares with an aggregate nominal value of RUB 2,000,000 were transferred immediately to VEB, with the first tranche of the purchase price paid on 29 March 2011. As a result, VEB increased the size of its shareholding in VEBL to 66.20 per cent. (from 50 per cent. plus one share as at 31 December 2010), with VEBL's other shareholders (all members of the VEB Group) having their shareholdings adjusted downwards accordingly. The second tranche is due to be paid not later than 30 September 2011, and the remaining shares with an aggregate nominal value of RUB 2,000,000 will be transferred to VEBL within two business days following the date of payment of the second tranche. As a result of the second tranche, VEB's shareholding in VEBL will increase to 74.47%, with VEBL's other shareholders (all members of the VEB Group) will have their shareholdings adjusted downwards accordingly.

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

None of VEBL's shareholders has voting rights different from any other holder of its shares

RELATED PARTY TRANSACTIONS

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party, or to exercise significant influence over the other party, in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely its 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 (i.e. market rates).

As at the date of this Prospectus, the Russian Federation owns 100 per cent. of the issued shares in VEB, which in its turn owns directly or indirectly 100 per cent. of the issued shares in VEBL. As a member of the VEB Group, VEBL enters, and will continue to enter, into transactions with entities under direct or indirect control of the Russian government and their affiliates and subsidiaries in the ordinary course of its business.

The table below sets out the value in Roubles of transactions entered into by VEBL with related parties for the years ended 31 December 2010 and 2009. All such related party transactions are between VEBL and VEB, other members of the VEB Group, entities that VEBL has an equity interest in, or other entities that are (or were at the time) directly or indirectly owned or controlled by the Russian government.

	Year ended 31 December						
	2010			2009			
	VEB	Other state organisations (besides the shareholder)	VEB Group companies	Associated companies	VEB	Other state organisations (besides the shareholder)	VEB Group companies
	<i>(RUB thousands)</i>						
Cash and cash equivalents	4,636	103,644	1,814,070	—	29,308	195,265	980,230
Amounts due from credit institutions	—	—	—	—	—	—	373,750
Net investment in leases	—	9,623,469	246	—	—	1,190,627	—
including allowance for impairment	—	(32,396)	—	—	—	(20,831)	—
Loans receivable	—	516,413	—	6,755,547	—	725,301	—
including allowance for impairment	—	—	—	—	—	—	—
Equipment purchased for leasing purposes	—	2,008,916	—	—	—	723,607	—
Advances issued to leasing equipment suppliers	2,823	5,367,254	—	—	—	48	—
Other assets	2	25,468	45,000	—	—	150,558	199
Amounts due to credit institutions	12,426,078	14,826,339	5,781,866	—	6,520,732	2,115,512	2,766,536
Borrowings payable	—	3,371,258	—	—	—	1,804,789	—
Advances received from lessees	12,916	709,185	—	—	—	544,645	—
Amounts payable to equipment supplier	—	330,767	—	—	—	874,934	—
Other liabilities	—	54	9	—	—	182,584	—
Interest income	100	988,794	7,536	256,601	52	654,901	65,203
Interest expense	(381,563)	(480,468)	(248,603)	—	(208,887)	(200,899)	(352,859)
Impairment of interest-earning assets	—	11,565	—	—	—	29,872	—
Fees and commission income	—	—	3	—	—	—	—
Fee and commission expenses	(1,858)	(11,242)	(2,321)	—	(3,331)	(2,591)	(1,284)
Income from other services	95,662	14,474	—	—	—	9,662	—
Guarantees received	—	—	—	—	—	—	—
Guarantees issued	—	2,016,655	—	—	—	2,169,415	—
Capital expenditure commitments related to finance leases	—	568,171	—	—	—	2,527,651	—

On 28 March 2011, VEBL entered into a share purchase agreement with VEB, in accordance with the terms of which VEB agreed to purchase the Additional Capital (as defined in *Capitalisation* above) at a premium, with the purchase price, in aggregate RUB 10,000,000 thousand, payable in two equal tranches. The shares with an aggregate nominal value of RUB 2,000,000 were transferred immediately, with the first tranche of the purchase price paid on 29 March 2011. The second tranche is due to be paid not later than 30 September 2011, and the remaining shares with an aggregate nominal value of RUB 2,000,000 will be transferred to VEB within two business days following the date of payment of the second tranche.

Other than as set out above, all related party transactions which VEBL has entered into since 31 December 2010 have been in the ordinary course of business.

INDUSTRY OVERVIEW

THE RUSSIAN FINANCIAL LEASING MARKET

Overview

The Russian leasing market is relatively young, having emerged in the late 1990s. It has been growing steadily since 2001, on average by approximately 60 per cent. per annum, in terms of the aggregate value of lease portfolios. According to ExpertRA in 2010 the aggregate value of lease portfolios totalled approximately US\$38.7 billion, as compared to US\$31.8 billion for 2009, an increase of 22 per cent. The volume of new business in 2010 was US\$23.9 billion, as compared to US\$9.9 billion for 2009, an increase of 2.4 times and the volume of lease payments increased to US\$11.5 billion in 2010, as compared to US\$10.1 billion in 2009, an increase of 14 per cent. Largely as a result of the global economic slowdown, the volume of new business declined in 2008 to US\$29 billion, as compared to US\$39 billion in 2007, however, even during this period the volume of lease payments increased to US\$16.2 billion in 2008 compared to US\$11.5 billion in 2007 (an increase of 41 per cent.).

Performance of Russian leasing sector

Indicator	2006	2007	2008	2009	2010
Volume of new business, billion RUB	400	998	720	315	725
Growth rate, %	84	150	-30	-56	130
Amount of lease payments, billion RUB	136	294	402.8	320	350
Growth rate, %	78	116.2	37	-20.6	9.4
Financed amount, billion RUB	201	537	442	154	450
Growth rate, %	90	167	-17.7	-65	192
Aggregate value of lease portfolio of leasing companies, billion RUB	530	1,202	1,390	960	1,180
Growth rate, %	—	127	16	-31	23
Nominal Russian GDP, billion RUB (source: Rosstat)	26,904	33,111	41,256	38,797	44,491
Share of lease portfolio in GDP, %	1.49	3.01	1.73	0.81	1.63

Source: ExpertRA

The development of the Russian leasing market since 2001 has been based largely on the level of demand for renewal of industrial machinery and motor transport (including railway rolling stock), much of which dates from the Soviet era. Increasingly, Russian companies have become more active globally, with, for example, companies such as Aeroflot and Transaero, in the aviation sector, investing heavily in new aircraft (much of which is lease financed) in order to compete effectively for business on the more lucrative international routes. Between 2005 and 2010, the Russian leasing market expanded at a compound annual growth rate (CAGR) of 27 per cent. according to ExpertRA, a faster rate of growth than the Russian economy as a whole and faster than the Russian banking sector.

According to ExpertRA, the volume of new business in the Russian leasing sector as a whole was RUB 725 billion, with the aggregate value of lease portfolios RUB 1,180 billion.

Most leasing business in the Russian Federation is conducted using finance leasing, rather than operating leasing, and most of the largest market players are companies owned by large or medium-sized banks, such as VEBL.

Leasing sectors

According to ExpertRA, in 2010, transport leasing sectors (trucks, railway rolling stock, aircraft and motor vehicles) accounted for two thirds of new business of Russian leasing companies (65.1 per cent.). The remaining part of the aggregate new business is divided among a large number of industries, of which construction equipment, vessels, energy equipment, metal processing equipment and petroleum production and processing equipment were the largest. The share of new business in railway rolling stock, in particular, has increased significantly from 26 per cent. in 2009 to 39.1 per

cent. in 2010, whilst new business in aircraft has decreased from 15.3 per cent. in 2009 to 10.5 per cent. in 2010.

Railway Rolling Stock

The Russian rail transport leasing market is concentrated and the main lessors are fully or partly state-owned, including Russian Railways and its subsidiaries. Railway rolling stock leasing transactions in 2010 represented approximately 39.1 per cent. of the Russian leasing market, a significant increase as compared to 26 per cent. for 2009, according to ExpertRA.

Aircraft

The growth in the aircraft leasing sector has been particularly driven by the urgent need to replace old and outdated aircraft across the Russian Federation and the CIS with foreign-made aircraft, and in particular for operating international routes. Aircraft leasing transactions in 2010 amounted to approximately 10.5 per cent. of the Russian leasing market, a decrease from 15.3 per cent. in 2009, according to ExpertRA.

Maritime

Significant companies in the Russian maritime and shipping leasing market which make use of finance leasing include Sovcomflot, Volgaflot, and others. Maritime and shipping leasing transactions in 2010 represented approximately 2.4 per cent. of the Russian leasing market, as compared to 2.7 per cent. for 2009, according to ExpertRA.

Equipment

The equipment leasing sector largely comprises industrial or high-tech equipment leased to companies active in the energy, metal processing, petroleum production and processing and construction markets (though with the latter sector still heavily depressed as a result of the global economic downturn, this market is currently less of a priority for Russian leasing companies. The volume of new equipment leasing transactions in 2010 amounted to approximately 27.8 per cent. of the Russian leasing market, as compared to 31.6 per cent. in 2009, according to ExpertRA.

SMEs

SMEs are typically less leveraged than larger leasing companies and have limited access to external financing. As a result, this sector is increasingly attractive to leasing companies, who have been expanding into the Russian regions in order to increase access to, and work more closely with, SMEs. During the global economic downturn, SMEs proved vulnerable to the difficult market conditions and as a result, recently, leasing companies placed a greater emphasis on offering financial leasing products to larger companies and those companies are backed by state capital, during the period 2008-2009. However, with the upturn in the Russian economy from 2010, Russian leasing companies are again active in this sector, including VEBL, who entered it for the first time in 2010.

Market Participants and Competition

Market Participants

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

- *Companies established by banks.* This group tends to operate across several leasing sectors and includes VEBL and other large market participants, such as Sberbank Leasing, VTB Leasing, Uralsib, Avangard Leasing, IMB Leasing and Alfa Leasing.
- *Companies established by equipment and transport suppliers.* This group tends to target leasing opportunities in its specific sector, and includes RTC-Leasing (telecommunications equipment), and Caterpillar Financial (special equipment) as well as companies operating in the motor car and truck leasing sectors.
- *Companies backed by foreign capital subsidiaries of foreign groups.* This group tends to specialise in passenger and railway transport leasing, and includes Hansa Leasing, Brunswick Rail Leasing and Locat Leasing Russia.
- *Independent leasing companies.* These companies are mostly small regional companies, operating as leasing agents for banks and larger lessors, whose total leasing transactions do not exceed US\$1 million.

- *State-sponsored or controlled sector-specific leasing companies.* These are leasing companies established by the Russian Government to assist with the reorganisation of the certain strategic sectors of the economy and the development of small businesses across the Russian regions, and include Rosagroleasing (agriculture), Ilyushin Finance (aviation), Rosdorleasing (road construction), State Transport Leasing Company (airport ground equipment) Financial Leasing Company (including aviation, shipping and oil and gas extraction equipment).

Competition

The Russian leasing market is increasingly competitive, with many new market entrants each year. This increased competition has led to qualitative changes in the characteristics of leasing transactions, increased sophistication in deal structuring and longer maturities, as well as improved costs to lessees. According to Expert RA Agency, as at 31 December 2010 more than 130 leasing companies provided leasing services in Russia, and of these, more than 20 companies had lease portfolios exceeding U.S.\$300 million. While Russia's SME leasing finance markets remain underdeveloped compared to those in Western Europe, the number of Russian companies and banks providing leasing services to large corporate and SMEs has substantially increased in recent years. In addition, Russian subsidiaries of major foreign financial institutions have started to provide such services, though direct competition in the Russian financial leasing industry from foreign leasing companies has to date been limited.

Despite the number of Russian leasing companies, lessees have tended to prefer companies that offer the lowest rates and the widest range of additional services, which has led to a move away from smaller lessors to market leaders, such as VEBL, Sberbank Leasing and VTB Leasing, who for the year ended 31 December 2010 ranked the first, the second and the third, respectively, in the Russian leasing market, by volume of new business transacted, and the third, the first and the second, respectively, by aggregate lease portfolio value, in each case according to ExpertRA and the XIII project "Leasing in Russia - 2010". For 2010, the VEBL's share of the Russian leasing market was approximately 14.7 per cent., VTB Leasing's approximately 12.9 per cent. and Sberbank Leasing's approximately 13.6 per cent., in each case according to ExpertRA.

Russian Finance Leasing Regulation

General

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

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

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

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

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

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

The lessee under a finance lease agreement may sub-lease the property received from the lessor subject to the lessor's written consent. If leased property is subleased, the lessee remains liable to the lessor under the original lease, while the lessee's right of claim against the seller passes to the sub-lessee.

Unlike in other types of leases, where the duty to make major repairs is borne by the lessor, all repairs of the property lease under a finance lease are the responsibility of the lessee unless the agreement specifically provides otherwise.

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

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

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

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

Taxation

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

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

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

Licensing and Registration

Leasing companies were formerly subject to licensing in the Russian Federation under the Federal Law No.158-FZ "On Licensing of Certain Types of Activity" dated 25 September 1998. In 2002, when the new Federal Law No.128-FZ "On Licensing of Certain Types of Activity" became effective, finance leasing was excluded from the list of licensed businesses in Russia, and any Russian or foreign company may engage in finance leasing in the Russian Federation unless restricted by such company's constitutive documents.

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

ISSUER

VEB-Leasing Invest Limited (the **Issuer**) was incorporated in Ireland on 22 February 2011, with registered number 495299 as a private company with limited liability under the Companies Acts 1963 – 2009 of Ireland (the **Companies Acts**). The registered office of the Issuer is 12 Merrion Square, Dublin 2 and its telephone number is +353 1 631 6000.

The authorised share capital of the Issuer is EUR 100 divided into 100 ordinary shares of par value EUR 1 each (the **Shares**). The Issuer has issued 1 Share, which is fully paid and is held on trust by IFG Trust Company Limited (the **Share Trustee**) under the terms of a declaration of trust (the **Declaration of Trust**) dated 8 March 2011, under which the Share Trustee holds the Share on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Share. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

IFG Managed Services Limited (the **Corporate Services Provider**), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider in Dublin serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 5 May 2011 between the Issuer and the Corporate Services Provider (the **Corporate Services Agreement**), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 60 days' written notice to the other party or such shorter period as may be agreed between the parties. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary.

The Corporate Services Provider's principal office is Universal House, Shannon, County Clare.

Principal Activities

The principal objects of the Issuer are set forth in clause 2 of its Memorandum of Association (as currently in effect) and permit the Issuer, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of such issuances to advance loans to VEBL.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a private company under the Companies Acts and those related to the issue of the Notes. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the Board of Directors of the Issuer will consist of at least two Directors.

The Directors of the Issuer and their business addresses are as follows:

Yolanda Kelly, 12 Merrion Square, Dublin 2, Ireland.

Rodney O Rourke, 12 Merrion Square, Dublin 2, Ireland.

The Company Secretary is IFG Secretaries Limited.

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

The Directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer.

Financial Statements

Since its date of incorporation, the Issuer has not commenced operations and no financial statements of the Issuer have been prepared as at the date of this Prospectus. The Issuer intends to publish its first financial statements in respect of the period from its incorporation ending on 31 December 2011. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December in each year.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit and loss account and balance sheet can be obtained free of charge from the registered office of the Issuer. The Issuer must hold its first annual general meeting within 18 months of the date of its incorporation (and no more than 9 months after the financial year end) and thereafter the gap between its annual general meetings must not exceed 15 months. One annual general meeting must be held in each calendar year.

The auditors of the Issuer are Ernst & Young of Harcourt Centre, Harcourt Street, Dublin 2, Ireland who are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

THE LOAN AGREEMENT

The following is the text of the Loan Agreement which has been entered into between VEBL and the Issuer:

This Loan Agreement is made on 23 May 2011 **between:**

- (1) OPEN JOINT-STOCK COMPANY “VEB-LEASING”** (the “**Borrower**”); and
- (2) VEB-LEASING INVEST LIMITED** (the “**Lender**”).

Whereas:

- (A) The Lender has at the request of the Borrower agreed to make available to the Borrower a loan facility in the amount of U.S.\$400,000,000 on the terms and subject to the conditions of this Agreement.
- (B) It is intended that the Lender will issue loan participation notes for the sole purpose of financing the loan facility.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated.

“**Account**” means the account in the name of the Lender with the Principal Paying Agent, account number 11619519 (or such other account as may from time to time be agreed between the Lender and the Trustee pursuant to the Paying Agency Agreement and notified to the Borrower in writing at least 5 Business Days in advance of such change);

“**Advance**” means the advance made or to be made by the Lender under Clause 3 of the sum equal to the amount of the Facility, as from time to time reduced by prepayment;

“**Affiliate**” of any specified person means (i) any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person or (ii) any other person who is a director or officer (a) of such specified person or (b) of any person described in (i) above. For the purpose of this definition, “**control**” when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “**controlling**” and “**controlled**” have meanings correlative to the foregoing;

“**Agency**” means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

“**Agreement**” means this loan agreement as originally executed or as it may be amended from time to time;

“**Authorised Signatory**” means, in relation to the Borrower, any person who is duly authorised (in such manner as may be reasonably acceptable to the Lender or the Trustee as the case may be) and in respect of whom the Lender or the Trustee, as the case may be, has received a certificate signed by a director or another Authorised Signatory of the Borrower setting out the name and signature of such person and confirming such person’s authority to act;

“**Business Day**” means a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, Moscow, New York City and in the city where the Specified Office (as defined in the Paying Agency Agreement) of the Principal Paying Agent is located;

“**Capital Stock**” means, with respect to any person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a person other than a corporation, in each case whether now outstanding or hereafter issued;

“**Change of Control**” means either the occurrence of (a) (i) the Parent ceasing at any time to be controlled by the Russian Federation or (ii) the Russian Federation no longer having the right to appoint or remove the majority of the Parent’s supervisory board or (b) the Parent ceasing to

own or control (directly or indirectly) in excess of 50 per cent. of the issued and outstanding voting share capital of the Borrower or (c) the Parent no longer having the right to appoint or remove the majority of the Borrower's board of directors;

"Closing Date" means 27 May 2011 (or such later date as may be agreed between the Lender and the Borrower);

"Conditions" means the terms and conditions of the Notes;

"Default" means any event which is, or after notice or passage of time or after making any determination, the issue of a certificate and/or fulfilment of any other requirement provided for in Clause 10 of this Agreement (or any combination of the foregoing) could be, an Event of Default;

"Definitive Certificate" means the definitive certificates in registered form representing the Notes, to be issued in limited circumstances pursuant to the Trust Deed;

"Event of Default" has the meaning given to it in Clause 10.1;

"Facility" means the U.S.\$400,000,000 term loan facility granted by the Lender to the Borrower as specified in Clause 2;

"Global Certificate" means the single, permanent global note certificate in fully registered form without interest coupons representing the Notes to be issued pursuant to Clause 3.1 of the Trust Deed;

"Group" means the Borrower and its Subsidiaries taken as a whole;

"Guarantee" means any financial obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Indebtedness or other obligation of any other person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term **"Guarantee"** will not include endorsements for collection or deposit in the ordinary course of business. The term **"Guarantee"** used as a verb has a corresponding meaning;

"IFRS" means the International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (**"IASB"**) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

"incur" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a person existing at the time such person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary;

"Indebtedness" means, without duplication, any indebtedness, in respect of any person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable either on a compulsory basis or at the option of the shareholder; any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing; and the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above;

"Interest Payment Date" means 27 May and 27 November of each year;

"Interest Period" has the meaning assigned to such term in Clause 4.2;

"Ireland/Russia DTT" means the agreement between the government of Ireland and the government of the Russian Federation for the avoidance of double taxation with respect to taxes;

“**Lien**” means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

“**Loan**”, at any time, means an amount equal to the aggregate principal amount of the Facility advanced by the Lender pursuant to this Agreement and outstanding at such time;

“**Material Adverse Effect**” means a material adverse effect on (a) the financial condition, assets or business of the Borrower or any of its Material Subsidiaries; (b) the Borrower’s ability to perform or comply with its obligations under the VEBL Agreements or (c) the validity, legality or enforceability of the VEBL Agreements or the rights or remedies of the Lender thereunder;

“**Material Subsidiary**” means, at any time, any Affiliate or Subsidiary of the Borrower which, at such time, has total assets or gross revenues (or the equivalent thereof) equal to or exceeding 5 per cent. of the consolidated total assets or Net Interest Income (or the equivalent thereof), as the case may be, of the Group as calculated by reference to the then financial statements of such Subsidiary and the then latest IFRS consolidated financial statements of the Group, provided however that an Officers’ Certificate that a Subsidiary of the Borrower is or is not a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“**Net Interest Income**” means interest income less interest expense, after impairment of interest earning assets, as determined by reference to the Borrower’s most recent annual consolidated balance sheet delivered in accordance with Clause 9.9.1 or, prior to the first delivery, to the Original Financial Statements;

“**Noteholder**” means, in relation to a Note, the person in whose name such Note is for the time being registered in the register of the Noteholders (or, in the case of a joint holding, the first named holder thereof);

“**Notes**” means the U.S.\$400,000,000 5.125 per cent. loan participation notes due 2016 proposed to be issued by the Lender pursuant to the Trust Deed for the purpose of financing the Loan;

“**Officers’ Certificate**” means a certificate signed on behalf of the Borrower by two Authorised Signatories of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower, in a form substantially similar to that set out in Schedule 1 hereto;

“**Opinion of Counsel**” means a written opinion from international legal counsel who is acceptable to the Lender and the Trustee;

“**Original Financial Statements**” means the audited IFRS consolidated financial statements of the Group for the year ended 31 December 2010;

“**Overdue Loan**” means any loan or leasing arrangement provided by the Borrower, where the obligor of such loan or leasing arrangement has not paid amounts under such loan or leasing arrangement within 90 days after the due date;

“**Parent**” means State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”, a state corporation established pursuant to the laws of the Russian Federation, with registration number 1077711000102 and whose registered office is at 9 Akademika Sakharova, Moscow B-78, GSP-6, 107996, Russian Federation;

“**Paying Agency Agreement**” means the paying agency agreement relating to the Notes dated on or around the date hereof between the Lender, the Trustee, the Principal Paying Agent and the other agents named therein, from time to time modified;

“**Permitted Liens**” means:

- (a) any Lien over or affecting any asset acquired by a member of the Group after the date hereof and subject to which such asset is acquired, if:
 - (i) such Lien was not created in contemplation of the acquisition of such asset by a member of the Group;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Group; and
 - (iii) such Lien is removed or discharged within three calendar months of the date of acquisition of such asset;

- (b) any Lien over or affecting any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, if:
 - (i) such Lien was not created in contemplation of the acquisition of such company;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company; and
 - (iii) such Lien is removed or discharged within three calendar months of such company becoming a member of the Group;
- (c) any Lien arising by operation of law and in the normal course of business;
- (d) any Lien granted by any Subsidiary of the Borrower in favour of the Borrower;
- (e) any Liens existing on the date of this Agreement and any extension, renewal or substitution for any Lien existing on the date of this Agreement provided, however, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (e) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than proceeds of the property or assets in question); and
- (f) any Lien over any asset of any member of the Group provided that, at all times, the aggregate book value of the assets of the Group that are not subject to any Lien is equal to or greater than 110 per cent. of the aggregate amount of all Indebtedness of the Group which is not secured by Liens over assets of any member of the Group (in each case calculated in accordance with IFRS), except, in any case, where the creation or existence of such Lien could reasonably be expected to result in a Material Adverse Effect;

“**person**” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality;

“**Principal Paying Agent**” means Citibank, N.A., London Branch, at its specified office in London, or, if applicable, any successor principal paying agent for the Notes as may from time to time be appointed by the Issuer;

“**Put Event**” means the occurrence of a Change of Control;

“**Put Option**” means the put option granted to Noteholders pursuant to the Conditions;

“**Put Period**” has the meaning given to it in the Conditions;

“**Put Settlement Date**” means the fifth Business Day after the expiration of the Put Period;

“**Rate of Interest**” has the meaning assigned to such term in Clause 4.1;

“**Relevant Event**” has the meaning given to it in the Trust Deed;

“**Repayment Date**” means 27 May 2016;

“**Reserved Rights**” has the meaning assigned to such term in the Trust Deed and the Conditions;

“**Same-Day Funds**” means same day, freely transferable, clearly identifiable cleared U.S.\$ funds or such other funds for payment in U.S.\$ as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in London of the type contemplated hereby;

“**Securitisation**” means any securitisation transaction, asset backed financing, sukuk or like arrangement entered into on an arm’s length basis;

“**Subscription Agreement**” means the subscription agreement relating to the Notes dated the date hereof between the Lender, the Borrower, Credit Suisse Securities (Europe) Limited, Goldman Sachs International, LLC “Investment Company of Vnesheconombank “VEB Capital”” and Raiffeisen Bank International AG;

“**Subsidiary**” of any specified person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of

the Voting Stock is held by such first-named person and/or any of its Subsidiaries and such first-named person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first-named person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if (in each case) in accordance with IFRS, as consistently applied, such entity would be consolidated with the first-named person for financial statement purposes;

“**taxes**” means any taxes, levies, imports and duties of any nature (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Ireland or any taxing authority thereof or therein provided, however, that for the purposes of this definition the references to Ireland shall, upon the occurrence of a Relevant Event (as defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes; and the term “**tax**” and “**taxation**” shall be construed accordingly;

“**Total Assets**” means the book value of the consolidated total assets of the Group as determined by reference to the Group’s most recent annual consolidated balance sheet delivered in accordance with Clause 9.9.1 or, prior to the first delivery, to the Original Financial Statements;

“**Total Equity**” means the book value of the consolidated total equity of the Group as determined by reference to the Borrower’s most recent annual consolidated balance sheet delivered in accordance with Clause 9.9.1 or, prior to the first delivery, to the Original Financial Statements;

“**Trust Deed**” means the trust deed relating to the Notes to be dated the Closing Date between the Lender and the Trustee as amended from time to time;

“**Trustee**” means Citicorp Trustee Company Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder;

“**U.S. dollars**”, “**Dollars**”, “**U.S.\$**” and “**U.S.\$**” mean the lawful currency of the United States of America;

“**Voting Stock**” means, in relation to any person, Capital Stock entitled (without the need for the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof; and

“**VEBL Agreements**” has the meaning given to it in the Subscription Agreement.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which (i) are not defined in this Agreement but which are defined in, or (ii) are defined by cross-reference to definitions in or other provisions of, the Trust Deed, the Notes (including the Conditions), the Paying Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 all references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Agreement;

1.3.2 the terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;

1.3.3 words importing the singular number include the plural and vice versa; and

1.3.4 the table of contents and the headings are for convenience only and shall not affect the construction hereof.

2 Facility

2.1 Facility

On the terms and subject to the conditions set forth herein, the Lender hereby agrees to lend the Borrower and the Borrower hereby agrees to borrow from the Lender an amount of U.S.\$400,000,000.

2.2 Purpose

The net proceeds of the Advance will be used for the Borrower's general corporate purposes, and, accordingly, the Borrower shall apply all amounts raised by it hereunder to fund the Borrower's business operations, but the Lender shall not be concerned with the application thereof.

2.3 Facility Fee

In consideration of the Lender making the Loan to the Borrower, the Borrower hereby agrees that it shall pay to the Lender an arrangement fee (the "**Facility Fee**"), pursuant to an invoice submitted by the Lender in the total amount of U.S.\$2,065,554.50. The Facility Fee shall be calculated taking into account the front-end commissions, fees and costs incurred by the Lender in connection with the financing of the Loan, including negotiation, preparation and execution of all related documents and other costs connected with and necessary for the extension of the Loan.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions of this Agreement, on the Closing Date the Lender shall make the Advance to the Borrower and the Borrower shall make a single drawing in the full amount of the Facility.

3.2 Payment of the Facility Fee

In consideration of the Lender making the Advance to the Borrower, the Borrower hereby agrees that it shall pay to the Lender, in Same-Day Funds, the Facility Fee by 10 a.m. (New York City time) on the Business Day prior to the Closing Date.

3.3 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the amount of the Advance in Same-Day Funds to the Borrower's account no. 40702840400750000086; account name: Open Joint-Stock Company VEB-Leasing; held with Globexbank, Moscow, Russian Federation; SWIFT Code GLOBRUMM; account tracking number 40702840700750100068 (intermediary institution; Deutsche Bank Trust Company Americas, New York, USA; Account number: 04-416-257; SWIFT Code: BKTRUS33).

3.4 Ongoing Fees and Expenses

In consideration of the Lender (i) making available the Loan to the Borrower and (ii) supporting such a continuing facility, the Borrower shall pay in one or more instalments on demand to the Lender each year an additional fee equating to all ongoing fees, taxes and documented expenses of the Lender (including, without limitation, any corporate service provider fees, taxes, stock exchange fees, listing fees, audit fees, legal fees and the anticipated winding-up expenses of the Lender) as set forth in an invoice from the Lender to the Borrower.

3.5 Acts of Acceptance

In connection with all payments to be made under Clauses 3.2 and 3.4, the Borrower and the Lender shall, as soon as reasonably practicable but no later than within 30 days of such payment becoming due or such indemnity claim being made, enter into and sign a delivery and acceptance act with respect to the amounts to be paid by the Borrower. Each delivery and acceptance act shall be prepared by the Borrower and shall specify: (i) the net amount due, (ii) any applicable Russian income tax withholding, (iii) any applicable Russian VAT and (iv) the resulting total tax-inclusive amount due.

4 Interest

4.1 Rate of Interest

The Borrower will pay interest in U.S.\$ to the Lender on the outstanding principal amount of the Loan from time to time at the rate of 5.125 per cent. per annum (the “**Rate of Interest**”).

4.2 Payment

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid in arrear not later than 10 a.m. (New York City time) one Business Day prior to each Interest Payment Date. Interest on the Loan will be payable up to, and including, the Repayment Date (or any date upon which the Loan is prepaid under this Agreement) unless payment of principal due on such date is withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made. The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure down to the nearest cent. If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed. “**Interest Period**” means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein, the Borrower shall repay the Loan not later than 10 a.m. (New York City time) one Business Day prior to the Repayment Date.

5.2 Prepayment in the Event of Taxes or Increased Costs

If, as a result of the application of any amendments or clarification to, or change (including a change in interpretation or application) in, or determination under, the Ireland/Russia DTT or the laws or regulations of the Russian Federation or Ireland or of any political sub-division thereof or any authority therein having power to tax (the “**Taxing Jurisdiction**”) or the enforcement of the security provided for in the Trust Deed, the Borrower would thereby be required (i) to make or increase any payment due hereunder as provided in Clause 6.2 or 6.3 (other than, in each case, where the increase in payment is in respect of any amounts due or paid pursuant to Clause 3), or if (for whatever reason) the Borrower would have to or has been required (ii) to pay additional amounts pursuant to Clause 8, and in any such case such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 10 days’ prior written notice to the Lender (which notice shall be irrevocable), prepay the Loan in whole (but not in part) at any time.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2, the Borrower shall deliver to the Lender an Officers’ Certificate confirming that the Borrower would be required to increase the amount payable, supported by an opinion of an independent tax adviser of international repute addressed to the Lender.

5.3 Prepayment in the Event of Illegality

If, at any time, by reason of the introduction of, or any change after the date of this Agreement in, any applicable law, regulation, regulatory requirement or directive of any applicable agency, the Lender reasonably determines (setting out in reasonable detail the nature and extent of the relevant circumstances) (such determination being accompanied if so requested by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to any applicable law, regulation, regulatory requirement or directive of any Agency of any state or otherwise for the Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan (an “**Event of Illegality**”), then upon notice by the Lender to the Borrower in writing, the Borrower and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; provided, however,

that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified the Borrower. If such a basis has not been determined within the 30 days, then upon written notice by the Lender to the Borrower and the Trustee, the Borrower shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Lender shall (acting reasonably) certify on not less than 15 days' notice to be necessary to comply with such requirements.

5.4 Reduction of Loan upon Cancellation of Notes

The Borrower or any Subsidiary of the Borrower may from time to time, in accordance with the Conditions, purchase Notes in the open market or by tender or by a private placement at any price. The Borrower or any Subsidiary of the Borrower may, at its option, hold, reissue, resell or from time to time deliver to the Lender Definitive Certificates, having an aggregate principal value of at least U.S.\$1,000,000, together with a request (a "**Request**") for the Lender to present such Definitive Certificates to the Registrar for cancellation or from time to time procure the delivery to the Registrar of instructions ("**Instructions**") to redeem and thereafter cancel a specified aggregate principal amount of Notes (being at least U.S.\$1,000,000) represented by a Global Certificate in each case upon not less than 30 days' notice. Any Instructions shall be accompanied by evidence satisfactory to the Registrar that the Borrower or any such Subsidiary of the Borrower is entitled to give such Instructions (which, for the avoidance of doubt, will be satisfied by the provision of copies of account entries in the records of a clearing system and associated nominees (if relevant) reflecting the Borrower's or such Subsidiary of the Borrower's beneficial interest in such part of the relevant Global Certificate). Upon receipt of a Request the Lender shall request and the Borrower shall procure that the relevant clearing system requests the Registrar to cancel such Notes on the date specified in the Request and the Borrower shall promptly procure that the account entries in the records of the relevant clearing system reflecting the Borrower's or such Subsidiary of the Borrower's beneficial interest in such part of the relevant Global Certificate are updated to reflect such cancellation. On the date specified in any Request or, as the case may be, Instructions, the Loan shall be deemed to be prepaid in an amount as corresponds to the aggregate principal amount of Notes presented with a Request or specified in Instructions.

5.5 Payment of Other Amounts

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 5.2 or 5.3, the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to this Agreement in relation to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 5.4, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which the Loan is so reduced and the Borrower shall not be entitled to any interest in respect of the cancelled Notes.

5.6 Provisions Exclusive

The Borrower shall not prepay or repay all or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement. The Borrower shall not be permitted to re-borrow any amounts prepaid or repaid.

