

**SOLLERS GROUP**

**INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**31 DECEMBER 2020**

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Independent Auditor's Report

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# INDEPENDENT AUDITOR'S REPORT

## **To the Shareholders and the Board of Directors of Public Joint-Stock Company SOLLERS**

### *Opinion*

We have audited the consolidated financial statements of Public Joint-Stock Company SOLLERS and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### ***Assessment of compliance with covenants***

The Group has a significant amount of the borrowed funds to finance its activities. The amount of the borrowed funds raised by the Group amounted to 12,305 million rubles as of December 31, 2020. The terms of the loan agreements contain a number of financial and non-financial covenants. Further details are provided in Note 16 “Borrowings” to the consolidated financial statements.

We performed the following procedures, within the materiality level, regarding compliance with the terms of loan agreements:

- calculated the financial covenants;
- checked the observance of non-financial restrictive conditions;
- checked the disclosures in these consolidated financial statements.

### ***Accounting for research and development costs***

The Group incurred significant research and development costs (R&D) to develop new vehicles. Determination of costs that qualify for capitalization and subsequent measurement of the recoverable amount of these development costs, as well as the date of amortization commencement, are the areas requiring significant judgments. Therefore, accounting for R&D expenses was one of our key audit matters. Information on the Group’s R&D costs is disclosed in Note 8 “Development costs” to the consolidated financial statements.

We analyzed R&D assets as at 31 December 2020 and R&D costs incurred by the Group in 2020 to ensure that they meet the recognition criteria. We recalculated the amortization of R&D assets included in non-current assets. We reviewed management judgments concerning the ability of R&D results to generate economic benefits in the future by reading technical documents and/or estimated sales plans, if applicable. We analyzed the nature and the period of cost capitalization and, among other things, reconciled certain cost items with primary documents.

### *Other information*

Management is responsible for the other information. The other information includes information contained in the management report, but does not include the consolidated financial statements and our auditor’s report thereon. The management report is expected to be provided to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information, and we will not express any form of assurance conclusion regarding this information.

In connection with our audit of the consolidated financial statements, our responsibility is to review the other information identified above and to consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. At the date of this audit report, other information is not available to us, and we do not submit any report regarding other information.

*Responsibilities of Management and the Board of Directors for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- a) Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- d) Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- e) Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are

responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit

resulting in this independent auditor's report is

Z.B. Shalumov

April 29, 2021

The Russian original signed by  
Z.B. Shalumov, Director  
JSC "Baker Tilly Rus"

Moscow, Russian Federation

**Details of auditor**

Name: Baker Tilly Rus JSC

State Registration number: 1027700115409

Address: Office 57, Premise VII, 32 A Khoroshevskoye  
Shosse, 125284 Moscow, Russia

Member of Self-regulatory Organization of Auditors  
Association "Sodruzhestvo" (SRO AAS)  
Main registration number 12006010438.

**Details of the audited entity**

Name: Public Joint-Stock Company SOLLERS

State Registration number: 1023501244524

Address: 1, Build. 1,2, Kiyevskoye MZD, 5 km,  
Moscow, Russia, 119590

Translation note: This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

**SOLLERS Group**  
**Consolidated Statement of Financial Position at 31 December 2020**

(in millions of Russian Roubles)

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

	Note	RR million		Supplementary information US\$ million (Note 2)	
		At	At	At	At
		31 December 2020	31 December 2019	31 December 2020	31 December 2019
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	6	22,521	23,160	305	374
Right of use assets	6	626	145	9	2
Goodwill	7	1,484	1,484	20	24
Development costs	8	4,090	3,798	55	61
Other intangible assets	9	2,236	2,597	30	42
Deferred income tax assets	27	1,164	653	16	11
Investments in associates and joint ventures	10	1,890	1,949	26	32
Other financial assets		96	70	1	1
Other non-current assets	11	93	79	1	1
<b>Total non-current assets</b>		<b>34,200</b>	<b>33,935</b>	<b>463</b>	<b>548</b>
<b>Current assets</b>					
Inventories	12	6,700	7,475	90	121
Trade and other receivables	13	15,383	12,941	208	209
Restricted cash	14	1,443	3,918	20	63
Cash and cash equivalents	14	9,825	6,689	133	108
<b>Total current assets</b>		<b>33,351</b>	<b>31,023</b>	<b>451</b>	<b>501</b>
<b>TOTAL ASSETS</b>		<b>67,551</b>	<b>64,958</b>	<b>914</b>	<b>1,049</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Equity</b>					
Share capital	15	530	530	7	9
Share premium	15	4,538	4,538	62	73
Additional paid-in capital	15	1,438	1,438	19	23
Retained earnings		10,119	12,244	137	198
<b>Equity attributable to the Company's owners</b>		<b>16,625</b>	<b>18,750</b>	<b>225</b>	<b>303</b>
Non-controlling interest	32	8,606	8,226	117	133
<b>Total equity</b>		<b>25,231</b>	<b>26,976</b>	<b>342</b>	<b>436</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Long-term borrowings	16	5,539	586	75	10
Deferred income tax liabilities	27	400	695	5	11
Long-term lease liabilities	6	546	116	8	2
Deferred income	17	1,799	1,058	24	17
<b>Total non-current liabilities</b>		<b>8,284</b>	<b>2,455</b>	<b>112</b>	<b>40</b>
<b>Current liabilities</b>					
Trade accounts payable	18	17,392	20,440	235	330
Advances received and other payables	18	2,078	2,082	28	34
Short-term lease liabilities	6	86	27	1	-
Taxes payable	19	6,091	4,368	82	70
Warranty and other provisions	20	1,623	2,036	22	33
Short-term borrowings	16	6,766	6,574	92	106
<b>Total current liabilities</b>		<b>34,036</b>	<b>35,527</b>	<b>460</b>	<b>573</b>
<b>Total liabilities</b>		<b>42,320</b>	<b>37,982</b>	<b>572</b>	<b>613</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>67,551</b>	<b>64,958</b>	<b>914</b>	<b>1,049</b>

Approved for issue and signed on behalf of the Board of Directors on 29 April 2021

General Director  
N.A. Sobolev

Deputy General Director  
for Finance and Economics  
E.A. Frolova

**SOLLERS Group****Consolidated Statement of Comprehensive Income for the year ended 31 December 2020***(in millions of Russian Roubles)**(Amounts translated into US Dollars for convenience purposes, Note 2)*

	Note	RR million		Supplementary information US\$ million (Note 2)	
		Year ended 31 December		Year ended 31 December	
		2020	2019	2020	2019
Sales	21	65,985	57,839	912	894
Cost of sales	22	(57,106)	(49,577)	(790)	(766)
<b>Gross profit</b>		<b>8,879</b>	<b>8,262</b>	<b>122</b>	<b>128</b>
Distribution costs	23	(4,116)	(4,539)	(57)	(70)
General and administrative expenses	24	(4,953)	(3,577)	(68)	(55)
Other operating (expenses)/income, net	25	(327)	2,194	(4)	34
<b>Operating (loss)/profit</b>		<b>(517)</b>	<b>2,340</b>	<b>(7)</b>	<b>37</b>
Finance costs, net	26	(1,861)	(1,397)	(26)	(22)
Change in fair value of financial instrument		-	(645)	-	(10)
Share in profit of joint ventures and associates	10	(19)	405	-	6
<b>(Loss)/ profit before income tax</b>		<b>(2,397)</b>	<b>703</b>	<b>(33)</b>	<b>11</b>
Income tax income	27	652	646	9	10
<b>(Loss)/ profit for the year</b>		<b>(1,745)</b>	<b>1,349</b>	<b>(24)</b>	<b>21</b>
<b>Total comprehensive (loss)/ income for the year</b>		<b>(1,745)</b>	<b>1,349</b>	<b>(24)</b>	<b>21</b>
<b>(Loss)/ profit is attributable to:</b>					
Owners of the Company		(2,125)	128	(29)	2
Non-controlling interest	32	380	1,221	5	19
<b>(Loss)/ profit for the year</b>		<b>(1,745)</b>	<b>1,349</b>	<b>(24)</b>	<b>21</b>
<b>Total comprehensive (loss)/ income is attributable to:</b>					
Owners of the Company		(2,125)	128	(29)	2
Non-controlling interest		380	1,221	5	19
<b>Total comprehensive income for the year</b>		<b>(1,745)</b>	<b>1,349</b>	<b>(24)</b>	<b>21</b>
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 (thousands) – diluted		34,270	34,270	34,270	34,270
(Loss)/ profit per share (in RR and US\$) – basic		(62,02)	3,73	(0,86)	0,06
(Loss)/ profit per share (in RR and US\$) – diluted		(62,02)	3,73	(0,86)	0,06

**SOLLERS Group**  
**Consolidated Statement of Cash Flows for the year ended 31 December 2020**  
*(in millions of Russian Roubles)*  
*(Amounts translated into US Dollars for convenience purposes, Note 2)*

	Note	RR million		Supplementary information US\$ million (Note 2)	
		Year ended		Year ended	
		31 December	31 December	31 December	31 December
		2020	2019	2020	2019
<b>Cash flows from operating activities</b>					
<b>(Loss)/ profit before income tax</b>		<b>(2,397)</b>	<b>703</b>	<b>(33)</b>	<b>11</b>
Adjustments for:					
Depreciation		2,568	1,877	36	29
Amortisation		926	783	13	12
Provision for impairment of receivables and write-offs	24	(10)	109	-	2
Provision for inventories	12	(99)	508	(1)	8
Salary and guarantee provision	18,20	(549)	(789)	(8)	(12)
Other provision movements	20	30	(600)	-	(9)
Net gain on disposal of other non-current assets		(72)	(24)	(1)	(1)
Net loss on disposal of property, plant and equipment	25	413	528	6	8
Gain on Ford SOLLERS JV acquisition		-	(2,200)	-	(34)
Gain on disposal of investment in SOLLERS Finance JV		-	(504)	-	(8)
Change in fair value of financial instrument		-	645	-	10
Share of loss/ (profit) of joint ventures and associates	10	19	(405)	-	(6)
Finance costs, net	26	1,188	1,554	16	24
Amortization of government grants	17	(151)	(147)	(2)	(2)
Change in deferred income on extended guarantee	17	294	-	4	-
Development expenses write-off	8	1	-	-	-
<b>Operating cash flows before working capital changes</b>		<b>2,161</b>	<b>2,038</b>	<b>30</b>	<b>32</b>
Decrease in inventories		800	657	11	10
Decrease/ (increase) in trade and other receivables		(2,384)	4,900	(33)	75
Increase/(decrease) in trade accounts payable, advances received and other payables		(2,881)	(1,378)	(40)	(22)
Increase/(decrease) in taxes payable		1,727	(2,933)	24	(45)
<b>Cash provided from/ (used in) operations</b>		<b>(577)</b>	<b>3,284</b>	<b>(8)</b>	<b>50</b>
Income taxes		(159)	(860)	(2)	(13)
Interest paid		(1,221)	(1,447)	(17)	(22)
<b>Net cash (used in)/ from operating activities</b>		<b>(1,957)</b>	<b>977</b>	<b>(27)</b>	<b>15</b>
<b>Cash flows from investing activities:</b>					
Purchase of property, plant and equipment	6	(2,621)	(941)	(37)	(14)
Proceeds from the sale of property, plant and equipment and advances received		250	91	3	1
Development costs	8	(800)	(1,027)	(11)	(16)
Purchase of right-of-use assets and other non-current assets	6	(78)	(179)	(1)	(3)
Change in special funds on special accounts	14	2,476	(2,157)	34	(33)
Dividends received from participation in joint venture	10	50	250	1	4
Proceeds from government R&D subsidies		-	91	-	1
Proceeds from sale of financial instrument		-	8,733	-	135
Purchase of the subsidiaries net of cash		(1)	(1,943)	-	(30)
Proceeds from sale of the subsidiary		64	-	1	-
Proceeds from sale of the share in the JV		-	1,228	-	19
Investment in joint venture		-	(70)	-	(1)
<b>Net cash (used in)/ from investing activities</b>		<b>(660)</b>	<b>4,076</b>	<b>(10)</b>	<b>63</b>
<b>Cash flows from financing activities</b>					
Investment in lease		(40)	(22)	-	-
Borrowings received	16	16,633	11,701	230	181
Repayment of borrowings	16	(10,840)	(10,261)	(150)	(159)
Change of non-controlling interest in subsidiaries		-	(8)	-	-
<b>Net cash from financing activities</b>		<b>5,753</b>	<b>1,410</b>	<b>80</b>	<b>22</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,136</b>	<b>6,463</b>	<b>43</b>	<b>100</b>
Effect of exchange rate changes on cash and cash equivalents		-	-	(18)	5
<b>Cash and cash equivalents at the beginning of the year</b>		<b>6,689</b>	<b>226</b>	<b>108</b>	<b>3</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>9,825</b>	<b>6,689</b>	<b>133</b>	<b>108</b>

