

SOLLERS GROUP

**CONSOLIDATED CONDENSED
INTERIM FINANCIAL INFORMATION
AND REVIEW REPORT**

30 JUNE 2014

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Report on Review of Consolidated Condensed Interim Financial Information

To the Shareholders and Board of Directors of Open Joint Stock Company "Sollers":

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Open Joint Stock Company Sollers and its subsidiaries (the "Group") as of 30 June 2014 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

28 August 2014
Moscow, Russian Federation

Sollers Group

Consolidated Condensed Interim Statement of Financial Position at 30 June 2014

(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	Russian Roubles million		Supplementary information US\$ million (Note 2)	
		At 30 June 2014	At 31 December 2013	At 30 June 2014	At 31 December 2013
ASSETS					
Non-current assets:					
Property, plant and equipment	5	9,272	9,451	276	289
Goodwill		1,484	1,484	44	45
Development costs	6	356	361	11	11
Other intangible assets		135	167	4	5
Deferred income tax assets		332	196	10	6
Investments in joint ventures and associates	7	13,574	14,947	403	456
Other financial assets		23	20	1	1
Other non-current assets		1,057	515	31	16
Total non-current assets		26,233	27,141	780	829
Current assets:					
Inventories	8	4,894	4,526	146	138
Trade and other receivables	9	9,027	6,894	268	211
Other current assets		12	40	-	1
Cash and cash equivalents	10	2,673	6,020	80	184
Total current assets		16,606	17,480	494	534
TOTAL ASSETS		42,839	44,621	1,274	1,363
LIABILITIES AND EQUITY					
Equity					
Share capital	11	530	530	16	16
Share premium	11	4,538	4,538	135	139
Additional paid-in capital	11	1,438	1,438	43	44
Retained earnings		8,075	9,187	240	280
Equity attributable to the Company's owners		14,581	15,693	434	479
Non-controlling interest		4,096	5,083	122	155
Total equity		18,677	20,776	556	634
Non-current liabilities:					
Long-term borrowings	13	3,861	5,716	115	175
Deferred income tax liabilities		556	514	16	16
Other long-term liabilities		-	2	-	-
Total non-current liabilities		4,417	6,232	131	191
Current liabilities:					
Trade accounts payable		10,780	10,115	320	309
Advances received and other payables	12	1,268	1,362	38	42
Taxes payable		1,750	1,376	52	42
Warranty and other provisions		867	965	26	29
Short-term borrowings	13	5,080	3,795	151	116
Total current liabilities		19,745	17,613	587	538
Total liabilities		24,162	23,845	718	729
TOTAL LIABILITIES AND EQUITY		42,839	44,621	1,274	1,363

Approved for issue and signed on behalf of the Board of Directors on 28 August 2014:


General Director
V.A. Shvetsov


Chief Financial Officer
N.A. Sobolev

Sollers Group**Consolidated Condensed Interim Statement of Comprehensive Income for the six-month period ended 30 June 2014***(Amounts translated into US Dollars for convenience purposes, Note 2)*

	Note	Russian Roubles million		Supplementary information US\$ million (Note 2)	
		Six-months ended 30 June		Six-months ended 30 June	
		2014	2013	2014	2013
Sales	14	23,596	27,418	674	884
Cost of sales		(19,560)	(21,794)	(559)	(703)
Gross profit		4,036	5,624	115	181
Distribution costs		(990)	(996)	(28)	(32)
General and administrative expenses		(1,395)	(2,068)	(40)	(66)
Other operating income, net		685	55	20	2
Operating profit		2,336	2,615	67	85
Finance costs, net		(411)	(672)	(12)	(22)
Share of (loss)/profit of joint ventures and associates	7	(1,337)	246	(38)	8
Profit before income tax		588	2,189	17	71
Income tax expense		(332)	(498)	(10)	(16)
Profit for the period		256	1,691	7	55
Total comprehensive income for the period		256	1,691	7	55
Profit is attributable to:					
Owners of the Company		184	1,543	5	50
Non-controlling interest		72	148	2	5
Profit for the period		256	1,691	7	55
Total comprehensive income is attributable to:					
Owners of the Company		184	1,543	5	50
Non-controlling interest		72	148	2	5
Total comprehensive income for the period		256	1,691	7	55
Weighted average number of shares outstanding during the period (in thousands of shares) – basic		34,270	34,270	34,270	34,270
Weighted average number of shares outstanding during the period (in thousands of shares) – diluted		34,270	34,291	34,270	34,291
Earnings per share (in Russian Roubles and US\$) – basic		5.35	45.02	0.15	1.46
Earnings per share (in Russian Roubles and US\$) – diluted		5.35	45.00	0.15	1.46