5.7 Prepayment in the Event of a Put Event

5.7.1 Promptly, and in any event within 10 calendar days after the date of any Put Event, the Borrower shall deliver to the Lender and the Trustee an Officers' Certificate substantially in the form set out in Schedule 1, which notice shall be irrevocable, stating that a Put Event has occurred and stating the circumstances and relevant facts giving rise to such Put Event.

5.7.2 If, following a Put Event, any Noteholder has exercised its Put Option, the Borrower shall prepay the Loan on the Put Settlement Date in an amount which corresponds to the aggregate principal amount of the Notes (as notified to the Borrower by the Paying Agents) in relation to which the Put Option has been duly exercised together with interest accrued to the Put Settlement Date (if any) in accordance with the Conditions.

6 Payments

6.1 Making of Payments

All payments of principal, interest and additional amounts (other than those in respect of Reserved Rights) to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date or the date of any payment (as the case may be) in Same-Day Funds to the Account, or as the Trustee may otherwise direct following the occurrence of a Relevant Event.

The Borrower shall, before 10 a.m. (Local Time) on the second Business Day prior to each Interest Payment Date or the Repayment Date or such other date (as the case may be), procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by tested telex or authenticated SWIFT the payment instructions relating to such payment.

The Lender agrees with the Borrower that it will not deposit any other moneys into the Account and that no withdrawals shall be made from the Account other than as provided for and in accordance with the Trust Deed and the Paying Agency Agreement.

The Contracts (Rights of Third Parties) Act 1999 shall apply in favour of the Trustee in relation to this Clause 6.1.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any taxes. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such taxes, it shall, on the due date for such payment, increase the payment of principal or interest or any other payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in U.S.\$ equal to the full amount which it would have received had payment not been made subject to such taxes, and shall promptly account to the relevant authorities for the relevant amount of such taxes so withheld or deducted within the time allowed for such payment under applicable law, and shall deliver to the Lender without undue delay evidence of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such taxes (including penalties or interest) the Borrower shall reimburse the Lender in U.S.\$ for such documented payment on demand. For the avoidance of doubt, this Clause 6.2 is without prejudice to any obligations of the Lender contained in Clause 6.9.

6.3 Withholding on the Notes

Without prejudice to the provisions of Clause 6.2, if the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation) that it has become obliged to make any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland or any political subdivision or any authority thereof or therein having the power to tax from any payment which it is obliged to make, or would otherwise be obliged to make but for the imposition of any such withholding or deduction for or on account of such taxes, under or in respect of the Notes, the Borrower agrees to pay into the Account in Same-Day Funds, no later than one Business Day prior to the date on which payment is due to the Noteholders, such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any reimbursement of the sums paid pursuant to this provision, to the extent that any Noteholders are not entitled to such additional amounts pursuant to the Conditions, pay such additional amounts to the Borrower (it being understood that neither the Lender, the Principal Paying Agent or any Paying Agent shall have any obligations to determine whether any Noteholder is entitled to any such additional amount).

Any notification by the Lender to the Borrower in connection with this Clause 6.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

6.4 Reimbursement

6.4.1 To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which the Borrower has made a payment pursuant to this Clause 6, it shall promptly pay to the Borrower so much of the benefit it received as will leave the Lender in substantially the same position as it would have been in had no additional amount been required to be paid by the Borrower pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender (acting reasonably), provided that the Lender shall notify the Borrower promptly upon determination that it has received any such benefit. The Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and the Lender shall in no circumstances be obliged to disclose to the Borrower any information regarding its tax affairs or computations.

6.4.2 If as a result of a failure to obtain relief from deduction or withholding of any taxes referred to in Clause 6.2; (a) such taxes are deducted or withheld by the Borrower and pursuant to Clause 6.2 an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (b) following the deduction or withholding of taxes as referred to above, the Lender (upon instruction by the Borrower) applies to the competent taxing authority for a withholding tax refund and such withholding tax is refunded or repaid by the relevant taxing authority, the Lender shall as soon as reasonably practicable notify the Borrower of the receipt of such withholding tax refund and promptly transfer the actually received amount of the withholding tax refund in the currency actually received and less any applicable cost to a bank account of the Borrower specified for that purpose by the Borrower.

6.5 Representations of the Lender

The Lender represents that, at the date hereof, (a) it is resident in Ireland, is subject to taxation in Ireland on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Ireland merely on income from sources in Ireland or connected with property located in Ireland and it will be able to receive certification to the effect that it is resident in Ireland for taxation purposes from the Irish taxing authorities, (b) save for any that may be created as a result of entering into this Agreement and the transactions contemplated herein, it does not have a permanent establishment in the Russian Federation and (c) it does not have any current intentions to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be resident in Ireland and subject to taxation in Ireland.

6.6 Notification and Substitution

6.6.1 The Lender agrees upon becoming aware of such, promptly to notify the Borrower in writing if it ceases to be resident in Ireland or opens a permanent establishment in the Russian Federation or if any of the representations set forth in Clause 6.5 are no longer true and correct.

6.6.2 If the Lender ceases, as a result of the Lender's actions, to be tax resident in a jurisdiction for the purposes of a double taxation treaty between the Russian Federation and such jurisdiction, and such cessation results in the Borrower being required to make payments pursuant to Clause 6.2, then, except in circumstances where the Lender has ceased to be tax resident in such jurisdiction by reason of any change of law (as described in Clause 5.2) (including, without limitation, a change in a double taxation treaty or in such law or treaty's application or interpretation), the Borrower may require the Lender to seek the substitution of the Lender as Issuer of the Notes and as lender under this Loan Agreement pursuant to and in accordance with the provisions of clause 16 of the Trust Deed. The Borrower shall bear all costs and expenses relating to or arising out of such substitution.

6.7 Evidence of Debt

The entries made in the accounts of the Lender shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Borrower's obligations to pay amounts thereto, as recorded therein.

6.8 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall, upon becoming aware of the same, notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; provided that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to have any adverse effect upon its business, operations or financial condition or might be in breach of any provision of the Trust Deed or the Notes.

6.9 Tax Treaty Relief

The Lender shall, upon the instructions of the Borrower, once in each calendar year prior to the first Interest Payment Date in that calendar year, use commercially reasonable efforts to obtain and to deliver to the Borrower no later than 10 Business Days before such Interest Payment Date a certificate issued by the competent taxing authority in Ireland confirming that the Lender is tax resident in Ireland for the purpose of the Ireland/Russia DTT and such other information or forms as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian taxes after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. The Lender shall, at the request of the Borrower and at the Borrower's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, from time to time use its commercially reasonable efforts to obtain and to deliver to the Borrower any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian taxes or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. The certificate and, if required, other forms referred to in this Clause 6.9 shall be duly signed by the Lender, if applicable, and stamped, apostilled at the Irish Department of Foreign Affairs or otherwise approved by the competent taxing authority in Ireland, if applicable, and, if requested and at the cost and expense of the Borrower, certified translations supplied. Together with any such certificate, and, if required, other forms, the Lender shall deliver to the Borrower the originals of same. If a relief from deduction or withholding of Russian taxes under this Clause 6.9 has not been obtained and further to an application of the Borrower to the relevant Russian taxing authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of the Borrower (a) use its commercially reasonable efforts, at the Borrower's cost to procure that such rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such rouble bank account.

The Lender shall not be responsible for any failure to provide, or any delays in providing, such tax residency certificate as a result of any action or inaction of any authority in Ireland, but shall notify the Borrower as soon as practicable about any such failure or delay with an indication of the actions taken by the Lender to obtain such tax residency certificate.

The Borrower and the Lender (each using its best endeavours and in accordance with all applicable laws) each agree that, should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding or the interpretation thereof by the relevant competent authority change, then the procedures referred to in Clause 6.9 will be deemed changed accordingly.

7 Conditions Precedent

7.1 Documents to be Delivered

The obligation of the Lender to make the Advance shall be subject to the receipt by the Lender on or prior to the Closing Date of written evidence that the persons mentioned in Clause 16.5 have agreed to receive process in the manner specified herein.

7.2 Further Conditions

The obligation of the Lender to make the Advance shall be subject to the further conditions precedent that as at the Closing Date (a) the representations and warranties made and given by the Borrower in the Subscription Agreement shall be true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing, (b) no Default shall have occurred, (c) the Borrower shall not be in breach of any of the terms, conditions and provisions of this Agreement and (d) the Subscription Agreement, the Paying Agency Agreement and the Trust Deed shall have been executed and delivered, (e) the Lender shall have received the full amount of the proceeds of the issue of the Notes pursuant to the Subscription Agreement and (f) the Lender shall have received in full the amount referred to in Clause 2.3.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan or the Facility with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central bank or other fiscal, monetary or other authority, Agency or any official of any such authority or Agency, which:

8.1.1 subjects or will subject the Lender to any taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any taxes payable by the Lender on its overall net income, any taxes referred to in Clause 6.2, or any taxes referred to in Clause 6.3); or

8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any taxes referred to in Clause 6.2 or any taxes referred to in Clause 6.3); or

8.1.3 imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased; or

(ii) the amount of principal, interest or additional amounts payable to or received by the Lender hereunder is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then, subject to the following and in each such case:

(a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower together with a certificate signed by a director of the Lender, or by any attorney authorised by the directors on behalf of the Lender, describing in reasonable detail

the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, setting out in reasonable detail the basis on which such amount has been calculated, and providing all relevant supporting documents evidencing the matters set out in such certificate; and

- (b) upon demand by the Lender to the Borrower, the Borrower, in the case of sub-Clauses (i) and (iii) above, shall, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of sub-Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or forgone interest or other return; provided however, that the amount of such increased cost, reduced amount or payment made or forgone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Agreement, and provided, further, that the Lender will not be entitled to such additional amount where such reduction, payment or forgone interest or other return arises as a result of the negligence or wilful default of the Lender,

provided that this Clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clauses 6.2 and 6.3.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1, the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause except that nothing in this Clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder which, in the reasonable opinion of the Lender, is prejudicial to it unless the Borrower agrees to reimburse and/or secure the Lender in relation to such costs or expenses.

9 Covenants

So long as any amount remains outstanding hereunder:

9.1 Negative Pledge

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

9.2 Mergers

- (i) The Borrower shall not enter into any reorganisation by way of a merger, accession, division, separation, transformation or liquidation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation, or any analogous transaction in any jurisdiction and (ii) the Borrower shall ensure that, without the prior written consent of the Lender, no Material Subsidiary (A) enters into any reorganisation (whether by way of a merger, accession, division, separation, transformation or liquidation as these terms are construed by applicable Russian legislation), or (B) in the case of a Material Subsidiary incorporated in a jurisdiction other than Russia participates in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction), if (in the case of either (i) or (ii) above) any such reorganisation or other type of corporate reconstruction could reasonably be expected to

result in a Material Adverse Effect, unless the surviving entity will be the Borrower or, if different, the surviving entity will succeed to and fully assume the obligations of the Borrower under this Agreement and the VEBL Agreements.

9.3 Disposals

The Borrower shall not and shall ensure that its Subsidiaries do not sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not and whether voluntary or involuntary), the whole or any part of its respective assets. This Clause 9.3 does not apply to any sale, lease transfer or other disposal: (i) made in the ordinary course of business of the disposing entity and on an arm's length basis; (ii) made from a Subsidiary of the Borrower to another Subsidiary of the Borrower or to the Borrower; (iii) of assets in exchange for other assets comparable or superior as to type, value or quality; (iv) made in respect of any Securitisation; or (v) which would not otherwise have a Material Adverse Effect.

9.4 Maintenance of Authorisations

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

9.5 Maintenance of Property

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

9.6 Payment of Taxes and Other Claims

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

9.7 Withholding Tax Exemption

The Borrower shall give to the Lender all the assistance it reasonably requires to ensure that, prior to the first Interest Payment Date and at the beginning of each calendar year the Lender can provide the Borrower with the documents required under Russian laws for the relief of the Borrower from Russian withholding tax in respect of payments hereunder.

9.8 Maintenance of Insurance

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

9.9 Financial and Other Information

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

9.9.2 The Borrower shall as soon as the same become available, but in any event within 150 days after the end of the first half of each of its financial years, deliver to the Lender the Group's reviewed IFRS consolidated financial statements for such period, as reviewed by the Auditors.

9.9.3 The Borrower shall, so long as the Advance or any other sum owing under this Agreement remains outstanding, deliver to the Lender or the Trustee, as the case may be, without undue delay, such additional information including, but not limited to, regarding the financial position or the business of the Borrower and its Subsidiaries as the Lender or the Trustee may request including providing certification to the Trustee pursuant to the Trust Deed including as to the identification of any Material Subsidiary and providing such Officers' Certificate as either the Lender or the Trustee may request (including an Officers' Certificate as to the principal amount of the Notes held by any person (including but not limited to the Lender or the Borrower or any of their respective Subsidiaries or any Affiliate of the Borrower) for the benefit of the Borrower or any of its respective Subsidiaries or Affiliates).

9.9.4 The Borrower shall ensure that each set of the Group's IFRS consolidated financial statements delivered by it pursuant to this Clause 9.9 is:

- (i) prepared in accordance with IFRS as consistently applied;
- (ii) in the case of the statements provided pursuant to sub-Clause 9.9.1, accompanied by a report thereon of the Auditors referred to in sub-Clause 9.9.1; and
- (iii) in the case of the statements provided pursuant to sub-Clause 9.9.2, certified by an Authorised Signatory of the Borrower as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those reviewed IFRS consolidated financial statements of the Group relate and of the results of the Group's operations during such period.

9.9.5 Following the occurrence of any matter or event specified in this Agreement where this Agreement provides for the determination of whether such matter or event has or will have a Material Adverse Effect, the Borrower shall provide the Lender (with a copy to the Trustee) with an Officers' Certificate certifying whether or not such matter or event has or will have a Material Adverse Effect and setting out such additional information as may be required to support such determination. The Lender and the Trustee shall each be entitled, without liability to any person, to rely solely on an Officers' Certificate from the Borrower, certifying whether or not such matter has or will have a Material Adverse Effect.

9.9.6 The Borrower shall deliver within 14 days of any written request by the Lender or the Trustee an Officers' Certificate as to any fact or matter prima facie within the knowledge of the Borrower as sufficient evidence thereof and a like certificate to the effect that any particular dealing or transaction or step or thing is, in the opinion of the person so certifying, expedient, as sufficient evidence that it is expedient and the Lender or Trustee shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by its failing so to do.

9.10 Financial Covenants

The Borrower shall (except as otherwise specifically provided or agreed by the Lender) at all times:

9.10.1 ensure that Net Interest Income (as calculated by reference to the Borrower's most recent audited IFRS consolidated financial statements) shall be greater than zero; and

9.10.2 ensure that Total Equity shall be at least 5 per cent. of Total Assets.

9.11 Change of Business

The Borrower shall procure that no material change is made to the general nature of its business from that carried on at the date of this Agreement.

9.12 Ranking of Claims

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all its other unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

9.13 Notice of Default

The Borrower shall deliver to the Lender (copied to the Trustee) (i) at least annually, as provided in the Trust Deed and (ii) within 10 days of any written request of the Lender or (iii) within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate, substantially in the form set out in Schedule 1, stating whether or not any Default has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

9.14 Contracts (Rights of Third Parties) Act 1999

The Contracts (Rights of Third Parties) Act 1999 shall apply in favour of the Trustee in relation to this Clause 9.

10 Events of Default

10.1 Events of Default

If one or more of the following events of default (each, an "**Event of Default**") shall occur and be continuing, the Lender shall be entitled to the remedies set forth in Clause 10.3.

10.1.1 The Borrower fails to pay within five Business Days any amount payable hereunder as and when such amount becomes payable in the currency and in the manner specified herein.

10.1.2 The Borrower fails to perform any of its other obligations contained herein to be performed by it, provided (except where in any such case that failure is not capable of remedy when no such notice as in hereinafter mentioned will be required) that failure continues for the period of 30 days (or such longer period as the Lender may permit) next following the submission by the Lender to the Borrower of notice in writing requesting the same to be remedied.

10.1.3 (i) The Borrower or any Material Subsidiary fails to pay any of its Indebtedness as and when such Indebtedness becomes payable, taking into account any applicable grace period or (ii) any Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Borrower or such Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any person or entity entitled to such Indebtedness; provided, that the total amount of such Indebtedness unpaid or becoming due and payable exceeds U.S.\$20,000,000 (or its equivalent in another currency).

10.1.4 (A) In the case of the Borrower and any of the Material Subsidiaries incorporated in the Russian Federation, the occurrence of any of the following events: (i) any of the Borrower, or any of the Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of any of the Borrower, or any of the Material Subsidiaries as the case may be; (ii) the presentation or filing of a petition in respect of any of the Borrower or the Material Subsidiaries in any court of competent jurisdiction, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Borrower or the Material Subsidiaries (ignoring any petition that is not accepted by such court or agency for review on its merits), unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous; (iii) the institution of

the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovleniye*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over the Borrower or any of the Material Subsidiaries, (iv) the entry by the Borrower or any of the Material Subsidiaries into, or the agreeing by the Borrower or any of the Material Subsidiaries to enter into, amicable settlement (*mirovoye soglasheniye*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October, 2002 (as amended or replaced from time to time); and/or (v) any judicial liquidation in respect of the Borrower or any of the Material Subsidiaries; and (B) in the case of any Material Subsidiaries incorporated otherwise than in the Russian Federation, the occurrence of any of the following events: (i) any such Material Subsidiary becomes insolvent or is unable to pay its debts generally as they fall due; (ii) one or more administrator(s) or a liquidator of any such Material Subsidiary is appointed over the whole or substantially the whole or (in the opinion of the Lender) any material part of the undertaking, assets or revenues of any such Material Subsidiary; (iii) any such Material Subsidiary makes a general assignment to, or a general arrangement or general composition with or for the benefit of, all or substantially all of its creditors or declares a moratorium in respect of all or substantially all of its Indebtedness; or (iv) any such Material Subsidiary ceases or threatens to cease to carry on all or substantially all of its business, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation of any such Material Subsidiary, whereby the undertakings and assets of any such Material Subsidiary are transferred to or otherwise vested in such Material Subsidiary.

- 10.1.5** The Borrower or any Material Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; provided that in the case of a Material Subsidiary the same could have a Material Adverse Effect.
- 10.1.6** Any governmental authorisation necessary for the performance of any obligation of the Borrower under this Agreement fails to be in full force and effect.
- 10.1.7** Any governmental authority or court takes any action that has a Material Adverse Effect on the Borrower’s ability to perform its obligations under this Agreement or the validity or enforceability of this Agreement or the rights and remedies of the Lender under this Agreement.
- 10.1.8** Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of the Borrower or any of the Material Subsidiaries having a fair market value of more than U.S.\$20,000,000 or the equivalent thereof in any other currency or any event occurs which under the laws of any jurisdiction has a similar or analogous effect unless such execution, distress, enforcement of a Lien or similar or analogous event is being contested in good faith by the Borrower or such Material Subsidiary, as the case may be, and is not removed, paid out, stayed or discharged within 45 days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be.
- 10.1.9** There are unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against the Borrower and/or the Material Subsidiaries and there is a period of 45 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 days after the notice specified in Clause 10.2.
- 10.1.10** Any seizure, compulsory acquisition, expropriation, nationalisation without appropriate compensation or renationalisation after the date of this Agreement by or under the authority of a government authority of all or part (the IFRS book value of which is 5 per cent. or more of the book value of the whole) of the assets of the Borrower or any Material Subsidiary.
- 10.1.11** The Borrower or any of its Material Subsidiaries ceases to carry on the principal business they each carried on at the date hereof.

10.1.12 At any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its obligations under this Agreement or any of such obligations (subject as provided in Clause 5.3 of the Subscription Agreement) are not, or cease to be, legal, valid, binding and enforceable.

10.1.13 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing sub-Clauses.

10.2 Notice of Default

The Borrower shall deliver to the Lender (i) at least annually, as provided in the Trust Deed and (ii) within 10 days of any written request by the Lender or (iii) within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate, substantially in the form set out in Schedule 1, stating whether any Default, Event of Default or Put Event has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

10.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to the Borrower, (a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate, and (b) declare the Loan to be immediately due and payable by the Borrower and declare all other amounts accrued and/or payable hereunder by the Borrower up to (and including) the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower; provided, however, that if any event of any kind referred to in Clauses 10.1.5, 10.1.6, 10.1.7 or 10.1.10 occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

10.4 Rights Not Exclusive

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

11 Indemnity

11.1 Indemnification

The Borrower undertakes to the Lender, that if the Lender and each director, officer, employee or agent of the Lender (other than the Principal Paying Agent and any of the Paying Agents) (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including, without limitation, taxes and properly incurred legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding (excluding a Loss that is the subject of the undertaking in Clauses 6.2, 6.3, 8, 11.4, 13.1 or any other similar undertaking (it being understood that in any event the Lender may not recover twice in respect of the same Loss)), the Borrower shall pay to the Lender on demand an amount equal to such documented Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was either caused by such indemnified party's negligence, bad faith, fraud or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in the Subscription Agreement. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause.

11.2 Independent Obligation

Clause 11.1 constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

11.3 Evidence of Loss

A certificate of the Lender setting forth the amount of Loss and specifying in full detail the basis therefor shall, in the absence of manifest error, be conclusive evidence of the amount of such Loss.

11.4 Currency Indemnity

To the fullest extent permitted by law, the obligations of the Borrower under this Agreement in respect of any amount due in the currency (the “**first currency**”) in which the same is payable shall, notwithstanding any payment in any other currency (the “**second currency**”) (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the first currency that the Lender may, acting reasonably and in accordance with normal banking procedures, purchase with the sum paid in the second currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the first currency that may be so purchased for any reason falls short of the amount originally due (the “**Due Amount**”), the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in the first currency. Any obligation of the Borrower not discharged by payment in the first currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Agreement and the Subscription Agreement, shall continue in full force and effect.

12 Survival

The obligations of the Borrower pursuant to Clauses 6.2, 6.3, 11 and 13.1 shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan, in each case by the Borrower.

13 General

13.1 Stamp Duties

13.1.1 The Borrower shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on the Borrower by any person in the United Kingdom, the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges upon presentation by the Lender to the Borrower of documentary evidence of such costs and expenses.

13.1.2 The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the United Kingdom, the Russian Federation, Belgium, Luxembourg or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and any documents related hereto, the Borrower shall repay the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such taxes or similar charges.

13.2 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right,

power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

13.3 Prescription

In the event that any Notes become void pursuant to Condition 11 of the Notes, the Lender shall forthwith repay to the Borrower the principal amount of such Note subject to the Lender having previously received from the Borrower a corresponding amount in respect of principal pursuant to this Agreement.

14 Notices

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given or made in the English language by fax or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

14.1 if to the Borrower:

Open Joint-Stock Company "VEB-Leasing"
7 Dolgorukovskaya Street
Moscow 127006
Russian Federation
Fax: +7 495 981 4239
Tel: +7 495 981 4240
Attention: Mr. Vyacheslav Sergeevich Solovyev

14.2 if to the Lender:

VEB-Leasing Invest Limited
12 Merrion Square
Dublin 2
Ireland
Tel: +353 1 631 6052
Fax: +353 1 631 6009
Attention: IFG STRUCTURED FINANCE SERVICES

or to such other address or facsimile number as any party may hereafter specify in writing to the other.

15 Assignment

15.1 General

This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights, benefits and discretions by the Lender or the forming of an opinion or the making of any determination by, and the delivery of notices, certificates and information to, the Lender, following notification to the Borrower of the assignment and/or enforcement of the security, each as referred to in Clause 15.3, shall include references to the exercise of such rights, benefits or discretions or the forming of an opinion or the making of any determination by, and the delivery of notices, certificates and information to, the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any determinations by the Lender, or any discussions between the Lender and the Borrower or any agreements of the Lender or the Borrower, pursuant to Clause 6.4, 6.8 or 8.2.

15.2 By the Borrower

The Borrower shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other person.

15.3 By the Lender

Subject to the provisions of Clause 16 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement other than the Reserved Rights except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under this Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4 of the Trust Deed. Nothing herein shall prevent the Trustee from assigning or transferring any rights held by it in relation to or under this Agreement, provided that any such assignment or transfer is in accordance with Clause 25 of the Trust Deed.

16 Law and Jurisdiction

16.1 Governing law

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by, and construed in accordance with, English law.

16.2 Jurisdiction

The parties irrevocably agree that any dispute arising out of or in connection with this Agreement (including a dispute as to the validity, existence or termination of this Agreement or the consequences of its nullity and/or this Clause 16.2 or any non-contractual obligation arising out of or in connection with this Agreement) (a “**Dispute**”), shall be resolved:

16.2.1 subject to Clause 16.2.2, by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the rules set down by the LCIA (formerly the London Court of Arbitration) (“**LCIA Rules**”), which rules are deemed to be incorporated by reference into this clause, save that any provision of such LCIA Rules relating to nationality of an arbitrator shall, to that extent, not apply, and Article 5.6 of the LCIA Rules shall be amended as follows: unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA Court; or

16.2.2 at the sole option of the Lender, by proceedings brought in the courts of England, which courts are to have exclusive jurisdiction. If the Lender is in the position of a respondent and wishes to exercise this option, it must do so by notice to the other parties to the Dispute within 30 days of service on it of the request for arbitration.

For the avoidance of doubt, Clause 16.2.2 is for the benefit of the Lender alone and shall not limit the right of the Lender to bring proceedings in any other court of competent jurisdiction.

16.3 Appropriate forum

Each of the parties irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Dispute, and agrees not to claim that any such court is not a convenient or appropriate forum.

16.4 Lender's process agent

The Lender irrevocably appoints Law Debenture Corporate Services Limited (the “**Lender's Agent**”), of Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

16.4.1 service upon the Lender's Agent shall be deemed valid service upon the Lender whether or not the process is forwarded to or received by the Lender;

16.4.2 the Lender shall inform all other parties to this Agreement, in writing, of any change in the address of the Lender's Agent within 28 days of such change;

16.4.3 if the Lender's Agent ceases to be able to act as a process agent or to have an address in England, the Lender irrevocably agrees to appoint a new process agent in England acceptable to the other parties to the Agreement and to deliver to the other parties to the Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and

16.4.4 nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

16.5 Borrower's process agent

The Borrower irrevocably appoints Law Debenture Corporate Services Limited (the "**Borrower's Agent**"), of Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

16.5.1 service upon the Borrower's Agent shall be deemed valid service upon the Borrower whether or not the process is forwarded to or received by the Borrower;

16.5.2 The Borrower shall inform all other parties to this Agreement, in writing, of any change in the address of the Borrower's Agent within 28 days of such change;

16.5.3 if the Borrower's Agent ceases to be able to act as a process agent or to have an address in England, the Borrower irrevocably agrees to appoint a new process agent in England acceptable to the other parties to the Agreement and to deliver to the other parties to the Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and

16.5.4 nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

16.6 Waiver of immunity

To the extent the Borrower may, in relation to any Dispute, claim in any jurisdiction, for itself or its assets or revenues, immunity from the jurisdiction of any court or tribunal, service of process, injunctive or other interim relief, or any process for execution of any award or judgment against its property, the Borrower irrevocably waives such immunity.

17 Severability

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

18 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, save that the Contracts (Rights of Third Parties) Act 1999 shall apply in favour of the Trustee.

19 Language

The language which governs the interpretation of this Agreement is the English language.

20 Amendments

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties hereto.

21 Counterparts

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto.

22 Limited Recourse and Non Petition

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, actually received from the Borrower (after deduction or withholding of such taxes or duties as may be required to be made by the Lender by law in respect of such sum or in respect of the Notes and for which the Lender has not received a corresponding additional payment from the Borrower (also after deduction or withholding of such taxes or duties as may be required to be made by the Lender in respect thereof) pursuant to this Agreement) by or for the account of the Lender pursuant to this Agreement (the “**Lender Assets**”), subject always (i) to the Security Interests (as defined in the Trust Deed) and (ii) to the fact that any claims of the Managers (as defined in the Subscription Agreement) shall rank in priority to the claims of the Borrower hereunder, and that any such claim by any and all such Managers or Borrower shall be reduced *pro rata* so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither the Borrower nor any other person acting on behalf of any of them shall be entitled at any time to institute proceedings against the Lender, or join with any other person in bringing, instituting or joining insolvency proceedings (whether court-based or otherwise) against the Lender.

Neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

In witness whereof, the parties hereto have caused this Agreement to be executed on the date first written above.

For and on behalf of

OPEN JOINT-STOCK COMPANY “VEB-LEASING”:

By:
Name:
Title:

By:
Name:
Title: CHIEF ACCOUNTANT

Signed by a duly authorised attorney of
VEB-LEASING INVEST LIMITED:

By:
Name:
Title:

Schedule 1

Form of Officers' Certificate

To: VEB-LEASING INVEST LIMITED
Citicorp Trustee Company Limited

From: Open Joint-Stock Company "VEB-LEASING"

Dated:

Dear Sirs

Open Joint-Stock Company "VEB-LEASING"- U.S.\$400,000,000 Loan Agreement dated 23 May 2011 (the "Loan Agreement")

- 1 We refer to the Loan Agreement. This is an Officers' Certificate for the purposes of Clause 10.2 of the Loan Agreement.
- 2 [We confirm that no Default, Event of Default or Put Event has occurred¹ and that we are complying with all of our obligations under the Loan Agreement.]
- 3 [We hereby notify you in accordance with Clause 5.7 of the Loan Agreement that a Put Event has occurred, the details of which are set out below:
[SET OUT PUT EVENT DETAILS]]²

For and on behalf of Open Joint-Stock Company "VEB-LEASING"

Signed:

.....
[Authorised Signatory, being one of
principal executive officer/ principal
accounting officer/ principal financial officer]
of Open Joint-Stock Company "VEB-
LEASING"

.....
[Authorised Signatory]
of Open Joint-Stock Company "VEB-
LEASING"

1 If this statement cannot be made, the certificate should identify any Default or Event of Default that is continuing and the steps, if any, being taken to remedy it.

2 Delete 2 or 3 as appropriate

TERMS AND CONDITIONS OF THE NOTES

The U.S.\$400,000,000 5.125 per cent. Loan Participation Notes due 2016 (the “**Notes**” which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith) of VEB-Leasing Invest Limited (the “**Issuer**”, which expression shall include any entity substituted for the Issuer pursuant to Condition 10(c)) are constituted by, are subject to, and have the benefit of, a trust deed (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 27 May 2011 and made between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include any trustees or trustee for the time being under the Trust Deed) as trustee for the Noteholders (as defined below).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a U.S.\$400,000,000 5 year loan (the “**Loan**”) to Open Joint-Stock Company “VEB-Leasing” (the “**Borrower**”). The terms of the Loan are recorded in a loan agreement (the “**Loan Agreement**”) dated 23 May 2011 between the Issuer and the Borrower.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely on the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee for the benefit of itself and the Noteholders certain of its rights and interests as lender under the Loan Agreement and in respect of the Account (as defined in the Trust Deed) as security for its payment obligations in respect of the Notes and under the Trust Deed (the “**Charge**”) and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the “**Assigned Rights**” and, together with the Charge, the “**Security Interests**”) in each case excluding the Reserved Rights. “**Reserved Rights**” are the rights excluded from the Charge and the Assigned Rights, being all and any rights, interests and benefits in respect of the obligations of the Borrower under Clauses 2.3, 3.2, 3.4, 5.3 (other than the right to receive any amount payable under such Clause), 6.2 (to the extent that the Borrower shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of taxes, penalties or interest), 6.3 (to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 6.4, 6.6, 6.8, 8, 9.8, 11, 12 and 13.1 of the Loan Agreement.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) be required by Noteholders holding in aggregate at least one quarter of the principal amount of the Notes outstanding (as defined in the Trust Deed) or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to a paying agency agreement (the “**Paying Agency Agreement**”) dated 23 May 2011 and made between the Borrower, the Issuer, Citibank N.A., London Branch, as the principal paying agent (the “**Principal Paying Agent**”, which expressions shall include any successors), Citigroup Global Markets Deutschland AG as the registrar (the “**Registrar**”, which expression shall include any successors), and the transfer agents and paying agents named therein (the “**Transfer Agents**” and “**Paying Agents**” respectively, which expressions shall include any successors, and together with the Principal Paying Agent and the Registrar, the “**Agents**”) and the Trustee.

Copies of the Trust Deed, the Loan Agreement and the Paying Agency Agreement are available for inspection by Noteholders during normal business hours at (i) the principal office of the Trustee being, at the date hereof, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom; (ii) the registered office of the Issuer being, at the date hereof, 12 Merrion Square, Dublin 2, Ireland; and (iii) the Specified Office (as defined in the Paying Agency Agreement) of the Principal Paying Agent.

Certain provisions of these terms and conditions (the “**Conditions**”) are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Paying Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

Capitalised expressions used but not defined herein shall have the meaning given to them in the Trust Deed.

1 STATUS

The Notes are limited recourse secured obligations of the Issuer.

