SOLLERS GROUP

CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

30 JUNE 2017

(UNAUDITED)

CONTENTS

Report on Review of Interim Financial Information

To the Shareholders and Board of Directors of “SOLLERS” Public Joint Stock Company:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of “SOLLERS” Public Joint Stock Company and its subsidiaries (the “Group”) as of 30 June 2017 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, “Interim Financial Reporting”. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

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

28 August 2017
Moscow, Russian Federation

E.G. Lukovkina, certified auditor (licence No. 01-000264), AO PricewaterhouseCoopers Audit

Audited entity: SOLLERS PAO

Certificate of inclusion in the Unified State Register of Legal Entities issued on 4 October 2002 under registration No. 1023501244524

Testovskaya str, 10, 123317, Moscow

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate No. 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration No. 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

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	Note	Russian Roubles million		Supplementary information US$ million (Note 2)	
		At 30 June 2017	At 31 December 2016	At 30 June 2017	At 31 December 2016
ASSETS					
Non-current assets:					
Property, plant and equipment	5	11,058	11,154	187	184
Goodwill		1,484	1,484	25	24
Development costs	6	1,707	1,481	29	24
Other intangible assets		279	288	5	5
Deferred income tax assets		715	779	12	13
Investments in joint ventures and associates	7	2,064	1,914	35	31
Financial instruments	7	7,756	7,881	131	130
Other financial assets		29	34	-	1
Other non-current assets		47	43	1	1
Total non-current assets		**25,139**	**25,058**	**425**	**413**
Current assets:					
Inventories	8	6,858	4,964	116	82
Trade and other receivables	9	5,232	8,843	89	146
Other current assets		2	2	-	-
Cash and cash equivalents	10	1,041	2,336	18	38
Total current assets		**13,133**	**16,145**	**223**	**266**
TOTAL ASSETS		**38,272**	**41,203**	**648**	**679**
LIABILITIES AND EQUITY					
Equity					
Share capital	11	530	530	9	9
Share premium	11	4,538	4,538	77	75
Additional paid-in capital	11	1,438	1,438	24	24
Retained earnings		11,592	11,018	196	181
Equity attributable to the Company's owners		**18,098**	**17,524**	**306**	**289**
Non-controlling interest		455	454	8	7
Total equity		**18,553**	**17,978**	**314**	**296**
Non-current liabilities:					
Long-term borrowings	13	2,716	3,420	46	56
Deferred income tax liabilities		1,049	1,130	18	19
Deferred income		536	518	9	9
Total non-current liabilities		**4,301**	**5,068**	**73**	**84**
Current liabilities:					
Trade accounts payable		6,180	8,181	105	135
Advances received and other payables	12	2,403	2,338	41	39
Taxes payable		2,276	3,232	38	53
Warranty and other provisions		713	750	12	12
Short-term borrowings	13	3,846	3,656	65	60
Total current liabilities		**15,418**	**18,157**	**261**	**299**
Total liabilities		**19,719**	**23,225**	**334**	**383**
TOTAL LIABILITIES AND EQUITY		**38,272**	**41,203**	**648**	**679**

Approved and signed on 28 August 2017:

General Director
V.A. Shvetsov

First Deputy General Director
N.A. Sobolev

The accompanying notes on page 5 to 12 are an integral part of this consolidated condensed interim financial information.

	Note	Russian Roubles million		Supplementary information US$ million (Note 2)	
		Six-months ended 30 June		**Six-months ended 30 June**	
		2017	**2016**	**2017**	**2016**
Sales	14	16,012	13,426	276	191
Cost of sales		(12,567)	(9,933)	(217)	(141)
Gross profit		**3,445**	**3,493**	**59**	**50**
Distribution costs		(1,194)	(947)	(21)	(13)
General and administrative expenses		(1,245)	(1,342)	(21)	(19)
Other operating income, net		6	112	-	2
Operating profit		**1,012**	**1,316**	**17**	**20**
Finance costs, net		(254)	(107)	(4)	(2)
Financial instrument change in fair value	7	(125)	(828)	(2)	(12)
Share of profit/(loss) of joint ventures and associates	7	195	(212)	3	(3)
Profit before income tax		**828**	**169**	**14**	**3**
Income tax income/(expense)		(253)	(135)	(4)	(2)
Profit for the period		**575**	**34**	**10**	**1**
Total comprehensive income for the period		**575**	**34**	**10**	**1**
Profit is attributable to:					
Owners of the Company		574	40	10	1
Non-controlling interest		1	(6)	-	-
Profit for the period		**575**	**34**	**10**	**1**
Total comprehensive income is attributable to:					
Owners of the Company		574	40	10	1
Non-controlling interest		1	(6)	-	-
Total comprehensive income for the period		**575**	**34**	**10**	**1**
Weighted average number of shares outstanding during the period (in thousands of shares) – basic		34,270	34,270	34,270	34,270
Weighted average number of shares outstanding during the period (in thousands of shares) – diluted		34,270	34,270	34,270	34,270
Earnings per share (in Russian Roubles and US$) – basic		16.75	1.15	0.29	0.02
Earnings per share (in Russian Roubles and US$) – diluted		16.75	1.15	0.29	0.02