Other than as presented above, the Group did not have any items to be recorded as other comprehensive income in the statement of comprehensive income (six months ended 30 June 2013: no items).

Sollers Group
Consolidated Condensed Interim Statement of Cash Flows
for the six-month period ended 30 June 2014
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Russian Roubles million		Supplementary information US\$ million (Note 2)	
	Six months ended 30 June	2013	Six months ended 30 June	2013
Cash flows from operating activities				
Profit before income tax	588	2,189	17	71
Adjustments for:				
Depreciation	407	425	12	14
Amortisation	115	78	3	3
Research and development cost write-off	5	-	-	-
Share options	-	8	-	-
Provision for impairment of receivables	10	-	-	-
Interest expense	462	529	13	17
Share of loss / (profit) of joint ventures and associates	1,337	(246)	38	(8)
Other provision movements	(484)	(463)	(14)	(15)
Expenses financed by government grant	(2)	(25)	-	(1)
Gain on sale of property, plant and equipment and other non-current assets	(717)	(51)	(20)	(2)
Loss on disposal of investments	(7)	31	-	1
Inventory provision movement	(23)	(11)	(1)	-
Operating cash flows before working capital changes	1,691	2,464	48	80
(Increase)/decrease in accounts receivable and prepayments	(2,435)	1,046	(70)	34
Increase in inventories	(333)	(1,528)	(10)	(50)
Decrease in other current assets	31	181	1	6
Increase/(decrease) in accounts payable, advances received and other payables	861	(336)	25	(11)
Increase/(decrease) in taxes payable, other than income tax	516	(448)	15	(14)
Cash provided from operations	331	1,379	9	45
Income tax paid	(569)	(727)	(16)	(24)
Interest paid	(449)	(648)	(13)	(21)
Net cash (used in)/from operating activities	(687)	4	(20)	-
Cash flows from investing activities:				
Purchase of property, plant and equipment	(832)	(451)	(24)	(15)
Proceeds from the sale of property, plant and equipment	1,058	1,067	30	34
Development costs	(54)	(27)	(1)	(1)
Purchase of intangibles and other non-current assets	(29)	(4)	(1)	-
Sale of subsidiaries, net of cash disposed	4	42	-	1
Dividends received from joint ventures	40	22	1	1
Net cash from investing activities	187	649	5	20
Cash flows from financing activities				
Proceeds from borrowings	4,351	5,224	124	168
Repayment of borrowings	(4,911)	(4,578)	(140)	(148)
Purchase of non-controlling interest in Group's subsidiary	(554)	-	(16)	-
Dividends paid to the Group's shareholders	(1,733)	-	(49)	-
Net cash (used in)/from financing activities	(2,847)	646	(81)	20
Net (decrease)/increase in cash and cash equivalents	(3,347)	1,299	(96)	40
Effect of exchange rate changes on cash and cash equivalents	-	-	(8)	(6)
Cash and cash equivalents at the beginning of the period	6,020	2,560	184	84
Cash and cash equivalents at the end of the period	2,673	3,859	80	118

The accompanying notes on page 8 to 15 are an integral part of this consolidated condensed interim financial information.