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received (net of tax and other deductions) by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights (and after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of such sum or in respect of the Notes and for which the Issuer has not received a corresponding payment in respect thereof pursuant to the Loan Agreement), will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker’s lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders have notice of, and have accepted, these Conditions and the contents of the Trust Deed, the Paying Agency Agreement and the Loan Agreement. It is hereby expressly provided that, and Noteholders are deemed to have accepted that:

- (a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed, the Loan Agreement (in the case of the Issuer), or in Condition 1(f) below, liability or obligation in respect of, the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest or any additional amounts, if any, due or to become due from the Borrower under the Loan Agreement;
- (b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;
- (c) neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default, fraud, negligence, bad faith or omission of the Borrower under or in respect of the Loan Agreement;
- (d) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Agents of their respective obligations under the Paying Agency Agreement;
- (e) the payment of principal, interest and other amounts, if any, and performance of the terms of the Notes depends upon performance by the Borrower of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes legal, valid and binding obligations of the Borrower;
- (f) the Issuer and the Trustee shall be entitled to rely on (i) annual or any other certificates of the Borrower (and, where applicable, certification by third parties) as a means of monitoring whether a Default or Event of Default (each as defined in the Loan Agreement) has occurred

and the details of any steps being taken to remedy any such Default or Event of Default, whether a Put Event (as defined below) has occurred, or that the Borrower is complying with its obligations under the Loan Agreement, and (ii) periodic certificates of the Borrower identifying Material Subsidiaries and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation to the Loan Agreement and, subject as further provided in the Trust Deed, neither the Issuer as lender under the Loan Agreement nor the Trustee will be liable for any failure to make the usual or any investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value or adequacy of such security;

- (g) neither the Trustee nor the Issuer shall at any time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until the Issuer, or the Trustee, as the case may be, has received from the Borrower the funds, security or indemnity (as applicable) that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds; and
- (h) the Issuer will not be liable for any shortfall in respect of amounts payable by it or resulting from any withholding or deduction or for any payment on account of tax required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement which will or may affect payments made or to be made by the Borrower under the Loan Agreement, save to the extent that it has received additional amounts under the Loan Agreement in respect of such withholding or deduction or payment, and the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deduction or withholding or payment, other than those set out in the Loan Agreement. The Trustee shall have no liability for any such shortfall in respect of any such deduction, withholding or payment.

Under the Trust Deed, the obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the payment obligations of the Issuer in respect of the Notes except to the extent there is a failure in its subsequent payment to relevant Noteholders.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Borrower except through action by the Trustee pursuant to the Charge granted and the assignment of the Assigned Rights assigned to the Trustee in the Trust Deed. Neither the Issuer nor the Trustee shall be required to take any steps, actions or proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or pre-funded to its satisfaction.

As provided in the Trust Deed, and notwithstanding any other provision hereof, the obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equal to each sum actually received by or for the account of the Issuer (after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of such sum or in respect of the Notes and for which the Issuer has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Issuer in respect thereof) pursuant to the Loan Agreement) from the Borrower in respect of principal, interest or, as the case may be, other amounts relating to the Loan (less any amounts in respect of the Reserved Rights), the right to receive which will, *inter alia*, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered

by or on behalf of the Issuer or the Trustee (following a Relevant Event or (if applicable) an Event of Default). Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered (the Issuer having used its best endeavours to recover such sums), the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

None of the Noteholders, the Trustee, nor any other person acting on behalf of any of them, shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the Noteholders or the Trustee, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder or the Trustee shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes, other than in the case of fraud.

2 FORM AND DENOMINATION

The Notes are issued in registered form without coupons attached in the denomination of U.S.\$200,000 or higher integral multiples of U.S.\$1,000 in excess thereof (each an “**Authorised Holding**”).

3 REGISTER, TITLE AND TRANSFERS

(A) REGISTER

The Registrar will maintain a register (the “**Register**”) in respect of the Notes outside the United Kingdom in accordance with the provisions of the Paying Agency Agreement on which shall be entered the names and addresses of the Noteholders and the particulars of the Notes held by them and of all transfers and redemptions of Notes. In these Conditions the “**holder**” or “**Noteholder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly. A certificate (each a “**Certificate**”) will be issued to each Noteholder in respect of its registered holding. Each Certificate will be serially numbered with an identifying number which will be recorded in the Register. Each Noteholder shall be entitled to receive only one Certificate in respect of its entire holding.

(B) TITLE

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

(C) TRANSFERS

Subject to the terms of the Paying Agency Agreement and to Conditions 4(F) and 4(G) below, a Note may be transferred in whole or in part upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Certificate may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are

Authorised Holdings. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.

No transfer of a Certificate will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number) or a nominee.

(D) REGISTRATION AND DELIVERY OF CERTIFICATES

Within five business days of the surrender of a Certificate in accordance with Condition 4(C) above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this Condition 4(D), “**business day**” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the relevant Transfer Agent has its Specified Office.

(E) NO CHARGE

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but subject to the person making such application for transfer paying or procuring the payment of (or the giving of such indemnity as the Issuer, the Registrar or the relevant Transfer Agent, as the case may be, may require in respect of) any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(F) CLOSED PERIODS

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes or following the exercise of a Put Option in accordance with Condition 6(D).

(G) REGULATIONS CONCERNING TRANSFERS AND REGISTRATION

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations and is available at the Specified Offices of the Transfer Agents.

4 RESTRICTIVE COVENANT

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution agree to any amendments to or any modification, recession, cancellation, termination or waiver of, or authorise any breach by any counterparty of or proposed breach by any counterparty of, the terms of the Loan Agreement, other than in the case of an amendment, modification, waiver, recession, cancellation, termination or authorisation with respect to the Reserved Rights, and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver, recession, cancellation, termination or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any other indebtedness for borrowed moneys other than the issue of notes on a limited recourse basis for the sole purpose of making loans to the Borrower, engage in any business (other than entering into any agreements related to the Notes or any other issue of notes as aforesaid (including derivative transactions on a limited recourse basis in connection therewith) and performing any acts incidental to or necessary in connection with the Notes or such related agreements (including the holding of any security in connection therewith),

making the Loan to the Borrower pursuant to the Loan Agreement or any future loans to the Borrower and performing any act incidental to or necessary in connection therewith), declare any dividends, have any subsidiaries or employees (save for its directors), purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity (to the extent the same is within the control of the Issuer) to any person (otherwise than as contemplated in these Conditions and the Trust Deed), issue any further shares (to the extent the same is within the control of the Issuer), other than those required to convert the Issuer's status to that of a public limited company or are in issue as at the date of the Trust Deed, or make any distribution to its shareholders, give any guarantee or assume any other liability or, except where required under the laws of Ireland, petition for any winding-up or bankruptcy.

5 INTEREST

On each Interest Payment Date, or such later date as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan is equal to 5.125 per cent. per annum payable semi-annually in arrear on each Interest Payment Date (as set out in Clause 4 of the Loan Agreement). Each period from (and including) 27 May 2011 (the "**Issue Date**") or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an "**Interest Period**".

If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

In this Condition 5, "**Interest Payment Date**" means 27 May and 27 November of each year, commencing on 27 November 2011.

6 REDEMPTION AND PURCHASE

(A) SCHEDULED REDEMPTION

Unless previously prepaid or repaid, the Borrower will be required to repay the Loan one Business Day (as defined in the Loan Agreement) prior to 27 May 2016 (the "**Repayment Date**") and, subject to such repayment, as set forth in the Loan Agreement, all Notes then outstanding will on the Repayment Date, or as soon thereafter as such repayment of the Loan is actually received, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof.

(B) EARLY REDEMPTION

If the Loan should become repayable (and be repaid) pursuant to the terms and conditions of the Loan Agreement in advance of the Repayment Date (otherwise than in accordance with the circumstances described in Conditions 6(C) or 6(D) below), all Notes then remaining outstanding will thereupon become due and redeemable or repayable at par together with accrued interest and (subject to the Loan being repaid together with accrued interest) shall be redeemed or repaid and the Issuer will use all reasonable endeavours to give not less than 8 days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

Under the Loan Agreement:

- (i) the Borrower may prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.2 of the Loan Agreement; and
- (ii) the Issuer may require the Borrower to prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.3 of the Loan Agreement.

To the extent that the Issuer receives amounts of principal, interest or additional amounts (other than amounts in respect of the Reserved Rights) from the Borrower following prepayment of the Loan, the Issuer shall pay an amount equal to such amounts on the Business Day (as defined in Loan Agreement) following receipt of such amounts, subject as provided in Condition 7.

(C) CANCELLATION

The Loan Agreement provides that the Borrower or any Subsidiary of the Borrower may, among other things, purchase Notes from time to time having an aggregate principal value of at least U.S.\$1,000,000, in the open market or by tender or by private agreement at any price. Such Notes may be held, reissued, resold or, at the option of the Borrower or any such Subsidiary, delivered to the Issuer together with a request for the Issuer to redeem and thereafter cancel such Notes, whereupon the Issuer shall, pursuant to the Paying Agency Agreement, instruct the Registrar to cancel such Notes. Upon the cancellation of such Notes, the Loan shall be treated as prepaid by the Borrower in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest (if any) thereon and no further payment shall be made in respect of such Notes.

(D) CHANGE OF CONTROL

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

Promptly upon the Issuer becoming aware (either by receiving written notice from the Borrower or otherwise) that a Put Event has occurred, the Issuer shall give notice (a **“Put Event Notice”**) to the Noteholders in accordance with Condition 14, specifying the details relating to the occurrence of the Put Event and the procedure for exercising the Put Option.

In order to exercise the Put Option, the holder of a Note must deliver no later than 30 days after the Put Event Notice is given (the **“Put Period”**), to the specified office of the Principal Paying Agent or any Paying Agent, evidence satisfactory to the Paying Agent of such holder's entitlement to such Note and a duly completed put option notice (a **“Put Option Notice”**) specifying the principal amount of the Notes in respect of which the Put Option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or the Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day (as defined in the Loan Agreement) following the end of the Put Period, the relevant Paying Agent shall notify in writing the Issuer and the Borrower of the exercise of the Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Put Option. Provided that the Notes that are the subject of any such Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent prior to the expiry of the Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from the Borrower and (ii) as provided in Condition 8, and provided that the Loan has not otherwise become repayable in accordance with Condition 6(B)) redeem all such Notes on the date falling five Business Days after the expiration of the Put Period (the **“Put Settlement Date”**). Upon the redemption of such Notes, the Loan shall be treated as prepaid by the Borrower in an amount corresponding to the aggregate principal amount of the Notes redeemed, together with accrued interest (if any) thereon and no further payment shall be made in respect of such Notes. No Put Option Notice, once delivered in accordance with this Condition 6, may be withdrawn.

For the purposes of these Conditions, a **“Change of Control”** means either the occurrence of (a) (i) the Parent (as defined in the Loan Agreement) ceasing at any time to be controlled by the Russian Federation or (ii) the Russian Federation no longer having the right to appoint or remove the majority of the Parent's supervisory board or (b) the Parent ceasing to own or control (directly or indirectly) in excess of 50 per cent. of the issued and outstanding voting share capital of the Borrower or (c) the Parent no longer having the right to appoint or remove the majority of the Borrower's board of directors.

“Put Event” means the occurrence of a Change of Control.

7 PAYMENTS

(A) PRINCIPAL

Payments of principal shall be made by U.S. Dollar cheque drawn on, or, upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. Dollar account

maintained by the payee with, a bank in New York City upon surrender of the relevant Notes at the Specified Office of the Principal Paying Agent or the Specified Office of the Transfer Agent.

(B) INTEREST

Payments of interest shall be made by U.S. Dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with, a bank in New York City, and (in the case of interest payable on redemption) upon surrender (or, in the case either of an interest payment prior to redemption or of part payment only, endorsement) of the relevant Notes at the Specified Office of any Paying Agent.

(C) PAYMENTS SUBJECT TO FISCAL LAWS

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8, no commissions or expenses shall be charged to the Noteholders in respect of such payments.

(D) PAYMENTS ON BUSINESS DAYS

If the due date for payments of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, “**business day**” means a day on which (a) U.S. Dollar deposits may be dealt in on the London inter-bank market and commercial banks and foreign exchange markets are open in London, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, New York City and in the city where the Specified Office of the Principal Paying Agent is located.

(E) RECORD DATE

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar’s Specified Office) on the fifteenth day before the due date for such payment (the “**Record Date**”). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed, at the expense of the Issuer, to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

(F) ACCRUED INTEREST

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the date of issuance of the Notes, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

(G) PAYMENTS BY BORROWER

Save as directed by the Trustee at any time after a Relevant Event, the Issuer will require the Borrower to make all payments of principal, interest and additional amounts, if any, to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer. Pursuant to the Charge, the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money (with the exception of sums relating to the Reserved Rights) then or in the future deposited in such account in favour or to the order of the Trustee for the benefit of the Noteholders.

(H) SUCCESSOR PAYING AGENTS

The Paying Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, appoint a successor Registrar or Principal Paying Agent and/or additional or successor Paying Agents or Transfer Agents provided that the Issuer maintains (i) a Principal Paying Agent; (ii) for so long as the Notes are listed and/or admitted to trading on any stock exchange, a Paying Agent as may be required by the rules and regulations of such

stock exchange; (iii) a Registrar having a Specified Office outside the United Kingdom and (iv) a Paying Agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other directive regarding the taxation of savings (the “**European Union Directive**”) or any law implementing or complying with, or introduced in order to conform to, the European Union Directive. Any such variation, termination or appointment of successor or other Agents shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days’ and not less than 30 days’ notice thereof shall have been given to the continuing Agents, the Borrower, the Trustee and to the Noteholders in accordance with Condition 14.

(I) FRACTIONS

Each payment by the Issuer to a Noteholder will be rounded down to the nearest cent.

8 TAXATION

All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer shall, subject as provided below, make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Issuer shall only make such additional payments to the extent and at such time as it shall receive equivalent sums from the Borrower under the Loan Agreement. To the extent that the Issuer does not receive any such equivalent sum, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer provided that no such additional amount will be payable in respect of any Note:

- (a) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) is liable for such taxes or duties by reason of his having some connection with Ireland other than the mere holding of such Notes or the receipt of payments in respect thereof;
- (b) in respect of a Certificate presented for payment of principal or interest on redemption more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Certificate had been presented for payment on such 30th day;
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive or any law implementing or complying with, or introduced in order to conform to, the European Union Directive; or
- (d) in respect of a Note held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union.

As used herein, “**Relevant Date**” means (i) the date on which the equivalent payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, means the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed. If the Issuer becomes subject to any taxing jurisdiction other than or in addition to Ireland, references in these Conditions to Ireland shall be construed as references to Ireland and/or such other jurisdiction.

9 ENFORCEMENT

The Trust Deed provides that only the Trustee (subject to Condition 1) may pursue remedies under general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails to do so within a reasonable period and such failure is continuing.

The Trust Deed also provides that, at any time after an Event of Default, or if a Relevant Event has occurred, the Trustee may, in accordance with applicable laws, at its discretion, and shall, if requested to do so by Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes outstanding (as defined in the Trust Deed), or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being indemnified and/or secured and/or pre-funded to its satisfaction, institute such steps, actions or proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed, including to (i) declare all amounts payable under the Loan Agreement by the Borrower to be immediately due and payable (in the case of an Event of Default); and/or (ii) enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid and thereupon shall cease to be outstanding.

10 MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE ISSUER

(A) MEETINGS OF NOTEHOLDERS

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. At any such meeting one or more persons present holding Notes or being proxies or representatives and holding or representing in the aggregate a clear majority in principal amount of the Notes for the time being outstanding shall form a quorum for the transaction of business, unless the business of such meeting includes consideration of matters requiring a special quorum, in which case the necessary quorum will be one or more persons holding Notes or being proxies or representatives and holding or representing not less than two-thirds of the principal amount of the Notes for the time being outstanding and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business. The Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trust Deed provides that a Written Resolution (as defined in the Trust Deed) passed by holders of in aggregate not less than 90 per cent. of the aggregate principal amount of the Notes outstanding shall have effect as an Extraordinary Resolution.

(B) MODIFICATION AND WAIVER

The Trustee may agree, without the consent of the Noteholders (save as provided in the Trust Deed), to any modification of the Notes and the Trust Deed, the Paying Agency Agreement or, following the creation of the security interests, the Loan Agreement which in the opinion of the Trustee in each case following is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions, or the Trust Deed or by the Borrower of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement, or a Relevant Event shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders; provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of a request given by the holders of 25 per cent. in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution or Written Resolution of the Noteholders. Any such

modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

(C) SUBSTITUTION

The Trust Deed contains provisions to the effect that there may be substituted any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed, provided the consent of the Borrower and the Trustee (which latter consent may be given without the consent of the Noteholders) has been obtained and subject to having complied with certain conditions and requirements as set out therein including the substitute obligor's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee in a manner satisfactory to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 or the Issuer shall use its best endeavours to ensure that the substitute obligor does so.

(D) EXERCISE OF POWERS

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not be obliged to have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Borrower or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11 PRESCRIPTION

Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 TRUSTEE AND AGENTS

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

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement. The Trustee is entitled to assume that each Person is complying with their obligations, including that the Borrower is performing all of its obligations pursuant to the Loan Agreement.

The Trustee shall have no liability to Noteholders for any shortfall they may suffer if it is liable for tax in respect of any payments received by it or as a result of the Security Interests being enforced by it.

The Trust Deed contains provisions for the appointment of new trustees by the Issuer (subject to approval by an Extraordinary Resolution of Noteholders) and for the removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that in the case of the removal of a Trustee, at all times there remains a trustee (being a trust corporation (as defined in the Trust Deed)) in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 14. The Trustee may also resign such appointment giving not less than 90 days' notice to the Issuer provided that such retirement shall not become effective unless there remains a Trustee in office after such retirement.

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

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders in accordance with Condition 14.

13 REPLACEMENT OF CERTIFICATES

If a Certificate shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of any stock exchange on which the Notes are from time to time listed or quoted, be replaced at the Specified Office of the Registrar and the Transfer Agent having its Specified Office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom (or any other place of which notice shall have been given to the Noteholders in accordance with Condition 14) on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14 NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such notice.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee in accordance with the rules of the stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading shall constitute sufficient notice to such holders for every purpose hereunder.

15 FURTHER ISSUES

The Issuer may from time to time, with the consent of the Borrower but without the consent of the Noteholders, create and issue, as provided in Condition 4, either (1) limited recourse notes or bonds or (2) further notes or bonds having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) so as to be consolidated and form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to any further issue which is to be consolidated and form a single series with the Notes, (i) the Issuer will enter into a loan agreement with the Borrower on the same terms as the Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, only relate to Reserved Rights and would not materially prejudice the interests of Noteholders or amend and supplement the Loan Agreement and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such further Notes also and/or new security will be granted over any further loan agreement or the Loan Agreement as so amended or supplemented to secure amounts due on the Notes and such further Notes. Any further notes or bonds forming a single series with the outstanding notes or bonds of any series of the Issuer (including the Notes) constituted by these presents will, and any other notes or bonds of the Issuer may (with the prior written consent of the Trustee), be constituted by a deed supplemental to these presents. These presents contain provisions for convening a single meeting of Noteholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

16 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 GOVERNING LAW

The Notes, the Trust Deed, the Loan Agreement and any non-contractual obligations arising out of or in connection therewith, are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Certificate which will apply to, and in some cases modify, the Conditions while the Notes are represented by the Global Certificate.

The Notes will be represented by a Global Certificate which will be registered in the name of Citivic Nominees Limited as nominee for, and deposited with, a common depository for Euroclear and Clearstream, Luxembourg.

Subject to receipt of funds from VEBL, the Global Certificate will become exchangeable in whole but not in part (free of charge to the holder) for Definitive Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reasons of legal holidays) or announces an intention permanently to cease business and no successor or alternative clearing system satisfactory to the Trustee is available; or (b) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in the form of Definitive Certificates.

Whenever the Global Certificate is to be exchanged for Definitive Certificates, such Definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate following delivery, by or on behalf of the registered holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as required to complete and deliver such Definitive Certificates (including, but without limitation to, the names and addresses of the persons in whose names the Definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office (as defined in the Agency Agreement) of the Registrar or the Transfer Agent. Such exchange will be effected in accordance with the provisions of the Agency Agreement, the Trust Deed and the Global Certificate.

The Conditions are modified as follows insofar as they apply to the Notes in respect of which the Global Certificate is issued:

Payments

Payments of principal and interest in respect of the Global Certificate shall be made to the person who appears at the relevant time on the register of Noteholders as holder of the Global Certificate against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent (or to or to the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose) which shall endorse such payment or cause such payment to be endorsed on the relevant schedule thereto (such endorsement being *prima facie* evidence that the payment in question has been made). No person shall however be entitled to receive any payment on the Global Certificate falling due after the Exchange Date, unless the exchange of the Global Certificate for Definitive Certificates is improperly withheld or refused by or on behalf of the Issuer. All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

Meetings

The holder of the Global Certificate and any proxy appointed by it will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, in any such meeting, as having one vote in respect of each Note represented by the Global Certificate for which it may be exchanged.

Purchase and Cancellation

Cancellation of any Notes evidenced by the Global Certificate required by the Conditions to be cancelled following its redemption will be effected by reduction in the principal amount of the Notes in the Register and notation of the Global Certificate.

Trustee's Powers

In considering the interests of Noteholders while the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, the Trustee may (a) have regard to any information as may have been made available to it by the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of Notes; and (b) consider such interests on the basis that such accountholders were the holders of the Notes in respect of which the Global Certificate is issued.

Notices

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, notices required to be given to Noteholders may be given by their being delivered to the relevant clearing system for communication by it to entitled accountholders in substitution for notification as required by the Conditions, provided that whilst the Notes are listed on the Irish Stock Exchange, notices will also be given in accordance with the guidelines of the Irish Stock Exchange.

Prescription

Claims in respect of principal, interest and other amounts payable in respect of the Global Certificate will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest or any other amounts) from the due date for payment in respect thereof.

Transfers

Transfers of interests in the Notes with respect to which the Global Certificate is issued shall be made in accordance with the rules and procedures of Euroclear or, as the case may be, Clearstream, Luxembourg.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Notes in respect of which the Global Certificate is issued shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Notes set out in the certificate of the holder as if they were themselves the holders of Notes in such principal amounts.

SUBSCRIPTION AND SALE

Credit Suisse Securities (Europe) Limited, Goldman Sachs International and LLC “Investment Company of Vnesheconombank “VEB Capital”” (the **Joint Lead Managers**) and Raiffeisen Bank International AG (the “**Co-Manager**” and together with the Joint Lead Managers, the “**Managers**”) have, pursuant to a subscription agreement dated 23 May 2011 (the **Subscription Agreement**) and made between the Issuer, VEBL and the Managers upon the terms and subject to the conditions therein, jointly and severally agreed to subscribe and pay for the Notes at the issue price of 100 per cent. of their principal amount.

The Joint Lead Managers are entitled to certain commissions and reimbursement of certain expenses from the Issuer. The Issuer is required to be put in funds in respect of such commissions and expenses of the Joint Lead Managers by VEBL. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

Selling Restrictions

General

Each Manager, the Issuer and VEBL has agreed that it has (to the best of its knowledge and belief) complied and will comply with all applicable securities laws and regulations in each jurisdiction in which it offers, sells or delivers Notes. Each Manager, the Issuer and VEBL has agreed that it will not, directly or indirectly, offer or sell any Notes in any country or jurisdiction except under circumstances that will (to the best of its knowledge and belief) result in compliance with any applicable securities laws and regulations and all offers and sales of Notes by it will be made on the same terms.

United States of America

The Notes and the Loan have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Manager has represented, warranted and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date (the **Distribution Compliance Period**), within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a manager that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented, warranted and agreed that:

- (a) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (FSMA)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of FSMA does not apply to the Issuer and VEBL; and
- (b) **General compliance:** it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Russian Federation

Each Manager has represented, warranted and agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any

persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Ireland

Each Manager has represented, warranted and agreed that:

- (i) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), including, without limitation, Regulations 7 and 152 thereof or any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;
- (ii) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Central Bank Acts 1942 – 2010 and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;
- (iii) it will not underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank; and
- (iv) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank.

TAXATION

The following is a general description of certain Russian and Irish tax considerations relating to the Notes and the Loan. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Prospectus. Neither the Borrower nor the Issuer assumes any obligation to update this summary after the date of issuance of the Notes for any changes in the applicable laws. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Russian Federation

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes, including information regarding the taxation of payments under the Loan. This summary is based on the laws of the Russian Federation in effect on the date of this Prospectus (where these laws are subject to changes which could occur frequently, at short notice and may have retroactive effect). The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia. Similarly, the summary does not seek to address the availability of double tax treaty relief for any Noteholder in respect of income payable on the Notes, and prospective investors should note that there may be practical difficulties involved in claiming such double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes in the light of their particular circumstances. No representation is made to any Noteholder with respect to the Russian tax consequences of holding any Notes.

General

Many aspects of Russian tax law are subject to significant uncertainty and lack interpretive guidance resulting in different interpretations and inconsistent application thereof by various authorities in practice. Further, the substantive provisions of Russian tax law applicable to securities and financial instruments may be subject to more rapid and unpredictable change (possibly with retroactive effect) and inconsistency than in jurisdictions with more developed financial markets or more developed taxation systems. In practice, interpretation of tax laws and regulations by different tax inspectorates in the Russian Federation may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Furthermore, in the absence of binding precedent, court rulings on tax or other related matters adopted by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a “**Non-Resident Noteholder**” means:

- an individual Noteholder who does not fall within the definition below of a “Russian Individual Resident Noteholder”; or
- a legal entity or an organisation in each case not organised under Russian law that holds and disposes of the Notes otherwise than through its permanent establishment in the Russian Federation (a “Non-Resident Noteholder-Legal Entity”).

For the purposes of this summary, a “**Russian Resident Noteholder**” means:

- an individual Noteholder actually present in the Russian Federation for 183 days or more in a period of 12 consecutive months (presence in the Russian Federation is not considered interrupted if an individual leaves the country for short periods (less than six months) for medical treatment or education (**Russian Individual Resident Noteholder**));
- a legal entity incorporated under Russian law which holds the Notes; or
- a legal entity or organisation, in either case incorporated under foreign law, which holds and disposes of the Notes through its permanent establishment in Russia.

The definition regarding a Russian Individual Resident Noteholder set out above generally reflects the provisions of Russian law regarding the Russian tax residency of individuals. Those provisions effective since 1 January 2007 give rise to uncertainties in practice implying the potential for a split year residency for individuals. However, both the Russian Ministry of Finance and the Federal Tax

Service have expressed the view that an individual should be either a resident or non-resident in the Russian Federation for the full calendar year depending on the number of days spent in the Russian Federation in that calendar year, and consequently even if the travel pattern dictates differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed.

The Russian tax treatment of interest payments made by VEBL to the Issuer (or to the Trustee, as the case may be) under the Loan Agreement may affect the Noteholders. See “*Taxation of Interest on the Loan*” below.

Taxation of the Notes

Resident Noteholders

Resident Noteholders are subject to all applicable Russian taxes in respect of income realised by them in connection with the acquisition, ownership and/or disposition of the Notes. Resident Noteholders should consult their own tax advisers with regards to the effect that the acquisition, holding and/or disposition of the Notes may have on their tax position.

Non-Resident Noteholders

A Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of amount of principal, premium or interest on the Notes received from the Issuer.

A Non-Resident Noteholder also generally should not be subject to any Russian taxes in respect of any gains or other income realised on redemption, sale or other disposition of the Notes outside of Russia, provided that the proceeds of such redemption, sale or other disposition of the Notes are not received from a source within Russia.

However, in absence of a clear definition of what constitutes income from sources within the Russian Federation in case of sale of securities, there is a risk that income from disposition of the Notes may be considered as received from Russian sources.

Taxation of Non-Resident Noteholders – Individuals

Acquisition of the Notes

The acquisition of the Notes by Non-Resident Noteholder-Individual may constitute a taxable event pursuant to the provisions of the Tax Code concerning any material benefit (deemed income) received as a result of the acquisition of securities. If the Notes are acquired for a price that is below the lower margin of the fair market value calculated under a specific procedure for the determination of market prices of securities for tax purposes, the difference may be subject to the Russian personal income tax. Although the Tax Code does not contain any provisions in relation to how the material benefit should be sourced, it may be inferred that such income should be considered as Russian source income if the Notes are purchased “in Russia”. In the absence of any additional guidance as to what should be considered as a purchase “in Russia”, the Russian tax authorities may use various criteria to determine the source of any such material benefit, including looking at the place of performance, the location of the Issuer, or other similar criteria. Legislation stipulates a specific procedure for the calculation of the market price of securities and its maximum permissible fluctuation rate for tax purposes.

Disposition of the Notes

If proceeds from a disposal of the Notes are received from a Russian source, a Non-Resident Noteholder who is an individual will generally be subject to Russian personal income tax at a rate of 30 per cent., subject to any available double tax treaty relief, in respect of gross proceeds from such disposal less any available cost deduction (which includes purchase price of the Notes) and in respect of interest income.

Russian tax law gives no clear indication as to how the sale of securities should be sourced for personal income tax purposes, other than that income from the sale of securities “in Russia” should be considered as Russian-source income. As there is no further definition of what should be considered as a sale “in Russia”, the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the bonds, or other similar criteria.

If the disposal proceeds are paid by a licensed broker or an asset manager or other party that is a Russian legal entity or an organisation, or any other person, including a foreign company with a permanent establishment or, arguably, any registered presence in the Russian Federation or an

individual entrepreneur registered in Russia, who carry out operations under an asset management agreement, brokerage service agreement, agency agreement, a commission agreement or commercial mandate agreement the payer may be required to withhold the tax at source. The amount of tax withheld would be calculated after taking into account documented deductions for the purchase value and related expenses to the extent such deductions and expenses can be determined by the entity making the payment of income. When a sale is made to other Russian legal entities or individuals, generally no withholding of tax needs to be made and the applicable tax would then have to be paid by the individual on the basis of the tax return.

Under certain circumstances gains received and losses incurred by a Non-Resident Noteholder-Individual as a result of disposition of the Notes and other securities occurring within the same year may be aggregated which would affect the tax on income realised from the disposition of the Notes.

Taxation of Non-Resident Noteholders – Legal Entities

Acquisition of the Notes

The acquisition of the Notes by Non-Resident Noteholders – Legal Entities should not constitute a taxable event under Russian tax law. Consequently, acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholders – Legal Entities.

Disposition of the Notes

In the event that proceeds from a disposition of Notes are received from a source within Russia, a Non-Resident Noteholder which is a legal entity or an organisation generally should not be subject to any Russian taxation in respect of the proceeds, except for a portion thereof attributable to accrued interest. Any portion of such sales proceeds attributable to accrued interest may be subject to Russian withholding tax on income at a rate of 20 per cent., subject to any available double tax treaty relief, even if the disposal results in a capital loss. In order to enjoy the benefits of applicable double tax treaty provisions, documentary evidence is required prior to payment being made to confirm the applicability of double tax treaty under which benefits are claimed.

Non-Resident Noteholders that are legal entities or organisations should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a disposal of the Notes.

There is also a risk that any gain derived from a disposition of the Notes may be affected by changes in the exchange rates between the currency of acquisition of the Notes and the currency of disposition of the Notes and Roubles.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These tax treaties may contain provisions that reduce or eliminate Russian income tax due with respect to income received from a source within the Russian Federation by a Non-Resident Noteholder on a disposition of the Notes. In order to obtain the benefit available under the respective double tax treaty, a Non-Resident Noteholder must comply with the certification, information, and reporting requirements in force in the Russian Federation (relating, in particular, to confirmation of the entitlement and eligibility to treaty benefits).

Currently a Non-Resident Noteholder-Legal Entity would need to provide the payer of income with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. However, the payer of income in practice may request additional documents confirming the eligibility of the Non-Resident Noteholder-Legal Entity to the benefits of the double tax treaty. The certificate should confirm that the respective Non-Resident Noteholder-Legal Entity is the tax resident of the relevant double tax treaty country in a particular calendar year during which the income is paid. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate would be required. There can be no assurance that advance treaty relief will be available in practice.

Under Russian domestic tax legislation a Non Resident Noteholder-Individual, in order to use the benefits of the tax treaties, must provide to the tax authorities a tax residency certificate issued by the competent authorities in his or her country of residence for tax purposes and a confirmation from the relevant foreign tax authorities of income received and the tax payment made outside the Russian Federation on income with respect to which treaty benefits are claimed. Such requirements may be imposed even though they could directly contradict the provisions of the respective double tax treaty.

Technically, such requirements mean that a Non-Resident Noteholder-Individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. Individuals in practice would not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia, as it is very unlikely that the supporting documentation for the treaty relief can be provided to the Russian tax authorities and approval from the latter can be obtained before the receipt of income occurs. Non-resident Noteholders should consult their own tax advisers regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of proceeds received on a disposal of Notes.

Refund of Tax Withheld

If Russian withholding tax on income from Russian sources by a Non-Resident Noteholder-Legal Entity was withheld by the source of payment, despite the right of such Non-Resident Noteholder—Legal Entity to rely on benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced rate in relation to such income, a claim for a refund of such tax that was excessively withheld at source must be filed with the Russian tax authorities within three years following the tax period in which the tax was withheld.

For an individual Noteholder for whom double tax treaty relief is available, if Russian withholding tax on income was withheld by the source of payment, a claim for refund of such tax must be filed within one year after the year in which the tax was withheld.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain the benefits under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Tax Code. Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time-consuming process and no assurance can be given that such a refund will be granted in practice.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled in order to obtain treaty relief in practice with respect to any Russian taxes imposed on income received by a Non-Resident Noteholder upon the acquisition, holding and disposition of the Notes.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds made by a Russian entity or organisation to a non-resident legal entity or organisation having no registered presence and/or permanent establishment in the Russian Federation are subject to Russian withholding tax at a rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on the professional advice it has received, VEBL believes that payments of interest on the Loan made to the Issuer should not be subject to Russian withholding tax under the terms of the agreement between the Government of Ireland and the Government of the Russian Federation for the avoidance of double taxation with respect to taxes on income signed on 29 April 1994 (the **Russia-Ireland double tax treaty**), provided documentary evidence of tax residency is satisfied. However, there can be no assurance that tax relief will be available in practice and/or will continue to be available during the term of the Loan, particularly if the concept of an “actual recipient of income” is introduced into the Tax Code (see “Risk Factors-Risks Relating to Investment in the Notes and the Trading Market-Payments on the Loan may be subject to frequent changes”).