Other than as presented above, the Group did not have any items to be recorded as other comprehensive income in the statement of comprehensive income (six months ended 30 June 2016: no items).

	Russian Roubles million		Supplementary information US$ million (Note 2)	
	Six months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Cash flows from operating activities				
Profit before income tax	**828**	**169**	**14**	**3**
Adjustments for:				
Depreciation	611	441	11	6
Amortisation	67	101	1	1
Provision for impairment of receivables	20	(38)	-	(1)
Interest expense	243	448	4	6
Financial instrument change in fair value	125	828	2	12
Share of (profit)/loss of joint ventures and associates, including impairment	(195)	212	(3)	3
Other provision movements	(326)	(545)	(5)	(7)
Gain on sale of property, plant and equipment and other non-current assets	(13)	(67)	-	(1)
Loss on disposal of investments and other assets	1	2	-	-
Inventory provision movement	4	(16)	-	-
Operating cash flows before working capital changes	**1,365**	**1,535**	**24**	**22**
Decrease in accounts receivable and prepayments	3,389	1,230	58	18
Increase in inventories	(1,898)	(1,946)	(33)	(28)
Increase in other current assets	-	(1)	-	-
Increase/(decrease) in accounts payable, advances received and other payables	(1,524)	1,215	(26)	17
Increase/(decrease) in taxes payable, other than income tax	(906)	405	(16)	6
Cash provided from operations	**426**	**2,438**	**7**	**35**
Income tax paid	(97)	10	(2)	-
Interest paid	(374)	(486)	(6)	(7)
Net cash from/(used in) operating activities	**(45)**	**1,962**	**(1)**	**28**
Cash flows from investing activities:				
Purchase of property, plant and equipment	(499)	(410)	(8)	(6)
Proceeds from the sale of property, plant and equipment	4	100	-	1
Development costs	(279)	(333)	(5)	(5)
Purchase of intangibles and other non-current assets	(12)	(141)	-	(2)
Proceeds from government R&D subsidies	18	-	-	-
Dividends received from joint ventures	50	250	1	4
Net cash used in investing activities	**(718)**	**(534)**	**(12)**	**(8)**
Cash flows from financing activities				
Proceeds from borrowings	6,594	8,870	114	126
Repayment of borrowings	(7,125)	(8,388)	(123)	(119)
Dividends paid to the Group's shareholders	(1)	(1)	-	-
Net cash from/(used in) financing activities	**(532)**	**481**	**(9)**	**7**
Net increase/(decrease) in cash and cash equivalents	**(1,295)**	**1,909**	**(22)**	**27**
Effect of exchange rate changes on cash and cash equivalents	-	-	2	4
Cash and cash equivalents at the beginning of the period	**2,336**	**711**	**38**	**10**
Cash and cash equivalents at the end of the period	**1,041**	**2,620**	**18**	**41**

The accompanying notes on page 5 to 12 are an integral part of this consolidated condensed interim financial information.

(in millions of Russian Roubles)

	Share capital	Share premium	Additional paid-in-capital	Retained earnings	Attributable to equity shareholders of the Company	Non-controlling interest	Total equity
Balance at 31 December 2015	**530**	**4,538**	**1,438**	**9,416**	**15,922**	**455**	**16,377**
Profit for the period	-	-	-	40	**40**	(6)	**34**
Total recognised income for the reporting period	**-**	**-**	**-**	**40**	**40**	**(6)**	**34**
Balance at 30 June 2016	**530**	**4,538**	**1,438**	**9,456**	**15,962**	**449**	**16,411**
Balance at 31 December 2016	**530**	**4,538**	**1,438**	**11,018**	**17,524**	**454**	**17,978**
Profit for the period	-	-	-	574	**574**	1	**575**
Total recognised income for the reporting period	**-**	**-**	**-**	**574**	**574**	**1**	**575**
Balance at 30 June 2017	**530**	**4,538**	**1,438**	**11,592**	**18,098**	**455**	**18,553**

1 The Sollers Group and its operations

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” for the six-month period ended 30 June 2017 for Sollers JSC (the “Company”) and its subsidiaries (the “Group”).