**SOLLERS Group**  
**Consolidated Statement of Changes in Equity for the year ended 31 December 2020**  
*(in millions of Russian Roubles)*

	Note	Share capital	Share premium	Additional paid-in-capital	Retained earnings	Total attributable to the Company's owners	Non-controlling interest	Total equity
<b>Balance at 1 January 2019</b>		<b>530</b>	<b>4,538</b>	<b>1,438</b>	<b>12,099</b>	<b>18,605</b>	<b>364</b>	<b>18,969</b>
Profit for the year		-	-	-	128	128	1,221	1,349
Purchase of share in the new subsidiary	31	-	-	-	-	-	6,658	6,658
Purchase of non-controlling interest in subsidiary	32	-	-	-	17	17	(17)	-
<b>Total comprehensive income for 2019</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>145</b>	<b>145</b>	<b>7,862</b>	<b>8,007</b>
<b>Balance at 31 December 2019</b>		<b>530</b>	<b>4,538</b>	<b>1,438</b>	<b>12,244</b>	<b>18,750</b>	<b>8,226</b>	<b>26,976</b>
Loss for the year		-	-	-	(2,125)	(2,125)	380	(1,745)
<b>Total comprehensive income for 2020</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,125)</b>	<b>(2,125)</b>	<b>380</b>	<b>(1,745)</b>
<b>Balance at 31 December 2020</b>		<b>530</b>	<b>4,538</b>	<b>1,438</b>	<b>10,119</b>	<b>16,625</b>	<b>8,606</b>	<b>25,231</b>

## 1. The SOLLERS Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2020 for SOLLERS PJSC, previously called OJSC “Severstal-auto”, (the “Company”) and its subsidiaries (the “Group”). The Group adopted its new name “SOLLERS” in 2008.

The Company was incorporated as an open joint stock company in the Russian Federation in March 2002 by PJSC “Severstal” (the predecessor) by contributing its controlling interests in “Ulyanovsky Avtomobilny Zavod” LLC (previously PJSC “Ulyanovsky Avtomobilny Zavod”) and PJSC “Zavolzhskiy Motorny Zavod” (PJSC “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 Sollers Group (previously called ERFIX LLC). As of 31 December 2020 and 31 December 2019 the ultimate controlling party of the Group is Vadim Shvetsov who is the principal shareholder of the Company.

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

The registered office of the Company is Victory Park Plaza, 1, Build. 1, 2, Kiyevskoye MZD, 5 km, Moscow, Russia.

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, the Republic of Tatarstan in the Russian Federation.

In 2011, the Group established the joint venture with Ford Motor Company to manufacture Ford branded vehicles in Russia.

In March 2019 the Group and Ford Motor Company announced the plans for strategic restructuring of Ford-SOLLERS JV. On July 1, 2019 the Group obtained 51% of the shares of Ford-SOLLERS JV, Ford Motor Company’s share is 49%. In 2020 the JV was renamed into Sollers Ford JV. New joint venture is involved in the production and distribution of Ford Transit commercial vehicles, as well as the localization and further development of the line of the special vehicles.

New Sollers Ford JV was set up on the basis of the existing Sollers Ford Elabuga plant, which is a resident of the ALABUGA Special Economic Zone. The new joint venture started its operations on July 1, 2019.

During the second half 2012 the Group finalized the foundation of the joint venture with Mazda Motor Corporation in Vladivostok 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. Since 2019 the joint venture exports locally produced engines for Mazda vehicles to Japan.

In the first half 2018 the Group established the joint venture with ISUZU Motors Limited. The new joint venture Isuzu-SOLLERS will develop the technological cooperation in Russia and design, produce and distribute medium-duty trucks.

These consolidated financial statements were approved for issue on behalf of the Board of Directors by the General Director and the Deputy General Director for Finance and Economics on 29 April 2021.

### **Operating Environment of the Group**

**Russian Federation.** 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 frequent changes and varying interpretations (Note 30). During 2019 Russian economy was gradually recovering from the economic downturn of 2015 and 2016. But the economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group’s operations and financial position.

## **1. The SOLLERS Group and its operations (continued)**

Due to the continuing spread of coronavirus COVID-19 pandemic, the Russian Federation extended quarantine measures that significantly affect the level and scope of business activity of market participants.

In 2020 the sales of passenger and light commercial vehicles in Russia dropped by 9.1% year-on-year and totalled 1.6 mln units according to Automotive Committee of Association of European Businesses. The market participants do not anticipate considerable changes in 2021 and forecast 2% growth to 1.63 mln vehicles. Also, the increase in the USD-RUB foreign exchange rate and a decrease in real disposable income can be attributed as negative effects.

The influence of coronavirus COVID-19 pandemic on the Group's financial results depends on the development of epidemiological situation and corresponding restrictions, their impact on customers, dealers and suppliers, macroeconomic conditions and business activity, the rates of the demand rebound.

The Group's management is constantly evaluating the influence of coronavirus infection and the economic consequences associated on the going concern and financial position of the Group (Note 3). The management reviewed 2021 financial plan to the best of their knowledge and believes that the deterioration of macroeconomic environment does not threaten the going concern assumption.

The management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

## **2. Basis of preparation and significant accounting policies**

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and by the revaluation of available for sale securities. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4). These financial statements are prepared on a going concern basis.

The Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Federal Law on Accounting of the Russian Federation. The consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

### **2.1 Presentation currency**

All amounts in these consolidated financial statements are presented in millions of Russian Roubles, unless otherwise stated.

### **2.2 Supplementary information**

The supplementary information presented in US Dollars in addition to Russian Roubles (the Group's presentation currency) is presented for three primary statements: Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows. US Dollar ("US\$") amounts shown in the consolidated financial statements are translated from the Russian Rouble ("RR") amounts as a matter of arithmetic computation only. The Consolidated Statement of Financial Position have been translated at the official rate of the Central Bank of the Russian Federation at 31 December 2020 of RR 73.8757 = US\$1 (31 December 2019 of RR 61.9057 = US\$1). The Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows have been translated at the average exchange rates during the years ended 31 December 2020 of RR 72.3186 = US\$1 (2019: RR 64.7362 = US\$1). The US\$ amounts are presented solely for the convenience of the reader, and should not be construed 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.

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.3 Consolidated financial statements**

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2020. Subsidiaries are those enterprises and businesses controlled by the Group. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised gains and losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective.

Amounts reported in the consolidated financial statements have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable. Acquired subsidiaries are consolidated using the purchase method of accounting. This involves the revaluation at fair value of all identifiable assets and liabilities including contingent liabilities of the subsidiary as at the acquisition date regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition.

On initial recognition the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their revalued amounts which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. The cost of acquisition is measured at fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange including costs directly attributable to the acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. If the cost of acquisition is less than the fair value of the identifiable net assets of the subsidiary acquired the difference is recognised directly in the consolidated statement of comprehensive income. While non-controlling interest acquired the difference between the purchase consideration and the carrying amount is recorded as a capital transaction directly in equity.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

### **2.4 Purchases and sales of non-controlling interests**

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.5 Purchases of subsidiaries from parties under common control**

Purchases of subsidiaries from parties under common control are accounted for using the predecessor method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to retained earnings within equity.

### **2.6 Associates and joint ventures**

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights.

Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are those joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates or joint ventures reduce the carrying value of the investment in respective associates or joint ventures. Other post-acquisition changes in the Group's share of net assets of an associate or joint venture are recognised as follows: (i) the Group's share of profits or losses of associates and joint ventures is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates and joint ventures are recognised in profit or loss within the share of result of associates and joint ventures. The share of associates' or joint ventures' results is recognised in the consolidated financial statements from the date significant influence acquisition or the date that joint control commences until the date at which it ceases. However, when the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables; the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture. Unrealised gains on transactions between the Group, its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### **2.7 Disposals of subsidiaries, associates or joint ventures**

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.8 Financial instruments – measurement**

#### *Financial instruments – initial recognition and subsequent measurement*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### *Financial assets*

##### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 (see current Note, Revenue Recognition).

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

##### *Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- financial assets at amortised cost (debt instruments);
- financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- financial assets at fair value through profit or loss.

##### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

- the rights to receive cash flows from the asset have expired;
- or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement. and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.9 Property, plant and equipment and right-of-use assets**

Property, plant and equipment are stated at initial cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2003 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Initial cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing or renewing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date, management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit and loss.

Assets in the form of a right of use are initially measured at historical cost and amortized to the earlier of the following dates: the expiration date of the useful life of the asset in the form of a right of use or the expiration date of the lease. The initial cost of an asset in the form of a right of use includes the amount of the initial measurement of the lease liability, lease payments made before or at the date the lease commenced, and initial direct costs. Once recognized, right-of-use assets are carried at historical cost less accumulated depreciation and any accumulated impairment losses. Assets in the form of right of use are presented in the statement of financial position as a separate article.

The lease liability is initially measured at the present value, rental payments that have not yet been made at the start of the lease and are subsequently measured at amortized cost, with interest recognized in finance costs in the consolidated statement of profit or loss and other comprehensive income. Lease obligations are presented in the statement of financial position as part of the lease obligations (long-term and short-term).

### **2.10 Depreciation**

Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost amounts to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	35 to 55
Plant and machinery	15 to 25
Equipment and motor vehicles	5 to 12

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.11 Finance lease receivables**

Where the Group is a lessor in a lease, which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at the date from which the lessee is entitled to exercise its right to use the leased asset, using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within other operating income in profit or loss for the year.

Impairment losses are recognised in profit and loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables’ net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

### **2.12 Share based compensation**

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated profit or loss for the year, and with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### **2.13 Goodwill**

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.14 Other intangible assets**

The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software, patents, trademarks, licences, commercials and franchise.

Acquired computer software licenses, patents and trademarks are capitalised based on the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Trademarks	3 to 10
Production licences	5 to 10
Franchise	10 to 15
Computer software licences	3 to 5

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Other intangible assets are stated at cost less accumulated depreciation and provision for impairment, where required.