In addition, if, interest under the Loan becomes payable to the Trustee pursuant to the Trust Deed, the benefit of the Russia-Ireland double tax treaty would cease and payments of interest will become subject to Russian withholding tax at the rate of 20 per cent, or such other rate as may be in force at the time of payment. It is not expected that the Trustee will, or will be able to, claim a Russian withholding tax exemption or reduction under the applicable double tax treaty with the Russian Federation under such circumstances. In such cases, the Noteholders may seek the reduction or elimination of Russian withholding tax or a refund of withholding tax under applicable double taxation treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable. There is no assurance that in such circumstances the treaty relief will be available for Noteholders in practice.

A claim for tax treaty relief in relation to Russian withholding tax does not require preliminary approval and review of relevant contracts, certificate of tax residence and other documents by the Russian tax authorities. The Russian tax authorities may review the Issuer’s eligibility for tax treaty relief in detail during a tax audit. If, as a result of any such review, the Issuer is found not to be

eligible for tax treaty relief, payments of interest on the Loan may become subject to Russian withholding tax.

If payments of interest made under the Loan are subject to Russian withholding tax (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding tax), VEBL is obliged (subject to certain conditions) to increase payments made by it under the Loan as may be necessary so that the Issuer receives the net amount equal to the full amount it would have received in the absence of such withholding. It should be noted, however, that tax gross-up provisions in contracts may not be enforceable under Russian law. There is a risk that gross up for Russian withholding tax will not take place and that interest payments made by VEBL under the Loan will be reduced by the amount of the Russian income tax withheld by it at the rate of 20%, or such other rate as may be in force at the time of payment.

If VEBL is obliged to increase payments payable under the Loan, it may (without premium or penalty), subject to certain conditions, prepay the Loan in full. In such case, all outstanding Notes would be redeemable or repayable at par together with accrued and unpaid interest and additional amounts, if any, to the date of repayment.

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT is payable in the Russian Federation on any payment of interest or principal in respect of the Loan.

Ireland

Introduction

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

TAXATION OF NOTEHOLDERS

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

- (a) the Notes are Quoted Eurobonds i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish or Luxembourg Stock Exchanges) and which carry a right to interest; and
- (b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:
 - (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or
 - (ii) the Noteholder is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and
- (c) one of the following conditions is satisfied:
 - (i) the Noteholder is resident for tax purposes in Ireland; or
 - (ii) the Noteholder is a pension fund, government body or other person (other than a person described in paragraph (c)(iv) below, who is resident in a relevant territory and who, under the laws of that territory, is exempted from tax that generally applies to profits, income or gains in that territory; or

- (iii) the Noteholder is subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a relevant territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or
- (iv) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:
 - (A) from whom the Issuer has acquired assets;
 - (B) to whom the Issuer has made loans or advances; or
 - (C) with whom the Issuer has entered into a swap agreement,
 where the aggregate value of such assets, loans, advances or swap agreements represents not less than 75 per cent. of the assets of the Issuer,

where for these purposes, the term:

“relevant territory” means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

“swap agreement” means any agreement, arrangement or understanding that–

- (I) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and
- (II) transfers to a person who is a party to the agreement, arrangement or understanding or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in an asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange, are held in DTC, Euroclear and/or Clearstream, Luxembourg, and one of the conditions set out in paragraph (c) above is met, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland and one of the conditions set out in paragraph (c) above is met.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of section 110 of the TCA, the recipient is not resident in Ireland and is resident in a relevant territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its business are exempt from income tax provided the recipient is not resident in Ireland and is a company which is either resident in a relevant territory which imposes a tax that generally applies to interest receivable in that relevant territory by companies from sources outside that relevant territory or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a relevant territory. For these purposes, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 25 per cent. if either (i) the disponent or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponent is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

EU Directive on the Taxation of Savings Income

Ireland has implemented the EC Council Directive 2003/48/EC on the taxation of savings income into national law. Accordingly, any Irish paying agent making an interest payment on behalf of the Issuer to an individual or certain residual entities resident in another Member State of the European Union or certain associated and dependent territories of a Member State will have to provide details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address) to the Irish Revenue Commissioners who in turn are obliged to provide such information to the competent authorities of the state or territory of residence of the individual or residual entity concerned.

The Issuer shall be entitled to require Noteholders to provide any information regarding their tax status, identity or residency in order to satisfy the disclosure requirements in Directive 2003/48/EC and Noteholders will be deemed by their subscription for Notes to have authorised the automatic disclosure of such information by the Issuer or any other person to the relevant tax authorities.

GENERAL INFORMATION

- (1) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The International Securities Identification Number (ISIN) of the Notes is XS0630950870 and the Common Code of the Notes is 063095087.
- (2) Application has been made to list the Notes on the Irish Stock Exchange by the Issuer, through the Listing Agent, Arthur Cox Listing Services Limited (**ACLSL**). ACLSL is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the official list of the Irish Stock Exchange or to trading on the Main Securities Market. It is expected that listing of the Notes will be granted on or before 27 May 2011. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
- (3) For so long as any Notes are outstanding, copies in English of the following documents in physical form will be available for inspection and may be obtained free of charge at the registered office of the Issuer and at the offices of the Trustee and the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
 - the constitutive documents of the Issuer;
 - the charter of VEBL;
 - this Prospectus, together with any amendment or supplement hereto;
 - the annual reports and consolidated financial statements of VEBL prepared in accordance with IFRS as at and for the years ended 31 December 2010 and 2009; and
 - the Trust Deed in respect of the Notes (including the form of the Global Certificate and the Definitive Certificates), the Loan Agreement and the Agency Agreement.
- (4) Save as disclosed in this Prospectus, since 31 December 2010, there has been no material adverse change in the financial position or the prospects of VEBL or the Group and no significant change in the financial or trading position of VEBL or the Group.
- (5) Since the date of the incorporation of the Issuer on 22 February 2011, there has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position and prospects of the Issuer. The Issuer has no subsidiaries.
- (6) The Issuer and VEBL have obtained all necessary consents, approvals and authorisations in the Russian Federation and in Ireland in connection with the issue and performance of the Notes and the making of the Loan. The issue of the Notes and the making of the Loan was authorised by a resolution of the board of directors of the Issuer dated 20 May 2011. The entry into of the Loan was authorised by a resolution of the extraordinary general shareholders' meeting of VEBL dated 28 February 2011.
- (7) No consents, approvals, authorisations or order of any regulatory authorities are required by the Issuer under the laws of Ireland for the issue of the Notes and the making of the Loan.
- (8) Since the date of the incorporation of the Issuer, the Issuer is not and has not been involved in any governmental, legal or arbitration proceedings that may have, or have had in the recent past, a significant effect on the Issuer's financial position or profitability, nor is the Issuer aware that any such proceedings are pending or threatened.
- (9) In the 12 months preceding the date of this Prospectus, neither VEBL nor any of its Subsidiaries is or has been involved in any governmental, legal or arbitration proceedings that may have, or have had in the recent past, a significant effect on the financial position or profitability of either of VEBL or the Group. VEBL is not aware of any such proceedings that are pending or threatened.
- (10) The Trust Deed provides, amongst other things, that the Trustee may act or rely upon the opinion or advice of, or upon a certificate or other information from, any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding the fact that such opinion, advice, certificate or other information contains a monetary or other limit on the liability of any such persons in respect thereof.

- (11) Save for the fees payable to the Joint Lead Managers, the Trustee, the Principal Paying Agent and the Registrar, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.
- (12) Since the date of incorporation, the Issuer has not commenced operations and no financial statements have been made as at the date of this Prospectus.
- (13) The Issuer estimates the total expenses related to the admission of the Notes to trading on the Main Securities Market to be €5,000.
- (14) Interest and principal on the Loan will be paid into an account operated by the Principal Paying Agent for the benefit of the Issuer.
- (15) Any websites referred to herein do not form part of this Prospectus.

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OJSC VEB-Leasing

IFRS consolidated financial statements

*For the year ended 31 December 2010
with Independent Auditors' Report*

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Independent auditors' report

To the Shareholders and Board of Directors of OJSC VEB-Leasing

We have audited the accompanying consolidated financial statements of OJSC VEB-Leasing and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

15 April 2011

Consolidated Statement of Financial Position

As of 31 December 2010

(thousands of Russian rubles)

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Assets			
Cash and cash equivalents	5	2,146,410	1,220,892
Amounts due from credit institutions	6	-	583,776
Derivative financial assets	7	65,860	580,856
Net investment in leases	8	47,333,556	12,230,015
Loans receivable	9	7,302,903	747,952
Equipment purchased for leasing purposes	10	2,046,578	933,715
Advances issued to leasing equipment suppliers	11	11,420,569	2,588,021
Property and equipment	12	1,134,489	25,252
VAT receivable		2,992,640	155,718
Current income tax assets		2,437	7,902
Deferred income tax assets	13	7,308	-
Other assets	17	771,693	319,659
Total assets		<u>75,224,443</u>	<u>19,393,758</u>
Liabilities			
Amounts due to credit institutions	18	58,782,811	12,466,298
Borrowings payable	19	3,371,258	1,804,789
Debt securities issued	20	5,310,258	-
Derivative financial liabilities	7	72,604	70,988
Advances received from lessees	21	1,919,234	840,203
Amounts payable to equipment suppliers	22	335,342	946,157
Current income tax liabilities		68	1,685
Deferred income tax liabilities	13	501,231	389,315
Other liabilities	17	184,265	194,445
Total liabilities		<u>70,477,071</u>	<u>16,713,880</u>
Equity			
Share capital	23	4,172	4,172
Additional paid-in capital		2,744,246	2,431,558
Treasury shares		(86,701)	(935,841)
Currency translation differences		16,894	2,262
Retained earnings		2,068,761	1,177,727
Total equity		<u>4,747,372</u>	<u>2,679,878</u>
Total equity and liabilities		<u>75,224,443</u>	<u>19,393,758</u>

Signed and authorized for release on behalf of the Board of Directors

V. S. Solovyev

General Director

E. I. Frolova

Chief Accountant

15 April 2011



Notes 1-33 are an integral part of these consolidated financial statements

Consolidated income statement

For the year ended 31 December 2010

(thousands of Russian rubles)

	Notes	2010	2009
Continuing operations			
Interest income			
Finance leases		3,620,285	1,968,051
Loans receivable		365,782	126,466
Amounts due from credit institutions		44,453	66,991
		4,030,520	2,161,508
Interest expense			
Amounts due to credit institutions		(1,685,381)	(763,744)
Debt securities issued		(195,318)	–
Amounts payable to equipment suppliers		(54,457)	(94,093)
		(1,935,156)	(857,837)
Net interest income			
Provision (charge)/reversal of impairment of interest-earning assets	14	2,095,364	1,303,671
		(63,578)	26,381
Net interest income after impairment of interest-earning assets		2,031,786	1,330,052
Fees and commission income			
		4,119	–
Fee and commission expenses			
		(19,469)	(8,753)
Net (losses)/gains from derivative financial instruments	7	(88,600)	681,740
Net gains/(losses) arising from foreign currencies:			
– conversion transactions		13,262	(41,318)
– translation differences		166,664	(118,643)
Share of loss of associates	16	(21,262)	–
Other income	25	169,727	29,550
Non-interest income		239,791	551,329
Personnel expenses	26	(345,180)	(123,897)
Depreciation of property and equipment	12	(52,094)	(10,339)
Other operating expenses	26	(699,247)	(636,248)
Impairment of other assets	17	(44,208)	1,142
Non-interest expense		(1,140,729)	(769,342)
Profit before income tax expense		1,115,498	1,103,286
Income tax expense	13	(224,464)	(281,590)
Discontinued operations			
Net income for the year from discontinued operations	15	–	145,361
Profit for the year		891,034	967,057

Notes 1-33 are an integral part of these consolidated financial statements

Consolidated statement of comprehensive income**For the year ended 31 December 2010***(thousands of Russian rubles)*

	<u>2010</u>	<u>2009</u>
Profit for the year	891,034	967,057
Other comprehensive income:		
Translation differences on transactions of foreign subsidiaries	14,632	2,262
Other comprehensive income for the year	14,632	2,262
Total comprehensive income for the year	905,666	969,319

Consolidated statement of changes in equity**For the year ended 31 December 2010***(thousands of Russian rubles)*

	Share capital	Additional paid-in capital	Treasury shares	Currency translation differences	Retained earnings	Total
31 December 2008	4,172	2,431,558	(935,841)	–	210,670	1,710,559
Total comprehensive income for the year	–	–	–	2,262	967,057	969,319
31 December 2009	4,172	2,431,558	(935,841)	2,262	1,177,727	2,679,878
Total comprehensive income for the year	–	–	–	14,632	891,034	905,666
Sale of treasury shares (Note 23), net of income tax	–	312,688	849,140	–	–	1,161,828
31 December 2010	4,172	2,744,246	(86,701)	16,894	2,068,761	4,747,372

Consolidated statement of cash flows**For the year ended 31 December 2010***(thousands of Russian rubles)*

	<i>Notes</i>	<i>2010</i>	<i>2009</i>
Cash flows from operating activities			
Profit for the year from continuing operations before income tax expense		1,115,498	1,103,286
Net income for the year from discontinued operations	15	–	145,361
Profit before income tax expense		1,115,498	1,248,647
<i>Adjustments</i>			
Interest income from finance leases		(3,620,285)	(1,968,051)
Other interest income		(410,235)	(193,457)
Interest expense		1,935,156	857,838
Impairment of interest-earning assets	14	63,578	(26,381)
Fee and commission expenses		–	6,120
Net losses/(gains) from derivative financial instruments	7	516,612	(509,869)
Net (gains)/losses arising from foreign currencies – translation differences		(166,664)	118,643
Share in loss of associates		21,262	–
Other operating income		(2,919)	–
Depreciation of property and equipment	12	52,094	10,339
Impairment of property and equipment		75,984	113,996
Impairment of other assets		44,208	(1,142)
Personnel and other operating expenses		4,206	114,272
Disposal of net assets from discontinued operations		–	(145,361)
Cash flows used in operating activities before changes in operating assets and liabilities		(371,505)	(374,406)
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		599,750	314,845
Net investment in leases		(34,668,695)	(4,768,276)
Loans receivable		151,339	(388,939)
Equipment purchased for leasing purposes		(899,511)	218,999
Advances issued to leasing equipment suppliers		(9,158,275)	(1,127,671)
VAT receivable		(2,837,316)	704,958
Other assets		(396,324)	(118,230)
<i>Net increase/(decrease) in operating liabilities</i>			
Advances received from lessees		1,079,031	(96,551)
Amounts payable to equipment suppliers		(601,523)	(592,054)
Other liabilities		(6,130)	133,215
Net cash flows used in operating activities before income tax and interest income (expense)		(47,109,159)	(6,094,110)
Income tax paid		(194,156)	–
Interest income from finance leases received		3,191,760	1,968,051
Other interest income received		173,466	256,414
Interest expense paid		(1,549,339)	(1,035,569)
Net cash used in operating activities		(45,487,428)	(4,905,214)
Cash flows from investing activities			
Purchase of property and equipment		(1,254,841)	(17,129)
Sale of property and equipment		5,328	19,233
Loans issued to associates		(6,470,463)	–
Available-for-sale securities		(45,000)	–
Acquisition of investments in associates		(20)	–
Proceed from Sale of subsidiary	15	–	2,700
Net cash (used in)/from investing activities		(7,764,996)	4,804
Cash flows from financing activities			
Amounts due to credit institutions received for leasing operations		66,785,081	7,739,725
Repayment of amounts due to credit institutions received for leasing operations		(21,127,553)	(3,961,766)
Borrowings payable received for leasing operations		2,125,000	1,800,000
Debt securities issued		7,390,241	–
Repayment and repurchase of debt securities issued		(2,218,986)	–
Sale of treasury shares	23	1,240,000	–
Net cash from financing activities		54,193,783	5,577,959
Effect of exchange rate changes on cash and cash equivalents		(15,841)	(36,642)
Net increase in cash and cash equivalents		925,518	640,907
Cash and cash equivalents, beginning		1,220,892	579,985
Cash and cash equivalents, ending	5	2,146,410	1,220,892

Notes 1-33 are an integral part of these consolidated financial statements

(thousands of Russian rubles)

1. Principal activities

OJSC VEB-Leasing (the "Company") is a Russian open joint-stock company. The Company was formed on 28 April 2003 as a closed joint-stock company under the laws of the Russian Federation. In July 2008, it was officially renamed from CJSC Oboronpromleasing to OJSC VEB-Leasing. The Company's principal activities include finance lease of high-technology equipment produced by world leading companies, helicopters and related equipment to companies located in the Russian Federation and abroad.

As of 31 December, the following shareholders owned more than 5% of the outstanding shares.

<i>Shareholder</i>	<i>31 December 2010, 31 December 2009,</i>	
	<i>%</i>	<i>%</i>
State Corporation the Bank for Development and Foreign Economic Affairs (Vnesheconombank) (hereinafter - "VEB")	50.00	78.07
LLC Investment Company of Vnesheconombank VEB Capital	28.07	–
CJSC GLOBEXBANK	19.90	–
LLC Helicopter Transportation Company	2.03	21.93
Total	100.0	100.0

The Russian Government, in turn, is the major shareholder of VEB. VEB owns 100% of shares in LLC Investment Company of Vnesheconombank VEB Capital, 98.94% of shares in CJSC GLOBEXBANK. Banks and companies under control of VEB comprise VEB Group.

As of 31 December 2010 and 2009, the Company's treasury shares included the shares of the Company owned by LLC Helicopter Transportation Company, a consolidated subsidiary.

The Company's registered address is Vereyskaya ul., 29, bld. 141, Moscow, 121357, Russian Federation.

2. Basis of preparation

General

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

The Company and its subsidiaries maintain their accounting records in accordance with regulations applicable in their countries of registration. For example, the Company is required to maintain its records and prepare its financial statements for regulatory purposes in Russian rubles in accordance with Russian accounting legislation and related instructions ("RAL"). These consolidated financial statements are based on the books and records of the Company and its subsidiaries prepared in accordance with the legislation applicable in the countries of their registration, as adjusted and reclassified in order to comply with IFRS.

These consolidated financial statements include the results of operations of the Company and its subsidiaries (together referred to as the "Group") as presented in Note 30.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in thousands of Russian rubles ("RUB"), unless otherwise indicated.

(thousands of Russian rubles)

3. Summary of principal accounting policies

Changes in accounting policies

The Group has adopted the following revised and amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendments to IAS 39 were issued in August 2008 and became effective for annual periods beginning on or after 1 July 2009. The amendments address the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendments clarify that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The amendments did not affect the Group's consolidated financial statements as the Group has not entered into any such hedges.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Revised)

The revised IFRS 3 and IAS 27 were issued in January 2008 and are effective for financial years beginning on or after 1 July 2009. The revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported financial results in the period that an acquisition occurs, and future reported financial results. The revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary. The revised IFRS 3 and IAS 27 must be applied prospectively.

Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions

The amendments to IFRS 2 were issued in June 2009 and are effective for financial years beginning on or after 1 January 2010. The amendments clarify the scope and the accounting for group cash-settled share-based payment transactions. These amendments also supersede IFRIC 8 and IFRIC 11. The amendments had no impact on the Group's consolidated financial statements.

IFRIC 17 Distribution of Non-cash Assets to Owners

IFRIC 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. IFRIC 17 also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. This interpretation had no impact on the Group's consolidated financial statements.

Improvements to IFRS

In April 2009, the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Group, except the following amendments resulting in changes to accounting policies, as described below.

- ▶ IFRS 8 *Operating Segments* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does not review segment assets and liabilities, the Group does not disclose this information.
- ▶ IAS 7 *Statement of Cash Flows* explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.
- ▶ Amendment to IAS 36 *Impairment of Assets* clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Group's financial statements as the annual impairment test is performed before aggregation.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Basis of consolidation

Basis of consolidation from 1 January 2010

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to 1 January 2010

Differences from the above mentioned requirements which were applied on a prospective basis, are as follows:

- ▶ Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interests had a binding obligation to cover these.
- ▶ Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date when control was lost.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, investments held to maturity, financial assets available for sale, as appropriate. When financial assets are recognized initially, they are measured at fair value. In the case of investments not at fair value through profit or loss, directly attributable transaction costs are added to their value. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Cash and cash equivalents

Cash and cash equivalents consists of cash in hand and amounts due from credit institutions which mature within ninety days at the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are initially recorded at fair value with subsequent revaluation. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net gains/(losses) from derivative financial instruments or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognized in the consolidated income statement.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans receivable, depending on the aim and terms of their purchase. They are accounted for in accordance with the accounting policies for these categories of assets.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, borrowings payable, debt securities issued and amounts payable to equipment suppliers. After initial recognition, borrowings are measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the borrowings are derecognized as well as through the amortization process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated income statement.

Leases

Finance – Group as lessor

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. As of this date:

- ▶ a lease is classified as a finance lease; and
- ▶ the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

Upon commencement of finance lease, the Group records the net investment in leases, which consists of the sum of the minimum lease term payments, and unguaranteed residual value (gross investment in lease) less the unearned finance lease income. The difference between the gross investment and its present value is recorded as unearned finance lease income. Finance lease income includes the amortization of unearned finance lease income.

Finance lease income is recognized based on a pattern reflecting a constant periodic rate of return on the net investment in respect of the finance lease. Initial direct costs are included in the initial measurement of the lease receivables.

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 income statement from the date of first investment into the equipment purchased for leasing purposes.

The Group assesses allowance for impairment of net investment in leases using the policies applied for impairment of financial assets carried at amortized cost described below.

Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included in other operating expenses.

Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Equipment purchased for leasing purposes

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

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the counterparty or a group of counterparties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans receivable

For amounts due from credit institutions and loans receivable carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- ▶ the rights to receive cash flows from the asset have expired;
- ▶ the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ▶ the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. In this case the level of the Group's continuing involvement is limited by the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees. Financial guarantees are initially recognized in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognized in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation, Luxembourg, Ireland, British Virgin Islands, Cyprus and Malta.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Taxation (continued)

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russian Federation and other jurisdictions also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Furniture and fixtures	5
Computers and office equipment	3 - 5
Transport vehicles	5 - 23

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

The Group records capital expenditures related to the acquisition of equipment used in the Group's operational activities as 'construction-in-progress' (included in 'Property and equipment'). These expenses are accumulated until the equipment is ready for use and put into operation.

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. High probability of sale presupposes the Group's firm intention to follow the sale scheme of a non-current asset (or disposal group). The Group should initiate a program for finding a purchaser and fulfilling the above plan. In addition, the intangible asset (or disposal group) should be offered for sale at a reasonable price based on its current fair value. Further, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of a non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognized when the Group has a present obligation, whether legal or constructive, as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-employment benefits.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Treasury shares

Where the Group or its subsidiaries purchases the Group's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. 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 authorized for issue.

Segment reporting

The Group's segment reporting is based on the following operating segments: finance leasing (Russia), finance leasing (Europe, British Virgin Islands and Bermuda Islands).

Contingencies

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

Income and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

For all financial instruments measured at amortized cost 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.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Borrowing costs

Borrowing costs are recognized in the consolidated income statement as incurred, excluding any costs related to loans used to finance the purchase of assets for subsequent finance lease. In this case borrowing costs are capitalized as part of the cost of the related asset until the date the asset is put into operation and after activation of lease agreement borrowing costs are recognized in the consolidated income statement over the life of the loan payable.

Foreign currency translation

The consolidated financial statements are presented in Russian Rubles, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. As of 31 December 2010 and 2009, the principal exchange rate used to translate RUB balances into USD and EUR were RUB 30.4769 and RUB 30.2442 per USD 1 and RUB 40.3331 and RUB 43.3883 per EUR 1.

As at the reporting date, the assets and liabilities of the subsidiaries whose functional currency is different from the presentation currency of the Group are translated into Russian Rubles at the rate of exchange ruling at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in the consolidated income statement. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues

In October 2009, the IASB issued amendments to IAS 32. Entities shall apply these amendments for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendments alter the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that these amendments will have no impact on the Group's consolidated financial statements.

IFRS 9 Financial Instruments (first phase)

In November 2009 and 2010, the IASB issued the first phase of IFRS 9 *Financial Instruments*. This Standard will eventually replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortized cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. There is a new requirement for financial liabilities recognized through profit or loss using a fair value option that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income. The Group now evaluates the impact of the adoption of the new standard and considers the initial application date.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Future changes in accounting policies (continued)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. The Group expects that this interpretation will have no impact on the Group's consolidated financial statements.

Improvements to IFRS

In May 2010, the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" will have impact on the accounting policies, financial position or performance of the Group, as described below.

- ▶ *IFRS 3 Business Combinations*: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Group applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Group expects that other amendments to IFRS 3 will have no impact on the Group's consolidated financial statements.
- ▶ *IFRS 7 Financial Instruments: Disclosures*: introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- ▶ *IAS 34 Interim Financial Reporting*: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim financial statements of the Group.
- ▶ Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Group.

Amendments to IFRS 7 Financial Instruments: Disclosures

The amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Group expects that these amendments will have no impact on the Group's financial position or performance.

Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets

In December 2010, the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group now evaluates the impact of adoption of these amendments.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant uses of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

(thousands of Russian rubles)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Allowance for impairment of financial assets carried at amortized cost and net investment in leases

The Group regularly reviews its financial assets carried at amortized cost and net investment in leases to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a counterparty is in financial difficulties and there are few available sources of historical data relating to similar counterparties. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of counterparties in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of financial assets carried at amortized cost and net investment in leases to reflect current circumstances.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Cash on hand	12	124
Current accounts with credit institutions	337,877	97,038
Time deposits with credit institutions up to 90 days	<u>1,808,521</u>	<u>1,123,730</u>
Cash and cash equivalents	<u>2,146,410</u>	<u>1,220,892</u>

As of 31 December 2010, current accounts with credit institutions principally represent balances on accounts with third party banks for the total amount of RUB 210,021 (as of 31 December 2009: RUB nil) and on settlement account with related party banks for the total amount of RUB 113,829. As of 31 December 2009, current accounts with credit institutions principally represent balances on accounts with banks of VEB Group for the total amount of RUB 33,966 and on the settlement account with OJSC Sberbank for the total amount of RUB 45,660 (related parties).

As of 31 December 2010, cash and cash equivalents included deposits with banks of VEB Group totaling RUB 1,808,521 (related parties). As of 31 December 2009, cash and cash equivalents included deposits with VEB Group and OJSC Sberbank totaling RUB 975,572 and RUB 148,158, respectively.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Time deposits for more than 90 days	–	583,776
Amounts due from credit institutions	<u>–</u>	<u>583,776</u>

As of 31 December 2009, RUB 373,750 were placed on deposits with banks of VEB Group (related parties) for more than 90 days.

7. Derivative financial instruments

Foreign exchange and other financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recognized in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

(thousands of Russian rubles)

7. Derivative financial instruments (continued)

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. Notional amounts reflect the volume of operations pending at the end of the reporting period and do not indicate a credit risk. As of 31 December 2010 and 31 December 2009, derivative financial instruments comprised:

	31 December 2010			31 December 2009		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Swaps - foreign	–	–	–	1,532,819	479,149	–
Swaps - domestic	4,745,701	65,860	(72,604)	1,809,948	101,707	(70,988)
Total derivative assets/liabilities	4,745,701	65,860	(72,604)	3,342,767	580,856	(70,988)

Foreign contracts in the table above are contracts concluded with non-residents of the Russian Federation. The Group has open swap positions. Swaps are contractual relations between two parties to exchange amounts equal to the change in interest rate or foreign exchange rate based on notional amounts. This item includes derivatives that do not qualify for hedging in accordance with IAS 39.

Income arising from swap transactions comprises the following:

	2010	2009
Net unrealized (losses)/gains arising from swap transactions	(516,612)	509,869
Net realized gains arising from swap transactions	428,012	171,871
Net gains/(losses) from derivative financial instruments	(88,600)	681,740

8. Net investment in leases

The net investment in leases comprises:

	31 December 2010	31 December 2009
Gross investment in leases	70,087,757	17,838,925
Less: unearned finance lease income	(22,590,235)	(5,440,670)
Net investment in leases before allowance	47,497,522	12,398,255
Less: Allowance for impairment (Note 14)	(163,966)	(168,240)
	47,333,556	12,230,015

As of 31 December 2010 and 31 December 2009, certain leased-out assets were pledged as collateral under loans received. As of 31 December 2010 and 31 December 2009, net investment in leases relating to assets pledged as collateral under loan agreements amounted to RUB 17,537,339 and RUB 7,575,355, respectively (Note 24).

As of 31 December 2010, the share of the largest Russian lessee (a third party) was RUB 10,145,131, or 21% of net investment in leases before allowance for impairment. As of 31 December 2010, there was no individually determined impairment for those assets. The share of the second largest Russian lessee (a third party) was RUB 4,629,273, or 10% of net investment in leases before allowance for impairment. As of 31 December 2010, those assets were not identified as individually impaired. As of 31 December 2009, the share of the largest Russian lessee (a third party) was RUB 5,091,480, or 41% of net investment in leases before allowance for impairment. As of 31 December 2009, there was no individually determined impairment for those assets. The share of the second largest Russian lessee (a third party) was RUB 1,415,123, or 11% of net investment in leases before allowance for impairment. As of 31 December 2009, those assets were not identified as individually impaired.

(thousands of Russian rubles)

8. Net investment in leases (continued)

The table below provides the maturity profile of gross and net investment in leases as of 31 December:

	2010				2009			
	Less than 1 year	From 1 to 5 years	Over 5 years	Total	Less than 1 year	From 1 to 5 years	Over 5 years	Total
Gross investment in leases	11,665,860	37,964,877	20,457,020	70,087,757	4,501,812	10,771,119	2,565,994	17,838,925
Less: unearned finance income	(877,926)	(11,763,349)	(9,948,960)	(22,590,235)	(440,078)	(3,852,567)	(1,148,025)	(5,440,670)
Net investment in leases	10,787,934	26,201,528	10,508,060	47,497,522	4,061,734	6,918,552	1,417,969	12,398,255

As of 31 December, gross investment in leases is payable to the Group in the following currencies:

	31 December 2010	31 December 2009
RUB	34,353,667	3,434,201
USD	35,131,745	13,010,504
EUR	602,345	1,394,220
Gross investment in leases	70,087,757	17,838,925

Economic sector risk concentrations within the lease portfolio are as follows:

	31 December 2010		31 December 2009	
	Amount	%	Amount	%
Railway services	19,440,100	41%	1,255,965	10%
Airline services	12,562,143	26%	2,258,466	18%
Water-borne transport services	6,941,698	15%	–	–
Power industry	6,253,545	13%	6,686,667	54%
Aircraft industry	548,211	1%	846,059	7%
Machine building	416,279	1%	1,096,145	9%
Trade	330,915	1%	–	–
Construction	291,191	1%	–	–
Military-industrial complex	69,730	0%	134,758	1%
Radioelectronic industry	53,425	0%	77,525	1%
Other	590,285	1%	42,670	0%
Total net investment in leases before allowance	47,497,522	100%	12,398,255	100%

Interest income accrued on net investment in leases, for which individual impairment allowances have been recognized, for the year ended 31 December 2010, comprised RUB 292 (31 December 2009: RUB 341,650).

The fair value of collateral that the Group holds relating to net investment in leases individually determined to be impaired at 31 December 2010 amounts to RUB nil (31 December 2009: RUB 1,006,950).

9. Loans receivable

Loans receivable comprise:

	31 December 2010	31 December 2009
Loans to legal entities	7,323,633	747,952
Gross loans receivable	7,323,633	747,952
Less: Allowance for impairment (Note 14)	(20,730)	–
Loans receivable	7,302,903	747,952

As of 31 December 2010, loans to legal entities comprise loans issued to two associated companies for the total amount of RUB 6,755,547 bearing interest at 9.70%-10.90%, to two Russian companies (related parties) for the total amount of RUB 467,156 bearing interest at 11.50%-16.00%, and a USD-denominated loan issued to a third party for the amount of RUB 30,943 at 14% p.a., as well as loans issued in the form of promissory notes receivable for the amount of RUB 69,987, including RUB 49,257 in favor of related parties.

(thousands of Russian rubles)

9. Loans receivable (continued)

As of 31 December 2009, loans to legal entities comprise loans issued to two Russian companies (related parties) for the amount of RUB 605,546 bearing interest at 13.00%-16.00%, a USD-denominated loan issued to an entity registered in the Republic of Peru for the amount of RUB 3,108 at 7% p.a., and loans issued in the form of promissory notes receivable for the amount of RUB 139,298, including RUB 119,755 in favor of related parties.

Loans have been extended to the following types of customers:

	31 December 2010	31 December 2009
Associates (Note 29)	6,755,547	–
State companies (Note 29)	516,413	725,301
Private companies	51,673	22,651
	<u>7,323,633</u>	<u>747,952</u>

Loans are issued principally to clients within and outside Russia in the following industry sectors:

	31 December 2010	31 December 2009
Financing	6,755,547	–
Airline services	540,511	507,281
Construction	20,730	–
Military-industrial complex	–	119,755
Trade	6,845	101,373
Machine building	–	19,543
	<u>7,323,633</u>	<u>747,952</u>

Interest income accrued on loans receivable, for which individual impairment allowances have been recognized, for the year ended 31 December 2010, comprised RUB 1,184. No collateral was held by the Group against these loans.

10. Equipment purchased for leasing purposes

Equipment purchased for leasing purposes represents equipment, which will be transferred to lessees under finance lease agreements. During 2010, the Group primarily purchased helicopters. As of 31 December 2010, no equipment was pledged as collateral under loan agreements (Note 24).

As of 31 December 2009, the Group primarily purchased manufacturing equipment. As of 31 December 2009, equipment worth of RUB 394,058 was pledged as collateral under loan agreements (Note 24).

11. Advances issued to leasing equipment suppliers

As of 31 December 2010, advances issued to five major Russian suppliers of leasing equipment represent 71% of the total amount. The advances issued to leasing equipment suppliers registered in OECD states represent 4% of the total amount.

As of 31 December 2009, advances issued to seven major Russian suppliers of leasing equipment represent 99% of the total amount. The advances issued to leasing equipment suppliers registered in OECD states represent 0% of the total amount.