On 31 July 2015 Sollers OJSC was renamed into Sollers PJSC. This fact was registered in revised edition of the Company’s Charter and approved by the General Shareholders’ Meeting. The name was changed in order to comply with Civil Code of Russia requirements.

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

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

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

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

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

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

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

During the six-month period ended 30 June 2017 the Group continued exclusive distribution of the SsangYong SUVs.

This consolidated condensed interim financial information was approved for issue by the General Director and First Deputy General Director on 28 August 2017.

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 16). During 2017 the Russian 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, all of which contributed to the country’s economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group’s operations and financial position. 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

2.1. Basis of preparation

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard No. 34 “Interim financial reporting” (“IAS 34”). This consolidated condensed interim financial information does not contain all the information required for the preparation of the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (“IFRS”).

2.2. Significant accounting policies

The accounting policies adopted and critical accounting estimates are consistent with those of the annual consolidated financial statements for the year ended 31 December 2016. The Group has adopted all new standards and interpretations that were effective from 1 January 2017. The impact of the adoption of these new standards and interpretations has not been significant with respect to this consolidated condensed interim financial information.

(in millions of Russian Roubles – RR)

2 Basis of preparation and significant accounting policies (continued)

2.3. Supplementary information

U.S. Dollar ("US$") amounts shown in the primary statements are translated from the RR as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 30 June 2017 of Russian Rouble 59.0855 = US$ 1 (at 31 December 2016 of Russian Rouble 60.6569 = US$ 1). The statements of income and cash flow have been translated at the average exchange rates during the six-month period ended 30 June 2017 of Russian Rouble 57.9862 = US$ 1 and 30 June 2016 of Russian Rouble 70.2583 = US$ 1. The US$ amounts are presented solely for the convenience of the reader, and should not be treated as a representation that RR amounts have been or could have been converted to the US$ at this rate, nor that the US$ amounts present fairly the financial position and results of operations and cash flows of the Group in accordance with IFRS.

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

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

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

4 Balances and transactions with related parties

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

4.1. Balances and transactions with related parties

Balances with related parties of the Group as at 30 June 2017 and 31 December 2016 consist of the following:

Balances

Nature of relationship	Board of directors	Joint ventures	Other related parties	Total
As at 30 June 2017				
Accounts receivable	-	75	28	**103**
Trade and other payables	-	3	144	**147**
As at 31 December 2016				
Accounts receivable	-	229	17	**246**
Trade and other payables	437	348	3	**788**

Transactions with related parties of the Group for the six-month periods ended 30 June 2017 and 30 June 2016 consist of the following:

Transactions

Nature of relationship	Parent company	Joint ventures	Other related parties	Total
Six-month period ended 30 June 2017				
Sales of vehicles, components and services	-	177	7	**184**
Purchases of goods and services	-	45	1,219	**1,264**
Six-month period ended 30 June 2016				
Sales of vehicles, components and services	-	208	43	**251**
Purchases of goods and services	-	10	756	**766**

4.2. Directors' compensation

The compensation paid to the nine members of key management (2016: nine people) for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. Each director receives a fee for serving in that capacity and is reimbursed reasonable expenses in conjunction with their duties. No additional fees, compensation or allowances are paid.

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

- short-term employee benefits amounting to RR 189 for the six-month period ended 30 June 2017 (RR 405 for the six-month period ended 30 June 2016).

(in millions of Russian Roubles – RR)

5 Property, plant and equipment

Acquisitions of property, plant, and equipment for the period amounted to RR 519 (for six-month period ended 30 June 2016: RR 426). Disposals of property, plant, and equipment for the period amounted to RR 18 (for six-month period ended 30 June 2016: RR 31).

Bank borrowings are secured on properties at 30 June 2017 to the value of RR 3,220 (31 December 2016: RR 2,848); see Note 13.

During six-month period ended 30 June 2017 the Group capitalised borrowing costs of RR 24 (six-month period ended 30 June 2016: RR 32) in the cost of the qualifying assets, annual capitalisation rate was 15% (six-month period ended 30 June 2016: 13%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 30 June 2017, the cost of the land amounted to RR 627 (31 December 2016: RR 625).