### **2.15 Inventories**

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Inventories at the reporting date include expected sales returns subsequent to the period end, where the related sales, profit margin and receivables balance are reversed. Inventories are initially recognised when the Group has control of the inventory, expects it to provide future economic benefits and the cost of the inventory can be measured reliably. For components imported from outside of the Russian Federation, this is typically at the point of delivery to the Group's warehouse and accepted by the Group's employees.

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.16 Income taxes**

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or different periods, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains at their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues.

Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

### **2.17 Trade and other receivables**

Trade and other receivables are carried at amortised cost using the effective interest method.

### **2.18 Impairment of financial assets carried at amortised cost**

Impairment losses are recognised in profit and loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment has incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.18 Impairment of financial assets carried at amortised cost (continued)**

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit and loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the profit or loss for the year.

### **2.19 Prepayments**

Prepayments are carried at cost less provision for impairment. Prepayments are classified as long-term if the expected period of receipt of goods or services related to it exceeds one year, or if the prepayment relates to an asset which will be classified as non-current at initial recognition. The prepayment amount for the acquisition of an asset is included in its carrying amount when the Group obtains control over the asset and that it is probable that the future economic benefits associated with it will be received by the Group. Other prepayments are written off to profit and loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit and loss.

### **2.20 Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.21 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

### **2.22 Treasury shares**

Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's equity holders until the equity instruments are cancelled reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and are included in equity attributable to the Company's equity holders.

### **2.23 Dividends**

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting date and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

### **2.24 Value added tax**

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

### **2.25 Borrowings**

Borrowings are carried at amortised cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

### **2.26 Government grants and subsidies**

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment and research and development costs capitalised are included in non-current liabilities as deferred income and are credited to the consolidated profit or loss for the year on a straight-line basis over the expected lives of the related assets.

Government grants and subsidies relating to costs are deferred and recognised in the consolidated profit or loss over the period necessary to match them with the costs that they are intended to compensate.

In 2014 started the government program of vehicle park renewal. Government subsidies partly compensate production costs, commercial and general expenses of the Group (Notes 22 and 24).

The Group is subject to number of subsidies, including vehicle park renewal and export sales support (Notes 13, 22 and 24).

The Group established several credit lines using subsidised interest rates being a subject to the state support programme for automotive producers (Note 17).

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.27 Trade and other payables**

Trade and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

### **2.28 Provisions for liabilities and charges**

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The Group recognises the estimated liability to repair or replace products sold still under warranty at the end of each reporting period. This provision is calculated based on past history of the level of repairs and replacements and recognised in costs of sale.

### **2.29 Foreign currency translation**

The functional currency of the Company and Group's consolidated entities is Russian Rouble – the currency of the primary economic environment in which the entity operates. The Group's presentation currency is the national currency of the Russian Federation, Russian Roubles.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit and loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The official exchange rates as of 31 December 2020, used for translating foreign currency balances were as follows:

	31 December 2020	31 December 2019
1 US \$	RR 73.8757	RR 61.9057
1 Euro	RR 90.6824	RR 69.3406
1 pund sterling	RR 100.0425	RR 81.1460
1 000 Korean Won	RR 68.0258	RR 53.5697
10 Chinese yuan	RR 113.119	RR 88.5937

The principal average rate of exchange used for translating income and expenses was US\$ 1 = RR 72.3186 RR (2019: US\$ 1 = RR 64.7362).

### **2.30 Revenue recognition**

IFRS 15 provides for a model to recognize revenue from contracts with customers, i.e. from sales of vehicles, engines, and automotive components, that includes five stages and requires that revenue should be recognized in an amount reflecting the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.30 Revenue recognition (continued)**

IFRS 15 requires that entities apply judgments and consider all relevant facts and circumstances while applying each stage of the model in respect of the contracts with customers. The standard also requires recognizing incremental costs of obtaining a contract and costs to fulfill a contract. Besides, the standard requires making more extensive disclosures.

The Group applied IFRS 15 retrospectively using the cumulative effect recognition method as at the date of initial recognition of January 1, 2018. The adoption of this standard had no material impact on the consolidated financial statements of the Group.

#### *Sales of goods*

According to the Group's analysis of contracts, the revenue from sales of goods should be recognised at a certain moment of time, when control over asset is transferred to the customer.

#### *Variable consideration*

Some contracts with customers provide a right of return and trade discounts. Currently the Group recognizes revenue from sales of goods at fair value of received or receivable consideration excluding returns, rebates and discounts. If the revenue is not reliably measured, the Group defers its recognition until the uncertainty is resolved. Such contract provisions give rise to variable consideration under IFRS 15, and should be estimated at contract inception and subsequently updated.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group has assessed the contracts individually to estimate the variable consideration and constrains related. The adoption of these constrains had no material impact on the consolidated financial statements of the Group.

#### *Comprehensive contracts for sales and maintenance of products*

The Group may enter into comprehensive contracts to supply and maintain its products during their entire life cycle. According to IFRS 15, the Group determined that the comprehensive contracts include two performance obligations. In that case the transaction price is to be allocated to each performance obligation on a relative stand-alone selling price basis.

#### *Significant financing component in the contract*

According to some contracts the Group provides the manufacturing works such as research and development. The works are performed based on advances equaling transaction price paid by the customer at the contract inception. According to IFRS 15 the Group should determine whether the contracts contain a significant financing component.

The Group analyzed the corresponding contracts and found no evidence for a significant financing component at the date of adoption the new standard. The principle of significant financing component recognition will be applied when its impact on the financial statements becomes significant.

#### *Warranty liabilities*

The Group provides warranty for the vehicles sold under the contracts with the customers. The Group has identified that the warranty provided is the assurance-type warranty, which is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* being the common practice to the Group.

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.31 Research and development costs**

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, on average over 5 years.

### **2.32 Employee benefits**

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

### **2.33 Earnings per share**

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during period.

If applicable, diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares under the share based compensation programme. For the share options used in the share based compensation programme a calculation is done to determine the number of shares that would have been issued at the reporting date if this date was the vesting date.

### **2.34 Offsetting**

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

### **2.35 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately where they do not have similar economic characteristics.

## **3. Critical accounting estimates and judgements in applying accounting policies**

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

### **3. Critical accounting estimates and judgements in applying accounting policies (continued)**

#### **3.1 Remaining useful life of property, plant and equipment**

Management has assessed the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

#### **3.2 Impairment of assets (including goodwill)**

Management has revised the goodwill allocation to Cash-generating unit (“CGU”) due to business restructuring finalised in 2016. ZMZ CGU is not managed as separate CGU; mainly its products are manufactured for the Group's internal use. Applying these considerations management treats UAZ CGU and ZMZ CGU as single CGU. Accordingly, management made a decision to reallocate goodwill to a single UAZ CGU.

Management have used judgement when evaluating any indicators of potential impairment of the Group's non-current assets (including property, plant and equipment, intangibles and goodwill), or, when testing for impairment as at 31 December 2020 as required.

During the year 2020, the Russian automotive market declined by 9.1% year over year. The total market sales amounted to 1.6 mln. units.

The decrease in automotive sales was caused by overall negative trend in the Russian economy and restrictions due to the pandemic. Due to the real disposable income decline of 3.5% in 2020, the customer sentiments remain at fairly low level.

In 2020 the retail sales of UAZ decreased by 6.2% mainly due to low market capacity and moderate increase in sales prices. The Group has a number of advantages in comparison with other brands because of the high level of production localization and a limited number of foreign suppliers. This fact protects the Group from the foreign exchange volatility. Besides, the Group's market share is planned to increase following the product development and improvement, enhancing the model range, increase of export sales and re-positioning of key players on the automarket.

Goodwill allocated to UAZ CGU have been tested by management for impairment using value-in-use calculations. The calculations use business plans and cash flows projections developed and approved by the management. The discounting rate used was estimated based on weighted average cost of capital, which is pre-tax and reflects specific risks related to the CGU and time value of money.

The cash flow projections cover an initial five-year period. Cash flows beyond five-year period are extrapolated using basic assumptions such as potential sales volumes, EBITDA margin level and discounting rate specific for the particular CGU. Management determined budgeted EBITDA margin on the basis of the past performance of the CGU and its expectations for the market development. These include continued stable demand for quality vehicles in the niche markets in which the unit operates, and the CGU's sales price advantage over its foreign competition in those markets.

Cash flows beyond the five-year period are extrapolated using estimated growth rate of 3% (31 December 2019: 3%); these growth rates do not exceed the forecasted inflation rates as well as account for specific Groups' opportunities in the current market environment described above. The discount rate used of 18.0% (31 December 2019: 16.0% for both CGUs) is pre-tax and reflect specific risks related to the CGU.

The inference of no impairment is sensitive to the level of future revenues. With all other assumptions held constant, a reduction in revenues by 10% in each future period would result in a need to reduce the carrying value of goodwill by RR 700.

The inference of no impairment is sensitive to the discount rate used in the model. With all other assumptions held constant, an increase of the discount rate by 3% would result in a need to reduce the carrying value of goodwill by RR 868.

### **3. Critical accounting estimates and judgements in applying accounting policies (continued)**

#### **3.3 Tax legislation and deferred income tax recognition**

Russian tax, currency and customs legislation is subject to varying interpretations. Related accounting treatment requires the use of estimates and judgements as further detailed in Note 30.

Deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on taxable profits earned in the past three years; the possibility of challenges to the deductibility of expenses; the time period available in order to utilise the losses and expectations of future taxable income that are believed to be reasonable under the circumstances. The balance includes RR 2,665 (2019: RR 1,944). For details of the deferred tax assets recognised as at 31 December 2020, see Note 27. Management expects the losses to be utilised in the next few years based on current profit forecasts.

### **4. New standards, interpretations and amendments to the existing standards**

#### **4.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2020**

A number of new standards, interpretations or amendments to existing standards are effective for annual periods beginning on or after 1 January 2020. Information on the new standards, interpretations or amendments to existing standards which are relevant for the Group is prescribed below.

##### **Definition of a Business — Amendments to IFRS 3**

On 22 October 2018, the IASB issued “Definition of a Business (Amendments to IFRS 3)” aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

The Group adopted the amendment and will apply the definition to asset acquisitions that occur on or after the beginning of 1 January 2020.

##### **Definition of Material — Amendments to IAS 1 and IAS 8**

On 31 October 2018, the IASB issued “Definition of Material (Amendments to IAS 1 and IAS 8) to clarify the definition of ‘material’ and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after 1 January 2020.

The Group adopted the amendment and will apply the definition of “material” on financial statements for annual reporting periods beginning on or after 1 January 2020.

##### **Amendments to References to the Conceptual Framework in IFRS Standards**

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. These amendments set out the IFRSs and their accompanying documents to reflect the issue of the revised Conceptual Framework for Financial Reporting in 2018 by modifying references which were earlier made to, or quotations from, the IASC’s Framework for the Preparation and Presentation of Financial Statements adopted by the Board in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010.

#### **4. New standards, interpretations and amendments to the existing standards (continued)**

##### **4.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2020 (continued)**

The amendments pertain to following standards and are effective for annual periods beginning on or after 1 January 2020:

- IFRS 2 Share-based payment
- IFRS 3 Business Combinations
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRS 14 Regulatory Deferral Accounts
- IAS 1 Presentation of Financial Statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 34 Interim Financial Reporting
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 Intangible Assets
- IFRIC 12 Service Concession Arrangements
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- SIC-32 Intangible Assets — Web Site Costs.