(thousands of Russian rubles)

12. Property and equipment

The movements in property and equipment of the Group were as follows:

	<i>Furniture and fixtures</i>	<i>Computers and office equipment</i>	<i>Transport vehicles</i>	<i>Assets under construction</i>	<i>Total</i>
Cost					
31 December 2009	3,784	22,079	13,415	–	39,278
Additions	1,425	48,887	1,205,616	–	1,255,928
Disposals	–	–	(12,873)	–	(12,873)
Translation differences	–	–	(13,292)	–	(13,292)
31 December 2010	5,209	70,966	1,192,866	–	1,269,041
Accumulated depreciation and impairment					
31 December 2009	1,838	5,699	6,489	–	14,026
Depreciation charge	788	12,314	38,992	–	52,094
Disposals	–	–	(7,995)	–	(7,995)
Impairment	–	–	75,984	–	75,984
Translation differences	–	–	443	–	443
31 December 2010	2,626	18,013	113,913	–	134,552
Net book value:					
31 December 2009	1,946	16,380	6,926	–	25,252
31 December 2010	2,583	52,953	1,078,953	–	1,134,489
	<i>Furniture and fixtures</i>	<i>Computers and office equipment</i>	<i>Transport vehicles</i>	<i>Assets under construction</i>	<i>Total</i>
Cost					
31 December 2008	3,038	11,904	53,008	236,640	304,590
Additions	983	16,146	–	–	17,129
Disposals	(237)	(5,971)	(39,593)	(236,640)	(282,441)
31 December 2009	3,784	22,079	13,415	–	39,278
Accumulated depreciation and impairment					
31 December 2008	1,194	4,466	17,012	–	22,672
Depreciation charge	753	4,463	5,123	–	10,339
Disposals	(109)	(3,230)	(15,646)	(113,996)	(132,981)
Impairment	–	–	–	113,996	113,996
31 December 2009	1,838	5,699	6,489	–	14,026
Net book value:					
31 December 2008	1,844	7,438	35,996	236,640	281,918
31 December 2009	1,946	16,380	6,926	–	25,252

In May 2010, a foreign subsidiary of the Group acquired an aircraft with a carrying value of RUB 1,032,782 to be operated by VEB under an agreement for the operation of the aircraft. As of 31 December 2010, the Group tested this asset for impairment. The impairment amounted to RUB 75,984 and was recognized in the consolidated income statement within other operating expenses (Note 26). The amount of the impairment was determined as the difference between the carrying amount of the asset and its fair value less costs to sell.

As of 31 December 2008, property and equipment include capital investments to acquire aircrafts, totaling RUB 236,640 (recorded as of the above date as 'construction-in-progress'). In the third quarter of 2009, the Group recognized impairment in amount RUB 113 996 with respect to these capital investments (Note 26). The amount of the impairment was determined as the difference between the carrying amount of these capital investments and their fair value less costs to sell. In December 2009, the capital investments were sold to a third party. Selling price of the respective asset was USD 5,703 (RUB 171,566 at the date of transaction) with payment by installment until 2019. Amounts receivable under this transaction are recorded within 'Other assets' as 'Other trade receivables' (Note 17).

*(thousands of Russian rubles)***13. Taxation**

	<u>2010</u>	<u>2009</u>
Current tax charge	198,003	1,724
Less: current income tax on share capital transactions recorded in equity (Note 23)	(78,172)	–
Deferred tax charge – origination and reversal of temporary differences	104,633	279,866
Income tax expense	<u>224,464</u>	<u>281,590</u>

Russian legal entities must file individual tax declarations. In 2010 and 2009, the income tax rate for Russian companies (except for income on gains from state securities) was 20%. Pursuant to Russian tax legislation, operating income on certain types of securities is subject to income tax at a rate of 15%, 9% or 0%. In 2010 and 2009, the current income tax rate applied to the profit of subsidiaries varies from 0% to 26.75%-28.75%.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2010</u>	<u>2009</u>
Profit before income tax from continuing operations	1,115,498	1,103,286
Profit before income tax from discontinued operations	–	145,361
Profit before income tax	<u>1,115,498</u>	<u>1,248,647</u>
Statutory tax rate	From 0 to 26.75%-28.75%	From 0 to 26.75%-28.75%
Theoretical income tax expense at the statutory rate	195,167	290,886
Non-deductible expenses	14,132	4,070
Change in unrecorded tax assets	12,092	(25,652)
Interest on loans with the interest rate exceeding the refinancing rate	1,867	6,678
Expenses related to the disposal of property, not recognized for tax purposes	–	4,804
Other	1,206	804
Income tax expense	<u>224,464</u>	<u>281,590</u>

Differences between IFRS and Russian tax legislation give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. The Company and its subsidiaries have no right to set off current tax assets and liabilities between legal entities, so deferred tax assets and deferred tax liabilities are separately assessed for each entity. Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

(thousands of Russian rubles)

13. Taxation (continued)

	2008	Origination and reversal of temporary differences in the income statement	2009	Origination and reversal of temporary differences in the income statement	Translation effect	2010
Tax effect of deductible temporary differences:						
Tax losses carried forward	326,403	(211,532)	114,871	(92,118)	34	22,787
Derivative financial assets	–	11,777	11,777	4,240	–	16,017
Allowance for impairment	38,576	(9,936)	28,640	3,166	–	31,806
Loans receivable	2,342	17,406	19,748	449	–	20,197
Financial lease on the books of the lessee	12,058	(12,058)	–	–	–	–
Advances issued to leasing equipment suppliers	–	–	–	89,431	–	89,431
Amounts payable to equipment suppliers	–	113,675	113,675	2,897	–	116,572
Property and equipment	463	(308)	155	(155)	–	–
Other	37,412	(19,150)	18,262	5,946	(9)	24,199
Deferred tax assets	417,254	(110,126)	307,128	13,856	25	321,009
Unrecognized deferred tax assets	(29,038)	25,652	(3,386)	(12,092)	–	(15,478)
Deferred tax asset, net amount	388,216	(84,474)	303,742	1,764	25	305,531
Tax effect of taxable temporary differences:						
Net investment in leases	(359,555)	(149,359)	(508,914)	62,154	–	(446,760)
Equipment purchased for leasing purposes	(54,911)	15,706	(39,205)	(20,344)	–	(59,549)
Amounts due to credit institutions	(12,939)	898	(12,041)	(123,651)	–	(135,692)
Borrowings payable	–	–	–	(133,918)	–	(133,918)
Debt securities issued	–	–	–	(12,425)	–	(12,425)
Advances issued to leasing equipment suppliers	(53,105)	32,073	(21,032)	21,032	–	–
Amounts payable to equipment suppliers	(17,155)	17,155	–	–	–	–
Property and equipment	–	–	–	(401)	–	(401)
Derivative financial liabilities	–	(111,865)	(111,865)	101,156	–	(10,709)
Deferred tax liability	(497,665)	(195,392)	(693,057)	(106,397)		(799,454)
Total deferred tax liabilities	(109,449)	(279,866)	(389,315)	(104,633)	25	(493,923)
Net deferred tax asset	–	–	–	7,283	25	7,308
Net deferred tax liabilities	(109,449)	(279,866)	(389,315)	(111,916)	–	(501,231)

As of 31 December 2010, the Company has no tax losses to carry forward (as of 31 December 2009: RUB 557,423). The carry-forward of such tax losses is allowed within a 10-year period from the end of the year where the respective loss arose.

As of 31 December 2010, tax losses incurred by one of the foreign subsidiaries of the Group and available for offset against future taxable profit approximate RUB 185,198. The carry-forward of such tax losses is not subject to any restrictions. As of 31 December 2009, tax losses incurred by one of the foreign subsidiaries of the Group and available for offset against future taxable profit approximate RUB 13,690. The carry-forward of such tax losses is not subject to any restrictions.

(thousands of Russian rubles)

14. Allowance for impairment of interest-earning assets

Movement in allowance for impairment of interest-earning assets is provided in the table below:

	<i>Net investment in leases</i>	<i>Loans receivable</i>	<i>Total</i>
31 December 2009	168,240	–	168,240
Charge	39,585	23,993	63,578
Write off	(44,208)	(3,267)	(47,475)
Currency translation differences	349	4	353
31 December 2010	163,966	20,730	184,696
Individual impairment	–	20,730	20,730
Collective impairment	163,966	–	163,966
31 December 2010	163,966	20,730	184,696
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	20,730	20,730
	<i>Net investment in leases</i>	<i>Loans receivable</i>	<i>Total</i>
31 December 2008	191,229	3,392	194,621
Reversal	(22,989)	(3,392)	(26,381)
31 December 2009	168,240	–	168,240
Individual impairment	28,298	–	28,298
Collective impairment	139,942	–	139,942
31 December 2009	168,240	–	168,240
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,023,301	–	1,023,301

Allowance for impairment of assets is deducted from the carrying amounts of the respective assets.

15. Discontinued operations

At the end of 2008, the Group management announced a plan to dispose of its investment in Aero-Kamov LLC, a company engaged in aviation equipment maintenance. As of 31 December 2008, the agreement on sale of 100% interest in the share capital of Aero-Kamov LLC was signed, and, therefore, as of 31 December 2008, Aero-Kamov LLC was classified as a disposal group held for sale. Transaction on disposal of Aero-Kamov LLC to JSC Russkaya Vertoletnaya Company was completed on 2 February 2009, the buyer paid to the Group RUB 2,700 in cash. Profit from the disposal of a discontinued operation taken to the 2009 consolidated income statement amounted to RUB 145,361.

16. Investments in associates

The following associates are accounted for under the equity method as of 31 December 2010:

<i>Associates</i>	<i>Interest / Voting power, %</i>	<i>Country of incorporation</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
Ukrosleasing Cyprus Limited	25	Cyprus	November 2009	Financial intermediary	January 2010
Tornatore Holding Limited	25	Cyprus	June 2010	Financial intermediary	July 2010

There were no associates as of 31 December 2009.

*(thousands of Russian rubles)***16. Investments in associates (continued)**

Movement in investments in associates was as follows:

	2010	2009
Balance at the beginning of the reporting period	–	–
Cost of acquisition	20	–
Share of net profit (loss)	(21,262)	–
Decrease in loans receivable by share in loss of associate	21,242	–
Investments in associates, end of the reporting period	–	–

The following table illustrates summarized aggregated financial information of the associates:

Aggregated assets and liabilities of associates

	2010	2009
Assets	6,862,318	–
Liabilities	(6,945,774)	–
Net assets	(83,456)	–

Aggregated revenue and profit of associates

	2010	2009
Revenue	355,347	–
Profit/(loss)	(85,116)	–

17. Other assets and liabilities

Other assets comprise:

	2010	2009
VAT to be recovered	290,593	–
Other trade receivables	180,547	203,638
Accounts receivable due from lessees on reimbursement of VAT payable	139,139	72,321
Future period insurance expenses	112,931	24,135
Available-for-sale securities	45,000	–
Equipment for re-sale	416	19,419
Investments in associates (Note 16)	–	–
Other	3,067	146
Other assets	771,693	319,659

Available-for-sale securities included investments in shares of a related party (less than 20 % of share capital).

Other liabilities comprise:

	2010	2009
Taxes payable other than income tax	119,681	175,420
Deferred commission	27,609	–
Other payables and prepayments received	25,475	14,015
Other	11,500	5,010
Other liabilities	184,265	194,445

*(thousands of Russian rubles)***18. Amounts due to credit institutions**

Amounts due to credit institutions comprise the following:

	<u>2010</u>	<u>2009</u>
Bank loans provided for leasing operations	58,782,811	12,466,298
Amounts due to credit institutions	<u>58,728,811</u>	<u>12,466,298</u>

As of 31 December 2010, about 31% of the loans were granted by banks of VEB Group, about 10% of the loans were granted by VTB Group (VTB Bank OJSC, its subsidiaries and associates comprise VTB Group). The remaining loans were granted by Deutsche bank AG, Credit Suisse International, Goldman Sachs, JP Morgan Chase Bank N.A. London Branch, Alfa-Bank and OJSC Sberbank. As of 31 December 2009, about 74% of the loans were granted by banks of VEB Group, about 17% of the loans were granted by banks of VTB Group. The remaining loans were granted by the London-based branch of Deutsche bank AG. OJSC Sberbank, VTB Group and VEB Group are related parties.

As of 31 December 2010, the interest rate on loans provided by banks of VTB Group denominated in USD was from 3-month USD LIBOR + 2.25% p.a. to 3-month USD LIBOR + 4.5% for loans with a floating rate (which amounted to a rate of 2.55% to 4.79% p.a.). As of 31 December 2010, the interest rate on loans provided by banks of VTB Group denominated in EUR was 3-month EURIBOR + 4% p.a. for loans with a floating rate (which amounted to a rate of 5.03%). These loans mature in 2011-2015. As of 31 December 2009, the interest rate on loans provided by banks of VTB Group denominated in foreign currencies was 3-month USD LIBOR + 2.25% p.a. to 3-month USD LIBOR + 7% for loans with a floating rate (which amounted to a rate of 2.50% to 7.25% p.a.). As of 31 December 2009, the interest rate on loans provided by banks of VTB Group denominated in EUR was 3-month EURIBOR + 4% p.a. for loans with a floating rate (which amounted to a rate of 4.72%). These loans mature in 2010-2012.

As of 31 December 2010, the interest rate on loans provided by banks of VEB Group, denominated in USD was 5.5% p.a. for loans with a fixed rate and from 3-month USD LIBOR +4.3% p.a. to 3-month USD LIBOR + 6.0% for loans with a floating rate (which amounted to a rate of 4.49% to 6.29% p.a.). The interest rate on RUB-denominated fixed rate loans was 6.50%. These loans mature in 2011-2018. As of 31 December 2009, the interest rate on loans provided by banks of VEB Group denominated in Russian Rubles was from 12% p.a. to 20% p.a. for loans with a fixed interest rate. These loans mature in 2010-2018.

As of 31 December 2009, the interest rate on loans provided by banks of VEB Group, denominated in USD was from 9% p.a. to 14.5% for loans with a fixed rate and from 3-month USD LIBOR + 4.3% p.a. to 3-month USD LIBOR + 6% for loans with a floating rate (which amounted to a rate of 4.20% to 6.28% p.a.). As of 31 December 2009, the interest rate on loans provided by banks of VEB Group, denominated in EUR was 3-month EURIBOR + 3.5% for loans with a floating rate (which amounted to a rate of 4.25% p.a.).

As of 31 December 2010, the interest rate on loans provided by other banks denominated in USD was from 5.35% p.a. to 6.55% for loans with a fixed rate and from 6-month USD LIBOR + 6.17% p.a. for loans with a floating rate (which amounted to 6.92% p.a.). These loans mature in 2015.

As of 31 December 2009, the interest rate on loans provided by other banks, denominated in USD was 6-month USD LIBOR + 6.17% for loans with a floating rate (which amounted to a rate of 6.61% p.a.). These loans mature in 2012.

As of 31 December 2010 and 2009, interest on bank loans payable, which was capitalized to the carrying amount of the respective asset for further use in finance lease, amounted to RUB 78,565 and RUB 317,595, respectively.

19. Borrowings payable

Borrowings payable comprise the following:

	<u>2010</u>	<u>2009</u>
Borrowings payable	3,371,258	1,804,789
Borrowings payable	<u>3,371,258</u>	<u>1,804,789</u>

As of 31 December 2010 and 31 December 2009, the borrowings were received from a related party to finance major lease transactions. The RUB-denominated borrowing bears an effective interest rate of 8.75% p.a., USD-denominated borrowings bear interest rate of 5 % p.a. These borrowings mature in 2011-2018. As of 31 December 2010, interest on borrowings payable, which was capitalized to the carrying amount of the respective asset for further use in finance lease, amounted to RUB 167,183.

(thousands of Russian rubles)

20. Debt securities issued

Debt securities issued comprise the following:

	<u>2010</u>	<u>2009</u>
Documentary interest bearing non-convertible bonds	3,786,413	–
Promissory notes	1,523,845	–
Debt securities issued	<u>5,310,258</u>	<u>–</u>

In July 2010, the Company issued series 1 of bonds (RUB 5,000,000). The bonds mature in 5 years from the placement date. The principal amount will be repaid in 5 equal tranches (each amounting to 20% of the total par value), of which the first tranche will be repaid in July 2013, and the remaining tranches will be repaid on a semi-annual basis thereafter. Interest is payable on a semi-annual basis at the rate of 8.5% p.a. The Company has provided a put option on the bond holders that may be exercised in tranches of 1 million bonds upon expiry of three, three and a half, four, and four and a half years from the placement date at the par value, respectively. In July 2010 the Group purchased back some of its own series 1 bonds in the open market.

As of 31 December 2010, the Group had issued for cash non-interest-bearing USD-denominated promissory notes to third parties with a nominal value of RUB 1,546,957, payable on demand but not earlier than March 2011. Effective rate for these promissory notes was 6% p.a.

21. Advances received from lessees

As of 31 December 2010, advances received from lessees amount to RUB 1,919,234. Advances received under USD-denominated lease agreements comprise 40% of all advances received, advances received under EUR-denominated agreements – 2%. Advances of RUB 722,101 were granted by related parties.

As of 31 December 2009, advances received from lessees amount to RUB 840,203. Advances received under USD-denominated lease agreements comprise 64% of all advances received, advances received under EUR-denominated agreements – 6%. Advances of RUB 544,645 were granted by related parties.

22. Amounts payable to equipment suppliers

The amounts payable to suppliers on equipment, which as of 31 December 2010 was transferred under finance lease agreements, included RUB 330,767 (as of 31 December 2009: RUB 874,934) payable to a related party; this amount was stated at amortized cost with the effective interest rate approximating 9.2% p.a. (as of 31 December 2009: 9.2% p.a.).

23. Equity

The authorized, issued and fully paid share capital of the Company comprises:

	<i>Number of authorized ordinary shares</i>	<i>Number of treasury shares</i>	<i>Number of outstanding ordinary shares</i>	<i>Nominal value (RUB per share)</i>
31 December 2008	4,172,002	(915,000)	3,257,002	1
Increase in share capital	–	–	–	–
31 December 2009	4,172,002	(915,000)	3,257,002	1
Sale of treasury shares	–	830,229	830,229	1
31 December 2010	<u>4,172,002</u>	<u>(84,771)</u>	<u>4,087,231</u>	<u>1</u>

As of 31 December 2010, the Group had 4,172,002 authorized, issued and fully paid ordinary shares (including 84,771 treasury shares). As of 31 December 2009, the Group had 4,172,002 authorized, issued and fully paid ordinary shares (including 915,000 treasury shares). Each ordinary share has a nominal value of RUB 1, with all shares having equal rights and carrying one vote each.

As of 31 December 2010, additional paid-in capital amounted to RUB 2,744,246 (31 December 2009: RUB 2,431,558) and represented the sum of differences between the sales price and the nominal value of the Company's shares upon their placement. The increase in additional paid-in capital in 2010 was due to the following operations.

(thousands of Russian rubles)

23. Equity (continued)

On 11 January 2010, OJSC VEB-Leasing purchased 417,200 of its shares from LLC Helicopter Transportation Company (9.99999% of the share capital). Purchase price was RUB 426,703. On 8 February 2010, OJSC VEB-Leasing sold 417,200 of its treasury shares to CJSC GLOBEXBANK (9.99999% of the share capital). The value of the transaction was RUB 623,113; the consideration was paid in cash.

On 15 March 2010, OJSC VEB-Leasing purchased 413,029 of its treasury shares from LLC Helicopter Transportation Company (9.9% of the share capital). Purchase price was RUB 422,437. On 15 March 2010, OJSC VEB-Leasing sold 413,029 of its treasury shares to CJSC GLOBEXBANK (9.9% of the share capital). The value of the transaction was RUB 616,887; the consideration was paid in cash.

Thus, gross proceeds from the sale of treasury shares amounted to RUB 1,240,000, net proceeds (less paid income tax of RUB 78,172) amounted to RUB 1,161,828; the cost of these shares equals RUB 849,140. As a result, the additional paid-in capital was increased by RUB 390,860 (gross amount), with the net amount (less paid income tax of RUB 78,172) reaching RUB 312,688. As a result of above 2010 transactions carrying amount of treasury shares decreased from RUB 935,841 as of 31 December 2009 to RUB 86,701 as of 31 December 2010.

The share capital of the Company was formed in Russian Rubles, and the shareholders are entitled to dividends and any capital distribution in Russian Rubles. According to the Charter, the reserve fund is established in the amount of 5% of the Company's charter capital by mandatory annual contributions. The reserve fund serves to cover the Company's losses and redeem its shares when other funds are unavailable. The reserve fund may not be used for other purposes. In these consolidated financial statements the reserve fund is included in retained earnings.

Pursuant to Russian legislation, only accumulated retained earnings per the Company's statutory financial statements prepared in accordance with Russian accounting legislation and related regulations ("RAL") may be distributed to the shareholders of the Company as dividends. As of 31 December 2010, the Company's undistributed and unreserved retained earnings in accordance with RAL amounted to RUB 1,288,489 (as of 31 December 2009: accumulated loss of RUB 149,958).

No dividends were declared in 2010 in respect of the year ended 31 December 2009. No dividends were declared in 2009 in respect of the year ended 31 December 2008.

24. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

Also, factors including increased unemployment in Russia, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Group's counterparties' ability to repay the amounts due to the Group. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Legal

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 of the Group.

(thousands of Russian rubles)

24. Commitments and contingencies (continued)

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may take a more assertive position in their interpretation of the legislation and assessments. As a result, it is possible that transactions and accounting methods that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group determines its tax liabilities arising from intercompany transactions using actual transaction prices. It is possible that with the evolution of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities towards their interpretation and application, intercompany transactions based on such transfer prices could potentially be challenged by the Russian tax authorities in the future.

Besides, the Group operates in various tax jurisdictions and includes companies incorporated outside the Russian Federation subject to taxation at different rates and in accordance with different legislation. Tax liabilities of the Group are determined based on the fact that these companies are not subject to income tax in the Russian Federation. At present time, Russian tax legislation does not provide any specific guidance regarding taxation of foreign entities operating in Russia. It is possible that with the evolution of these rules, and changes in the approach towards interpretation and application thereof adopted by the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group may be challenged in Russia.

As of 31 December 2010, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Financial and non-financial commitments and contingencies

As of 31 December, the Group's commitments and contingencies comprised the following:

	<u>2010</u>	<u>2009</u>
Credit related commitments		
Guarantees	2,016,655	2,169,415
	2,016,655	2,169,415
Operating lease commitments		
Less than 1 year	152,813	37,111
From 1 to 5 years	405,571	47,174
	558,384	84,285
Capital expenditure commitments related to finance leases	8,601,421	6,215,592
Financial and non-financial commitments and contingencies	11,176,460	8,469,292

The Group entered into non-cancellable operating lease agreements for non-residential premises. The lease term is 3 years.

Insurance

The Group has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

(thousands of Russian rubles)

24. Commitments and contingencies (continued)

Pledged assets

Below is the information on pledged assets as of 31 December 2010:

<i>Pledged asset</i>	<i>Carrying amount (as of 31 December 2010)</i>	<i>Carrying amount (as of 31 December 2009)</i>	<i>Related liability</i>	<i>Carrying amount (as of 31 December 2010)</i>	<i>Carrying amount (as of 31 December 2009)</i>
Equipment transferred to finance lease	17,154,523	6,626,336	Amounts due to credit institutions	18,311,816	7,198,930
Equipment transferred to finance lease	382,816	949,019	Amounts payable to equipment suppliers	330,767	809,806
Equipment purchased for leasing purposes	–	394,058	Amounts due to credit institutions	–	367,493
Total pledged assets	17,537,339	7,969,413	Total related liabilities	18,642,583	8,376,229

These assets were pledged by the Group exclusively as collateral under liabilities to counterparties (Notes 8, 10). The pledged assets shall be returned to the Group upon completion of the respective transactions, however if the Group defaults on its commitments, the counterparty shall be entitled to use the collateral in settlement of the liability.

25. Other income

Income from other services comprises:

	2010	2009
Income from operation of aircraft	95,662	–
Net income from early buy out of net investments in leases	54,521	–
Fines and penalties	4,438	4,519
Income from operating sublease of the building	2,644	5,193
Compensations received from leasing equipment suppliers	1,796	9,408
Other	10,666	10,430
Total other income	169,727	29,550

26. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2010	2009
Salaries and bonuses	313,580	111,560
Social security costs	31,600	12,337
Personnel expenses	345,180	123,897
Taxes other than income tax	294,242	212,006
Service fees for operation of aircraft	87,450	–
Impairment of property and equipment (Note 12)	75,984	113,996
Operating lease	58,135	50,758
Insurance expenses	58,049	22,792
Professional services	49,276	19,747
Legal and consultancy	19,372	64,955
Materials	19,006	15,222
Travel and entertainment	13,855	2,758
Advertising	2,277	1,489
Repair and maintenance	1,426	1,038
Loss from initial recognition of financial investments	–	114,308
Property sale and write-off	–	482
Other	20,175	16,697
Other operating expenses	699,247	636,248

(thousands of Russian rubles)

27. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks. The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

On the Group and subsidiary level a number of committees and departments are established to coordinate day-to-day risk management. On a Group-wide basis risk management is overseen by the Finance Committee.

The Finance Committee (the "FC") establishes major balance sheet parameters for use in asset and liability management and monitors compliance within the Group with the assistance of the Group's departments.

Risk Analysis and Control Department ("RACD") provides methodological support for the risk management process, assesses risks, prepares recommendations regarding management of risks for the FC (including setting of limits) and controls the compliance with these recommendations.

The Finance Department (the "FD") of the Group also exercises the Treasury functions: performs the management of the Group's assets and liabilities in accordance with the FC decisions. In particular, the FD performs regular monitoring, forecasting the Group's payment position and is responsible for the liquidity risks of the Group.

The FC, FD and RACD carry out risk management functions in respect of all kinds of financial risks: credit risk, market risk (interest rate, currency and changes in value of equity securities) and liquidity risk.

Client's service departments participate in the Group's risk management within their in functional duties specified in the internal regulating documents.

Risk management processes throughout the Group are audited annually by the Revision Commission that examines both the adequacy of the procedures and the Group's compliance with the procedures. The Revision Commission discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify risks. This information is presented and explained to the Board of Directors, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. Each month detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter, which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to necessary and up-to-date information.

(thousands of Russian rubles)

27. Risk management (continued)

Risk measurement and reporting systems (continued)

A weekly briefing is given to the RACD and all other relevant employees of the Group on the utilization of the set limits, including analysis of investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group (through Department for Investor Relations) uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks (see below for more details).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Risk concentration reflects the relative sensitivity of the Group's results to the changes in conditions affecting a certain industry or geographical region.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk of financial loss if a counterparty fails to meet its contractual obligations. Group's exposure to credit risk arises primarily in connection with financial leasing operations.

The Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty, groups of counterparties, and to industry and geographical segments. Limits on the level of credit risk by counterparties and product (by industry sector, by region) are approved by the Board of Directors and the Finance Committee. In addition the Group monitors credit risk by analyzing the financial position of counterparties. Credit risk management also involves in regular monitoring of an ability of counterparties to pay amounts in full when due, analysis of financial position of lessees and monitoring of conditions of leased-out equipment. Such risks are monitored on a revolving basis and subject to annual or more frequent reviews.

The exposure to certain counterparties is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Finance Committee.

The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the financial statements and the disclosed financial commitments.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

With respect to undrawn loan commitments (or commitments related to providing lease equipment) the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the finance lease agreements.

(thousands of Russian rubles)

27. Risk management (continued)**Credit risk (continued)**

The table below shows the maximum exposure to credit risk for the components of statement of financial position, including derivatives. The maximum exposure is shown in gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Maximum exposure 2010	Maximum exposure 2009
Cash and cash equivalents (excluding cash on hand)	5	2,146,398	1,220,768
Amounts due from credit institutions	6	–	583,776
Derivative financial assets	7	65,860	580,856
Net investment in leases	8	47,333,556	12,230,015
Loans receivable	9	7,302,903	747,952
Advances issued to leasing equipment suppliers	11	11,420,569	2,588,021
Other assets	17	364,686	275,959
		68,633,972	18,227,347
Credit-related commitments	24	2,016,655	2,169,415
Total credit risk exposure		70,650,627	20,396,762

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality per class of financial asset

The credit quality of financial assets is managed by the Group internal credit ratings. The table below shows the credit quality by class of asset for respective lines on the statement of financial position, based on the Group's credit rating system.

	Notes	Neither past due nor impaired			Past due, but not individually impaired, 2010	Individually impaired, 2010	Total, 2010
		High grade, 2010	Standard grade, 2010	Sub-standard grade, 2010			
Net investment in leases	8	46,650,534	707,820	139,168	–	–	47,497,522
Loans receivable	9	7,302,903	–	–	–	20,730	7,323,633
Total		53,953,437	707,820	139,168	–	20,730	54,821,155

	Notes	Neither past due nor impaired			Past due, but not individually impaired, 2009	Individually impaired, 2009	Total, 2009
		High grade, 2009	Standard grade, 2009	Sub-standard grade, 2009			
Net investment in leases	8	11,374,954	–	–	–	1,023,301	12,398,255
Loans receivable	9	747,952	–	–	–	–	747,952
Total		12,122,906	–	–	–	1,023,301	13,146,207

Past due net investment in leases and loans receivable should include those that are only past due by not more than 90 days.

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

(thousands of Russian rubles)

27. Risk management (continued)

Credit risk (continued)

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

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

The substandard grade is assigned to a counterparty where there is evidence of critical adverse developments (trends) which are likely to result in the counterparty's partial insolvency and those counterparties are assessed for impairment on collective basis.

See Note 14 for more detailed information with respect to the allowance for impairment of net investment in leases and loans receivable.

Impairment assessment

The main considerations for impairment of net investment in leases and loans receivable assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant object (net investment in leases or loans receivable) on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the residual value of leasing equipment (or the realizable value of collateral), and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on net investments in leases and loans receivable that are not individually significant and for individually significant net investments in leases and loans receivable where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding on the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Write-off policy

In accordance with the Russian law requirements, loans and receivables may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

(thousands of Russian rubles)

27. Risk management (continued)**Credit risk (continued)**

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

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses on net investments in leases.

During the year, the Group didn't take possession of collateral on finance leases and doesn't have any repossessed collateral in its statement of financial position as of 31 December 2010. It is the Group's policy to dispose of repossessed equipment in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security must be detailed in the Application for Credit Facility Form. Where practical, the lease management officer must have seen evidence of the existence of the expected collateral and wherever possible seen the actual collateral for themselves.

The valuation placed on each collateral will vary with individual circumstances. As a general guide, where the Group takes collateral it will ensure that an adequate margin is obtained and maintained throughout the term of the facility, where applicable. The corresponding subsidiary authority responsible for collateral assessment establishes clear parameters for each individual facility.

Risks related to leased properties and other collateral (real estate properties, inventories) such as damage caused by various reasons, theft and other are generally insured under finance lease or loan agreements.

Geographical concentration

Geographical concentration information is based on geographical location of the Group's counterparties. As of 31 December 2010 and 2009 the geographical concentration of the Group's assets and liabilities is set out below:

	2010				2009			
	Russia	OECD	Other countries	Total	Russia	OECD	Other countries	Total
Assets:								
Cash and cash equivalents	2,065,731	67,954	12,725	2,146,410	1,204,910	5,700	10,282	1,220,892
Amounts due from credit institutions	–	–	–	–	373,750	210,026	–	583,776
Derivative financial assets	65,860	–	–	65,860	101,707	479,149	–	580,856
Net investment in leases	38,172,711	–	9,160,845	47,333,556	11,616,840	–	613,175	12,230,015
Loans receivable	547,356	–	6,755,547	7,302,903	744,844	–	3,108	747,952
Equipment purchased for leasing purposes	2,046,578	–	–	2,046,578	933,715	–	–	933,715
Advances issued to leasing equipment suppliers	10,433,974	117,338	869,257	11,420,569	2,588,008	13	–	2,588,021
VAT on purchased assets	2,991,275	1,365	–	2,992,640	155,718	–	–	155,718
Property and equipment	225,097	1,132	908,260	1,134,489	25,252	–	–	25,252
Current income tax assets	2,313	124	–	2,437	7,902	–	–	7,902
Deferred income tax assets	–	7,308	–	7,308	–	–	–	–
Other assets	688,843	82,850	–	771,693	211,044	108,615	–	319,659
	57,239,738	278,071	17,706,634	75,224,443	17,963,690	803,503	626,565	19,393,758
Liabilities:								
Amounts due to credit institutions	37,164,897	21,617,914	–	58,782,811	9,287,268	3,179,030	–	12,466,298
Borrowings payable	3,371,258	–	–	3,371,258	1,804,789	–	–	1,804,789
Debt securities issued	3,786,413	–	1,523,845	5,310,258	–	–	–	–
Derivative financial liabilities	72,604	–	–	72,604	70,988	–	–	70,988
Advances received from lessees	1,919,234	–	–	1,919,234	840,203	–	–	840,203
Amounts payable to equipment suppliers	335,342	–	–	335,342	931,056	15,101	–	946,157
Current income tax liability	68	–	–	68	–	1,685	–	1,685
Deferred income tax liabilities	501,231	–	–	501,231	293,782	95,533	–	389,315
Other liabilities	178,396	4,283	1,586	184,265	192,183	2,262	–	194,445
	47,329,443	21,622,197	1,525,431	70,477,071	13,420,269	3,293,611	–	16,713,880
Net position	9,910,295	(21,344,126)	16,181,203	4,747,372	4,543,421	(2,490,108)	626,565	2,679,878

*(thousands of Russian rubles)***27. Risk management (continued)****Liquidity risk and funding management**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Liquidity risk management within the Group is carried at three main levels:

- ▶ each subsidiary of the Group and the Company manages its liquidity on individual basis to meet its commitments and to comply with the requirements of the Russian laws. The subsidiaries manage its liquidity in line with the recommendations of the Company;
- ▶ the Company manages liquidity of the Group by redistribution of resources within the Group through borrowing from and lending to the subsidiaries of the Group;
- ▶ the program of medium and long term funding is worked out at the Company's Board of Director level.