Sollers Group**Consolidated Condensed Interim Statement of Changes in Equity for the six-month period ended 30 June 2014***(in millions of Russian Roubles)*

	Share capital	Share options	Share premium	Additional paid-in-capital	Retained earnings	Attributable to equity shareholders of the Company	Non-controlling interest	Total equity
Balance at 31 December 2012	530	50	4,480	1,438	6,340	12,838	7,042	19,880
Profit for the period	-	-	-	-	1,543	1,543	148	1,691
Total recognised income for the reporting period	-	-	-	-	1,543	1,543	148	1,691
Change of interest in subsidiary (Note 17)	-	-	-	-	(772)	(772)	772	-
Dividends	-	-	-	-	(1,790)	(1,790)	-	(1,790)
Share options	-	(50)	58	-	-	8	-	8
Balance at 30 June 2013	530	-	4,538	1,438	5,321	11,827	7,962	19,789
Balance at 31 December 2013	530	-	4,538	1,438	9,187	15,693	5,083	20,776
Profit for the period	-	-	-	-	184	184	72	256
Total recognised income for the reporting period	-	-	-	-	184	184	72	256
Change of interest in subsidiary (Note 17)	-	-	-	-	567	567	(567)	-
Purchase of non-controlling interest in subsidiary	-	-	-	-	(62)	(62)	(492)	(554)
Dividends	-	-	-	-	(1,801)	(1,801)	-	(1,801)
Balance at 30 June 2014	530	-	4,538	1,438	8,075	14,581	4,096	18,677

The accompanying notes on page 8 to 15 are an integral part of this consolidated condensed interim financial information.

1 The Sollers Group and its operations

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” for the six-month period ended 30 June 2014 for Sollers OJSC (the “Company”) and its subsidiaries (the “Group”).

The Company and the Group’s principal activity is the manufacture and sale of vehicles, including automotive components, assembly kits and engines. The Group’s manufacturing facilities are primarily based in Ulyanovsk and the Nizhniy Novgorod region in the Russian Federation.

In 2011 the Group established the joint venture with Ford. Joint venture’s production assets are located in Vsevolozhsk in the St.Petersburg region, Naberezhnye Chelny and Elabuga in the Republic of Tatarstan. Ford-Sollers joint venture is exclusive manufacturer and distributor of Ford branded vehicles in Russia.

By the end of 2011 the Group established the joint venture with Japanese Mitsui&Co., Ltd located in Vladivostok. Toyota vehicles production started in February 2013.

During the second half 2012 the Group finalized the foundation of the joint venture with Mazda Motor Corporation in Vladivostok also for production of Mazda SUVs and passenger cars. Mazda-Sollers joint venture launched the production of Mazda SUVs in September 2012 and of passenger cars in April 2013.

In August 2012 the Group disposed 16% stake in joint venture Sollers-Isuzu and recognised the remained investment as 50%-50% joint venture. The Sollers-Isuzu production of lights-duty trucks is located in Ulyanovsk.

Since February 2013 the Group relocated SsangYong SUVs’ production from the Group’s subsidiary site to JV Mazda-Sollers’ production facilities. The Group continues exclusive distribution of the SsangYong SUVs.

The Company was incorporated as an open joint stock company in the Russian Federation in March 2002 by OAO “Severstal” (the predecessor) by contributing its controlling interests in OAO “Ulyanovskiy Avtomobilny Zavod” (OAO “UAZ”) and OAO “Zavolzhiyskiy Motor Works” (OAO “ZMZ”), which were acquired through purchases close to the end of 2000, in exchange for the Company’s share capital.

The immediate parent company is ERFIX LLC. The ultimate controlling party of the Group is Vadim Shvetsov.

The Company’s shares are listed on MICEX-RTS.

The registered office of the Company is Testovskaya street, 10, Moscow, Russian Federation.

This consolidated condensed interim financial information was approved for issue by the General Director and Chief Financial Officer on 28 August 2014.

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations. The recent political and economic turmoil witnessed in the region, in particular the developments in Ukraine, have had and may continue to have a negative impact on the Russian economy, including weakening of the Russian Rouble, higher interest rates, reduced liquidity and making it harder to raise international funding. These events, including current and future international sanctions against Russian companies and individuals and the related uncertainty and volatility of the financial markets, may have an impact on the Group’s operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation may differ from management’s expectations.