The Group has adopted above amendments on prospective basis i.e. to be applied after the beginning of the first annual reporting period beginning on or after 1 January 2020.

##### **IBOR Reform Phase 1 amendments**

On 26 September 2019, the IASB issued “Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)” as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 “Financial Instruments” and IAS 39 “Financial Instruments: Recognition and Measurement”, which require forward-looking analysis. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively.

The Group reviewed the impact of the amendments and concluded that there is no significant impact of the amendment on the consolidated financial statements.

##### **Covid-19-Related Rent Concessions (Amendment to IFRS 16)**

On 28 May 2020, the IASB published Covid-19-Related Rent Concessions (Amendment to IFRS 16) amending the standard to provide lessees with an exemption from assessing whether a Covid-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

The Group reviewed the impact of the amendment and concluded that there is no significant impact of this amendment on the consolidated financial statements as there are no material rent concessions received against the leases.

#### **4. New standards, interpretations and amendments to the existing standards (continued)**

##### **4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group**

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

##### **Annual Improvements to IFRS Standards 2018–2020**

On 14 May 2020, the IASB issued “Annual Improvements to IFRS Standards 2018–2020” which relate to following International Financial Reporting Standards (IFRSs):

- IFRS 1 “First-time Adoption of International Financial Reporting Standards” — Subsidiary as a first-time adopter;
- IFRS 9 “Financial Instruments” — Fees in the “10 per cent” test for derecognition of financial liabilities;
- IFRS 16 “Leases” — Lease incentives; and
- IAS 41 “Agriculture” — Taxation in fair value measurements.

The amendments to IFRS 1, IFRS 9, and IAS 41 published are all effective for annual periods beginning on or after 1 January 2022. Early application is permitted. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated. The management is in the process of assessing the impact of these amendments to the consolidated financial statements.

##### **Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)**

On 14 May 2020, the IASB issued “Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)” regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.

The amendments published are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. An entity applies the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The management is in the process of assessing the impact of these amendments to the consolidated financial statements.

##### **Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)**

On 14 May 2020, the IASB issued “Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)” amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

The amendments are effective for annual periods beginning on or after 1 January 2022 with an early application permitted. Entities apply the amendments to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated.

#### 4. New standards, interpretations and amendments to the existing standards (continued)

##### **4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group (continued)**

The management is in the process of assessing the impact of these amendments to the consolidated financial statements.

##### **Classification of Liabilities as Current or Non-current (Amendments to IAS 1)**

On 23 January 2020, the IASB issued Classification of Liabilities as Current or Non-current (Amendments to IAS 1) providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022, however, their effective date has been delayed to 1 January 2023 and are to be applied retrospectively. Earlier application is permitted.

The management is in the process of assessing the impact of these amendments to the consolidated financial statements.

#### 5. Balances and transactions with related parties

Related parties are defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's immediate parent and ultimate controlling party are disclosed in Note 1.

##### **5.1 Balances and transactions with related parties**

Balances with related parties of the Group as at 31 December 2020 and 31 December 2019 consist of the following:

<b>Balances</b>				
<b>Nature of relationship</b>	<b>Parent company</b>	<b>Other related parties</b>	<b>Associates and joint ventures</b>	<b>Total</b>
<b>As at 31 December 2020</b>				
Accounts receivable	-	29	10	<b>39</b>
Trade and other accounts payable	-	528	1	<b>529</b>
<b>As at 31 December 2019</b>				
Loans received	15	-	-	<b>15</b>
Accounts receivable	2	73	5	<b>80</b>
Trade and other accounts payable	-	484	9	<b>493</b>

Transactions with related parties of the Group for the years ended 31 December 2020 and 31 December 2019 consist of the following:

<b>Transactions</b>				
<b>Nature of relationship</b>	<b>Parent company</b>	<b>Other related parties</b>	<b>Associates and joint ventures</b>	<b>Total</b>
<b>Year ended 31 December 2020</b>				
Sales of vehicles and components, services	1	12	-	<b>13</b>
Purchases less discounts	-	3,717	1	<b>3,718</b>
<b>Year ended 31 December 2019</b>				
Loans received	15	-	-	<b>15</b>
Sales of vehicles and components, services	2	31	87	<b>120</b>
Purchases less discounts	1	4,543	34	<b>4,578</b>

## 5. Balances and transactions with related parties (continued)

### 5.2 Key management compensation

The compensation paid to nine members of key management (year ended 31 December 2019: 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 compensation included in expenses in the consolidated statement of comprehensive income for the year ended 31 December 2020 comprises:

- short-term employee benefits amounting to RR 641 including payments to the State Pension Fund and other social taxes of RR 87 (2019: RR 434 including payments to the State Pension Fund and other social taxes of RR 59).

## 6. Property, plant and equipment and right-of-use assets

Property, plant and equipment and related accumulated depreciation consist of the following:

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
<b>Cost</b>					
Balance at 1 January 2019	7,099	10,954	4,697	383	23,133
Acquired with the subsidiary	919	11,673	545	353	13,490
Additions	-	-	-	1,028	1,028
Disposals	(17)	(107)	(76)	(356)	(556)
Transfers	193	370	461	(1,024)	-
<b>Balance at 31 December 2019</b>	<b>8,194</b>	<b>22,890</b>	<b>5,627</b>	<b>384</b>	<b>37,095</b>
Additions	-	-	-	2,604	2,604
Disposals	(233)	(742)	(133)	(42)	(1,150)
Transfers	41	343	577	(961)	-
<b>Balance at 31 December 2020</b>	<b>8,002</b>	<b>22,491</b>	<b>6,071</b>	<b>1,985</b>	<b>38,549</b>
<b>Accumulated depreciation</b>					
Balance at 1 January 2019	(2,653)	(6,476)	(3,034)	-	(12,163)
Depreciation expense for year	(155)	(1,108)	(664)	-	(1,927)
Disposals	5	87	63	-	155
<b>Balance at 31 December 2020</b>	<b>(2,803)</b>	<b>(7,497)</b>	<b>(3,635)</b>	<b>-</b>	<b>(13,935)</b>
Depreciation expense for year	(172)	(1,687)	(649)	-	(2,508)
Disposals	101	203	111	-	415
<b>Balance at 31 December 2020</b>	<b>(2,874)</b>	<b>(8,981)</b>	<b>(4,173)</b>	<b>-</b>	<b>(16,028)</b>
<b>Net book value</b>	<b>5,128</b>	<b>13,510</b>	<b>1,898</b>	<b>1,985</b>	<b>22,521</b>
<b>Balance at 31 December 2019</b>	<b>5,391</b>	<b>15,393</b>	<b>1,992</b>	<b>384</b>	<b>23,160</b>
<b>Balance at 31 December 2020</b>	<b>5,128</b>	<b>13,510</b>	<b>1,898</b>	<b>1,985</b>	<b>22,521</b>

As at 31 December 2020, bank borrowings are secured on land and buildings and plant and equipment. The book value of these items of property, plant and equipment included above is RR 5,287 (31 December 2019: RR 319). See Note 16.

As at 31 December 2020, construction in progress consists mainly of equipment. In December 2020 the Group acquired production equipment from Ford Motor Company to manufacture diesel engines for Ford Transit in Elabuga. As of 31 December 2020 the equipment is recognised in construction in progress. Upon completion, assets are transferred to plant and equipment. During the year ended 31 December 2020, the Group capitalised borrowing costs of RR 24 (2019: RR 37) as part of the cost of the qualifying assets (see Note 2.14). The annual capitalisation rate was 5.8% (2019: 11.2%).

## 6. Property, plant and equipment and right-of-use assets (continued)

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 31 December 2020, the book value of the land amounted to RR 654 (2019: RR 600).

As at 31 December 2020, the right-of-use assets included in the long-term assets totaled to RR 626, the corresponding long-term lease liabilities were RR 546, short-term lease liabilities were RR 86.

The changes in right-of-use assets and lease liabilities were the following:

<b>Right-of-use assets at 1 January 2020</b>	<b>145</b>
Additions (initial measurement)	600
Depreciation charge	(43)
Disposal	(76)
<b>Right-of-use assets at 31 December 2020</b>	<b>626</b>
<b>Lease liabilities at 1 January 2020</b>	<b>143</b>
Additions (initial measurement)	598
Interest expense	15
Lease payments	(37)
Disposal	(87)
<b>Lease liabilities at 31 December 2020</b>	<b>632</b>

During 12 months period ended 31 December 2020 total cash outflow for leases, including advance payments equalled RR 40.

During 12 months period ended 31 December 2020 the Group recognized in the cost of sales and general and administrative expenses the costs relating to short-term leases and leases of low-value assets amounted to RR 172.

## 7. Goodwill

Goodwill arose first on the original purchase of the controlling stake in PJSC “UAZ” and PJSC “ZMZ” and then on the increase of the holding stake in PJSC “UAZ” in 2003 and PJSC “ZMZ” in 2004.

Management revised its approach to goodwill due to business restructuring in 2016. ZMZ is no longer considered as a separate generating unit; mainly its products are manufactured for the Group's internal use. Applying these considerations management treats UAZ CGU and ZMZ CGU as a single CGU. Accordingly, management made a decision to reallocate Goodwill to a single UAZ CGU.

	31 December 2020	31 December 2019
UAZ CGU	1,484	1,484
<b>Total goodwill</b>	<b>1,484</b>	<b>1,484</b>

### **Impairment tests for goodwill**

Management conducted impairment test for goodwill at 31 December 2020. See details of impairment testing in Note 3.2.

As a result of the assessment performed by the management, no impairment loss was identified as at 31 December 2020 (31 December 2019: nil).

## 8. Development costs

As a result of assessment of future economic benefits to the Group for each individual project, as at 31 December 2020 development costs in the amount of RR 1 were written off (31 December 2019: RR 0). No impairment was indicated as of 31 December 2020.

	2020	2019
<b>Cost</b>		
Balance at the beginning of the year	6,164	5,106
Additions	837	1,058
Disposal of subsidiary	(58)	-
Write-off	(1)	-
<b>Balance at the end of the year</b>	<b>6,942</b>	<b>6,164</b>
<b>Accumulated amortisation</b>		
Balance at the beginning of the year	(2,366)	(1,902)
Amortisation charge	(487)	(464)
Disposal of subsidiary	1	-
<b>Balance at the end of the year</b>	<b>(2,852)</b>	<b>(2,366)</b>
<b>Balance at the end of the year</b>	<b>4,090</b>	<b>3,798</b>

### Breakdown of development costs

	31 December 2020	31 December 2019
Development of new off-road vehicle (UAZ Patriot)	702	888
Development of new light commercial vehicle (UAZ-2360)	32	79
Development of new light commercial vehicle (UAZ-Profi)	453	375
Development of new platform	2,451	2,209
Development of IT software CaaS (car as a service)	15	-
Customisation and localisation of Ford vehicles	202	-
Other	235	247
<b>Total development costs</b>	<b>4,090</b>	<b>3,798</b>

## 9. Other intangible assets

Other intangible assets mainly comprise exclusive licences, which were provided for a period from 4 to 10 years. The Group recognized the 10-year franchise contract that gives a non-exclusive right to produce Ford Transit vehicles through acquisition of controlling share in Ford-SOLLERS JV. The values of intangible assets were the following:

	2020	2019
<b>Cost</b>		
Balance at the beginning of the year	3,570	1,532
Recognised through the acquisition of the subsidiary (franchise)	-	2,050
Additions	78	180
Disposals	(1)	(192)
<b>Balance at the end of the year</b>	<b>3,647</b>	<b>3,570</b>
<b>Accumulated amortisation</b>		
Balance at the beginning of the year	(973)	(759)
Amortisation charge	(438)	(319)
Disposals	-	105
<b>Balance at the end of the year</b>	<b>(1,411)</b>	<b>(973)</b>
<b>Balance at the end of the year</b>	<b>2,236</b>	<b>2,597</b>

## 10. Investments in associates and joint ventures

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

	31 December 2020	31 December 2019
Mazda-SOLLERS JV	1,651	1,636
SOLLERS-Bussan JV	194	254
ISUZU-SOLLERS JV	45	59
<b>Total</b>	<b>1,890</b>	<b>1,949</b>

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

	2020	2019
<b>Carrying amount at 1 January</b>	<b>1,949</b>	<b>2,438</b>
Share in (loss)/profit of joint ventures	(19)	405
Unrealised profit from sales to joint venture	10	10
Investment in the joint venture	-	70
Dividends received from joint venture	(50)	(250)
Disposal of investment in the joint venture	-	(724)
<b>Carrying amount at 31 December</b>	<b>1,890</b>	<b>1,949</b>

### **SOLLERS-Finance JV**

In November 2010, the Group established a 50% – 50% joint venture with a bank for the development of leasing services and contributed OOO SOLLERS-Finance, a previously wholly owned subsidiary, to the joint venture. During the year ended 31 December 2019, the dividends of RR 200 were received from the SOLLERS-Finance JV.