The basic tools for mitigation and management of liquidity risk are:

- A. Contractual maturity analysis and a forecast of cash flow (Gap-analysis);
- B. Internal limits confining:
 - ▶ minimum of highly liquid assets to cover short-term obligations (resources on demand/1 day);
 - ▶ maturity mismatch limits (Gap-limits);
 - ▶ concentration of liability financing base;
 - ▶ maximum funding volume subject to the current liquidity level;
- C. Plan of actions in a crisis situation (funding contingency plan).

The Group manages its liquidity so that in each interval the gap in liquidity in view of planned operations does not exceed a certain internal limit.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities as of 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as of notice were to be given immediately. The actual Group's expected cash flows on these financial liabilities may vary from this analysis.

Financial liabilities as of 31 December 2010	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	5,337,001	10,903,981	45,500,996	9,454,305	71,196,283
Borrowings payable	337	171,683	2,877,594	1,728,678	4,778,292
Debt securities issued	1,699,506	154,064	4,560,232	–	6,413,802
Derivative financial liabilities					
– contractual amounts payable	13,626	202,628	1,319,416	–	1,535,670
– contractual amounts receivable	–	(164,376)	(1,225,313)	–	(1,389,689)
Amounts payable to equipment suppliers	134,848	239,701	–	–	374,549
Other liabilities	20,980	31,302	12,302	–	64,584
Total undiscounted financial liabilities	7,206,298	11,538,983	53,045,227	11,182,983	82,973,491

Financial liabilities as of 31 December 2009	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	1,433,888	3,008,102	8,275,584	2,369,943	15,087,517
Borrowings payable	–	–	1,807,120	341,872	2,148,992
Derivative financial liabilities					
– contractual amounts payable	–	164,110	1,402,382	–	1,566,492
– contractual amounts receivable	–	(162,574)	(1,389,254)	–	(1,551,828)
Amounts payable to equipment suppliers	231,745	476,334	398,859	–	1,106,938
Other liabilities	5,837	13,040	148	–	19,025
Total undiscounted financial liabilities	1,671,470	3,499,012	10,494,839	2,711,815	18,377,136

(thousands of Russian rubles)

27. Risk management (continued)**Liquidity risk and funding management (continued)**

The table below shows the contractual expiry by maturity of the Group's commitments and contingencies:

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2010	–	2,016,655	–	–	2,016,655
2009	–	–	2,169,415	–	2,169,415

For the purposes of managing liquidity risk the Group uses on a regular basis the analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. The following table provides such analysis of assets and liabilities as of 31 December 2010.

	<i>2010</i>			<i>2009</i>		
	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Less than one year</i>	<i>More than one year</i>	<i>Total</i>
<i>Assets</i>						
Cash and cash equivalents	2,146,410	–	2,146,410	1,220,892	–	1,220,892
Amounts due from credit institutions	–	–	–	373,750	210,026	583,776
Derivative financial assets	22,268	43,592	65,860	120,757	460,099	580,856
Net investment in leases	10,751,280	36,582,276	47,333,556	4,006,618	8,223,397	12,230,015
Loans receivable	2,749,920	4,552,983	7,302,903	208,525	539,427	747,952
Equipment purchased for leasing purposes	2,046,578	–	2,046,578	933,715	–	933,715
Advances issued to leasing equipment suppliers	8,451,823	2,968,746	11,420,569	533,347	2,054,674	2,588,021
Property and equipment	–	1,134,489	1,134,489	–	25,252	25,252
VAT on purchased assets	2,992,640	–	2,992,640	155,718	–	155,718
Current income tax assets	2,437	–	2,437	7,902	–	7,902
Deferred income tax assets	–	7,308	7,308	–	–	–
Other assets	595,380	176,313	771,693	141,989	177,670	319,659
Total	29,758,736	45,465,707	75,224,443	7,703,213	11,690,545	19,393,758
<i>Liabilities</i>						
Amounts due to credit institutions	14,533,322	44,249,489	58,782,811	3,599,814	8,866,484	12,466,298
Borrowings payable	118,010	3,253,248	3,371,258	–	1,804,789	1,804,789
Debt securities issued	1,827,705	3,482,553	5,310,258	–	–	–
Derivative financial liabilities	9,136	63,468	72,604	7,437	63,551	70,988
Advances received from lessees	1,566,369	352,865	1,919,234	576,016	264,187	840,203
Amounts payable to equipment suppliers	335,342	–	335,342	584,120	362,037	946,157
Current income tax liabilities	68	–	68	1,685	–	1,685
Deferred income tax liabilities	–	501,231	501,231	–	389,315	389,315
Other liabilities	171,963	12,302	184,265	194,297	148	194,445
Total	18,561,915	51,915,156	70,477,071	4,963,369	11,750,511	16,713,880
Net	11,196,821	(6,449,449)	4,747,372	2,739,844	(59,966)	2,679,878

The Company received significant funding from its shareholders and related parties to finance the leasing operations at the Group in Russia and other countries (Note 29). Any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Company would be given sufficient notice so as to realise its liquid assets to enable repayment.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Both trading and non-trading positions are currently managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk. As part of its overall risk management, the Group uses derivatives to manage exposures resulting from changes in rates and exposures arising from transactions with foreign currencies.

(thousands of Russian rubles)

27. Risk management (continued)

Market risk (continued)

Market risk – Trading

The principal objective of the Group's market risk management is to limit and reduce possible losses on open market positions that may be incurred by the Group due to adverse changes in currency exchange rates and interest rates. Limits on potential losses are established by the FC and Board or Directors. The FD monitors compliance with such limits. The Group also manages its market risk through sub-limits for types of exposures to various types of securities and position limits for issuers, terms and individual instruments. Limits on securities are approved by the FC and Board or Directors based on analysis performed by the FD. The Group is not materially involved in trading operations due to nature of its core business.

Market risk – Non-Trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate (LIBOR, EURIBOR, CBR refinancing rate) non-trading financial assets and financial liabilities held at 31 December 2010.

Currency	Increase in basis points, 2010	Sensitivity of net interest income, 2010	Decrease in basis points, 2010	Sensitivity of net interest income, 2010
EUR	100	(62)	-25	15
USD	100	(75,191)	-25	18,798
RUB	100	(27,979)	-25	6,995

The sensitivity of interest rate swaps to a reasonable possible change in interest rates is calculated by remeasuring the fair value of these swaps as of 31 December 2010 and 2009. The increase in market ruble interest rates by 3% will result in the increase in the fair value of interest rate swaps by RUB 26,652 (2009: by 6% - decrease by RUB 294,976); while the decrease in market ruble interest rates by 1% will result in the decrease in the fair value by RUB 8,884 (2009: by 5% - increase by RUB 245,814). The increase in market U.S. dollar interest rates by 1% will result in the increase the fair value of interest rate swaps by RUB 14,750 (2009: 1% - increase by RUB 66,709); while the decrease in market U.S. dollar interest rates by 1% will decrease the fair value by RUB 14,750 thousand (2009: 0.25% - decrease by RUB 16,667).

Currency	Increase in basis points, 2009	Sensitivity of net interest income, 2009	Decrease in basis points, 2009	Sensitivity of net interest income, 2009
EUR	100	(1,107)	-25	277
USD	100	(35,484)	-25	8,871
RUB	120	(21,541)	-120	21,541

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group carries out management of currency risk by using the open currency position limits. Using assumed trend and volatility of the respective functional currency to foreign currencies, the Group minimizes its exposure to material foreign exchange losses. Limits are determined for every currency and for totality of positions with the purpose of restriction of currency risk level. Exposure and open currency positions are managed and monitored on a monthly basis. The FC and the Board of Directors have set limits on positions by currency. The Group does not have speculative limits in foreign exchange operations.

(thousands of Russian rubles)

27. Risk management (continued)

Market risk (continued)

The table below indicates the currencies to which the Group had open positions at 31 December 2010 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the RUB on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. All other variables held constant. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	Change in currency rate in % 2010	Effect on profit before tax 2010	Change in currency rate in % 2009	Effect on profit before tax 2009
USD	+8.90%	196,710	+14.80%	38,527
USD	-8.90%	(196,710)	-14.80%	(38,527)
EUR	+11.05%	73,477	+14.00%	48,675
EUR	-11.05%	(73,477)	-14.00%	(48,675)
GBP	+9.65%	158	+17.40%	–
GBP	-9.65%	(158)	-17.40%	–

The sensitivity of interest rate swaps to a reasonable possible change in currency rates is calculated by remeasuring the fair value of these swaps as of 31 December 2010. An increase/decrease in the U.S. dollar rate by 8.90% will result in a decrease/increase in the fair value of interest rate swaps by RUB 18,875.

The sensitivity of interest rate swaps to a reasonable possible change in currency rates is calculated by remeasuring the fair value of these swaps as of 31 December 2009. An increase/decrease in the U.S. dollar rate by 8.90% will result in a decrease/increase in the fair value of interest rate swaps by RUB 202,389.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. However the Group is not sensitive to this risk as early repaid finance lease receivables are not significant in total volume of finance leases granted. Also the lessee is to pay the full amount of lease payments prescribed in its standard finance lease agreement, if the lessee decides to perform early prepayment.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks but through a control framework and by monitoring and responding to potential risks the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment procedures as well as assessment processes, including the use of Internal Control Unit which reports to the Board of Directors.

28. Fair values of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(thousands of Russian rubles)

28. Fair values of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	65,860	–	65,860
	–	65,860	–	65,860
Financial liabilities				
Derivative financial liabilities	–	72,604	–	72,604
	–	72,604	–	72,604
31 December 2009				
Financial assets				
Derivative financial assets	–	580,856	–	580,856
	–	580,856	–	580,856
Financial liabilities				
Derivative financial liabilities	–	70,988	–	70,988
	–	70,988	–	70,988

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial instruments not recorded at fair value in the statement of financial position

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2010	Fair value 2010	Unrecognized gain/(loss) 2010	Carrying value 2009	Fair value 2009	Unrecognized gain/(loss) 2009
Financial assets						
Cash and cash equivalents	2,146,410	2,146,410	–	1,220,892	1,220,892	–
Amounts due from credit institutions	–	–	–	583,776	583,776	–
Net investment in leases	47,333,556	46,935,564	(397,992)	12,230,015	12,033,929	(196,086)
Loans receivable	7,302,903	7,302,903	–	747,952	747,952	–
Advances issued to leasing equipment suppliers	11,420,569	11,420,569	–	2,588,021	2,588,021	–
Financial liabilities						
Amounts due to credit institutions	58,782,811	57,963,262	819,549	12,466,298	12,327,169	139,129
Borrowings payable	3,371,258	3,318,873	52,385	1,804,789	1,581,229	223,560
Debt securities issued	5,310,258	5,310,258	–	–	–	–
Amounts payable to equipment suppliers	335,342	335,342	–	946,157	946,157	–
Total unrecognized change in unrealized fair value			473,942			166,603

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

(thousands of Russian rubles)

28. Fair values of financial instruments (continued)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed rate and variable rate financial instruments

For quoted debt securities fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

29. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or 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, and 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 and balances with related parties comprise transactions and balances with directly and indirectly state-owned entities and associates and are stated in the table below:

	2010				2009		
	Parent	Other state organizations (besides the shareholder)	VEB Group companies	Associated companies	Parent	Other state organizations (besides the shareholder)	VEB Group companies
Cash and cash equivalents	4,636	103,644	1,814,070	–	29,308	195,265	980,230
Amounts due from credit institutions	–	–	–	–	–	–	373,750
Net investment in leases	–	9,623,469	246	–	–	1,190,627	–
Including allowance for impairment	–	(32,396)	–	–	–	(20,831)	–
Loans receivable	–	516,413	–	6,755,547	–	725,301	–
Including allowance for impairment	–	–	–	–	–	–	–
Equipment purchased for leasing purposes	–	2,008,916	–	–	–	723,607	–
Advances issued to leasing equipment suppliers	2,823	5,367,254	–	–	–	48	–
Other assets	2	25,468	45,000	–	–	150,558	199
Amounts due to credit institutions	12,426,078	14,826,339	5,781,866	–	6,520,732	2,115,512	2,766,536
Borrowings payable	–	3,371,258	–	–	–	1,804,789	–
Advances received from lessees	12,916	709,185	–	–	–	544,645	–
Amounts payable to equipment suppliers	–	330,767	–	–	–	874,934	–
Other liabilities	–	54	9	–	–	182,584	–
Interest income	100	988,794	7,536	256,601	52	654,901	65,203
Interest expense	(381,563)	(480,468)	(248,603)	–	(208,887)	(200,899)	(352,859)
Impairment of interest-earning assets	–	11,565	–	–	–	29,872	–
Fees and commission income	–	–	3	–	–	–	–
Fee and commission expenses	(1,858)	(11,242)	(2,321)	–	(3,331)	(2,591)	(1,284)
Income from other services	95,662	14,474	–	–	–	9,662	–
Guarantees received	–	–	–	–	–	–	–
Guarantees issued	–	2,016,655	–	–	–	2,169,415	–
Capital expenditure commitments related to finance leases	–	568,171	–	–	–	2,527,651	–

Additional information on related party transactions is disclosed in Notes 1, 5, 6, 9, 16, 17, 18, 19, 21, 22, 23, 30 and 33 to the consolidated financial statements.

(thousands of Russian rubles)

29. Related party transactions (continued)

Borrowings payable as of December 31, 2010 and 2009 in the table above includes RUB-denominated credit lines from a related party totaling RUB 2,240,983 and RUB 1,804,789, respectively. Advances issued to leasing equipment suppliers as of December 31, 2010 and 2009 includes RUB-denominated advances paid to supplier of equipment totaling RUB 2,641,657 and RUB 2,054,761, respectively. Credit lines were raised by the Group solely to finance construction of vessels and their further finance lease to key customer. Both borrowings payable and finance leases were at contractual interest rates agreed to between the parties, which are below prevailing market rates of interest. As of December 31, 2010 advances are reduced by discount on borrowings payable (being the difference between contractual and market rates of interest).

Compensation of key management personnel was comprised of the following:

	<u>2010</u>	<u>2009</u>
Salaries and other short-term benefits	42,433	15,689
Social security costs	216	499
Total key management compensation	<u>42,649</u>	<u>16,188</u>

30. Subsidiaries and associates

The following subsidiaries are included in the consolidated financial statements of the Group:

2010

<i>Subsidiary</i>	<i>Interest/ voting, %</i>	<i>Country of incorporation</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Type of incorporation</i>
Bellevue Industries S.a.r.l. (Luxemburg)	100	Luxemburg	October 2008	Financial intermediary	Acquired by OJSC VEB-Leasing
LLC Helicopter Transportation Company	100	Russia	July 2006	Aviation equipment transportation	Established by OJSC VEB-Leasing
MI-171 Leasing Limited	100	BVI	October 2008	Finance leases	Established by Bellevue Industries S.a.r.l.
VEBL-767-300 Limited	100	Ireland	May 2009	Finance leases	Established by Bellevue Industries S.a.r.l.
CT-2010 Shipping Limited	100	Malta	May 2009	Finance leases	Established by Bellevue Industries S.a.r.l.
CT-2011 Shipping Limited	100	Malta	December 2009	Finance leases	Established by Bellevue Industries S.a.r.l.
Genetechma Finance Limited	100	Cyprus	December 2009	Finance leases	Acquired by Bellevue Industries S.a.r.l.
MIL Leasing Limited	100	BVI	April 2010	Finance leases	Established by Bellevue Industries S.a.r.l.
International Aviation Leasing Limited	100	Bermuda Islands	April 2010	Finance leases	Established by Bellevue Industries S.a.r.l.
Arctic-01 Shipping Limited	100	Malta	May 2010	Finance leases	Established by Bellevue Industries S.a.r.l.
Arctic-02 Shipping Limited	100	Malta	May 2010	Finance leases	Established by Bellevue Industries S.a.r.l.
Pastorik Investment Limited	100	Cyprus	October 2010	Financial intermediary	Acquired by Bellevue Industries S.a.r.l.

2009

<i>Subsidiary</i>	<i>Interest/ voting, %</i>	<i>Country of incorporation</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Type of incorporation</i>
LLC Helicopter Transportation Company	100	Russia	July 2006	Aviation equipment transportation	Established by the Company
Bellevue Industries S.a.r.l. (Luxemburg)	100	Luxemburg	October 2008	Financial intermediary	Acquired by the Company
MI-171 Leasing Limited	100	BVI	October 2008	Finance leases	Established by Bellevue Industries S.a.r.l.
VEBL-767-300 Limited	100	Ireland	May 2009	Finance leases	Established by Bellevue Industries S.a.r.l.
CT-2010 Shipping Limited	100	Malta	December 2009	Finance leases	Established by Bellevue Industries S.a.r.l.
CT-2011 Shipping Limited	100	Malta	December 2009	Finance leases	Established by Bellevue Industries S.a.r.l.
Genetechma Finance Limited	100	Cyprus	December 2009	Financial intermediary	Acquired by Bellevue Industries S.a.r.l.

(thousands of Russian rubles)

30. Subsidiaries and associates (continued)

The following associates are accounted for under the equity method as of 31 December 2010:

<i>Associate</i>	<i>Interest/ voting, %</i>	<i>Country of incorporation</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Type of incorporation</i>
Ukrrosleasing Cyprus Limited	25	Cyprus	January 2010	Finance leases	Acquired by Bellevue Industries S.a.r.l
Tomatore Holding Limited	25	Cyprus	July 2010	Finance leases	Acquired by Bellevue Industries S.a.r.l

31. Segment analysis

In accordance with IFRS 8, *Operating segments*, the Group defined legal entities located in different geographical regions as its operating segments. On this basis, the Group aggregated these operating segments into the following reporting segments: finance leasing (Russia), finance leasing (Europe, British Virgin Islands and Bermuda Islands).

External income and expenses, and related assets and liabilities are generally allocated based on the domicile of the subsidiary. Cash on hand, property and equipment and capital expenditure are classified based on the country in which they are physically held. Income disclosed in the note includes the following: interest income, fee and commission income, net gains/(losses) from derivative financial instruments, net gains/(losses) arising from foreign currencies, and other income. Expenses disclosed in this note include interest expenses on loans and borrowings, debt securities issued, impairment of interest-earning assets, fee and commission expense and other non-interest expenses.

Intersegment transactions were effected primarily in the normal course of operations of the Group.

As the Group's chief operating decision maker does not review segment assets and liabilities, the Group does not disclose segment assets and liabilities.

Income and expenses by operating segments as of 31 December 2010 are presented below:

	<i>Russia</i>	<i>Europe, British Virgin Islands and Bermuda Islands</i>	<i>Total before intersegment eliminations</i>	<i>Intersegment transactions</i>	<i>Total</i>
Income from:					
External customers	3,051,252	1,244,441	4,295,693	–	4,295,693
Intersegment sales	1,540,493	182,057	1,722,550	(1,722,550)	–
Total income	4,591,745	1,426,498	6,018,243	(1,722,550)	4,295,693
Expenses from:					
External customers	(2,793,787)	(365,146)	(3,158,933)	–	(3,158,933)
Intersegment sales	(123,103)	(1,539,571)	(1,662,674)	1,662,674	–
Total expenses	(2,916,890)	(1,904,717)	(4,821,607)	1,662,674	(3,158,933)
Share of loss of the associate Segment results	–	(21,262)	(21,262)	–	(21,262)
Profit/(loss) before taxation	1,674,855	(499,481)	1,175,374	(59,876)	1,115,498
Income tax (expense)/benefit	(327,280)	102,816	(224,464)	–	(224,464)
Net income for the year from discontinued operations	–	–	–	–	–
Profit/(loss) for the period	1,347,575	(396,665)	950,910	(59,876)	891,034
Other segment information					
Capital expenditures					
Purchase of property and equipment	221,890	1,034,038	1,255,928	–	1,255,928
Depreciation and amortization charges	(17,167)	(34,927)	(52,094)	–	(52,094)
Provision for impairment of interest-earning assets	(15,832)	(47,746)	(63,578)	–	(63,578)
Other impairment and provisions	(44,208)	–	(44,208)	–	(44,208)

(thousands of Russian rubles)

31. Segment analysis (continued)

Comparative information on income and expenses by operating segments as of 31 December 2009 is presented below:

	<i>Russia</i>	<i>Europe, British Virgin Islands and Bermuda Islands</i>	<i>Total before intersegment eliminations</i>	<i>Intersegment transactions</i>	<i>Total (unaudited)</i>
Income from:					
External customers	2,113,812	599,025	2,712,837	–	2,712,837
Intersegment sales	334,678	106,764	441,442	(441,442)	–
Total income	2,448,490	705,789	3,154,279	(441,442)	2,712,837
Expenses from:					
External customers	(1,515,011)	(94,540)	(1,609,551)	–	(1,609,551)
Intersegment sales	(103,272)	(343,330)	(446,602)	446,602	–
Total expenses	(1,618,283)	(437,870)	(2,056,153)	446,602	(1,609,551)
Share of profit/(loss) of the associate	–	–	–	–	–
Segment results					
Profit/(loss) before taxation	830,207	267,919	1,098,126	5,160	1,103,286
Income tax benefit/(expense)	(184,372)	(97,218)	(281,590)	–	(281,590)
Net income for the year from discontinued operations	145,361	–	145,361	–	145,361
Profit/(loss) for the period	791,196	170,701	961,897	5,160	967,057

	<i>Russia</i>	<i>Europe, British Virgin Islands and Bermuda Islands</i>	<i>Total before intersegment eliminations</i>	<i>Intersegment transactions</i>	<i>Total (unaudited)</i>
Other segment information					
Capital expenditures					
Purchase of property and equipment	17,129	–	17,129	–	17,129
Depreciation and amortization charges	(10,339)	–	(10,339)	–	(10,339)
Reversal of provision/(provision) for impairment of interest-earning assets	51,423	(25,042)	26,381	–	26,381
Other impairment and provisions	–	–	–	–	–

32. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. During 2010 and 2009 the Group had complied in full with all its externally imposed capital requirements. The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Company 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 dividend payment to shareholder. No changes were made in the objectives, policies and processes from the previous years.

(thousands of Russian rubles)

32. Capital adequacy (continued)

The Company monitors capital using a gearing ratio, which is net debt divided by the sum of capital and net debt. The Company includes within net debt, interest bearing loans (included in amounts due to credit institutions), borrowings payable and amounts payable to equipment suppliers less cash and cash equivalents. Total equity includes share capital, additional paid-in capital, treasury shares, and retained earnings.

	31 December 2010	31 December 2009
Amounts due to credit institutions	58,782,811	12,466,298
Borrowings payable	3,371,258	1,804,789
Debt securities issued	5,310,258	–
Amounts payable to equipment suppliers	335,342	946,157
Cash and cash equivalents	<u>(2,146,410)</u>	<u>(1,220,892)</u>
Net debt	<u>65,653,259</u>	<u>13,996,352</u>
Total equity	4,747,372	2,679,878
Gearing ratio	93.3%	83.9%

33. Events after the reporting period

The meeting of the Company's Board of Directors held on 4 February 2011 approved the decision to issue non-convertible interest-bearing documentary registered bonds Series 03, 04, and 05 with mandatory centralized storage (par value of each bond is 1,000 Russian Rubles; the number of securities offered is 5,000,000 in each series).

The meeting of the Company's Board of Directors held on 4 February 2011 approved the decision to purchase 99.99% of share capital of LLC HotelStroy for cash of RUB 1,400,140. The newly acquired subsidiary is engaged in the construction business in Russia. The Company performed cash contribution into share capital on 29 March 2011. As the initial accounting was not completed before the financial statements were authorized for issue the relevant information would be disclosed in the interim consolidated financial statements of the Group at 30 June 2011.

The meeting of Company's shareholders held on 28 February 2011 adopted a decision to increase the share capital of the Company by RUB 4,000. The share capital was to be increased via issuing additional shares in the Company. On 28 March 2011, the Company and VEB entered into a share purchase agreement according to which VEB undertook to purchase the additional shares in the Company and pay the Company the amount of RUB 10,000,000. The cash is payable via two tranches:

- ▶ Tranche 1 (RUB 5,000,000 – paid on 28 March 2011);
- ▶ Tranche 2 (RUB 5,000,000 – to be paid by 30 September 2011).

OJSC VEB-Leasing

IFRS Consolidated Financial Statements

*For the year ended 31 December 2009
with Independent Auditors' Report*

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Independent auditors' report

To the Shareholders and Board of Directors of OJSC VEB-Leasing

We have audited the accompanying consolidated financial statements of OJSC VEB-Leasing and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Note 27 to the consolidated financial statements which discloses detailed information on significant financing transactions with major shareholders and other related parties of the Group.

Ernst & Young LLC

4 May 2010

Consolidated Statement of Financial Position**As at 31 December 2009***(thousands of Russian rubles)*

	<i>Notes</i>	<i>2009</i>	<i>2008</i>
Assets			
Cash and cash equivalents	5	1,220,892	579,985
Amounts due from credit institutions	6	583,776	920,425
Derivative financial assets	22	580,856	–
Net investments in leases	7	12,230,015	6,712,811
Loans receivable	8	747,952	384,136
Equipment purchased for leasing purposes	10	933,715	1,078,812
Advances issued to leasing equipment suppliers	11	2,588,021	1,616,520
Property and equipment	12	25,252	281,918
VAT receivable		155,718	859,273
Current income tax assets		7,902	11,745
Other assets	15	319,659	76,557
		19,393,758	12,522,182
Assets held for sale (from discontinued operations)	9	–	184,346
Total assets		19,393,758	12,706,528
Liabilities			
Amounts due to credit institutions	16	12,466,298	8,459,728
Borrowings payable	17	1,804,789	–
Derivative financial liabilities	22	70,988	–
Advances received from lessees	18	840,203	911,793
Amounts payable to equipment suppliers	19	946,157	1,425,466
Current income tax liabilities		1,685	–
Deferred income tax liabilities	13	389,315	109,449
Other liabilities	15	194,445	49,551
		16,713,880	10,995,987
Liabilities directly related to assets held for sale (from discontinued operations)	9	–	39,982
Total liabilities		16,713,880	10,995,969
Equity			
Share capital	20	4,172	4,172
Additional paid-in capital		2,431,558	2,431,558
Treasury shares		(935,841)	(935,841)
Retained earnings		1,179,989	210,670
Total equity		2,679,878	1,710,559
Total liabilities and equity		19,393,758	12,706,528

Signed and authorized for release on behalf of the Board of Directors

Vyacheslav S. Solov'ev

General Director

Elena I. Frolova

Chief Accountant

4 May 2010

Notes 1-30 are an integral part of these consolidated financial statements

Consolidated Income Statement

For the year ended 31 December 2009

(thousands of Russian rubles)

	<i>Notes</i>	<i>2009</i>	<i>2008</i>
Continuing operations			
Interest income			
Finance leases		1,968,051	975,964
Loans receivable		126,466	7,369
Amounts due from credit institutions		66,991	61,902
		2,161,508	1,045,235
Interest expense			
Amounts due to credit institutions		(758,955)	(135,488)
Amounts payable to equipment suppliers		(94,093)	(66,939)
Borrowings payable		(4,789)	–
		(857,837)	(202,427)
Net interest income		1,303,671	842,808
Provision (reversal of provision) for impairment of interest earning assets	14	26,381	(112,144)
Net interest income after impairment of interest earning assets		1,330,052	730,664
Fee and commission expenses			
Net gains/(losses) from derivative financial instruments	22	681,740	–
Gains less losses arising from foreign currencies:			
- conversion transactions		(41,318)	(36,828)
- translation differences		(118,643)	(310,535)
Other income	23	29,550	93,974
Non-interest income/ (loss)		551,329	(253,389)
Personnel expenses	24	(123,897)	(92,428)
Depreciation of property and equipment	12	(10,339)	(15,274)
Other operating expenses	24	(636,248)	(205,624)
Reversal of allowance for impairment of other assets		1,142	–
Non-interest expenses		(769,342)	(313,326)
Profit before income tax expense		1,103,286	146,136
Income tax expense	13	(281,590)	(23,122)
Discontinued operations			
Net income/(loss) arising from discontinued operations	9	145,361	(114,944)
Profit for the year		967,057	8,070

Notes 1-30 are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income**For the year ended 31 December 2009***(thousands of Russian rubles)*

	<u>2009</u>	<u>2008</u>
Profit for the year	967,057	8,070
Other comprehensive income:		
Translation differences arising from foreign operations	2,262	–
Other comprehensive income for the year, net of tax	2,262	–
Total comprehensive income for the year	969,319	8,070

Notes 1-30 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity**For the year ended 31 December 2009***(thousands of Russian rubles)*

	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total
31 December 2007	2,086	187,644	(935,841)	221,500	(524,611)
Total comprehensive income for the year	–	–	–	8,070	8,070
Increase of share capital (Note 20)	2,086	2,243,914	–	–	2,246,000
Dividends declared and paid to shareholders of the Group (Note 20)	–	–	–	(18,900)	(18,900)
31 December 2008	4,172	2,431,558	(935,841)	210,670	1,710,559
Total comprehensive income for the year	–	–	–	969,319	969,319
31 December 2009	4,172	2,431,558	(935,841)	1,179,989	2,679,878

Notes 1-30 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows**For the year ended 31 December 2009***(thousands of Russian rubles)*

	<i>Notes</i>	2009	2008
Cash flows from operating activities			
Profit for the year from continuing operations before income tax		1,103,286	146,136
Loss for the year from discontinued operations before income tax	9	145,361	(114,944)
Profit before income tax expense		1,248,647	31,192
<i>Adjustments</i>			
Interest income on finance leases		(1,968,051)	(975,964)
Other interest income		(193,457)	(69,271)
Interest expense		857,838	202,427
Impairment of interest earning assets	14	(26,381)	112,144
Gains less losses arising from foreign currencies - translation differences		118,643	310,535
Net gains /(losses) from trading securities – revaluation of derivative financial instruments		(509,869)	–
Depreciation of property and equipment	12	10,339	15,274
Other operating income		–	(34,190)
Other operating expenses		228,268	12,313
Impairment of other assets		(1,142)	–
Fee and commission expenses		6,120	–
Disposal of discontinued operations		(145,361)	–
Cash flows from operating activities before changes in operating assets and liabilities		(374,406)	(395,540)
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		314,845	(905,512)
Net investments in leases		(4,768,276)	(4,785,488)
Loans receivable		(388,939)	(271,276)
Equipment purchased for leasing purposes		218,999	(960,976)
Advances issued to leasing equipment suppliers		(1,127,671)	(344,091)
VAT receivable		704,958	(539,176)
Other assets		(118,230)	(17,863)
<i>Net increase /(decrease) in operating liabilities</i>			
Advances received from lessees		(96,551)	266,296
Amounts payable to equipment suppliers		(592,054)	1,186,238
Other liabilities		133,215	43,994
Net cash flows (used in) operating activities before income tax and interest income (expense)		(6,094,110)	(6,723,393)
Income tax paid		–	(3,367)
Interest income on finance leases received		1,968,051	1,000,134
Other interest income received		256,414	21,446
Interest expense paid		(1,035,569)	(360,128)
Net cash (used in) operating activities		(4,905,214)	(6,065,308)
Cash flows from investing activities			
Purchase of property and equipment		(17,129)	(115,934)
Sale of property and equipment		19,233	34,190
Sale of subsidiary	9	2,700	–
Net cash from / (used in) investing activities		4,804	(81,744)
Cash flows from financing activities			
Loans received for leasing operations		9,539,725	6,416,951
Repayment of loans received for leasing operations		(3,961,766)	(1,118,164)
Dividends paid	20	–	(18,900)
Contributions to share capital	20	–	2,246,000
Purchase of treasury shares	20	–	(935,841)
Net cash from financing activities		5,577,959	6,590,045
Effect of exchange rate changes on cash and cash equivalents		(36,642)	2,893
Net increase in cash and cash equivalents		640,907	445,886
Cash and cash equivalents, beginning		579,985	134,099
Cash and cash equivalents, ending	5	1,220,892	579,985

Notes 1-30 are an integral part of these consolidated financial statements.

(thousands of Russian rubles)

1. Principal activities

OJSC VEB-Leasing (the “Company”) is a Russian open joint-stock company. The Company was formed on 28 February 2003 as a closed joint-stock company under the laws of the Russian Federation. In July 2008, it was officially renamed from CJSC Oboronpromleasing to OJSC VEB-Leasing. The Company's principal activities include finance lease of the high-technology equipment produced by world leading companies, helicopters and related equipment to companies located in the Russian Federation and abroad.

As of December 31, the following shareholders owned more than 5% of the outstanding shares.

Shareholder	31 December 2009, %	31 December 2008 %
State Corporation the Bank for Development and Foreign Economic Affairs (Vnesheconombank) (hereinafter - "VEB")	78.07	50.01
Helicopter Transport Company LLC	21.93	21.93
OJSC OPK OBORONPROM	–	28.06
Total	100.0	100.0

The Russian Government, in turn, is the major shareholder of VEB. The shareholder of OJSC OPK OBORONPROM is the Government of Russia (represented by Federal Agency for Federal Property Management). As of 31 December 2008, it directly owns 51.057% of OJSC OPK OBORONPROM's registered share capital and indirectly owns (through Rosoboronexport State Corporation, another shareholder of OJSC OPK OBORONPROM) 28.3% of shares. On 6 November 2009 OJSC OPK OBORONPROM sold its 1,171,000 shares to VEB. Banks and companies under control of VEB comprise VEB Group.

As of 31 December 2009 and 31 December 2008, the Company's treasury shares included the shares owned by Vertoletnaya Transportnaya Company LLC, a consolidated subsidiary.