In 2014 Rouble exchange rates were volatile. Given the substantial volume of imports, these events alongside with a decline in customer demand observed in the beginning of 2014 and forecasted to continue throughout 2014 resulted in certain operational cost reduction measures implemented by management in order to maintain short to medium-term profitability. Management is confident that long-term business plans of the joint ventures are sustainable.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group’s business.

2 Basis of preparation and significant accounting policies**2.1 Basis of preparation**

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard No. 34 “Interim financial reporting” (“IAS 34”). This consolidated condensed interim financial information does not contain all the information required for the preparation of the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards (“IFRS”).

2.2 Significant accounting policies

The accounting policies adopted and critical accounting estimates are consistent with those of the annual consolidated financial statements for the year ended 31 December 2013. The Group has adopted all new standards and interpretations that were effective from 1 January 2014. The impact of the adoption of these new standards and interpretations has not been significant with respect to this consolidated condensed interim financial information.

2.3 Supplementary information

U.S. Dollar (“US\$”) amounts shown in the primary statements are translated from the RR as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 30 June 2014 of Russian Rouble 33.63 = US\$ 1 (at 31 December 2013 of Russian Rouble 32.7292 = US\$ 1). The statements of income and cash flow have been translated at the average exchange rates during the six-month period ended 30 June 2014 of Russian Rouble 34.98 = US\$ 1 and 30 June 2013 of Russian Rouble 31.0165 = US\$ 1. The US\$ amounts are presented solely for the convenience of the reader, and should not be treated as a representation that RR amounts have been or could have been converted to the US\$ at this rate, nor that the US\$ amounts present fairly the financial position and results of operations and cash flows of the Group in accordance with IFRS.

Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

3 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements

There are no new IFRSs or IFRICs that are effective for the first time for this interim period that would be expected to have a material impact on this Group.

4 Balances and transactions with related parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control with, or exercises significant influence over the other party in making financial and operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

4.1 Balances and transactions with related parties

Balances with related parties of the Group as at 30 June 2014 and 31 December 2013 consist of the following:

Balances

Nature of relationship	Parent company	Associates and joint ventures	Other related parties	Total
As at 30 June 2014				
Accounts receivable	-	22	2	24
Trade and other payables	-	5,549	133	5,682
As at 31 December 2013				
Accounts receivable	-	539	-	539
Trade and other payables	-	5,708	2	5,710

4 Balances and transactions with related parties (continued)**4.1 Balances and transactions with related parties (continued)**

Transactions with related parties of the Group for the six-month periods ended 30 June 2014 and 30 June 2013 consist of the following:

Transactions

Nature of relationship	Parent company	Associates and joint ventures	Other related parties	Total
Six-month period ended				
30 June 2014				
Sales of vehicles and components	-	74	-	74
Sales of non-current assets and services	-	66	-	66
Purchases of goods and services	-	7,374	18	7,392
Dividends	969	-	-	969
Six-month period ended				
30 June 2013				
Sales of vehicles and components	-	296	-	296
Sales of non-current assets and services	-	1,216	91	1,307
Purchases of goods and services	-	7,920	11	7,931
Dividends	920	-	-	920

4.2 Directors' compensation

The compensation paid to the nine members of key management (2013: nine people) for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. Each director receives a fee for serving in that capacity and is reimbursed reasonable expenses in conjunction with their duties. No additional fees, compensation or allowances are paid.

Total key management and directors' compensation included in expenses in the statement of income comprises:

- short-term employee benefits amounting to RR 258 for the six-month period ended 30 June 2014 (RR 161 for the six-month period ended 30 June 2013); and
- there were no expenses recognised under equity-settled, share based compensation for the six-month period ended 30 June 2014 (RR 8 for the six-month period ended 30 June 2013).

On 16 May 2013 share option programme for the key management was ceased. All expenses related to share options were recognised immediately with the corresponding change in equity.