In December 2019, the Group sold 50% of SOLLERS-Finance JV shares to the JV partner for 1,228. The result from the sale of investment in SOLLERS-Finance JV was recognised in other operating income and expenses in the amount of RR 504.

### **Mazda-SOLLERS JV**

In August 2012 the Group paid its contribution to share capital of joint venture with Mazda Motor Co in amount of RR 750 and finalized the foundation of 50% – 50% joint venture with Mazda Motor Corporation. The production of Mazda SUVs and passenger cars was launched in September 2012.

In September 2016, Mazda-SOLLERS JV signed a Special investment contract with the Ministry of Industry and Trade of the Russian Federation. Under the contract, Mazda SOLLERS JV committed to create a new engine production capacity in the Far East.

In 2019 Mazda-SOLLERS JV started mass assembly and export shipment of Mazda SkyActiv-G engines.

### **SOLLERS-Bussan JV**

By the end of 2011, the Group established 50% – 50% joint venture with Japanese Mitsui&Co., Ltd located in Vladivostok, where Toyota vehicles were produced. In June 2015, the project was completed according to its initial schedule. As of the date of approval of the financial statements, Group management is considering alternative ways of SOLLERS-Bussan assets utilisation.

The carrying value of SOLLERS-Bussan JV investment have been tested by management for impairment. As of 31 December 2020, no impairment was identified (31 December 2019: nil).

In 2020, the dividends of RR 50 were received from the SOLLERS-Bussan JV (2019: RR 50).

## **10. Investments in associates and joint ventures (continued)**

### ***Sollers Ford JV***

In May 2011, SOLLERS and Ford signed an Agreement to establish a joint venture for exclusive production and distribution of Ford vehicles in the Russian Federation.

On 1 October 2011 the Group completed formation of 50% – 50% Ford-SOLLERS JV and the commencement of the joint venture was announced. Ford-SOLLERS JV manufactured a range of Ford passenger cars and light commercial vehicles in the St. Petersburg region and in the Republic of Tatarstan.

During the 6 month, ended 30 June 2015 management has revealed indicators of potential impairment of Group's investments in Ford-SOLLERS JV such as negative tendencies in macroeconomic environment and the operating losses the JV incurred. Management tested the JV for impairment using value-in-use calculations. The calculations use business plan and cash flows projections developed and approved by the JV management. The discounting rate used amounted to 16,7% and was based on weighted average cost of capital, which is post-tax and reflects specific risks related to the JV and time value of money. At June 30, 2015, the carrying value of the investment in Ford-SOLLERS JV on the Group's balance amounts to nil.

On 31 March 2015, the Group and Ford Motor Company agreed on certain changes to the joint venture structure and shareholders agreement to support the Ford SOLLERS business in the near term and provide a platform for future growth. Under these agreements, Ford Motor Company provides additional financial support to Ford-SOLLERS JV and obtains a controlling interest in the joint venture through the acquisition of preferred shares. Ford Motor Company and the Group retained 50 percent of the ordinary shares in the joint venture. In addition, the agreements provide for certain future rights for the partners to redeem SOLLERS 50% interest in the joint venture at a minimum amount valued at USD 135 mln. payable at the date of redemption. The share in Ford-SOLLERS JV hold by the Group declined from 50% at the beginning of the year 2015 to 49.9% at 31 December 2015. In the first half of 2019 the Group has exercised the option to sale its share in the Ford-SOLLERS JV for USD 135 mln. payable on the commencement date.

In March 2019 the Group and Ford Motor Company announced the plans for strategic restructuring of Ford-SOLLERS JV (Note 31).

### ***ISUZU-SOLLERS JV***

In the first half 2018 the Group established the joint venture with ISUZU Motors Limited. The new joint venture ISUZU-SOLLERS will develop the technological cooperation in Russia and design, produce and distribute medium-duty trucks.

At 31 December 2020, the Group held 50% interest in joint ventures Mazda SOLLERS, SOLLERS-Bussan and ISUZU-SOLLERS (at 31 December 2019, the Group held 50% interest in joint ventures Mazda SOLLERS, SOLLERS-Bussan, ISUZU-SOLLERS). The summarised financial information of the Joint ventures, including full amounts of total assets, liabilities, revenues, operating and net profit/(loss), is as follows:

**10. Investments in associates and joint ventures (continued)**

	Total assets	Total liabilities	Revenue	Operating profit/(loss)	Profit/(loss)
<b>Joint ventures:</b>					
<b>Total at 31 December 2020</b>	<b>20,045</b>	<b>16,006</b>	<b>42,665</b>	<b>114</b>	<b>(38)</b>
Mazda-SOLLERS JV	19,508	15,957	42,665	179	11
SOLLERS-Bussan JV	390	1	-	(27)	(19)
ISUZU-SOLLERS JV	147	48	-	(38)	(30)
<b>Total at 31 December 2019</b>	<b>14,184</b>	<b>10,016</b>	<b>48,232</b>	<b>799</b>	<b>810</b>
Mazda-SOLLERS JV	13,500	9,959	46,818	216	330
SOLLERS-Bussan JV	513	6	-	(35)	(16)
SOLLERS-Finance JV	-	-	1,414	673	539
ISUZU-SOLLERS JV	171	51	-	(55)	(43)

**11. Other non-current assets**

	31 December 2020	31 December 2019
Advances for construction in progress and equipment	4	42
Other non-current assets	89	37
<b>Total other non-current assets</b>	<b>93</b>	<b>79</b>

**12. Inventories**

	31 December 2020	31 December 2019
Raw materials	4,712	4,071
Less: provision	(281)	(311)
<b>Total raw materials</b>	<b>4,431</b>	<b>3,760</b>
Work in progress	1,111	1,256
<b>Total work in progress</b>	<b>1,111</b>	<b>1,256</b>
Finished products	1,333	2,703
Less: provision	(175)	(244)
<b>Total finished products</b>	<b>1,158</b>	<b>2,459</b>
<b>Total</b>	<b>6,700</b>	<b>7,475</b>

At 31 December 2020 and 31 December 2019, there were no pledged inventories.

### 13. Trade and other receivables

	31 December 2020	31 December 2019
Trade receivables	6,055	4,513
Less: expected credit loss	(41)	(128)
<b>Total trade receivables</b>	<b>6,014</b>	<b>4,385</b>
Other receivables, including subsidies receivables	8,939	7,960
Less: expected credit loss	(73)	(37)
<b>Total other receivables</b>	<b>8,866</b>	<b>7,923</b>
Advances to suppliers, other than for equipment	292	371
Less: expected credit loss	(5)	(13)
<b>Total advances to suppliers, other than for equipment</b>	<b>287</b>	<b>358</b>
Taxes prepayments	126	134
VAT recoverable, net	84	138
Other prepayments	6	3
<b>Total</b>	<b>15,383</b>	<b>12,941</b>

Tax prepayments include profit tax prepayments in amount of RR 121 (31 December 2019: RR 127).

The Group receives government subsidies, which partially compensate production, administrative and finance cost. During 2020 the subsidies recognised in the Cost of sales amounted to RR 12,280 (2019: RR 9,059), the amounts recognised in the General and administrative expenses totalled RR 0 (2019: RR 1,008), in the Distribution costs – RR 271 (2019: RR 259).

Trade receivables are represented by currency as follows:

Currency	31 December 2020	31 December 2019
Russian Roubles	5,950	4,291
US Dollars	-	25
Euros	64	69
<b>Total</b>	<b>6,014</b>	<b>4,385</b>

The analysis by credit quality of trade receivables outstanding are as follows:

	31 December 2020	31 December 2019
<i>Current and not impaired – exposure to</i>		
- Group 1 – large corporate clients	4,403	2,004
- Group 2 – dealers	851	2,046
- Group 3 – other clients	632	151
<b>Total current and not impaired</b>	<b>5,886</b>	<b>4,201</b>
<i>Past due but not impaired</i>		
- less than 30 days overdue	67	103
- 30 to 90 days overdue	26	44
- 90 to 180 days overdue	26	25
- 180 to 360 days overdue	9	12
- over 360 days overdue	-	-
<b>Total past due but not impaired</b>	<b>128</b>	<b>184</b>
<i>Individually determined to be impaired (gross)</i>		
- over 360 days overdue	41	128
<b>Total individually impaired</b>	<b>41</b>	<b>128</b>
<b>Less impairment provision</b>	<b>(41)</b>	<b>(128)</b>
<b>Total</b>	<b>6,014</b>	<b>4,385</b>

### 13. Trade and other receivables (continued)

The Group retains the PTS (vehicle registration certificate representing the certificate of title of a vehicle) as a pledge when other documents are transferred to the dealer in conjunction with a sale. Management considers that this serves as collateral in relation for the trade receivables in Group 2 and Group 3. The fair value of the collateral for the past due but not impaired receivables as at 31 December 2020 was RR 128 (31 December 2019: RR 184) and the fair value of the collateral for the individually determined to be impaired receivables was RR 41 as of 31 December 2020 (31 December 2019: RR 128). Movements in the expected credit loss for trade and other receivables are as follows:

	31 December 2020			31 December 2019		
	Trade receivables	Other financial receivables	Advances to suppliers	Trade receivables	Other financial receivables	Advances to suppliers
<b>Expected credit loss at the start of the year</b>	<b>128</b>	<b>37</b>	<b>13</b>	<b>44</b>	<b>42</b>	<b>9</b>
Amounts written off during the year as uncollectible	(47)	(3)	-	(8)	(17)	(1)
Provision for impairment during the year	(40)	39	(8)	92	12	5
<b>Expected credit loss at the end of the year</b>	<b>41</b>	<b>73</b>	<b>5</b>	<b>128</b>	<b>37</b>	<b>13</b>

### 14. Cash and cash equivalents

	31 December 2020	31 December 2019
Cash on hand and balances with banks	3,580	1,338
Cash deposits	6,245	5,351
<b>Total</b>	<b>9,825</b>	<b>6,689</b>

Cash and cash equivalents held by the Group earned the following interest rates per annum:

	0%-1%	3-4%	5-6%	Non-interest bearing	Total
<b>As at 31 December 2020</b>					
Cash on hand and balances with banks	17	410	-	3,153	<b>3,580</b>
Cash deposits	370	5,875	-	-	<b>6,245</b>
<b>Total</b>	<b>387</b>	<b>6,285</b>	<b>-</b>	<b>3,153</b>	<b>9,825</b>

	0%-1%	3-4%	5-6%	Non-interest bearing	Total
<b>As at 31 December 2019</b>					
Cash on hand and balances with banks	1	59	-	1,278	<b>1,338</b>
Cash deposits	-	-	5,351	-	<b>5,351</b>
<b>Total</b>	<b>1</b>	<b>59</b>	<b>5,351</b>	<b>1,278</b>	<b>6,689</b>

The following cash and cash equivalents held by the Group are denominated in foreign currencies:

Currency	31 December 2020	31 December 2019
US Dollars	444	20
Euros	1,041	2
<b>Total</b>	<b>1,485</b>	<b>22</b>

#### 14. Cash and cash equivalents (continued)

The carrying value of cash and cash equivalents as at 31 December 2020 and 31 December 2019 is approximately equal to their fair value. The Group holds 85% of its cash and cash equivalents in the top-2 Russian banks. Credit ratings of the banks where accounts were held as at the year-end date are set out in the analysis below:

	31 December 2020	31 December 2019
<i>Rating by AKRA</i>		
- AAA (ru)	2,762	1,460
- AA (ru)	49	-
<i>Rating by Expert-RA</i>		
- ruAAA	5,925	4,970
- ruAA+	2	-
<i>Other</i>		
- Unrated	1,087	259
<b>Total</b>	<b>9,825</b>	<b>6,689</b>

Restricted cash breakdown is set out below:

	31 December 2020	31 December 2019
Restricted cash under the contracts for special-purpose funding with state fund for industrial development	-	375
Restricted cash acquired under state defense order	1,433	3,413
Other restricted cash	10	130
<b>Total</b>	<b>1,443</b>	<b>3,918</b>

#### 15. Shareholders' equity

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

	Number of outstanding ordinary shares (thousands)	Share capital	Share premium	Additional paid-in capital
At 31 December 2020	34,270	530	4,538	1,438
At 31 December 2019	34,270	530	4,538	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2019: 82,074 thousand). The nominal value of all shares is 12.5 roubles per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

In accordance with Russian legislation, the Group 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 accumulated profit. For the year ended 31 December 2020, the total comprehensive loss for the Company reported in the published annual statutory reporting financial statements was RR 795 (2019: profit of RR 347) and the closing balance of the accumulated profit including the current reporting period net statutory profit was RR 10,184 (31 December 2019: RR 10,978).

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 these consolidated financial statements.

At the date of approval of these consolidated financial statements, no dividends were proposed by the Board of Directors for the year ended 31 December 2020.

During 2020 no dividends were declared nor paid for the year ended 31 December 2019.

## 16. Borrowings

The Group's long-term borrowings consisted of the following:

	31 December 2020	31 December 2019
Bank loans	5,001	121
Borrowings from federal and regional funds	415	465
Other borrowings	123	-
<b>Total long-term borrowings</b>	<b>5,539</b>	<b>586</b>

The Group's long-term borrowings are denominated in Russian Roubles at 31 December 2020 and 31 December 2019. The carrying amounts of long-term borrowings approximates to their fair values at 31 December 2020 and at 31 December 2019.

The Group's short-term borrowings consisted of the following:

	31 December 2020	31 December 2019
Bank loans	6,699	6,505
Borrowings from federal and regional funds	10	21
Other borrowings	7	-
Interest payable	50	48
<b>Total short-term borrowings</b>	<b>6,766</b>	<b>6,574</b>

The Group's short-term borrowings are denominated in Russian Roubles at 31 December 2020 and 31 December 2019. The carrying amounts of short-term borrowings approximates to their fair values at 31 December 2020 and at 31 December 2019.

Certain of the Group's borrowings are subject to covenant requirements that the Group is required to comply with, or otherwise could result in an acceleration of the repayment period.

Property, plant and equipment of RR 5,287 (31 December 2019: RR 319) are pledged as collateral for long-term and short-term borrowings. See Note 6.

## 17. Deferred income

In 2020, the Group did not receive a government subsidy to compensate Group's development costs on the new vehicle (2019: RR 91).

The Group capitalised related development costs. Accordingly, the government subsidy was recognised as a deferred income on the Group's balance sheet. The deferred income will be recognised as revenue to match the amortisation of the capitalised development costs. Amortisation of the deferred income recognised will commence when the Group meets all conditions related to the subsidy. The amount of deferred income under the government subsidy to compensate development costs on 31 December 2020 was RR 825 (31 December 2019: RR 1,013).

In 2017, the Group received loans from federal and regional funds for industrial development under the interest rate below the market (Note 16).

Under the state programme to support automotive producers, approved by the Government Decree #1035 on 11 July 2020 the Group established credit lines with subsidized interest rates. The credit lines were established for the period over one year. The fundings are provided on zero interest rate and used to purchase inventory, raw materials and components to fulfil the state vehicles' order.

The difference between the fair value of loans and the amount of cash received was recognized as a deferred income amounted to RR 680 (2019: RR 45). Deferred income movement contained the following:

**17. Deferred income (continued)**

<b>Balance at 1 January 2019</b>	<b>77</b>
Deferred income recognised in the year	-
Written-off against interest payable	(32)
<b>Total at 31 December 2019</b>	<b>45</b>
Deferred income recognised in the year	806
Written-off against interest payable	(171)
<b>Total at 31 December 2020</b>	<b>680</b>

The Group provides the additional guarantee for Ford vehicles and facilitates the programme “Ford. Road assistance”. At the commencement date the income from the services is capitalised on the statement of financial position, the revenue is recognised over time of the contracts. The amount of the deferred income under the additional guarantee and road assistance programme as of 31 December 2020 was RR 294.

**18. Trade accounts payable and advances received and other payables**

At 31 December 2020 trade accounts payable amounts to RR 17,392 (31 December 2019: RR 20,440). The amount includes trade payables with the reverse factoring settlement in the amount of RR 3,102 (31 December 2019: RR 6,499).

	<b>31 December 2020</b>	<b>31 December 2019</b>
Accrued liabilities and other creditors	174	121
Liabilities for purchased property, plant and equipment	14	116
<b>Total financial liabilities within other payables</b>	<b>188</b>	<b>237</b>
Advances received	1,231	1,108
Vacation accrual	289	245
Accrued employee benefit costs	237	254
Bonus accrual	133	238
<b>Total advances received and other payables</b>	<b>2,078</b>	<b>2,082</b>

There were no overdue payables as at 31 December 2020, including in respect of trade payables (31 December 2019: nil).

**19. Taxes payable**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Utilisation tax	5,192	3,178
Value-added tax	681	923
Payments to the State Pension Fund and other social taxes	142	151
Property tax	18	20
Excise tax	18	22
Personal income tax	12	20
Income tax	5	7
Other taxes	23	47
<b>Total</b>	<b>6,091</b>	<b>4,368</b>

The Group had no tax liabilities past due at 31 December 2020 (31 December 2019: nil).

## 20. Warranty and other provisions

During the year ended 31 December 2020 and 31 December 2019, the following movements in warranty and other provisions were recorded:

	Warranty	Tax and other claims	Total
<b>Balance at 1 January 2019</b>	<b>476</b>	<b>282</b>	<b>758</b>
Additional provision as a result of Ford-SOLLERS JV acquisition	2,223	71	2,294
Additional provision	1,004	120	1,124
Recovered provision	(960)	(67)	(1,027)
Utilised in the year	(904)	(209)	(1,113)
<b>Balance at 31 December 2019</b>	<b>1,839</b>	<b>197</b>	<b>2,036</b>
Additional provision	296	227	523
Recovered provision	-	3	3
Utilised in the year	(739)	(200)	(939)
<b>Balance at 31 December 2020</b>	<b>1,396</b>	<b>227</b>	<b>1,623</b>

The Group provides a two-year or three-year warranty on most UAZ vehicles, except for a four-year warranty on the “UAZ Profi”; the “UAZ Hunter” with a one-year warranty and warranty on ZMZ engines, which covers the period of warranty on the particular vehicle. The Group provides a two-year warranty with no mileage limit, 8-year rust-through corrosion warranty on Ford Transit vehicles, purchased from Ford official dealers. The Group is committed to repair or replace items that fail to perform properly.

All of the above provisions have been classified as current liabilities as the Group does not have an unconditional right to defer settlement beyond one year.

## 21. Sales

	Year ended 31 December 2020	Year ended 31 December 2019
Vehicles	53,767	45,886
Automotive components	9,394	8,844
Engines	1,205	1,436
Services	959	1,151
Other sales	660	522
<b>Total</b>	<b>65,985</b>	<b>57,839</b>

## 22. Cost of sales

	Year ended 31 December 2020	Year ended 31 December 2019
Materials and components	40,467	37,171
Labour costs	5,137	5,755
Other production costs	19,695	14,361
Depreciation and amortisation	2,641	2,208
Government subsidies	(12,280)	(9,059)
Change in finished goods and work in progress	1,446	(859)
<b>Total</b>	<b>57,106</b>	<b>49,577</b>

The utilisation tax of RR 13,286 is recognised in other production costs in 2020 (2019: RR 9,809).

## 23. Distribution costs

	Year ended 31 December 2020	Year ended 31 December 2019
Transportation	2,861	2,923
Labour costs	508	376
Advertising	320	660
Materials	157	204
Check and inspection performed by dealers	36	39
Other	234	337
<b>Total</b>	<b>4,116</b>	<b>4,539</b>

**24. General and administrative expenses**

	Year ended 31 December 2020	Year ended 31 December 2019
Labour costs	2,556	2,222
Services provided by third parties	775	651
Depreciation and amortisation	633	343
Fire brigade and security costs	217	199
Taxes other than income	177	211
Rent	172	198
Repairs and maintenance	128	82
Business travel	57	190
Transportation	54	88
Materials	20	25
Insurance	20	24
Training costs	10	15
Movement in the provision for impairment of receivables	(10)	109
Other	144	228
Government subsidies	-	(1,008)
<b>Total</b>	<b>4,953</b>	<b>3,577</b>

**25. Other operating expenses/(income), net**

	Year ended 31 December 2020	Year ended 31 December 2019
Profit on disposal of materials	(115)	(71)
Leasing contracts subsidy	(64)	-
Gain on sale and revaluation of investments	(42)	(511)
Accounts payable written-off	(11)	(29)
Right-of-use assets disposal	(10)	-
Net loss on disposals of property, plant, equipment and investments	413	528
Other provisions accrual	110	(1)
Charitable donations	26	21
Social expenses	13	23
Other	7	46
Gain on bargain purchase (Note 31)	-	(2,200)
<b>Total</b>	<b>327</b>	<b>(2,194)</b>

**26. Finance costs, net**

	Year ended 31 December 2020	Year ended 31 December 2019
Interest expense, net	1,165	1,504
Foreign exchange losses/(gains)	673	(151)
Discounting	47	81
<b>Total finance costs, net</b>	<b>1,885</b>	<b>1,434</b>
Less capitalised finance costs	(24)	(37)
<b>Total finance costs, net</b>	<b>1,861</b>	<b>1,397</b>

The Group's capitalised borrowing costs of RR 24 mainly arising on financing attributable to the construction of property, plant and equipment (2019: RR 37).