The Company's registered address is Vereyskaya ul., 29, bld. 141, Moscow, 121357, Russian Federation.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Company and its subsidiaries maintain their accounting records in accordance with regulations applicable in their countries of registration. For example, the Company is required to maintain its records and prepare its financial statements for regulatory purposes in Russian rubles in accordance with Russian accounting and legislation and related instructions (“RAL”). These consolidated financial statements are based on the books and records of the Company and its subsidiaries prepared in accordance with the legislation applicable in the countries of their registration, as adjusted and reclassified in order to comply with IFRS.

These consolidated financial statements include the results of operations of the Company and its subsidiaries (together referred to as the “Group”) as presented in Note 28.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in thousands of Russian rubles (“RUB”), except per share amounts and unless otherwise indicated.

(thousands of Russian rubles)

3. Summary of principal accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

Improvements to IFRS

In May 2008 the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Amendments included "Improvements to IFRS" published in May 2008 did not have any impact on the accounting policies, financial position or performance of the Group.

IAS 20 has been amended to require that loans received from the government that have a below-market rate of interest be recognized and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognized in the statement of financial position. This benefit is accounted for in accordance with IAS 20. The amendment is applied prospectively to government loans received on or after 1 January 2009.

IAS 1 "Presentation of Financial Statements" (Revised)

A revised IAS 1 was issued in September 2007 and becomes effective for annual periods beginning on or after 1 January 2009. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity to be presented separately. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Group has elected to present comprehensive income in two separate statements: income statement and statement of comprehensive income. The Group has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the consolidated financial statements.

IFRS 7 "Financial Instruments: Disclosures"

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognized at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. The Group has not presented comparative information as allowed by the transition provision.

IAS 23 "Borrowing Costs" (Revised)

A revised IAS 23 "Borrowing costs" was issued in March 2007 and became effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Since the Group has already applied the allowed alternative treatment of borrowing costs under the current version of IAS 23 "Borrowing Costs", the Group did not revise its accounting policy since 1 January 2009 and no changes have been made to borrowing costs incurred to this date that have been capitalized into the respective qualifying asset.

IAS 24 "Related party disclosures" (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Group has decided to early adopt the revised IAS 24 from 1 January 2009.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation

The amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided that they satisfy certain conditions. These amendments did not have any impact on the Group's consolidated financial statements.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IFRS 2 "Share-based Payment" – "Vesting Conditions and Cancellations"

These amendments were issued in January 2008 and became effective for annual periods beginning on or after 1 January 2009. These amendments clarify the definition of vesting conditions and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. These amendments did not have any impact on the Group's consolidated financial statements.

IFRS 8 "Operating Segments"

IFRS 8 became effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any impact on the financial position or performance of the Group.

IFRIC 13 "Customer Loyalty Programs"

IFRIC Interpretation 13 was issued in June 2007 and became effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation did not have any impact on the Group's financial statements as no such schemes currently exist.

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. This Interpretation clarifies when and how revenue and respective expenses related to sale of real estate should be recognized, if the agreement between a developer and a buyer was signed before the construction was completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. This interpretation did not have any impact on the Group's consolidated financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance for identifying risks that qualify for hedge accounting of net investments in foreign operations, when the hedging instrument is held by any group Company and the guidance for determining foreign exchange gains and losses from net investments and the hedging instrument, which should be recorded in the financial statements at the date of net investment disposal. This interpretation did not have any impact on the Group's consolidated financial statements.

Amendments to IFRIC 9 "Reassessment of Embedded Derivatives"

The amendments require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. The amendments are applicable for annual periods ending on or after 30 June 2009. The application of the amendment did not have a significant impact on the Group's consolidated financial statements as no reclassifications were made for instruments that contained embedded derivatives.

IFRIC 18 "Transfers of Assets from Customers"

IFRIC 18 was issued in January 2009 and becomes effective for transfers of assets from customers received on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This Interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This Interpretation did not have any impact on the financial position or performance of the Group as the Group has no transfers of assets from its customers.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognized directly in the consolidated income statement.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, investments held to maturity, financial assets available for sale, as appropriate. When financial assets are recognized initially, they are measured at fair value. In the case of investments not at fair value through profit or loss, directly attributable transaction costs are added to their value. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consists of cash in hand and amounts due from credit institutions which mature within ninety days from the respective reporting date and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net gains/(losses) from derivative financial instruments or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognized in the consolidated income statement.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans receivable, depending on the aim and terms of their purchase. They are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, borrowings payable and amounts due to suppliers of the equipment. After initial recognition, borrowings are measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the borrowings are derecognized as well as through the amortization process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in net interest the consolidated income statement.

Leases

Finance - Group as Lessor

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. As of this date:

- ▶ a lease is classified as a finance lease; and
- ▶ the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

Upon commencement of finance lease, the Group records the net investment in leases, which consists of the sum of the minimum lease term payments, and unguaranteed residual value (gross investment in lease) less the unearned finance lease income. The difference between the gross investment and its present value is recorded as unearned finance lease income. Finance lease income includes the amortization of unearned finance lease income.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Leases (continued)

Finance lease income is recognized based on a pattern reflecting a constant periodic rate of return on the net investment in respect of the finance lease. Initial direct costs are included in the initial measurement of the lease receivables.

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 income statement from the date of first investment into the equipment purchased for leasing purposes.

The Group assesses allowance for impairment of net investment in leases using the policies applied for impairment of financial assets carried at amortized cost (i.e. amounts due from credit institutions and loans to customers) described below, as both loans and net investment in leases have similar credit risk characteristics.

Operating lease – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included in other operating expenses.

Operating - Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Equipment purchased for leasing purposes

The Group records capital expenditures related to the acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenses are accumulated until the equipment is ready for use and transferred to the lessee. Settlements on equipment purchased for leasing purposes are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the counterparty or a group of counterparties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans receivable

For amounts due from credit institutions and loans receivable carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Impairment of financial assets (continued)

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- ▶ the rights to receive cash flows from the asset have expired;
- ▶ the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ▶ the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. In this case the level of the Group's continuing involvement is limited by the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognized in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation, Luxembourg, Ireland, British Virgin Islands, Cyprus and Malta.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russian Federation and other jurisdictions also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Property and equipment (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	25
Furniture and fixtures	5
Computers and office equipment	3–5
Motor vehicles	5–8

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

The Group records capital expenditures related to the acquisition of equipment for own use in the Group's operating activity as assets under construction (included in property and equipment). These expenses are accumulated until the equipment is ready for use and put into operations. Settlements on assets under construction are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

High probability of sale presupposes the Group's firm intention to follow the sale scheme of an intangible asset (or disposal group). The Group should initiate a program for finding a purchaser and fulfilling the above plan. In addition, the non-current asset (or disposal group) should be offered for sale at a reasonable price based on its current fair value. Further, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of a non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognized when the Group has a present obligation, whether legal or constructive, as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-employment benefits.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Share capital (continued)

Treasury shares

Where the Group or its subsidiaries purchases the Group's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. 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 authorized for issue.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when any outflow in settlement is remote.

Income and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

For all financial instruments measured at amortized cost 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.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Borrowing costs

Borrowing costs are recognized in the consolidated income statement as incurred, excluding any costs related to loans used to finance the purchase of assets for subsequent finance lease. In this case borrowing costs are capitalized as part of the cost of the related asset until the date the asset is put into operation and are subsequently recognized in the consolidated income statement.

Foreign currency translation

The consolidated financial statements are presented in Russian Rubles, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Foreign currency translation (continued)

Differences between the contractual exchange rate of a certain transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. As of 31 December 2009 and 2008, the principal exchange rate used to translate RUB balances into USD and EUR were RUB 30.2442 and RUB 29.3804 per USD 1 and RUB 43.3883 and RUB 41.4411 per EUR 1.

As at the reporting date, the assets and liabilities of the subsidiaries whose functional currency is different from the presentation currency of the Group are translated into Russian Rubles at the rate of exchange ruling at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in the consolidated income statement. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"- Eligible Hedged Items.

The amendments to IAS 39 were issued in August 2008 and became effective for annual periods beginning on or after 1 July 2009. The amendments address the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendments clarify that an entity may designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group does not expect these amendments to affect its consolidated financial statements as the Group has not entered into any such hedges.

IFRS 3 "Business Combinations" (Revised) and IAS 27 "Consolidated and Separate Financial Statements" (Revised)

The revised IFRS 3 and IAS 27 were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. The revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised IFRS 3 and IAS 27 must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

Amendments to IFRS 2 "Share-based Payment" - Group Cash-settled Share-based Payment Transactions

The amendments to IFRS 2 were issued in June 2009 and become effective for financial years beginning on or after 1 January 2010. The amendments clarify the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

IFRIC 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. IFRIC 17 also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Group expects that this Interpretation will have no impact on the Group's consolidated financial statements.

(thousands of Russian rubles)

3. Summary of principal accounting policies (continued)

Future changes in accounting policies (continued)

Improvements to IFRS

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in the April 2009 "Improvements to IFRS" will have no impact on the accounting policies, financial position or performance of the Group, except the following amendments resulting in changes to accounting policies, as described below.

- ▶ Amendment to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.
- ▶ IAS 7 "Statement of Cash Flows" explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.
- ▶ Amendment to IAS 36 "Impairment of Assets" clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment will have no impact on the Group as the annual impairment test is performed before aggregation.

Amendments to IAS 32 "Financial instruments: Presentation" - Classification of Rights Issues

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that these amendments will have no impact on the Group's consolidated financial statements.

IFRS 9 "Financial Instruments" (first phase)

In November 2009, the IASB issued the first phase of IFRS 9 "Financial instruments". This Standard will eventually replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 becomes effective for annual periods beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements for the classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortized cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

(thousands of Russian rubles)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Allowance for impairment of financial assets carried at amortized cost and net investment in leases

The Group regularly reviews its financial assets carried at amortized cost and net investment in leases to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a counterparty is in financial difficulties and there are few available sources of historical data relating to similar counterparties. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of counterparties in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of financial assets carried at amortized cost and net investment in leases to reflect current circumstances.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2009	31 December 2008
Cash on hand	124	31
Current accounts with credit institutions	97,038	103,272
Time deposits with credit institutions up to 90 days	1,123,730	476,682
Cash and cash equivalents	1,220,892	579,985

As of 31 December 2009, current accounts with credit institutions principally represent balances on accounts with banks of VEB Group for the total amount of RUB 33,966 (as of 31 December 2008: RUB 18,348) and on the settlement account with OJSC Sberbank for the total amount of RUB 45,660 (as of 31 December 2008: RUB 82,252) (related parties).

As of 31 December 2009, cash and cash equivalents included balances on deposit accounts with OJSC Sberbank (related parties) for the total amount of RUB 148,158 and with VEB Group for the total amount of RUB 975,572. As of 31 December 2008, cash and cash equivalents included balances on deposit accounts with OJSC Sberbank and banks of VEB Group for the total amount of RUB 88,009 and RUB 388,673, respectively.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2009	31 December 2008
Time deposits for more than 90 days	583,776	904,021
Amounts due from the banks under letter of credit transactions	–	16,404
Amounts due from credit institutions	583,776	920,425

As of 31 December 2009, RUB 373,750 was placed on deposits with banks of VEB Group (related parties) for more than 90 days. As of 31 December 2008, RUB 900,000 were placed on deposits with banks of VEB Group (related parties) for more than 90 days.

As of 31 December 2008, amounts due from the banks under letter of credit transactions comprised one irrevocable letter of credit of RUB 16,404 opened with VTB Bank (OJSC), which is a related party.

(thousands of Russian rubles)

7. Net investment in leases

The net investment in leases comprised:

	31 December 2009	31 December 2008
Gross investment in leases	17,838,925	10,772,293
Less: unearned finance lease income	<u>(5,440,670)</u>	<u>(3,868,253)</u>
Net investment in leases before allowance	12,398,255	6,904,040
Less: Allowance for impairment (Note 14)	<u>(168,240)</u>	<u>(191,229)</u>
	<u>12,230,015</u>	<u>6,712,811</u>

As of 31 December 2009 and 31 December 2008, certain leased-out assets were pledged as collateral against the loans received. As of 31 December 2009 and 31 December 2008, net investment in lease relating to assets pledged as collateral under the loan agreements amounted to RUB 7,575,355 and 6,433,615, respectively (Note 21).

As of 31 December 2009 the share of the Group's largest Russian lessee (a third party) was RUB 5,091,480, or 41 % of net investments in leases before allowance for impairment. As of 31 December 2009, those assets were not identified as individually impaired. The share of the second Group's largest Russian lessee (a third party) was RUB 1,415,123, or 11% of net investment in leases before allowance for impairment. As of 31 December 2009, those assets were not identified as individually impaired. As of 31 December 2008 the share of the Group's largest Russian lessee (a third party) was RUB 4,054,238, or 59 % of net investments in leases before allowance for impairment. As of 31 December 2008, there was no individually determined impairment for those assets. The share of the Group's second largest Russian lessee (a related party) was RUB 1,116,572, or 16% of net investment in leases before allowance for impairment. As of 31 December 2008, the Group recognized an individually assessed allowance for impairment of these investments in the amount of RUB 23,951.

The table below provides the maturity profile of gross and net investment in leases as of 31 December 2009:

	2009				2008			
	<i>Less than 1 year</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>	<i>Less than 1 year</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Gross investment in leases	4,501,812	10,771,119	2,565,994	17,838,925	2,553,555	6,101,583	2,117,154	10,772,293
Less: unearned finance income	<u>(1,815,964)</u>	<u>(3,278,112)</u>	<u>(346,594)</u>	<u>(5,440,670)</u>	<u>(1,079,642)</u>	<u>(2,359,867)</u>	<u>(428,743)</u>	<u>(3,868,253)</u>
Net investment in leases	<u>2,685,848</u>	<u>7,493,007</u>	<u>2,219,400</u>	<u>12,398,255</u>	<u>1,473,913</u>	<u>3,741,716</u>	<u>1,688,411</u>	<u>6,904,040</u>

As of 31 December, gross investment in leases is payable to the Group in the following currencies:

	31 December 2009	31 December 2008
RUB	3,434,201	692,592
USD	13,010,504	8,174,735
EUR	<u>1,394,220</u>	<u>1,904,966</u>
Gross investment in leases	<u>17,838,925</u>	<u>10,772,293</u>

Economic sector risk concentrations within the lease portfolio are as follows:

	31 December 2009		31 December 2008	
	Amount	%	Amount	%
Power industry	6,686,667	54%	4,105,142	59%
Airline services	2,258,466	18%	–	–
Railway services	1,255,965	10%	–	–
Machine building	1,096,145	9%	1,196,639	17%
Aircraft industry	846,059	7%	1,211,583	18%
Military-industrial complex	134,758	1%	80,164	1%
Radioelectronic industry	77,525	1%	191,793	3%
Other	42,670	0%	118,719	2%
Total net investment in leases before allowance	<u>12,398,255</u>	<u>100%</u>	<u>6,904,040</u>	<u>100%</u>

Interest income accrued on net investment in leases, for which individual impairment allowances have been recognized, for the year ended 31 December 2009, comprised RUB 341,650 (31 December 2008: RUB 436,664).

The fair value of collateral that the Group holds relating to net investment in leases individually determined to be impaired at 31 December 2009 amounts to RUB 1,006,950 (31 December 2008: RUB 1,515,707).

*(thousands of Russian rubles)***8. Loans receivable**

Loans receivable comprise:

	31 December 2009	31 December 2008
Loans to legal entities	747,952	387,528
Gross loans receivable	747,952	387,528
Less: Allowance for impairment (Note 14)	–	(3,392)
Loans receivable	747,952	384,136

As of 31 December 2009, loans to legal entities comprise loans issued to two Russian companies (related parties) for the amount of RUB 605,546 bearing interest at 13.00%-16.00%, a USD-denominated loan issued to an entity registered in the Republic of Peru for the amount of RUB 3,108 at 7% p.a., and loans issued in the form of promissory notes receivable for the amount of RUB 139,298, including RUB 119,755 in favor of related parties.

As of 31 December 2008, loans to legal entities comprise loans issued to two Russian companies (related parties) totaling RUB 38,653 with effective interest rates of 10.50% -13.00%, a USD-denominated loan issued to an entity registered in the Republic of Peru for the amount of RUB 2,703 at 7% p.a., and loans issued in the form of promissory notes receivable for the amount of RUB 346,172 in favor of related parties. Loans issued to one Russian borrower totaling 157,415 were individually impaired.

Loans have been extended to the following types of customers:

	31 December 2009	31 December 2008
State companies	725,301	384,698
Private companies	22,651	2,830
	747,952	387,528

Loans are issued principally to clients within and outside Russia in the following industry sectors:

	31 December 2009	31 December 2008
Airline services	507,281	–
Military-industrial complex	119,755	211,752
Trading	101,373	1,086
Machine building	19,543	157,415
Aircraft industry	–	17,275
	747,952	387,528

Interest income accrued on loans receivable, for which individual impairment allowances have been recognized, for the year ended 31 December 2008, comprised RUB 41. No collateral was held by the Group against these loans.

9. Discontinued operations

At the end of 2008, the Group management announced a plan to dispose Aero-Kamov LLC, a company engaged in aviation equipment maintenance. As of 31 December 2008, the agreement on sale of 100% interest in the share capital of Aero-Kamov LLC was signed, and, therefore, as of 31 December 2008, Aero-Kamov LLC was classified as a disposal group held for sale.

*(thousands of Russian rubles)***9. Discontinued operations (continued)**

As of 31 December 2008, major classes of assets and liabilities of Aero-Kamov LLC classified as held for sale are as follows:

	2008
Assets	
Cash and cash equivalents	11,949
Amounts receivable	24,104
Property and equipment	129,478
Advances issued to suppliers	4,293
VAT receivable	1,950
Other assets	12,572
Assets held for sale	184,346
Amounts payable	39,982
Liabilities directly related to assets held for sale	39,982
Net assets held for sale	144,364
	2008
Net cash from / (used in) operating activities	10,797
Net increase / (decrease) in cash and cash equivalents	10,797
	2008
Income from transportation services	133,550
Net gains from trading in foreign currencies	5,947
Other income	1,826
Non-interest income	141,323
Interest expenses	(29,212)
Fee and commission expenses	(352)
Salaries and benefits	(53,473)
Depreciation of property and equipment	(17,952)
Other operating expenses	(155,278)
Loss before tax from discontinued operations	(114,944)
Income tax expense	–
Loss for the year from discontinued operations	(114,944)

Transaction on disposal of Aero-Kamov LLC to JSC Russkaya Vertoletnaya Company was completed on 2 February 2009, the buyer paid to the Group RUB 2,700 in cash. Profit from the disposal of a discontinued operation taken to the 2009 consolidated income statement amounted to RUB 145,361.

10. Equipment purchased for leasing purposes

Equipment purchased for leasing purposes represents equipment, which will be transferred to lessees under finance lease agreements. During 2009, the Group primarily purchased manufacturing equipment. As of 31 December 2009, the equipment worth of RUB 394,058 was pledged as collateral under loan agreements (Note 21).

As of 31 December 2008, the Group primarily purchased equipment for the automotive industry and technological equipment for "Kolomenskoe" gas-turbine thermal power plant. As of 31 December 2008, equipment worth of RUB 580,412 was pledged as collateral under loan agreements (Note 21).

(thousands of Russian rubles)

11. Advances issued to leasing equipment suppliers

As of 31 December 2009, advances issued to seven of the Group's major Russian suppliers of leasing equipment represent 99% of the total amount. The advances issued to leasing equipment suppliers registered in OECD states represent 0% of the total amount.

As of 31 December 2008, advances issued to seven of the Group's major Russian suppliers of leasing equipment represent 68% of the total amount. The advances issued to leasing equipment suppliers registered in OECD states represent 9% of the total amount.

12. Property and equipment

The movements in property and equipment of the Group were as follows:

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and office equipment</i>	<i>Motor vehicles</i>	<i>Assets under construction</i>	<i>Total</i>
Cost						
31 December 2008	–	3,038	11,904	53,008	236,640	304,590
Additions	–	983	16,146	–	–	17,129
Disposals	–	(237)	(5,971)	(39,593)	(236,640)	(282,441)
31 December 2009	–	3,784	22,079	13,415	–	39,278
Accumulated depreciation and impairment						
31 December 2008	–	1,194	4,466	17,012	–	22,672
Depreciation charge	–	753	4,463	5,123	–	10,339
Disposals	–	(109)	(3,230)	(15,646)	(113,996)	(132,981)
Impairment	–	–	–	–	113,996	113,996
31 December 2009	–	1,838	5,699	6,489	–	14,026
Net book value:						
31 December 2008	–	1,844	7,438	35,996	236,640	281,918
31 December 2009	–	1,946	16,380	6,926	–	25,252
Cost						
31 December 2007	99,177	3,873	34,982	105,690	127,422	371,144
Additions	–	1,092	2,569	3,055	109,218	115,934
Disposals	(99,177)	(1,927)	(25,647)	(55,737)	–	(182,488)
31 December 2008	–	3,038	11,904	53,008	236,640	304,590
Accumulated depreciation and impairment						
31 December 2007	7,153	1,049	5,527	14,481	–	28,210
Depreciation charge	1,747	672	4,526	8,329	–	15,274
Disposals	(8,900)	(527)	(5,587)	(5,798)	–	(20,812)
31 December 2008	–	1,194	4,466	17,012	–	22,672
Net book value:						
31 December 2007	92,024	2,824	29,455	91,209	127,422	342,934
31 December 2008	–	1,844	7,438	35,996	236,640	281,918

As of 31 December 2008, property and equipment include capital investments to construct aircrafts, totaling RUB 236,640 (recorded as of the above date within construction in progress). In the third quarter of 2009, the Group created an impairment allowance of RUB 113,996 with respect to these capital investments (Note 24). The amount of the impairment allowance was determined as the difference between the carrying amount and the selling fair value less costs to sell for these capital investments. In December 2009, the capital investments were sold to an unrelated party. The contractual selling amount for these capital investments equaled USD 5,703 thousand, which should be repaid in installment during 2010 - 2019, the accounts receivable from this transaction are included in Other Assets, Trade and other receivables (Note 15).

*(thousands of Russian rubles)***13. Taxation**

	<u>2009</u>	<u>2008</u>
Current tax charge	1,724	–
Deferred tax charge – origination and reversal of temporary differences	<u>279,866</u>	<u>23,122</u>
Income tax expense	<u>281,590</u>	<u>23,122</u>

Russian legal entities must file individual tax declarations. The tax rate for Russian companies for profits other than on state securities was 20% and 24% in 2009 and 2008, respectively. Pursuant to Russian profits tax law operating income on certain types of securities is subject to profits tax at a rate of 15%, 9% or 0%. In 2009 and 2008, the current income tax rate applied to the profit of subsidiaries varies from 0% to 26.75%–28.75%.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2009</u>	<u>2008</u>
Profit before income tax from continuing operations	1,103,286	146,136
Profit/ (loss) before income tax from discontinued operations	<u>145,361</u>	<u>(114,944)</u>
Income before income tax	<u>1,248,647</u>	<u>31,192</u>
Statutory tax rate	From 0 to 26.75– <u>28.75%</u>	From 0 to 26.75– <u>28.75%</u>
Theoretical income tax expense/(benefit) at the statutory rate	290,886	7,486
Non-deductible expenses	4,070	4,447
Loans interest with the interest rate exceeding the refinancing rate	6,678	9,047
Expenses related to the disposal of property, not recognized for tax purposes	4,804	–
Changes in unrecognized deferred tax assets	(25,652)	18,224
Change in deferred income tax resulting from change in tax rate	–	(16,082)
Other	<u>804</u>	<u>–</u>
Income tax expense	<u>281,590</u>	<u>23,122</u>

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred tax assets and liabilities as of December 31 and their movements for the respective years comprise:

(thousands of Russian rubles)

13. Taxation (continued)

	2007	Origination and reversal of temporary differences in the income statement	2008	Origination and reversal of temporary differences in the income statement	2009
Tax effect of deductible temporary differences:					
Tax asset arising from prior year losses	10,814	315,589	326,403	(211,532)	114,871
Derivative financial assets	–	–	–	11,777	11,777
Allowance for impairment	15,445	23,131	38,576	(9,936)	28,640
Loans receivable	780	1,562	2,342	17,406	19,748
Financial lease on the books of the lessee	–	12,058	12,058	(12,058)	–
Amounts payable to equipment suppliers	–	–	–	113,675	113,675
Property and equipment	–	463	463	(308)	155
Other	3,558	33,854	37,412	(19,150)	18,262
Deferred tax assets	30,597	386,657	417,254	(110,126)	307,128
Unrecognized deferred tax assets	(10,814)	(18,224)	(29,038)	25,652	(3,386)
Deferred tax asset, net amount	19,783	368,433	388,216	(84,474)	303,742
Tax effect of taxable temporary differences:					
Net investment in leases	(15,026)	(344,529)	(359,555)	(149,359)	(508,914)
Equipment purchased for leasing purposes	(11,468)	(43,443)	(54,911)	15,706	(39,205)
Loans payable	(1,059)	(11,880)	(12,939)	898	(12,041)
Advances issued to leasing equipment suppliers	(69,527)	16,422	(53,105)	32,073	(21,032)
Amounts payable to equipment suppliers	(7,617)	(9,538)	(17,155)	17,155	–
Property and equipment	(1,214)	1,214	–	–	–
Derivative financial liabilities	–	–	–	(111,865)	(111,865)
Other	(199)	199	–	–	–
Deferred tax liability	(106,110)	(391,555)	(497,665)	(195,392)	(693,057)
Total deferred tax liability	(86,327)	(23,122)	(109,449)	(279,866)	(389,315)

As of 31 December 2009, the Company has tax losses carry forward in the amount of RUB 557,423 (as of 31 December 2008: RUB 1,547,115). The carry-forward of such tax losses is allowed within a 10-year period from the end of the year where the respective loss arose.

At 31 December 2009, tax losses incurred by one of the foreign subsidiaries of the Group and available for offset against future taxable profit approximate RUB 13,690. The carry-forward of such tax losses is not subject to any restrictions. As of 31 December 2008, the tax losses (arising in one of the subsidiaries) classified as assets held for sale which can be offset against the future profit amount to approximately RUB 84,902. The carry-forward of such tax losses is allowed within a 10-year period from the end of the year following the year where the respective loss arose.

(thousands of Russian rubles)

14. Allowance for impairment of interest earning assets

Movement in allowance for impairment of interest earning assets is provided in the table below:

	<i>Net investment in leases</i>	<i>Loans receivable</i>	<i>Total</i>
31 December 2008	191,229	3,392	194,621
Reversals	(22,989)	(3,392)	(26,381)
31 December 2009	168,240	–	168,240
Individual impairment	28,298	–	28,298
Collective impairment	139,942	–	139,942
31 December 2009	168,240	–	168,240

Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance

1,023,301	–	1,023,301
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	<i>Net investment in leases</i>	<i>Loans receivable</i>	<i>Total</i>
31 December 2007	82,477	–	82,477
Charge for the year	108,752	3,392	112,144
31 December 2008	191,229	3,392	194,621
Individual impairment	124,650	3,392	128,042
Collective impairment	66,579	–	66,579
31 December 2009	191,229	3,392	194,621
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,543,717	157,415	1,701,132

Allowance for impairment is subtracted from the carrying value of respective assets.

15. Other assets and liabilities

Other assets comprise:

	2009	2008
Trade and other receivables	275,959	75,830
Prepaid insurance	24,135	1,398
Spare parts for re-sale	19,419	–
Other	146	471
	319,659	77,699
Less – Allowance for impairment of other assets	–	(1,142)
Other assets	319,659	76,557

Other liabilities comprise:

	2009	2008
Taxes payable other than income tax	175,420	25,680
Other payables and advances received	14,015	23,748
Other	5,010	123
Other liabilities	194,445	49,551

*(thousands of Russian rubles)***16. Amounts due to credit institutions**

Loans payable comprise the following:

	<u>2009</u>	<u>2008</u>
Bank loans provided for leasing operations	12,466,298	8,459,728
Amounts due to credit institutions	<u>12,466,298</u>	<u>8,459,728</u>

As of 31 December 2009, 74% of the loans were granted by the banks of VEB Group, 17% of the loans were granted by the banks of VTB Group. The remaining loans were granted by the London-based branch of Deutsche Bank AG.

VTB Group and VEB Group are related parties. As of 31 December 2008, 77% of the loans were granted by the banks of VEB Group, 16% of the loans were granted by VTB Group. Other loans were issued by such banks as Gazprombank, Novinkombank, Sberbank and EUROFINANCE MOSNARBANK. VTB Group and VEB Group are related parties.

As of 31 December 2009, the interest rate for loans provided by the banks of VTB Group, denominated in foreign currencies was 3-month USD LIBOR + 2.25 % p.a. to 3-month USD LIBOR + 7% p.a. for loans with a floating rate (which equaled to a rate of 2.50% to 7.25% p.a.). These loans mature in 2010-2012. As of 31 December 2008, the interest rate for loans provided by the banks of VTB Group, denominated in foreign currencies was from 3-month USD LIBOR + 2.25% p.a. to 3-month EUR LIBOR + 5% p.a. for loans with a floating rate (which equaled to a rate of 3.68% p.a. to 7.89% p.a.). These loans mature in 2009-2012.

As of 31 December 2009, the interest rate for loans provided by the banks of VEB Group, denominated in foreign currencies was from 9% p.a. to 14% p.a. for loans with a fixed interest rate and from 3-month USD LIBOR + 4.3% p.a. to 3-month EURibor + 3.5% p.a. for loans with a floating rate (which equaled to a rate of +4.20% p.a. to 4.55% p.a.). As of 31 December 2009, the interest rate for loans provided by the banks of VEB Group, denominated in Russian Rubles was from 12% p.a. to 20% p.a. for loans with a fixed interest rate. These loans mature in 2010-2018. As of 31 December 2008, the interest rate for loans provided by the banks of VEB Group, denominated in foreign currencies was from 9% p.a. to 13.5% for loans with a fixed rate and from 3-month USD LIBOR +4.0% p.a. to 3-month USD LIBOR + 6.0% for loans with a floating rate (which amounted to a rate of 5.43% to 7.43% p.a.). The interest rate for loans provided by the banks of VEB Group, denominated in Russian Rubles was from 9 % p.a. to 12.5% p.a. for loans with a fixed interest rate. These loans mature in 2010-2018.

As of 31 December 2009, the interest rate for loans provided by other banks, denominated in foreign currencies was 6-month USD LIBOR + 6.17% for loans with a floating rate (which amounted to a rate of 6.61% p.a.). These loans mature in 2012. As of 31 December 2008, the effective interest rate for loans provided by other banks, denominated in foreign currencies was 11% p.a. for loans with a fixed rate and 1-month EURibor + 8% p.a. for loans with a floating rate (amounted to a rate of 10.59% p.a.). These loans mature in 2009-2010. The interest rate for the RUB-denominated fixed rate loans maturing in 2009-2011 was 11.7%-15.5% p.a.

As of 31 December 2009 and 2008 the sum of borrowed funds interest, capitalized to the value of the asset for further use in finance leasing was RUB 317,595 and 414,116, respectively.

17. Borrowings payable

Borrowings payable comprise the following:

	<u>2009</u>	<u>2008</u>
Borrowings payable	1,804,789	–
Borrowings payable	<u>1,804,789</u>	<u>–</u>

As of 31 December 2009, a RUB-denominated was raised from a related party to finance a major leasing deal. The loan bore an interest rate of 2/3 of the refinancing rate of the Central Bank of the RF, minus 1% (thus amounting to 4.83%). These loans mature in 2011-2018.

(thousands of Russian rubles)

18. Advances received from lessees

As of 31 December 2009, advances received from lessees amount to RUB 840,203. Advances received under USD-denominated lease agreements comprise 64 % of all advances received, advances received under EUR-denominated agreements – 6 %. Advances of RUB 544,645 were granted by related parties.

As of 31 December 2008, advances received from lessees amount to RUB 911,793. Advances received under USD-denominated lease agreements comprise 44 % of all advances received, advances received under EUR-denominated agreements – 50 %. Advances of RUB 406,670 were granted by related parties.

19. Amounts payable to equipment suppliers

The amounts payable to the suppliers of the equipment, which as of 31 December 2009 was transferred under the finance lease agreements, included RUB 874,934 (as of 31 December 2008 - RUB 1,335,091) payable to the related party, RUB 809,806 of this amount was stated at amortized cost; effective interest rate approximates to 9.2% p.a. (as of 31 December 2008 – 9.2% p.a.).

20. Share capital

Authorized, issued and fully paid share capital of the Company comprises:

	<i>Number of authorized ordinary shares</i>	<i>Number of treasury ordinary shares</i>	<i>Number of outstanding ordinary shares</i>	<i>Nominal value (RUB per share)</i>
31 December 2007	2,086,000	(915,000)	1,171,000	1
Issue of share capital	2,086,002	–	2,086,002	–
31 December 2008	4,172,002	(915,000)	3,257,002	1
Issue of share capital	–	–	–	–
31 December 2009	4,172,002	(915,000)	3,257,002	1

As of 31 December 2009 and 31 December 2008, the Group had 4,172,002 authorized, issued and fully paid ordinary shares (including 915,000 treasury shares). Each ordinary share has a nominal value of RUB 1, with all shares having equal rights and carrying one vote each.

The Company's share capital was formed by shareholder contributions in the form of the following assets: cash in the amount of RUB 316, promissory notes (received in August 2003) issued by a military-industrial enterprise (related party) with a fair value of RUB 85,500 (June 2006) and a building located at Vereyskaya str. bld. 141, Moscow, with a fair value of RUB 103,914 (June 2006). As of 31 December 2009 and 31 December 2008, additional paid-in capital amounted to RUB 2,431,558 and represented the sum of differences between the sales price and the nominal value of the Company's shares upon their placement.