5 Property, plant and equipment

Acquisitions of property, plant, and equipment for the period amounted to RR 588 (for six-month period ended 30 June 2013: RR 1,201). Disposals of property, plant, and equipment for the period amounted to RR 362 (for six-month period ended 30 June 2013: RR 1,203).

Bank borrowings are secured on properties at 30 June 2014 to the value of RR 1,569 (31 December 2013: RR 2,790); see Note 13.

During six-month period ended 30 June 2014 the Group capitalised borrowing costs of RR 28 (six-month period ended 30 June 2013: RR 45) in the cost of the qualifying assets, annual capitalisation rate was 10% (six-month period ended 30 June 2013: 10%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 30 June 2014, the cost of the land amounted to RR 635 (31 December 2013: RR 678).

Sollers Group**Notes to the Consolidated Condensed Interim Financial Information at 30 June 2014***(in millions of Russian Roubles – RR)***6 Development costs**

	30 June 2014	30 June 2013
Cost		
Balance at the beginning of the period	1,567	1,479
Additions	54	26
Disposals	(5)	-
Balance at the end of the period	1,616	1,505
Accumulated amortisation and impairment		
Balance at the beginning of the period	(1,206)	(1,086)
Amortisation charge	(54)	(64)
Balance at the end of the period	(1,260)	(1,150)
Net book value	356	355

7 Investments in joint ventures and associates

Investments in joint ventures and associates are presented by followings assets:

	30 June 2014	31 December 2013
Ford-Sollers JV	10,725	12,438
Mazda-Sollers JV	1,148	961
Sollers-Isuzu JV	889	887
Sollers-Bussan JC	395	213
Sollers-Finance JV	383	414
DaeWon-Sollers	34	34
Total other financial assets	13,574	14,947

The table below summarises the movements in the carrying amount of the Group's investment in joint ventures and associates.

	30 June 2014	30 June 2013
Carrying amount at 1 January	14,947	14,492
Share of profit of joint venture and associates	(1,337)	246
Unrealised profit adjustment on sale of non-current assets to joint venture	4	-
Dividends received	(40)	(22)
Carrying amount at the end of the reporting period	13,574	14,716

At 30 June 2014 and 31 December 2013, the Group held 50% interest in joint ventures Ford-Sollers, Mazda Sollers, Sollers-Isuzu, Sollers-Bussan and Sollers-Finance and also held 30% interest in OOO DaeWon-Sollers. The summarised financial information of the Joint ventures, including full amounts of total assets and liabilities, is as follows:

	Total assets	Total liabilities
Total at 30 June 2014	96,253	68,942
Ford-Sollers JV	69,701	48,380
Mazda-Sollers JV	15,353	12,675
Sollers-Isuzu JV	3,501	1,673
Sollers-Bussan JV	5,622	4,831
Sollers-Finance JV	2,076	1,383
Total at 31 December 2013	85,988	55,912
Ford-Sollers JV	64,048	39,302
Mazda-Sollers JV	12,276	9,961
Sollers-Isuzu JV	3,154	1,329
Sollers-Bussan JV	4,176	3,749
Sollers-Finance JV	2,334	1,571

Sollers Group**Notes to the Consolidated Condensed Interim Financial Information at 30 June 2014***(in millions of Russian Roubles – RR)***7 Investments in joint ventures and associates (continued)**

The summarised financial information of the Joint ventures, including full amounts of revenues, operating and net profit/(loss), is as follows:

	Revenue	Operating profit/(loss)	Net profit/ (loss)
Six-month period ended			
30 June 2014	56,194	(1,956)	(2,675)
Ford-Sollers JV	25,483	(3,167)	(3,425)
Mazda-Sollers JV	19,927	639	363
Sollers-Isuzu JV	1,141	115	3
Sollers-Bussan JV	9,360	428	364
Sollers-Finance JV	283	29	20
Six-month period ended			
30 June 2013	59,064	433	491
Ford-Sollers JV	39,522	(441)	33
Mazda-Sollers JV	15,764	637	208
Sollers-Isuzu JV	656	3	68
Sollers-Bussan JV	2,833	160	124
Sollers-Finance JV	290	74	59

In August 2014 Ford Motor Company and Sollers agreed the Memorandum of Understanding describing the initiatives to improve the joint venture's market performance, financial position and operating efficiency in following years.