## 27. Income tax (benefit) / expense

The income tax benefit recorded in the consolidated statement of comprehensive income for the year comprises the following:

	Year ended 31 December 2020	Year ended 31 December 2019
Current income tax expense	160	292
Deferred tax benefit	(812)	(938)
<b>Income tax benefit</b>	<b>(652)</b>	<b>(646)</b>

In 2020, the income tax rate applicable to the Group's income was 20%, 7% and 2% (2019: 20% and 7%). A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2020	Year ended 31 December 2019
<b>Profit/(loss) before income tax</b>	<b>(2,397)</b>	<b>703</b>
Theoretical tax charge at statutory rate (2020: 20%; 2019: 20%)	(822)	5
Theoretical tax charge at statutory rate (2020: 7%; 2019: 7%)	120	48
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-assessable gains at 20%	(168)	(713)
- Non-assessable losses at 7%	218	14
<b>Income tax benefit</b>	<b>(652)</b>	<b>(646)</b>

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%, 7% and 2% (31 December 2019: 20% and 7%).

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management's expectations that are believed to be reasonable under the circumstances.

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Deferred tax assets may be realised in different periods than the deferred tax liabilities may be settled. Management believes that there will be sufficient taxable profits available at the time the temporary differences reverse to utilise the deferred tax assets. See Note 3.3.

Since 1 January 2017 carryover of the tax losses that existed at 31 December 2016 and that will arise going forward are not limited in time. The accumulated tax losses should not reduce the tax base of the period by more than 50%.

The Group has not recorded a deferred tax liability in respect of temporary differences associated with investments in associates and joint ventures as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

**27. Income tax (benefit) / expense (continued)**

	1 January 2019	Acquisition of the subsidiary in the year ended 31 December 2019	Movement in the year ended 31 December 2019	31 December 2019	Movement in the year ended 31 December 2020	Disposal of subsidiary	31 December 2020
<b>Tax effects of deductible temporary differences:</b>							
Losses carried forward	1,571	341	32	1,944	721	-	2,665
Equity investments	-	-	(12)	(12)	(37)	-	(49)
Accounts payable and provisions	318	50	579	947	(286)	(1)	660
Inventories	60	(6)	(2)	52	238	-	290
Other current assets	19	-	(2)	17	17	-	34
Short-term borrowings				-	1	-	1
Long-term liabilities	184	-	4	188	31	-	219
<b>Total</b>	<b>2,152</b>	<b>385</b>	<b>599</b>	<b>3,136</b>	<b>685</b>	<b>(1)</b>	<b>3,820</b>
<b>Tax effects of taxable temporary differences:</b>							
Property, plant and equipment	(599)	(546)	(268)	(1,413)	219	-	(1,194)
Accounts receivable	(1,681)	(129)	477	(1,333)	(288)	-	(1,621)
Equity investments and other non-current assets	(418)	(143)	129	(432)	196	(5)	(241)
<b>Total</b>	<b>(2,698)</b>	<b>(818)</b>	<b>338</b>	<b>(3,178)</b>	<b>127</b>	<b>(5)</b>	<b>(3,056)</b>
Recognised deferred tax asset, net	<b>961</b>	433	(741)	653	517	(6)	1,164
Recognised deferred tax liability, net	<b>(1,507)</b>	(866)	1,678	(695)	295	-	(400)
<b>Total net deferred tax liability</b>	<b>(546)</b>	<b>(433)</b>	<b>937</b>	<b>(42)</b>	<b>812</b>	<b>(6)</b>	<b>764</b>

## **28. 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.

Since 2011, the Group restructured its automotive, engine and autocomponents segments after PJSC UAZ has become the major customer of PJSC ZMZ. Since the acquisition of Ford-SOLLERS JV, whose main activity is the production and sale of commercial vehicles, it was fully integrated into the Group structure, and as the other Group's segments subordinates to the Group's General Director. As at 31 December 2020 the Group activities are considered as one reporting segment: vehicles production.

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 21. Management considers that across the range of vehicles and models produced, these are considered as similar products.

## **29. Financial risk management**

### **29.1 Financial risk factors**

The risk management function within the Group is carried out in respect of financial risks (market, currency, price, interest rate, credit and liquidity), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

#### **(a) Market risk**

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity investments, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

#### **(i) Currency risk**

The Group is exposed to currency risk from changes in the exchange rate of following currencies: Euro, US Dollars, Korean Won, Chinese yuan and Pound sterling. The risks arise on purchase agreements for delivery of major production components denominated in foreign currencies. Management believes that the nature of its business enables the Group to offset currency risk by changing related Rouble denominated retail prices.

## 29. Financial risk management (continued)

### 29.1 Financial risk factors

The positions are monitored monthly. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2020:

	Monetary financial assets		Monetary financial liabilities		Net balance sheet position
	Cash and cash equivalents	Accounts receivable	Accounts payable	Borrowings	
US Dollars	444	-	(1,157)	-	(713)
Euros	1,041	64	(1,872)	-	(767)
Korean Won	-	-	(59)	-	(59)
Chinese yuan	-	-	(351)	-	(351)
Pound sterling	-	-	(26)	-	(26)
<b>Total foreign currencies</b>	<b>1,485</b>	<b>64</b>	<b>(3,465)</b>	<b>-</b>	<b>(1,916)</b>
Russian Roubles	8,340	6,241	(14,115)	(12,305)	(11,839)
<b>Total</b>	<b>9,825</b>	<b>6,305</b>	<b>(17,580)</b>	<b>(12,305)</b>	<b>(13,755)</b>

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2019:

	Monetary financial assets		Monetary financial liabilities		Net balance sheet position
	Cash and cash equivalents	Accounts receivable	Accounts payable	Borrowings	
US Dollars	20	25	(1,258)	-	(1,213)
Euros	2	69	(1,222)	-	(1,151)
Chinese yuan	-	-	(3)	-	(3)
Pound sterling	-	-	(12)	-	(12)
<b>Total foreign currencies</b>	<b>22</b>	<b>94</b>	<b>(2,495)</b>	<b>-</b>	<b>(2,379)</b>
Russian Roubles	6,667	4,402	(18,182)	(7,160)	(14,273)
<b>Total</b>	<b>6,689</b>	<b>4,496</b>	<b>(20,677)</b>	<b>(7,160)</b>	<b>(16,652)</b>

The above analysis includes only monetary assets and liabilities and financial instrument. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

Management monitors exchange rates and market forecasts on foreign exchange rates regularly as well as prepares budgets for long-term, medium-term and short-term periods.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the reporting date relative to the Group's functional currency, with all other variables held constant:

	2020	2019
<i>Impact on profit and loss and on equity of:</i>		
US Dollar strengthening by 10% (10% for 2019)	(71)	(121)
US Dollar weakening by 10% (10% for 2019)	71	121
Euro strengthening by 10% (10% for 2019)	(77)	(115)
Euro weakening by 10% (10% for 2019)	77	115
Korean Won strengthening by (10% for 2019)	(6)	-
Korean Won weakening by (10% for 2019)	6	-
Chinese Yuan strengthening by (10% for 2019)	(35)	-
Chinese Yuan weakening by (10% for 2019)	35	-
Pound sterling strengthening by (10% for 2019)	(3)	(1)
Pound sterling weakening by (10% for 2019)	3	1

## 29. Financial risk management (continued)

### 29.1 Financial risk factors

The exposure was calculated only for monetary assets and liabilities denominated in currencies other than the functional currency of the respective entity of the Group.

#### (ii) Price risk

The Group is not exposed to equity securities price risk because it does not hold a material portfolio of equity securities.

#### (iii) Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the Group's exposure to interest rate risks. The table below presents the Group's financial liabilities at their carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	On demand and less than 3 month	From 3 to 12 months	More than 1 year	Total
<b>31 December 2020</b>				
Fixed interest rates	7	3,783	6,118	<b>9,908</b>
Interest rates based on key rate	1,360	1,667	-	<b>3,027</b>
<b>Total</b>	<b>1,367</b>	<b>5,450</b>	<b>6,033</b>	<b>12,935</b>

	On demand and less than 3 month	From 3 to 12 months	More than 1 year	Total
<b>31 December 2019</b>				
Fixed interest rates	205	4,121	631	<b>4,957</b>
Interest rates based on key rate	-	2,200	-	<b>2,200</b>
<b>Total</b>	<b>205</b>	<b>6,321</b>	<b>631,</b>	<b>7,157</b>

At 31 December 2020, if interest rates at that date had been 200 basis points lower (31 December 2019: 200 basis points lower) with all other variables held constant, the interest expense for the year would have been RR 195 lower (2019: RR 128 lower). If interest rates at that date had been 100 basis points higher (31 December 2019: 100 basis points higher) with all over variables held constant, the interest expense for the year would have been RR 97 higher (31 December 2019: RR 64 higher).

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

<i>In % p.a.</i>	2020	2019
<b>Assets</b>		
Cash and cash equivalents	0%-6%	0%-6%
<b>Liabilities</b>		
Borrowings	0%-12.38%	1%-9.35%

#### (b) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

## 29. Financial risk management (continued)

### 29.1 Financial risk factors

The Group's maximum exposure to credit risk by class of assets is as follows:

	31 December 2020	31 December 2019
Cash and cash equivalents	9,825	6,689
Restricted cash	1,443	3,918
Accounts receivable	6,150	4,422
Other accounts receivable and financial assets	155	74
<b>Total on-balance sheet exposure</b>	<b>17,573</b>	<b>15,103</b>
<b>Financial guarantees, Note 30</b>	<b>-</b>	<b>18</b>
<b>Total maximum exposure to credit risk</b>	<b>17,573</b>	<b>15,121</b>

The process of management of credit risk includes assessment of credit reliability of the counterparties and reviewing payments received. All the receivables from the Group's dealers are secured through the Group retaining the PTS of vehicles dispatched until payment has been made.

Management reviews the ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 13.

The credit quality of each new customer is analysed before the Group enters into contractual agreements. The credit quality of customers is assessed taking into account their financial position and past experience.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

The Group's cash and cash equivalents are held in 11 banks (31 December 2019: 9 banks), 85% of cash and cash equivalents are held in 2 leading Russian banks. Management monitor AKRA and Expert-RA ratings of the banks used to manage the level of credit risk that the Group is exposed to. Management considers that the credit risk associated with these banks is negligible.

#### **Credit risks concentration**

Except for the state and corporate contracts, no single debtor of the Group accounts for more than 1.3% (31 December 2019: 4.9%) of the trade accounts receivable of the Group. However, the majority of the Group's trade receivables represent dealers who sell the Group's vehicles to consumers, and therefore are exposed in similar ways to reductions in the demand from consumers for new vehicle sales, and their ability to obtain access to credit in the financial markets in order to finance their businesses. As the Group maintains the PTS registration certificates to each vehicle and has insurance arrangements in place, covering the vehicles held by the dealers, this mitigates the potential exposure of the Group in the event that a number of dealers are impacted in similar ways and are not able to repay amounts owed.

Management does not consider any requirement to enter into hedging arrangements in relation to the credit risks to which the Group is exposed.

#### **(c) Liquidity risk**

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times for all cash flow obligations as they become due by preparing long-term, medium-term and short-term budgets, continuously monitoring forecast and actual cash flows.