In December 2007, the general shareholders' meeting adopted a resolution on the additional issue of securities (shares). The issue was registered by Federal Financial Markets Service ("FFMS") on 19 February 2008. As a result of the issue the Company issued additionally 2,086,002 ordinary registered shares. On 18 March 2008, the Company and VEB signed a sales-purchase agreement for securities, under which VEB committed to purchase the additionally issued shares and to pay the Company RUB 2,246,000 for them. On 17 April 2008, VEB fully met its payment obligations with regard to the purchase of equity stake. The report on the additional issue of shares was registered with FFMS on 17 June 2008. As a result of this transaction, as of 17 June 2008 stakes in the Company belonged to the following shareholders: VEB – 50%+ 1 share, OJSC Oboronprom – 28.06%, and Vertoletnaya Transportnaya Company LLC – 21.93%.

In April 2008, the Company transferred RUB 935,841 in cash to increase the share capital of its subsidiary Vertoletnaya Transportnaya Company LLC, which in turn bought out 915,000 shares of the Company from the previous owner for RUB 935,841. Thus, the Company fully settled its amounts payable with regard to the purchase of its treasury shares, which were outstanding as of 31 December 2007.

On 6 November 2009, OJSC Oboronprom sold its 1,171,000 shares to VEB (28.06% of the share capital), for which all legal registration was completed before 31 December 2009.

(thousands of Russian rubles)

20. Share capital (continued)

The share capital of the Company was formed in Russian Rubles, and the shareholders are entitled to dividends and any capital distribution in Russian Rubles.

Pursuant to the Russian legislation, only accumulated retained earnings per the Company's statutory financial statements prepared in accordance with Russian accounting and tax legislation and related regulations (RAL) may be distributed to the shareholders of the Company as dividends. As of 31 December 2009, the Company's retained earnings in accordance with RAL were approximately RUB 863,901. As of 31 December 2008, the Company's loss in accordance with RAL was approximately RUB 1,003,420.

No dividends were declared in 2009 in respect of the year ended 31 December 2008. On 4 June 2008, a shareholders' meeting declared dividends for 2007 in the amount of RUB 23,283 (RUB 4,383 of which pertaining to treasury shares).

21. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is exposed to deteriorating market conditions and the slow-down of economic growth in other countries of the world. The global financial crisis triggered reduction of GDP, instability in the capital markets, a significant liquidity issues in the banking sector, and a tightening of lending terms in Russia. Notwithstanding certain stabilization measures adopted by the Russian Government in order to provide liquidity to Russian banks and companies, uncertainty remains regarding access to capital and the cost of capital for the Group and its counterparties, which may affect the financial position of the Group, results of its operations and business development prospects.

Besides, such factors as an increase in the level of unemployment in Russia, deterioration in corporate liquidity profitability, and an increased number of insolvent companies and individuals affected the ability of the Group's counterparties to repay the amounts due to the Group. Changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its assessment of assets for impairment.

Although the management considers that it is taking adequate measures to support sustainable development of the Group's business in current conditions, a further deterioration of the situation in the above mentioned areas may influence negatively the performance of the Group, as well as its financial position. At present it is impossible to determine the extent of such influence.

Legal

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 of the Group.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transaction and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may take a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group determines its tax liabilities arising from intercompany transactions using actual transaction prices. It is possible that with the evolution of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities towards their interpretation and application, intercompany transactions based on such transfer prices could potentially be challenged by the Russian tax authorities in the future.

(thousands of Russian rubles)

21. Commitments and contingencies (continued)

Taxation (continued)

Besides, the Group operates in various tax jurisdictions and includes companies incorporated outside the Russian Federation subject to taxation at different rates and in accordance with different legislation. Tax liabilities of the Group are determined based on the fact that these companies are not subject to income tax in the Russian Federation. At present time, Russian tax legislation does not provide any specific rules regarding taxation of foreign entities operating in Russia. It is possible that with the evolution of these rules, and changes in the approach towards interpretation and application thereof adopted by the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group may be challenged in Russia.

As of 31 December 2009, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Financial and non-financial commitments and contingencies

As of 31 December, the Group's commitments and contingencies comprised the following:

	<u>2009</u>	<u>2008</u>
Credit related commitments		
Guarantees	<u>2,169,415</u>	<u>2,072,055</u>
	<u>2,169,415</u>	<u>2,072,055</u>
Operating lease commitments		
Within 1 year	37,111	47,267
1 to 5 years	47,174	94,432
	<u>84,285</u>	<u>141,699</u>
Capital expenditure commitments related to finance leases	<u>6,215,592</u>	<u>2,972,256</u>
Financial and non-financial commitments and contingencies	<u><u>8,469,292</u></u>	<u><u>5,186,010</u></u>

The Group concluded non-cancellable operating lease agreements for non-residential premises. The lease term is 3 years.

Insurance

The Group has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

Pledged assets

Below is the information on pledged assets as of 31 December 2009:

<i>Pledged asset</i>	<i>Carrying amount (as of 31 December 2009)</i>	<i>Carrying amount (as of 31 December 2008)</i>	<i>Related liability</i>	<i>Carrying amount (as of 31 December 2009)</i>	<i>Carrying amount (as of 31 December 2008)</i>
Equipment transferred into finance lease	6,626,336	5,325,419	Loans payable	7,198,930	6,456,238
Equipment transferred into finance lease	949,019	1,108,196	Amounts payable to equipment suppliers	809,806	1,196,587
Equipment purchased for leasing purposes	394,058	580,412	Loans payable	367,493	631,761
Total pledged assets	<u><u>7,969,413</u></u>	<u><u>7,014,027</u></u>	Total related liabilities	<u><u>8,376,229</u></u>	<u><u>8,284,586</u></u>

These assets were pledged by the Group exclusively as collateral under liabilities to counterparties (Notes 7 and 10). The pledged assets shall be returned to the Group upon completion of the respective transactions, however if the Group defaults on its commitments, the counterparty shall be entitled to use the collateral in settlement of the liability.

(thousands of Russian rubles)

22. Derivative financial instruments

Foreign exchange and other financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recognized in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. Notional amounts reflect the volume of operations pending at the end of the reporting period and do not indicate a credit risk. As of 31 December 2009 and 31 December 2008, derivative financial instruments comprised:

	31 December 2009			31 December 2008		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Swaps – foreign	1,532,819	479,149	–	–	–	–
Swaps – domestic	739,439	101,707	–	–	–	–
Swaps – domestic	1,070,509	–	(70,988)	–	–	–
Total derivative assets/liabilities	3,342,767	580,856	(70,988)	–	–	–

As of 31 December 2009, the Group has positions on swap transactions. Swaps are contractual relations between two parties to exchange amounts equal to the change in interest rate or foreign exchange rate based on notional amounts. This item includes derivatives that do not qualify for hedging in accordance with IAS 39.

Income arising from swap transactions comprises the following:

	2009	2008
Net unrealized gains arising from swap transactions	509,869	–
Net realized gains arising from swap transactions	171,871	–
Net gains from transactions with derivative financial instruments	681,740	–

23. Other income

Income from other services comprises:

	2009	2008
Compensations received from the leasing equipment suppliers	9,408	14,737
Income from operating lease of the building	5,193	30,047
Fines and penalties	4,519	12,770
Disposal of assets	–	34,190
Other	10,430	2,230
Total other income	29,550	93,974

*(thousands of Russian rubles)***24. Personnel and other operating expenses**

Personnel and other operating expenses comprise:

	<u>2009</u>	<u>2008</u>
Salaries and bonuses	111,560	82,618
Social security costs	12,337	9,810
Personnel expenses	<u>123,897</u>	<u>92,428</u>
Taxes other than income tax	212,006	70,699
Loss from initial recognition of financial investments	114,308	–
Impairment of property and equipment (Note 12)	113,996	–
Legal and consultancy	64,955	269
Operating lease	50,758	9,119
Insurance expenses	22,792	38,334
Professional services	19,747	31,112
Materials	15,222	5,510
Travel and entertainment	2,758	2,981
Advertising	1,489	9,264
Repair and maintenance	1,038	1,633
Property sale and write-off	482	30,200
Other	16,697	6,503
Other operating expenses	<u>636,248</u>	<u>205,624</u>

25. Risk management*Introduction*

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks. The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

On the Group and subsidiary level a number of committees and departments are established to coordinate day-to-day risk management. On a Group-wide basis risk management is overseen by the Finance Committee.

The Finance Committee (the "FC") establishes major balance sheet parameters for use in asset and liability management and monitors compliance within the Group with the assistance of the Finance Department (the "FD").

Risk Analysis and Control Department ("RACD") proposes risk limits on leasing operations and prepares recommendations regarding management of credit risk. FD prepares recommendations regarding management of market risk and liquidity risk for the FC.

The FD also performs the Treasury functions: it is responsible for managing the Group's assets and liabilities and the overall financial structure. The FD is also primarily responsible for the funding and liquidity risks of the Group. The FC, FD and RACD carry out risk management functions in respect of credit, market (interest rate, currency and securities portfolio) and liquidity risks.

Risk management processes throughout the Group are audited annually by the Revision Commission that examines both the adequacy of the procedures and the Group's compliance with the procedures. The Revision Commission discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

(thousands of Russian rubles)

25. Risk management (continued)

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify risks. This information is presented and explained to the Board of Directors, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. Each month detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter, which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to necessary and up-to-date information.

A weekly briefing is given to the RACD and all other relevant employees of the Group on the utilization of the set limits, including analysis of investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks (see below for more details).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Risk concentration reflects the relative sensitivity of the Group's results to the changes in conditions affecting a certain industry or geographical region.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk of financial loss if a counterparty fails to meet its contractual obligations. Group's exposure to credit risk arises primarily in connection with financial leasing operations.

The Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty (borrower or a lessee), groups of counterparties, and to industry and geographical segments. Limits on the level of credit risk by counterparties and product (by industry sector, by region) are approved by the Board of Directors and the Finance Committee. In addition the Group monitors credit risk by analyzing the financial position of counterparties. Credit risk management also involves in regular monitoring of an ability of counterparties to pay amounts in full when due, analysis of financial position of lessees and monitoring of conditions of leased-out equipment. Such risks are monitored on a revolving basis and subject to annual or more frequent reviews.

The exposure to certain counterparties is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Finance Committee.

The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

(thousands of Russian rubles)

25. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

With respect to undrawn loan commitments (or commitments related to providing lease equipment) the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the finance lease agreements.

The table below shows the maximum exposure to credit risk for the components of statement of financial position, including derivatives. The maximum exposure is shown in gross, before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Notes</i>	<i>Maximum exposure 2009</i>	<i>Maximum exposure 2008</i>
Cash and cash equivalents (excluding cash on hand)	5	1,220,768	579,954
Amounts due from credit institutions	6	583,776	920,425
Derivative financial assets	22	580,856	–
Net investment in leases	7	12,230,015	6,712,811
Loans receivable	8	747,952	384,136
Advances issued to leasing equipment suppliers	11	2,588,021	1,616,520
Other assets	15	275,959	75,830
		18,227,347	10,289,676
Guarantees	21	2,169,415	2,072,055
Total credit risk exposure		20,396,762	12,361,731

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality per class of financial asset

The credit quality of financial assets is managed by the Group internal credit ratings. The table below shows the credit quality by class of asset for respective lines on the statement of financial position, based on the Group's credit rating system.

	<i>Notes</i>	<i>Neither past due nor impaired</i>			<i>Past due, but not individually impaired,</i>		<i>Individually impaired, 2009</i>	<i>Total, 2009</i>
		<i>High grade, 2009</i>	<i>Standard grade, 2009</i>	<i>Sub-standard grade, 2009</i>	<i>2009</i>			
Net investment in leases	7	11,374,954	–	–	–	1,023,301	12,398,255	
Loans receivable	8	747,952	–	–	–	–	747,952	
Total		12,122,906	–	–	–	1,023,301	13,146,207	

(thousands of Russian rubles)

25. Risk management (continued)**Credit risk (continued)**

	Notes	Neither past due nor impaired			Past due, but	Individually	Total, 2008
		High grade, 2008	Standard grade, 2008	Sub-standard grade, 2008	not individually impaired, 2008	impaired, 2008	
Net investment in leases	7	5,047,332	–	–	312,991	1,543,717	6,904,040
Loans receivable	8	230,113	–	–	–	157,415	387,528
Total		5,277,445	–	–	312,991	1,701,132	7,291,568

Past due net investment in leases and loans receivable include those that are only past due by a few days. The tables below show aging analysis of past due loans. The majority of the past due loans are not considered to be impaired.

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

The counterparty is classified as high grade if its financial position can be assessed as good and if the complex analysis of operating and financial activities of the counterparty and other related information (including information about external conditions) indicate the counterparty's stability of production, profitability and solvency and there is no negative events (trends), that may affect the financial stability of the counterparty in the future.

The counterparty is classified as standard grade if the complex analysis of operating and financial activities of the counterparty and/or other related information indicate the absence of direct threats to the current financial position, while there are some adverse events (trends), which in the short term (one year or less) can lead to financial difficulties, if the counterparty does not take measures to improve the situation.

The counterparty is classified as sub-standard grade if there is the information on threatening adverse events (trends), which outcome may be a partial insolvency of the counterparty.

Aging analysis of past due but not individually impaired net investments in leases and loans receivable per class of financial assets as of December 31, 2008

	Less than 30 days 2008	31 - 60 days 2008	61 - 90 days 2008	More than 90 days 2008	Total 2008
Net investment in leases	25,929	118,194	168,868	–	312,991
Loans receivable	–	–	–	–	–
Total	25,929	118,194	168,868	–	312,991

See Note 14 for more detailed information with respect to the allowance for impairment of net investment in leases and loans receivable.

Impairment assessment

The main considerations for impairment of net investments in leases and loans receivable assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

(thousands of Russian rubles)

25. Risk management (continued)

Credit risk (continued)

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant object (net investment in leases or loans receivable) on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the residual value of leasing equipment (or the realizable value of collateral), and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on net investment in lease and loans receivable that are not individually significant and for individually significant net investment in lease and loans receivable where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding on the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Write-off policy

In accordance with the Russian law requirements, loans and receivables may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

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

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

During the year the, the Group did not take possession of collateral on finance leases. It does not have any repossessed collateral in its statement of financial position of 31 December 2009. It is the Company's policy to dispose of repossessed equipment in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security must be detailed in the Application for Credit Facility Form. Where practical, the lease management officer must have seen evidence of the existence of the expected collateral and wherever possible seen the actual collateral for themselves.

The valuation placed on each collateral will vary with individual circumstances. As a general guide, where the Group takes collateral it will ensure that an adequate margin is obtained and maintained throughout the term of the facility, where applicable. The corresponding subsidiary authority responsible for collateral assessment establishes clear parameters for each individual facility.

Risks related to leased properties and other collateral (real estate properties, inventories) such as damage caused by various reasons, theft and other are generally insured on finance lease or loan agreements.

(thousands of Russian rubles)

25. Risk management (continued)**Credit risk (continued)***Geographical concentration*

Geographical concentration information is based on geographical location of the Group's counterparties. As of 31 December 2009 and 2008 the geographical concentration of the Group's assets and liabilities is set out below:

	2009				2008			
	Russia	OECD	Other countries	Total	Russia	OECD	Other countries	Total
Assets:								
Cash and cash equivalents	1,204,910	5,700	10,282	1,220,892	579,985	–	–	579,985
Amounts due from credit institutions	373,750	210,026	–	583,776	920,425	–	–	920,425
Derivative financial assets	101,707	479,149	–	580,856	–	–	–	–
Net investment in leases	11,616,840	–	613,175	12,230,015	6,712,811	–	–	6,712,811
Loans receivable	744,844	–	3,108	747,952	381,433	–	2,703	384,136
Equipment purchased for leasing purposes	933,715	–	–	933,715	1,078,812	–	–	1,078,812
Advances issued to leasing equipment suppliers	2,588,008	13	–	2,588,021	1,478,013	138,507	–	1,616,520
VAT receivable	155,718	–	–	155,718	859,273	–	–	859,273
Property and equipment	25,252	–	–	25,252	281,918	–	–	281,918
Current income tax assets	7,902	–	–	7,902	11,745	–	–	11,745
Other assets	211,044	108,615	–	319,659	76,557	–	–	76,557
	17,963,690	803,503	626,565	19,393,758	12,380,972	138,507	2,703	12,522,182
Assets held for sale	–	–	–	–	184,346	–	–	184,346
	17,963,690	803,503	626,565	19,393,758	12,565,318	138,507	2,703	12,706,528
Liabilities:								
Amounts due to credit institutions	9,287,268	3,179,030	–	12,466,298	7,877,884	581,844	–	8,459,728
Borrowings payable	1,804,789	–	–	1,804,789	–	–	–	–
Derivative financial liabilities	70,988	–	–	70,988	–	–	–	–
Advances received from lessees	840,203	–	–	840,203	911,793	–	–	911,793
Amounts payable to equipment suppliers	931,056	15,101	–	946,157	1,425,466	–	–	1,425,466
Treasury shares payable	–	–	–	–	–	–	–	–
Current income tax liability	–	1,685	–	1,685	–	–	–	–
Deferred income tax liabilities	293,782	95,533	–	389,315	109,449	–	–	109,449
Other liabilities	192,183	2,262	–	194,445	49,551	–	–	49,551
	13,420,269	3,293,611	–	16,713,880	10,374,143	581,844	–	10,955,987
Liabilities directly related to assets held for sale	–	–	–	–	39,982	–	–	39,982
	13,420,269	3,293,611	–	16,713,880	10,414,125	581,844	–	10,995,969
Net position	4,543,421	(2,490,108)	626,565	2,679,878	2,151,193	(443,337)	2,703	1,710,559

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Liquidity risk management within the Group is carried at three main levels:

*(thousands of Russian rubles)***25. Risk management (continued)****Liquidity risk and funding management (continued)**

- each subsidiary of the Group and the Company manages its liquidity on individual basis to meet its commitments and to comply with the requirements of the Russian laws. The subsidiaries manage its liquidity in line with the recommendations of the Company;
- the Company manages liquidity of the Group by redistribution of resources within the Group through borrowing from and lending to the subsidiaries of the Group;
- the program of medium and long term funding is worked out at the Company's Board of Director level.

The basic tools for mitigation and management of liquidity risk are:

- A. Contractual maturity analysis and a forecast of cash flow (Gap-analysis);
- B. Internal limits confining:
 - minimum of highly liquid assets to cover short-term obligations (resources on demand/1 day);
 - maturity mismatch limits (Gap-limits);
 - concentration of depositary base analysis;
 - maximum funding volume subject to the current liquidity level;
- C. Plan of actions in a crisis situation (funding contingency plan).

The Group manages its liquidity so that in each interval the gap in liquidity in view of planned operations does not exceed a certain internal limit.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities as of 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as of notice were to be given immediately. The actual Group's expected cash flows on these financial liabilities may vary from this analysis.

Financial liabilities As of 31 December 2009	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	1,433,888	3,008,102	8,275,584	2,369,943	15,087,517
Borrowings payable	–	–	1,807,120	341,872	2,148,992
Derivative financial liabilities	–	–	–	–	–
– contractual amounts payable	–	164,110	1,402,382	–	1,566,492
– contractual amounts receivable	–	(162,574)	(1,389,254)	–	(1,551,828)
Amounts payable to equipment suppliers	231,745	476,334	398,859	–	1,106,938
Other liabilities	99,405	94,892	148	–	194,445
Total undiscounted financial liabilities	1,765,038	3,580,864	10,494,839	2,711,815	18,552,556

Financial liabilities As of 31 December 2008	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Loans payable	592,773	1,995,216	5,237,347	2,950,054	10,775,390
Amounts payable to equipment suppliers	57,141	32,459	1,653,920	–	1,743,520
Other liabilities	28,243	21,308	–	–	49,551
Total undiscounted financial liabilities	678,157	2,048,983	6,891,267	2,950,054	12,568,461

(thousands of Russian rubles)

25. Risk management (continued)**Liquidity risk and funding management (continued)**

For the purposes of managing liquidity risk the Group uses on a regular basis the analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. The following table provides such analysis of assets and liabilities as of 31 December 2009.

	2009			2008		
	Less than one year	More than one year	Total	Less than one year	More than one year	Total
Assets						
Cash and cash equivalents	1,220,892	–	1,220,892	579,985	–	579,985
Amounts due from credit institutions	373,750	210,026	583,776	920,425	–	920,425
Derivative financial assets	120,757	460,099	580,856	–	–	–
Net investment in leases	2,517,608	9,712,407	12,230,015	1,282,684	5,430,127	6,712,811
Loans receivable	208,525	539,427	747,952	381,306	2,830	384,136
Equipment purchased for leasing purposes	933,715	–	933,715	1,078,812	–	1,078,812
Advances issued to leasing equipment suppliers	533,347	2,054,674	2,588,021	1,365,890	250,630	1,616,520
Property and equipment	–	25,252	25,252	–	281,918	281,918
VAT receivable	155,718	–	155,718	859,273	–	859,273
Current income tax assets	7,902	–	7,902	11,745	–	11,745
Other assets	141,989	177,670	319,659	42,710	33,847	76,557
Assets held for sale	–	–	–	–	184,346	184,346
Total	6,214,203	13,179,555	19,393,758	6,522,830	6,183,698	12,706,528
Liabilities						
Amounts due to credit institutions	3,599,814	8,866,484	12,466,298	259,258	8,200,470	8,459,728
Borrowings payable	–	1,804,789	1,804,789	–	–	–
Derivative financial liabilities	7,437	63,551	70,988	–	–	–
Advances received from lessees	576,016	264,187	840,203	32,880	878,913	911,793
Amounts payable to equipment suppliers	584,120	362,037	946,157	89,600	1,335,866	1,425,466
Treasury shares payable	–	–	–	–	–	–
Current income tax liabilities	1,685	–	1,685	–	–	–
Deferred income tax liabilities	–	389,315	389,315	–	109,449	109,449
Other liabilities	194,297	148	194,445	49,551	–	49,551
Liabilities held for sale	–	–	–	–	39,982	39,982
Total	4,963,369	11,750,511	16,713,880	431,289	10,564,680	10,995,969
Net	1,250,834	1,429,044	2,679,878	6,091,541	(4,380,982)	1,710,559

The table below shows the contractual expiry by maturity of the Group's commitments and contingencies:

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2009	77,163	2,182,677	6,209,452	–	8,469,292
2008	782,198	1,113,419	3,290,393	–	5,186,010

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Both trading and non-trading positions are currently managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk. As part of its overall risk management, the Group uses derivatives to manage exposures resulting from changes in rates and exposures arising from transactions with foreign currencies.

(thousands of Russian rubles)

25. Risk management (continued)

Market risk (continued)

Market risk – Trading

The principal objective of the Group's market risk management is to limit and reduce possible losses on open market positions that may be incurred by the Group due to adverse changes in currency exchange rates and interest rates. Limits on potential losses are established by the FC and Board or Directors. The FD monitors compliance with such limits. The Group also manages its market risk through sub-limits for types of exposures to various types of securities and position limits for issuers, terms and individual instruments. Limits on securities are approved by the FC and Board or Directors based on analysis performed by the FD. The Group is not materially involved in trading operations due to nature of its core business.

Market risk – Non-Trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate (LIBOR, EURIBOR, refinancing rate of the Central Bank of the RF) non-trading financial assets and financial liabilities held at 31 December 2009.

Currency	Increase in basis points, 2009	Sensitivity of net interest income, 2009	Decrease in basis points, 2009	Sensitivity of net interest income, 2009
EUR	100	(1,107)	–25	277
USD	100	(35,484)	–25	8,871
RUB	120	(21,541)	–120	21,541

The sensitivity of interest rate swaps is calculated by revaluing the fair value of interest rate swaps as at 31 December 2009 for the effects of reasonable possible changes in interest rates. The increase in market interest rates for Russian ruble by 6% will result in the decrease of interest rate swaps fair value by RUB 294,976 and decrease by 5% will increase the fair value by RUB 245,814. The increase in market interest rates for U.S. dollar by 1% will result in the increase of interest rate swaps fair value by RUB 66,709 and decrease by 0.25% will decrease the fair value by RUB 16,677.

Currency	Increase in basis points, 2008	Sensitivity of net interest income, 2008	Decrease in basis points, 2008	Sensitivity of net interest income, 2008
EUR	100	(4,438)	–100	4,438
USD	100	(60,719)	–100	60,719

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group carries out management of currency risk by using the open currency position limits. Using assumed trend and volatility of USD to foreign currencies, the Group minimizes its exposure to material foreign exchange losses. Limits are determined for every currency and for totality of positions with the purpose of restriction of currency risk level. Exposure and open currency positions are managed and monitored on a monthly basis. The FC and the Board of Directors have set limits on positions by currency. The Group does not have speculative limits in foreign exchange operations.

(thousands of Russian rubles)

25. Risk management (continued)

Market risk (continued)

The tables below indicate the currencies to which the Group had open positions at 31 December 2009 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the RUB on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. All other variables held constant. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	Change in currency rate in % 2009	Effect on profit before tax 2009	Change in currency rate in % 2008	Effect on profit before tax 2008
USD	+14.80%	38,527	13.80%	(318,680)
USD	-14.80%	(38,527)	31.80%	(734,350)
EUR	+14.00%	48,675	1.10%	5,700
EUR	-14.00%	(48,675)	18.30%	94,835
JPY	+19.60%	–	0.50%	85
JPY	-19.60%	–	36.50%	6,181

The sensitivity of interest rate swaps to the reasonable possible changes in the currency rates calculated by revaluating the fair value of these contracts at 31 December 2009. The increase/decrease of U.S. dollar exchange rate by 14.80% will result in the decrease/increase of interest rate swaps fair value by RUB 202,389.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. However the Group is not sensitive to this risk as early repaid finance lease receivables are not significant in total volume of finance leases granted. Also the lessee is to pay the full amount of lease payments prescribed in its standard finance lease agreement, if the lessee decides to perform early prepayment.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks but through a control framework and by monitoring and responding to potential risks the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment procedures as well as assessment processes, including the use of Internal Control Unit which reports to the Board of Directors.

26. Fair values of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(thousands of Russian rubles)

26. Fair values of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	580,856	–	580,856
	–	580,856	–	580,856
Financial liabilities				
Derivative financial liabilities	–	70,988	–	70,988
	–	70,988	–	70,988

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial instruments not recorded at fair value in the statement of financial position

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2009	Fair value 2009	Unrecognized gain / (loss) 2009	Carrying value 2008	Fair value 2008	Unrecognized gain / (loss) 2008
Financial assets						
Cash and cash equivalents	1,220,892	1,220,892	–	579,985	579,985	–
Amounts due from credit institutions	583,776	583,776	–	920,425	920,425	–
Net investment in leases	12,230,015	12,033,929	(196,086)	6,712,811	6,705,989	(6,822)
Loans receivable	747,952	747,952	–	384,136	384,136	–
Financial liabilities						
Amounts due to credit institutions	12,466,298	12,327,169	139,129	8,459,728	8,453,664	6,064
Borrowings payable	1,804,789	1,581,229	223,560	–	–	–
Amounts payable to equipment suppliers	946,157	946,157	–	1,425,466	1,425,466	–
Total unrecognized change in unrealized fair value			166,603			(758)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate and variable rate financial instruments

For quoted debt securities fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(thousands of Russian rubles)

27. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or 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, and 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 and balances with related parties comprise transactions and balances with directly and indirectly state-owned entities and associates and are stated in the table below:

	2009			2008			
	Shareholder	Other state organizations (besides the shareholder)	VEB Group companies	Shareholder	Entities with significant influence over the Company	Other state organizations (besides the shareholder)	VEB Group companies
Cash and cash equivalents	29,308	195,265	980,230	16,121	–	172,903	390,226
Amounts due from credit institutions	–	–	373,750	–	–	20,425	900,000
Net investment in leases	–	1,190,627	–	–	10,156	2,510,581	–
Including allowance for impairment losses	–	(20,831)	–	–	–	(47,311)	–
Loans receivable	–	725,301	–	143,075	–	241,623	–
Including allowance for impairment losses	–	–	–	–	–	(3,392)	–
Equipment purchased for leasing purposes	–	723,607	–	–	–	175,454	–
Advances issued to leasing equipment suppliers	–	48	–	–	–	11,218	–
Other assets	–	150,558	199	–	20,339	47,399	–
Loans payable	6,520,732	2,115,512	2,766,536	6,154,350	–	1,924,047	253,622
Borrowings payable	–	1,804,789	–	–	–	–	–
Advances received from lessees	–	544,645	–	–	343	406,327	–
Amounts payable to equipment suppliers	–	874,934	–	–	–	1,335,091	–
Other liabilities	–	182,584	–	–	2	261,889	–
Interest income	52	654,901	65,203	19,180	3,397	639,502	39,365
Interest expense	(208,887)	(200,899)	(352,859)	(14,742)	–	(164,427)	(9,501)
Impairment of interest earning assets	–	29,872	–	–	(128)	(75,606)	–
Fee and commission expense	(3,331)	(2,591)	(1,284)	(6,965)	–	(10,783)	(16)
Income from other services	–	9,662	–	–	–	34,866	–
Guarantees received	–	–	–	–	–	181,592	–
Guarantees issued	–	2,169,415	–	–	–	2,072,055	–
Capital expenditure commitments related to finance leases	–	2,527,651	–	–	–	1,753,832	–

Additional information on related party transactions is disclosed in related notes to the consolidated financial statements – 1, 5, 6, 7, 8, 9, 16, 17, 18, 19, 20, 28, 30.

Compensation of key management personnel was comprised of the following:

	2009	2008
Salaries and other short-term benefits	15,689	13,378
Social security costs	499	533
Total key management compensation	16,188	13,378

*(thousands of Russian rubles)***28. Subsidiaries**

The following major subsidiaries are included in the consolidated financial statements of the Group:

2009

Subsidiary	Interest/ voting, %	Country of incorporation	Date of incorporation	Industry	Type of incorporation
Vertoletnaya Transportnaya Company LLC	100	Russia	July 2006	Aviation equipment transportation	Established by the Company
Bellevue Industries S.a.r.l. (Luxemburg)	100	Luxemburg	October 2008	Financial intermediary	Acquired by the Company
MI-171 Leasing Limited	100	BVI	October 2008	Finance leases	Established by Bellevue Industries S.a.r.l.
VEBL-767-300 Limited	100	Ireland	May 2009	Finance leases	Established by Bellevue Industries S.a.r.l.
CT-2010 Shipping Limited	100	Malta	December 2009	Finance leases	Established by Bellevue Industries S.a.r.l.
CT-2011 Shipping Limited	100	Malta	December 2009	Finance leases	Established by Bellevue Industries S.a.r.l.
Genetechma Finance Limited	100	Cyprus	December 2009	Financial intermediary	Acquired by Bellevue Industries S.a.r.l.

2008**Subsidiary**

Subsidiary	Interest/ voting, %	Country of incorporation	Date of incorporation	Industry	Type of incorporation
DP Aero-Kamov LLC (Note 9)	100	Russia	August 2006	Aviation equipment maintenance	Acquired by the company
Vertoletnaya Transportnaya Company LLC	100	Russia	July 2006	Aviation equipment transportation	Established by the company
Bellevue Industries S.a.r.l. (Luxemburg)	100	Luxemburg	October 2008	Financial intermediary	Acquired by the company
MI-171 Leasing Limited	100	BVI	October 2008	Finance leases	Established by Bellevue Industries S.a.r.l.

29. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. During 2009, the Group had complied in full with all its externally imposed capital requirements. The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Company 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 dividend payment to shareholder. No changes were made in the objectives, policies and processes from the previous years.

*(thousands of Russian rubles)***29. Capital adequacy (continued)**

The Company monitors capital using a gearing ratio, which is net debt divided by the sum of capital and net debt. The Company includes within net debt, interest bearing loans (included in amounts due to credit institutions), borrowings payable and amounts payable to equipment suppliers less cash and cash equivalents. Total equity includes share capital, additional paid-in capital, treasury shares, and retained earnings.

	31 December 2009	31 December 2008
Amounts due to credit institutions	12,466,298	8,459,728
Borrowings payable	1,804,789	–
Amounts payable to equipment suppliers	946,157	1,425,466
Less: Cash and cash equivalents	(1,220,892)	(579,985)
Net debt	13,996,352	9,305,209
Total equity	2,679,878	1,710,559
Gearing ratio	83,9%	84,5%

30. Events after the reporting period

On 11 January 2010, OJSC VEB-Leasing purchased 417,200 of its treasury shares from Vertoletnaya Transportnaya Company LLC (9.99999% of the share capital). Purchase price was RUB 426,703. On 8 February 2010, OJSC VEB-Leasing sold 417,200 of its treasury shares to CJSC GLOBEXBANK (9.99999% of the share capital) for RUB 623,113.

On 15 March 2010, OJSC VEB-Leasing purchased 413,029 of its treasury shares from Vertoletnaya Transportnaya Company LLC (9.9% of the share capital). Purchase price was RUB 422,437. On 15 March 2010, OJSC VEB-Leasing sold 413,029 of its treasury shares to CJSC GLOBEXBANK (9.9% of the share capital) for RUB 616,887.

As a results of these transactions, the Company's ownership structure as of 15 March 2010 was as follows:

Shareholder	%
VEB	78.07
Vertoletnaya Transportnaya Company LLC	1.94
CJSC GLOBEXBANK	19.99
Total	100.0

In January 2010, Bellevue Industries S.a.r.l acquired 25% shares in a Cyprus registered company Ukrrosleasing Cyprus Limited. The company is engaged in financial leasing operations. In the beginning of March 2010 OJSC VEB-Leasing issued loans to Ukrrosleasing Cyprus Limited totaling USD 88,594 thousand.

On 15 March 2010, the Board of Directors of OJSC VEB-Leasing made a decision to issue non-convertible interest-bearing documentary registered bonds, series 01 and 02, with mandatory centralized storage (the par value of each bond is 1,000 Russian rubles; the number of securities offered is 5,000,000 in each series).

In April 2010, Bellevue Industries S.a.r.l established a BVI registered company MIL Leasing Limited. The company is engaged in financial leasing operations. In April 2010, Bellevue Industries S.a.r.l established a Bermuda registered company International Aviation Leasing Limited. The company is engaged in financial leasing operations.

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