



Leasing and Loans: Partnership Synergy

September 25, 2017

Almost a year has passed since the partnership Agreement on Cooperation was concluded between the International Investment Bank (IIB) and Public Joint Stock Company State Transport Leasing Company (PJSC STLK).

By invitation of the IIB's public relations department, the first outcomes of implementing the Agreement have been commented by Dmitry Shaplyko, the First Deputy General Director of PJSC STLK, and Andrey Nikolaev, the Advisor of the IIB Chairman of the Board.

What were the basic principles underlying the selection of the agreement partner? Did you pursue any particular objectives in this process?

Dmitry Shaplyko: The agreement is a contract on integration of efforts. In my opinion, the objectives of STLK and the IIB both overlap and move in the same direction.

One of the major activities of our Company is air transport leasing. Today, the STLK fleet numbers more than 100 aircraft. The company's partners include the largest foreign and Russian airplane manufacturers. STLK's major strategic goal is to raise extra-budgetary investments for transport industry development in Russia. I am pleased to note that the IIB has become one of the most reliable and effective sources of such investments.

Andrey Nikolaev: Needless to say, much depends on the purpose of such investments. The agreement was preceded by a contract on granting the IIB's loan facility for USD 33 million to the Company to finance and refinance the purchase and leasing of 11 aircraft produced by the Czech manufacturer Aircraft Industries a.s. At issue were L-410 turboprop airplanes slated for use in Russia. This loan transaction is entirely consistent with the Bank's mission: to support cooperation and integration of the economies of its member states in order to maintain the conditions for balanced and inclusive growth, as well as the competitiveness of the national economies based on historical relations.

I wonder what mechanism, if I may use this term, was used in the process of leasing and the respective lending. How effective is it in your case?

Dmitry Shaplyko: Extremely effective. Leasing in the Russian business environment has shown itself to be highly beneficial. The state, being a 100% shareholder of our Company, allocates billions of rubles for implementation of the leasing programs also supported by the STLK-raised extra budgetary funds including bank loans, as noted above. Yet, it is much more than that. The Company receives leasing payments from its clients, which are again put into circulation and refinanced into new programs. According to the estimates, STLK raises up to five rubles of extrabudgetary investments per each budgetary ruble. The partnership synergy is evident.

What are the actual results achieved through the execution of this partnership Agreement?

Andrey Nikolaev: This year, Russia will receive 11 L-410 turboprop airplanes for regional operators. This is the net result. It is accompanied by many other positive developments, in both social and production spheres. In this respect, we should note Aircraft Industries a.s., the aircraft manufacturer located in the Czech Republic, which, thanks to our partnership with STLK, got its second wind, I can say without exaggeration. In 2015, this aircraft manufacturer was on the verge of bankruptcy. Without the adequate financial support, it manufactured only four L-410 airplanes. But last year, due to the upcoming reliable orders and leasing receipts, the company managed to renew the mass production of these turboprops. It produced nine air vehicles for export to Russia. Hence, this company generated a profit of 46.7 million korunas (over EUR 1.7 million) last year. It is of key importance that due to the growth of export deliveries to the Russian Federation the company managed to avoid mass dismissal of its personnel. The company managed to save face in the world market, and the budget of the Czech Republic benefited from considerable amounts of tax revenue.

Thus, the Bank and STLK not only helped to develop the regional transport infrastructure and small aviation in the Russian Federation, but also supported the production and integration process in IIB member states, in this case, the Czech Republic and Russia.

Dmitry Shaplyko: One of the most important results is success in localization of the L-410 aircraft production in Russia. Production of these airplanes has great market potential due to the fact that nowadays our country does not produce aircraft of this type or size. The localization of assembly operations will make it possible to replace the American and Ukrainian products used in the Russian aviation market.

For this purpose, as early as 2015, the Ural Works of Civil Aviation (UWCA) and Aircraft Industries a.s. entered into an agreement on the L-410 production localization within the special economic zone Titanium Valley in the Sverdlovsk Region. Localization has reached 30% in two years. The agreement provides conditions for acceleration of this process. The release of the first turboprop airplanes under the Czech license using the UWCA facilities is planned as early as this year.

The first stage will involve partial replacement of on-board aircraft equipment sets with Russian analogs. The landing gear is expected to be improved by 2019, and the import engine GE H80-200 will be replaced with the Russian analog by 2020. The propulsion unit production will be established under cooperation of Sverdlovsk Region plants.

In general, according to the Ministry of Industry and Trade, which supports this project, the production localization level will exceed 50%. The capacity of the new UWCA production plant will reach 12 airplanes per year – that is how many aircraft are planned to be assembled by 2019 (a modified L-410 aircraft with a float-type landing gear is expected to be constructed by the same time). In future, production capacity can be ramped up to 20 units per year.

What are the future prospects for cooperation between the IIB and STLK?

Andrey Nikolaev: We intend to broaden our role in the financial support of machinery and equipment leasing to counterparties registered in IIB member states and also in third countries so as to support the economies of the Bank's shareholders. Promising areas of partnership include cooperation in the field of equipment, transport, machinery, and supplies leasing in the shareholder countries and third countries; export-import operations in this area; promotion of equipment, machinery, machines and supplies produced in the IIB member states and in other countries.

In June 2017, the IIB and STLK signed a loan facility agreement for a total of up to RUB 3.6 billion to finance the costs of leasing out the airplanes produced by JSC UWCA and JSC Russian Helicopters. So far, we have assisted in adding five MI-8 helicopters and three Ansat helicopters to the aircraft fleets of Russian airlines. I am pleased to note that Russian helicopters and also five L-410 aircrafts are scheduled for delivery to regional operators by the end of the year.

In addition, our negotiations with STLK in relation to lending to the BelAZ production leasing have entered the homestretch. This application will lead to considerable growth in exports of well-known cargo equipment from the Republic of Belarus, which has IIB observer status, to the Bank's member states.

Dmitry Shaplyko: STLK greatly values the currently established partnership and trustworthy relations with the IIB, and, for its part, expresses interest in the strategic long-term partnership involving financial support of aircraft leasing and in other sectors of the economy.

It should be added that at the MAKS 2017 air show, the President of the Russian Federation Vladimir Putin emphasized that the development of competitive civil aircraft in Russia is critical in order to improve transport accessibility in remote regions of the country and also to make domestic passenger travel more comfortable. We will provide more and more effective support to add small aircraft to the Russian air fleet in close business partnership with such authoritative financial institutions as the IIB.