8 Inventories

	30 June 2014	31 December 2013
Raw materials	2,212	1,655
Less: provision	(105)	(120)
Total raw materials	2,107	1,535
Work in progress	540	398
Total work in progress	540	398
Finished products	2,304	2,657
Less: provision	(57)	(64)
Total finished products	2,247	2,593
Total	4,894	4,526

9 Trade and other receivables

	30 June 2014	31 December 2013
Trade receivables	6,726	6,045
Less: provision for impairment	(43)	(39)
Total financial assets	6,683	6,006
Other receivables	230	217
Less: provision for impairment	(10)	(13)
Total other receivables	220	204
Advances to suppliers, other than for equipment	234	357
Less: provision for impairment	(3)	(3)
Total advances to suppliers, other than for equipment	231	354
Taxes prepayments	124	162
Subsidies receivable	1,134	-
VAT recoverable, net	626	155
Other prepayments	9	13
Total	9,027	6,894

The carrying value of trade accounts receivable and other receivables as at 30 June 2014 and 31 December 2013 is approximately equal to their fair value.

At 30 June 2014, trade receivables arising from revenue contracts of RR 3,648 were pledged as a security for working capital facility related to SsangYong business (at 31 December 2013: RR 2,913).

10 Cash and cash equivalents

	30 June 2014	31 December 2013
Cash on hand and balances with banks	1,400	1,657
Cash deposits	1,273	4,363
Total	2,673	6,020

The carrying value of cash and cash equivalents as at 30 June 2014 and 31 December 2013 is approximately equal to their fair value.

11 Shareholders' equity

The value of share capital issued and fully paid up consists of the following shares:

	Number of outstanding ordinary shares (thousands)	Share capital, RR	Share premium, RR	Additional paid-in capital, RR
At 30 June 2014	34,270	530	4,538	1,438
At 31 December 2013	34,270	530	4,538	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2013: 82,074 thousand). The nominal value of all shares is 12.5 roubles per share.

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the six-month ended 30 June 2014, the net statutory profit for the Company as reported in the published interim statutory reporting forms was RR 1,609 (for the six-month period ended 30 June 2013: RR 672) and the closing balance of the accumulated profit including the current reporting period net statutory profit as of 30 June 2014 totalled to RR 2,208 (31 December 2013: RR 2,399). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in this consolidated condensed interim financial information.

In May 2014, the General Shareholders' Meeting declared dividends of RR 1,800 for the year ended 31 December 2013, or 52.52 Roubles per ordinary share.

In May 2013, the General Shareholders' Meeting declared dividends of RR 1,800 for the year ended 31 December 2012, or 52.52 Roubles per ordinary share. No dividends were declared at the General Shareholders' Meetings during the year ended 31 December 2012.

12 Advances received and other payables

	30 June 2014	31 December 2013
Liabilities for purchased property, plant and equipment	19	38
Dividend payable	122	56
Accrued liabilities and other creditors	34	94
Total financial liabilities within advances and other payables	175	188
Advances received	489	197
Accrued employee benefit costs	256	244
Vacation accrual	228	214
Bonus accrual	120	519
Total advances received and other payables	1,268	1,362

13 Short and long-term borrowings

At 30 June 2014, short-term borrowings totalled RR 5,080 (31 December 2013: RR 3,795), including short-term loans of RR 5,025 (31 December 2013: loans of RR 3,730) and interest accrued on loans of RR 55 (31 December 2013: RR 65). The carrying amounts of short-term borrowings approximates to their fair values as at 30 June 2014 and 31 December 2013.