6 Development costs

	30 June 2017	30 June 2016
Cost		
Balance at the beginning of the period	3,005	2,025
Additions	279	333
Disposals	(1)	-
Balance at the end of the period	**3,283**	**2,358**
Accumulated amortisation and impairment		
Balance at the beginning of the period	(1,524)	(1,409)
Amortisation charge	(52)	(50)
Balance at the end of the period	**(1,576)**	**(1,459)**
Net book value	**1,707**	**899**

7 Investments in joint ventures

Investments in joint ventures are presented by followings assets:

	30 June 2017	31 December 2016
Mazda-Sollers JV	1,272	1,118
Sollers-Bussan JC	335	346
Sollers-Finance JV	457	450
Total investments in joint ventures	**2,064**	**1,914**

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

	30 June 2017	30 June 2016
Carrying amount at 1 January	**1,914**	**1,203**
Share of profit of joint ventures	195	(212)
Unrealised profit adjustment on sale of non-current assets to joint venture	5	5
Dividends received	(50)	(250)
Carrying amount at the end of the reporting period	**2,064**	**746**

Sollers-Finance JV

During the 6 month ended 30 June 2017 the dividends of RR 50 were received from the Sollers-Finance JV (6 month ended 30 June 2016: RR 100).

As of June 30 2017 Sollers-Finance JV had contractual commitments to acquire the lease objects amounting to RR 1,016 (31 December 2016: RR 155).

Sollers-Bussan JV

By the end of 2011 the Group established 50%-50% joint venture with Japanese Mitsui&Co., Ltd located in Vladivostok.

Since February 2013 the project of the Toyota vehicles production started. In June 2015 the project was completed according to its initial schedule.

(in millions of Russian Roubles – RR)

7 Investments in joint ventures (continued)

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 30 June 2017 no impairment was identified (31 December 2016: nil).

During the 6 month ended 30 June 2016 the dividends of RR 150 were received from the Sollers-Bussan JV.

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 commits to create a new engine production capacity in the Far East with investments of RR 2,000.

Ford-Sollers JV

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 will provide additional financial support to Ford Sollers and will obtain a controlling interest in the joint venture through the acquisition of preferred shares. Ford Motor Company and the Group will each retain 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% to 49.9% starting from 31 March 2015.

As a result of the agreements reached a financial instrument of RR 7,756 was recognised in the Group's balance sheet 31 December 2016: RR 7,881). The value of the financial instrument was determined using the Monte Carlo stochastic model which implies valuation of the underlying asset, expected expiration date and exercise price of the instrument, volatility and risk-free rate estimations as well as respective credit risks of the parties.

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. Level three measurements were applied for the valuation of the financial instrument recognised due to received right to sell the share in the JV.

At 30 June 2017 and 31 December 2016, the Group held 50% interest in joint ventures Mazda Sollers, Sollers-Bussan and Sollers-Finance. The summarised financial information of the Joint ventures, including full amounts of total assets and liabilities, is as follows:

	Total assets	**Total liabilities**
Total at 30 June 2017	**12,111**	**7,741**
Mazda-Sollers JV	7,900	5,034
Sollers-Bussan JV	700	31
Sollers-Finance JV	3,511	2,676
Total at 31 December 2016	**12,193**	**8,112**
Mazda-Sollers JV	8,465	5,897
Sollers-Bussan JV	749	57
Sollers-Finance JV	2,979	2,158

(in millions of Russian Roubles – RR)

7 Investments in joint ventures (continued)

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

	Revenue	Operating profit/ (loss)	Net profit/ (loss)
Six-month period ended 30 June 2017	**10,785**	**412**	**389**
Mazda-Sollers JV	10,384	308	298
Sollers-Bussan JV	-	(40)	(23)
Sollers-Finance JV	401	144	114
Six-month period ended 30 June 2016	**14,146**	**(2,552)**	**(1,981)**
Mazda-Sollers JV	13,872	(2,644)	(2,059)
Sollers-Bussan JV	-	(48)	(28)
Sollers-Finance JV	274	140	106

8 Inventories

	30 June 2017	31 December 2016
Raw materials	3,470	2,709
Less: provision	(49)	(52)
Total raw materials	**3,421**	**2,657**
Work in progress	964	858
Total work in progress	**964**	**858**
Finished products	2,705	1,675
Less: provision	(232)	(226)
Total finished products	**2,473**	**1,449**
Total	**6,858**	**4,964**

9 Trade and other receivables

	30 June 2017	31 December 2016
Trade receivables	1,233	3,097
Less: provision for impairment	(39)	(56)
Total financial assets	**1,194**	**3,041**
Other receivables	3,094	4,360
Less: provision for impairment	(43)	(35)
Total other receivables	**3,051**	**4,325**
Advances to suppliers, other than for equipment	228	281
Less: provision for impairment	(3)	(1)
Total advances to suppliers, other than for equipment	**225**	**280**
Taxes prepayments	173	405
VAT recoverable, net	584	785
Other prepayments	5	7
Total	**5,232**	**8,843**

The carrying value of trade accounts receivable and other receivables as at 30 June 2017 and 31 December 2016 is approximately equal to their fair value.