## 29. Financial risk management (continued)

### 29.1 Financial risk factors

The Group monitors the range of financial ratios (net debt/EBITDA, EBIT/Interest expense) in order to ensure that the Group maintains sufficient liquidity in order to meet its obligations as they fall due. Management review the targeted ratios in order to ensure that targets are in line with the market and take actions to ensure that the Group is able to maintain sufficient liquid resources to ensure that the Group continues to meet its liabilities as they fall due.

Management monitors compliance with covenant requirements on a monthly basis, or more frequently as appropriate. A schedule of covenant requirements that the Group is subject to is maintained by the Head of Treasury, and management are proactive to obtain revised agreements or waivers to the extent that requirements would otherwise not be achieved.

Management considers the targeted ratios sustainable for the foreseeable future. Management believes that the Group has access to additional credit facilities if required

The analysis below represents management expectations of repayment schedule of monetary assets and liabilities of the Group as of 31 December 2020 and 31 December 2019. The table below is based on the earliest possible repayment dates and on nominal cash flows including future interest payments. Foreign currency cash flows are translated using spot exchange rates as of 31 December 2020 and 31 December 2019.

	On demand and less than 3 months	From 3 to 12 months	More than 1 year	More than 5 years	Total
<b>31 December 2020</b>					
<b>Total monetary financial assets</b>	<b>17,294</b>	<b>180</b>	<b>99</b>	<b>-</b>	<b>17,573</b>
Cash and cash equivalents	9,825	-	-	-	9,825
Restricted cash	1,280	163	-	-	1,443
Trade receivables	6,127	17	6	-	6,150
Other receivables	62	-	93	-	155
<b>Total monetary financial liabilities</b>	<b>(18,967)</b>	<b>(5,515)</b>	<b>(6,396)</b>	<b>(268)</b>	<b>(31,147)</b>
Borrowings	(1,367)	(5,450)	(6,118)	-	(12,850)
Trade payables	(17,392)	-	-	-	(17,392)
Long-term lease	-	-	(278)	(268)	(546)
Other payables and short-term lease	(209)	(65)	-	-	(274)
<b>Future interest payments</b>	<b>(113)</b>	<b>(268)</b>	<b>(249)</b>	<b>-</b>	<b>(630)</b>
<b>Net monetary financial liabilities at 31 December 2020</b>	<b>(1,786)</b>	<b>(5,603)</b>	<b>(6,539)</b>	<b>(268)</b>	<b>(14,204)</b>
<b>31 December 2019</b>					
<b>Total monetary financial assets</b>	<b>15,038</b>	<b>55</b>	<b>10</b>	<b>-</b>	<b>15,103</b>
Cash and cash equivalents	6,689	-	-	-	6,689
Restricted cash	3,882	36	-	-	3,918
Trade receivables	4,393	19	10	-	4,422
Other receivables	74	-	-	-	74
<b>Total monetary financial liabilities</b>	<b>(20,941)</b>	<b>(6,337)</b>	<b>(702)</b>	<b>-</b>	<b>(27,980)</b>
Borrowings	(253)	(6,321)	(586)	-	(7,160)
Trade payables	(20,440)	-	-	-	(20,440)
Long-term lease	-	-	(116)	-	(116)
Other payables and short-term lease	(248)	(16)	-	-	(264)
<b>Future interest payments</b>	<b>(148)</b>	<b>(268)</b>	<b>(22)</b>	<b>-</b>	<b>(438)</b>
<b>Net monetary financial liabilities at 31 December 2019</b>	<b>(6,051)</b>	<b>(6,550)</b>	<b>(714)</b>	<b>-</b>	<b>(13,315)</b>

Financial guarantees issued by the Group are disclosed in Note 30.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

## 29. Financial risk management (continued)

### 29.1 Financial risk factors

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by a sum of total equity and net debt. The Group's total equity at 31 December 2020 was RR 25,231 (31 December 2019: RR 26,976).

The gearing ratios at 31 December 2020 and 31 December 2019 were as follows:

	31 December 2020	31 December 2019
Long-term borrowings	5,539	586
Short-term borrowings	6,766	6,574
Less: cash and cash equivalents and restricted cash	(11,268)	(10,607)
<b>Net debt/ (Net cash and cash equivalents)</b>	<b>1,037</b>	<b>(3,447)</b>
Equity	25,231	26,976
Total net debt and equity	26,268	н/п
<b>Gearing ratio</b>	<b>4%</b>	<b>н/п</b>

Management constantly monitor profitability ratios, market share price and debt/capitalisation ratio. The level of dividends is also monitored by the Board of Directors of the Group.

### Fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

The fair value of long-term and short-term borrowings is disclosed in Note 16. The carrying value of other financial instruments approximates to their fair value. Level three measurements were applied.

## 30. Contingencies, commitments and operating risks

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

**Tax legislation.** Russian tax and customs legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by the tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances, reviews may cover longer periods.

### **30. Contingencies, commitments and operating risks (continued)**

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This 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. Tax liabilities arising from transactions between companies within the Group are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. 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 control procedures to identify controlled transactions and test prices / profit margins in controlled transactions, and ensure compliance with the TP legislation. Management takes all necessary steps to maintain this internal control system.

At the moment management believes that the Group's interpretation of tax legislation could be proved, nevertheless, there is a risk that the Group will be subject to additional tax expenses, if management understanding is successfully challenged by tax authorities.

The impact of any such exposures cannot be reliably estimated but may have a material effect on the Group's financial results.

**Capital commitments.** Company's commitments totalled RR 336 at 31 December 2020 (31 December 2019: RR 326). The commitments include contractual obligations to purchase, construct or develop property, plant and equipment.

**Guarantees.** Guarantees are irrevocable assurance that the Group will make payments in the event that another party cannot meet its obligations. As of 31 December 2020 the Group has no financial guarantees issued for third and related parties (31 December 2019: RR 18).

**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.

Management have validated that the Group was in full compliance with all covenants attached to contracts entered into, including borrowing agreements with lenders, as at 31 December 2020 (31 December 2019: no exceptions).

As at the date of approval of these consolidated financial statements, management considers that the Group is in full compliance with all covenant requirements.

**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.

### **31. Acquisition of subsidiary Ford-SOLLERS JV**

On July 1, 2019 PJSC SOLLERS acquired a controlling interest of 51% in the authorized capital of Ford-SOLLERS JV, whose principal activities are production and distribution of Ford Transit vehicles. In 2020 the joint venture was renamed to Sollers Ford JV.

The new JV Sollers Ford was established on the basis of existing production facility in Elabuga, which is a resident of special economic zone Alabuga. The Group consolidates Sollers Ford JV since 1 July 2019, when its operations started. Sollers Ford JV inherited from the predecessor all the guarantee service liabilities and spare parts supply obligations for all Ford vehicles ever produced in Russia.

### 31. Acquisition of subsidiary Ford-SOLLERS JV (continued)

The Group paid RUB 4,730 as a consideration. The acquisition was recorded under the acquisition method. The fair value of the JV's net assets comprised RUB 13,588. The excess of the fair value of identifiable net assets over acquisition cost of 51% share in Sollers Ford JV amounted to RUB 2,200, was recorded as a gain on bargain purchase.

The following table summarizes the result of Sollers Ford JV acquisition and the gain on bargain purchase:

	<b>Sollers Ford JV</b>
Consideration	4,730
Fair value of net assets	13,588
Fair value of net assets acquired (51%)	6,930
<b>Gain on bargain purchase</b>	<b>2,200</b>

The results of operations of Sollers Ford JV were included in the accompanying consolidated statement of income from the date of acquisition. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	<b>1 July 2019</b>
<b>Assets</b>	<b>25 620</b>
Property, plant and equipment, right-of-use assets	13,667
Franchise and other intangibles	2,050
Inventory	3,520
Accounts receivable and other current assets	3,596
Cash and cash equivalents	2,787
<b>Liabilities</b>	<b>12,032</b>
Net deferred tax liabilities	434
Trade accounts payable and other payables	8,761
Other liabilities	2,837
<b>Fair value of net assets</b>	<b>13,588</b>
Non-controlling interest (49%)	6,658
Fair value of net assets acquired (51%)	6,930

### 32. Principal subsidiaries

The principal subsidiaries consolidated within the Group and the degree of control exercised by the Group are as follows:

Entity	Activity	31 December 2020	31 December 2019
		% of effective interest (total share capital)	% of effective interest (total share capital)
Ford Sollers Netherlands B.V. (Sollers Ford JV)	Manufacture and sale of light commercial vehicles, minibuses, engines and parts	51.00	49.9
PJSC "Zavolzhskiy Motorny Zavod" (further "ZMZ")	Manufacture and sale of engines for passenger automobiles, trucks and buses	96.37	96.37
LLC "RosALit"	Manufacture and sale of metal products	96.37	96.37
LLC "Ulyanovsky Avtomobilny Zavod" (before PJSC "Ulyanovsky Avtomobilny Zavod")	Manufacture and sale of passenger automobiles, light trucks and minibuses, engines and parts	100.00	100.00

The table presents the Group's effective interest in total share capital comprising of ordinary shares and preference shares or stockholders' stakes.

During the year ended 31 December 2019, as a result of a minority stake acquisition, the Group's effective interest in ZMZ increased. During 2019 the Group bought-out from third parties shares of ZMZ for RR 8. The Group's gain of RR 17 was recognised in equity.

### 32. Principal subsidiaries (continued)

At 31 December 2020, the Group had two subsidiaries with non-controlling interests that are material (at 31 December 2019, the Group had two subsidiaries with non-controlling interests that are material):

	31 December 2020		31 December 2019	
	Carrying amount	The non-controlling interest's share	Carrying amount	The non-controlling interest's share
Sollers Ford JV	8,260	49.00%	7,889	49.00%
ZMZ	346	3.63%	337	3.63%
<b>Total</b>	<b>8,606</b>	<b>-</b>	<b>8,226</b>	<b>-</b>

The table below summarises the movements in the carrying amount of the non-controlling interest in the Group's subsidiaries, including total assets, liabilities, revenue and profit:

	ZMZ	Sollers Ford JV
<b>Carrying amount at 1 January 2019</b>	<b>364</b>	<b>-</b>
Non-controlling interest in current year result	(10)	1,231
Change of non-controlling in the subsidiary	(17)	-
Acquisition of the subsidiary	-	6,658
<b>Carrying amount at 31 December 2019</b>	<b>337</b>	<b>7,889</b>
Non-controlling interest in current year result	9	371
<b>Carrying amount at 31 December 2020</b>	<b>346</b>	<b>8,260</b>

The summarised financial information of the Group's subsidiaries with significant non-controlling interest, including full amounts of total assets, liabilities, revenues and profit, is as follows:

	Total assets	Total liabilities	Revenue	Profit	Net cash flows
<b>Total at 31 December 2020</b>					
ZMZ	10,486	(935)	2,155	275	1,034
Sollers Ford JV	27,690	(10,832)	29,329	756	3,480
<b>Total at 31 December 2019</b>					
ZMZ	10,025	(749)	2,374	(270)	(15)
Sollers Ford JV	22,892	(6,791)	17,155	2,513	767

### **33. Post balance sheet date events**

On 23 October 2020 the Board of Directors approved the acquisition of the Company's shares under para. 2 article 72 of Federal Law #208-FZ at 26.12.1995 "On Joint Stock Companies" in the amount of 1 713 507 shares on the price of RR 267 per share. The buy-back programme was completed on 15 January 2021 when the Group acquired 1 713 499 (4.99997%) of treasury shares total value of RR 457.

There were no other significant events after the balance sheet date requiring disclosures.