At 30 June 2014, long-term borrowings totalled RR 3,861 (31 December 2013: RR 5,716), included bank loans only. The carrying amounts of long-term borrowings approximates to their fair values as at 30 June 2014 and 31 December 2013.

Property, plant and equipment of RR 1,569 (31 December 2013: RR 2,790) are pledged as collateral for long-term and short-term borrowings see Note 5.

14 Sales

	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013
Vehicles	20,291	22,893
Automotive components	2,227	2,634
Engines	552	747
Services	352	572
Other sales	174	572
Total	23,596	27,418

15 Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group which are regularly reviewed by the 'chief operating decision maker' in order to allocate resources to segments and to assess their performance. The Group's operating segments are reported based on the financial information provided to the Group's Chief Executive Officer and that are used to make strategic decisions.

At 30 June 2014 and at 31 December 2013 the Group activities are considered as one reporting segment: vehicles.

The Group's production facilities are wholly located within the Russian Federation, and almost all sales are domestic.

The Chief Executive Officer reviews financial information prepared on the basis of Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards, including in relation to inventory provisions; receivables provisions and other adjustments.

Performance is evaluated on the basis of operating profit or loss. Accordingly, foreign currency gains/ losses, interest income/expenses and income tax charges are excluded. No balance sheet information is regularly reviewed and accordingly no information on assets or liabilities is included as part of the segment information presented.

Revenues from external customers are presented in Note 14. Management considers that across the range of vehicles and models produced; these are considered as similar products. During the six months ended 30 June 2014 and 30 June 2013 the Group did not have transactions with a single external customer that amounted to ten per cent or more of the Group's revenues.

16 Contingencies, commitments and operating risks**16.1 Contractual commitments and guarantees**

As at 30 June 2014, the Group had contractual commitments of RR 1,666 including contractual obligations to purchase of property, plant and equipment from third parties (31 December 2013: RR 1,694).

Taxation. Russian tax 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 authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authority's scrutiny.

As a result, 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.

Different interpretations and applications of the Russian Tax Code are possible. For example, in relation to Russian taxpayers where outstanding loans are controlled by a foreign company owning directly or indirectly more than 20% of the charter capital of the Russian entity, thin capitalisation limits could be applied to the respective loan interest under certain circumstances even where loans are with other subsidiaries or Russian banks for the purpose of financing Russian business activities. As Russian tax legislation does not provide definitive guidance in certain areas, other tax matters including assessment of tax bases could also have different interpretations. Nonetheless management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained.

16.1 Contractual commitments and guarantees (continued)

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with the new transfer pricing legislation and do not anticipate any tax exposures will arise in practice.

Russian transfer pricing legislation is also applicable to all the Joint ventures in which the Group participates. Management of respective companies has also implemented internal controls to be in compliance with the new transfer pricing regulations and do not anticipate any tax exposures will arise in practice. The impact of any such exposure cannot be reliably estimated but may have a material effect on the joint ventures' financial results.

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims.

Covenants. For certain borrowing agreements, the Group is subject to covenant requirements. Breaches of these requirements could give a lender the right to accelerate the repayment period of the borrowings and demand immediate repayment.

As at 30 June 2014 the Group was in full compliance with all covenants (31 December 2013: no exceptions).

Environmental matters. Environmental regulation in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

17 Principal subsidiaries

During the reporting period ended 30 June 2014 the Group acquired 6.5% stake in OAO "UAZ" for RR 554. The Group's result (loss) of RR 62 was recognised in the Statement of Changes in Equity.

Following the OAO "UAZ" stake acquisition the Group's effective interest in OAO "Zavolzhskiy Motor Works" has changed with no changes in voting rights. As a result, an amount of RR 567 is recognised in the Statement of Changes in Equity.

During the reporting period ended 30 June 2013, as part of an internal Group reorganisation, the Group's effective interest in OAO "Zavolzhskiy Motor Works" was reduced although the Group retained a majority effective interest and there were no changes in voting rights. As a result of this reorganisation, an amount of RR 772 is recognised in the Statement of Changes in Equity.