The group receives government subsidies which partially compensate production, administrative, distribution and finance cost. During the six month ended 30 June 2017 the subsidies recognised in the Cost of sales totaled RR 4,592 (six months ended 30 June 2016: RR 5,113), in the General and administrative expenses RR 629 (six months ended 30 June 2016: RR 654), in the Distribution costs RR 82 (six months ended 30 June 2016: nil) and in the Finance cost RR 105 (six months ended 30 June 2016: RR 87).

(in millions of Russian Roubles – RR)

10 Cash and cash equivalents

	30 June 2017	31 December 2016
Cash on hand and balances with banks	197	266
Cash deposits	844	2,070
Total	**1,041**	**2,336**

The carrying value of cash and cash equivalents as at 30 June 2017 and 31 December 2016 is approximately equal to their fair value.

11 Shareholders' equity

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

	Number of outstanding ordinary shares (thousands)	Share capital, RR	Share premium, RR	Additional paid-in capital, RR
At 30 June 2017	34,270	530	4,538	1,438
At 31 December 2016	34,270	530	4,538	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2016: 82,074 thousand). The nominal value of all shares is 12.5 roubles per share.

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the six-month ended 30 June 2017, the net statutory profit for the Company as reported in the published interim statutory reporting forms was RR 870 (for the six-month period ended 30 June 2016: RR 4,873) and the closing balance of the accumulated profit including the current reporting period net statutory profit as of 30 June 2017 totalled to RR 10,513 (31 December 2016: RR 9,643). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in this consolidated condensed interim financial information.

No dividends were declared at the General Shareholders' Meetings during the six-month period ended 30 June 2017 or during the year ended 31 December 2016.

12 Advances received and other payables

	30 June 2017	31 December 2016
Accrued liabilities and other creditors	273	224
Liabilities for purchased property, plant and equipment	38	36
Dividend payable	17	18
Total financial liabilities within advances and other payables	**328**	**278**
Advances received	1,353	1,034
Bonus accrual	129	568
Accrued employee benefit costs	273	287
Vacation accrual	320	171
Total advances received and other payables	**2,403**	**2,338**

13 Short and long-term borrowings

At 30 June 2017, short-term borrowings totalled RR 3,846 (31 December 2016: RR 3,656), including short-term loans of RR 3,820 (31 December 2016: loans of RR 3,647) and interest accrued on loans of RR 26 (31 December 2016: RR 9). The carrying amounts of short-term borrowings approximates to their fair values as at 30 June 2017 and 31 December 2016.

At 30 June 2017, long-term borrowings totalled RR 2,716 (31 December 2016: RR 3,420), included bank loans only. The carrying amounts of long-term borrowings approximates to their fair values as at 30 June 2017 and 31 December 2016.

Property, plant and equipment of RR 3,220 (31 December 2016: RR 2,848) are pledged as collateral for long-term and short-term borrowings see Note 5.

At 30 June 2017 short-term borrowings of RR 545 were secured by 100% share in the Group's subsidiary OOO Rosalit, besides property, plant and equipment.

At 31 December 2016 long-term borrowings of RR 445 and short-term borrowings of RR 221 were secured by 100% share in the Group's subsidiary OOO Rosalit, besides property, plant and equipment.

(in millions of Russian Roubles – RR)

14 Sales

	Six-month period ended 30 June 2017	Six-month period ended 30 June 2016
Vehicles	12,399	10,388
Automotive components	2,452	1,791
Engines	463	463
Services	316	333
Other sales	382	451
Total	**16,012**	**13,426**

15 Segment information

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

At 30 June 2017 and at 31 December 2016 the Group activities are considered as one reporting segment: vehicles.

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

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

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

Revenues from external customers are presented in Note 14. Management considers that across the range of vehicles and models produced; these are considered as similar products. During the six months ended 30 June 2017 and 30 June 2016 the Group did not have transactions with a single external customer that amounted to ten per cent or more of the Group’s revenues.

16 Contingencies, commitments and operating risks

16.1. Contractual commitments and guarantees

As at 30 June 2017, the Group had contractual commitments of RR 413 including contractual obligations to purchase of property, plant and equipment from third parties (31 December 2016: RR 15).

Taxation. 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. 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.

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.

16 Contingencies, commitments and operating risks (continued)

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

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

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

As at 30 June 2017 the Group was in full compliance with all covenants (31 December 2016: no exceptions).

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