SOLLERS GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2016

CONTENTS

Independent auditor's report

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements of "SOLLERS" Public Joint Stock Company and its subsidiaries (the "Group") present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited:

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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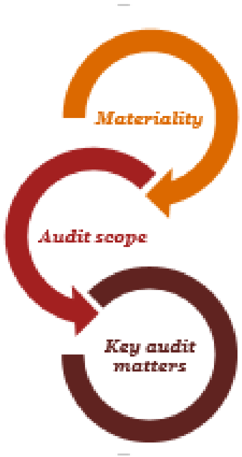
Our audit approach

Overview



- Overall group materiality: Russian Roubles ("RR") 267 million, which represents 0,75% of the Group's revenues.

- We conducted audit work covering all significant Group's companies, all located in the Russian Federation. In addition, the audit team undertook audit work at the Group's significant joint ventures.
- Our audit scope covers 99% of the Group's revenues and 99% of the Group's net profits.

- Government grants
- Potential impairment of goodwill and fixed assets analysis

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	RR 267 million
How we determined it	0,75% of the Group's revenues
Rationale for the materiality benchmark applied	Based on our professional judgement, we determined that the benchmark of the Group's revenues is appropriate because, in our view, it is the measure against which the performance of the Group is most commonly assessed. We chose 0.75% because it is consistent with quantitative materiality thresholds used for profit-oriented companies in the sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matter	How our audit addressed the Key audit matter
Government grants During 2016 the Group is the recipient of a number of government grants, provided in accordance with the sub-program "Automotive industry" of the Russian Federation state program "Industry development and increase of its competitive advantage". We focused on this area because of its materiality to the Group's consolidated financial statements and significant management judgements involved in relation to the date of government grant accrual. As at 31 December 2016 accounts receivables formed by government grants amounted to 4,182 million Roubles. This balance includes subsidies quantified at 1,182 million Roubles which were requested after the balance sheet date, however, the expenses met the criteria of eligibility to the government grants, were charged in 2016. The Group believes that the income from the government subsidies should be recognised in the consolidated financial statements prepared as of 31 December 2016, because reasonable assurance that the grants will be received was obtained before the balance sheet date.	We have obtained and read the legal acts (Russian Federation Government Decrees) and contracts with the Ministry of Industry and Trade signed in accordance with the Decrees. We obtained supporting documents for the government grant accrual transactions, including the requests for the subsidies and payment orders in relation to subsidies received. We performed detailed testing in relation to compliance with the recognition criteria set out in IFRS for government grants reflected in the Group's consolidated financial statements. As the result of the procedures performed, we obtained sufficient and appropriate audit evidence to accept management judgement that as at 31 December 2016 the Group has reasonable assurance that the government grants would be received.
Potential impairment of goodwill and fixed assets analysis Refer to note 3.2 to the consolidated financial statements for the related disclosure. Changes in the global economic environment and developments in legal and regulatory frameworks have a significant impact on the Group's operations. The management concluded that there are impairment indicators in relation to non-current assets and prepared impairment model based on discounted cash flows.	We evaluated internal controls designed for identification of impairment indicators. We obtained, understood and evaluated impairment model for merged UAZ cash generated unit prepared by management and assessed the principles of management's discounted cash flow model. We tested the mathematical accuracy of the calculations derived from forecast model and assessed key inputs in the calculations such as weighted average cost of capital and sales volume, comparing management's forecasts with macroeconomic assumptions and our own

Key audit matter	How our audit addressed the Key audit matter
We consider the analysis of impairment due to its materiality to the consolidated financial statements and requires a number of significant judgments and estimates, which management should use in the impairment analysis. Impairment model is based on a number of key assumptions, mentioned in disclosure note 3.2 to the consolidated financial statements, including weighted average cost of capital, sales volume and EBITDA margin. Management, in addition changed approach to identification of cash generated unit. In 2016 the Group finalized its operations restructuring, resulting in merge of “UAZ” and “ZMZ” in one CGU, following its legal structure, budgeting process and control over its business activities. As the result of the analysis performed, management concluded that no impairment provision was required.	valuation expertise. We focused on these key assumptions, because subjective changes can have a material impact on the value in use assessment and any resultant impairment charge. We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment. We evaluated management’s analysis of the sensitivity of the impairment test result and the adequacy of the sensitivity disclosure in particular in respect of the assumptions with the greatest potential effect on the test result, e.g. those relating to discount rate, sales volume and EBITDA margin. Based on available evidence we found management’s estimates applied in the value in use model to be reasonable and the discounted cash flow to be in accordance with approved plans. We concurred with management that no impairment loss should be charged. We assessed the disclosure in note 3.2 and concluded it meets the discloser requirements set out in IFRS in all material respects.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We defined that OOO “UAZ” required an audit as significant component due to the size and risk involved. We selected also PAO “ZMZ”, OOO “DC UAZ”, OOO “DC SanYong” and OOO “Torgoviy Dom SOLLERS” as components for separate financial statement lines. In addition, we have performed number of audit procedures over the remaining immaterial companies of the Group.

Other information

Management is responsible for the other information. The other information comprises press release and Issuer’s Report for the first and second quarters of 2017 and Annual report (but does not include the Group’s consolidated financial statements and our auditor’s report thereon), which are expected to be made available 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 do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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.

Those charged with governance are 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 scepticism throughout the audit. We also:

- 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.

- 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.
- 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 those charged with governance regarding, 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 those charged with governance 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 those charged with governance, 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.

10 April 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 № 1023501244524

Testovskaya str, 10, 123317, Moscow

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 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 № 1027700148431

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

ORNZ 11603050547 in the register of auditors and audit organizations

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."

(in millions of Russian Roubles)

		RR million		Supplementary information US$ million (Note 2)	
	Note	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015
ASSETS					
Non-current assets					
Property, plant and equipment	7	11,154	10,477	184	144
Goodwill	8	1,484	1,484	24	20
Development costs	9	1,481	616	24	9
Other intangible assets	10	288	192	5	3
Deferred income tax assets	28	779	754	13	10
Investments in associates and joint ventures	11	1,914	1,203	31	16
Financial instruments	11	7,881	9,200	130	126
Other financial assets		34	33	1	-
Other non-current assets	12	43	105	1	1
Total non-current assets		**25,058**	**24,064**	**413**	**329**
Current assets					
Inventories	13	4,964	3,982	82	55
Trade and other receivables	14	8,843	5,607	146	77
Other current assets		2	4	-	-
Cash and cash equivalents	15	2,336	711	38	10
Total current assets		**16,145**	**10,304**	**267**	**142**
TOTAL ASSETS		**41,203**	**34,368**	**679**	**471**
LIABILITIES AND EQUITY					
Equity					
Share capital	16	530	530	9	7
Share premium	16	4,538	4,538	75	62
Additional paid-in capital	16	1,438	1,438	24	20
Retained earnings		11,018	9,416	181	129
Equity attributable to the Company's owners		**17,524**	**15,922**	**289**	**218**
Non-controlling interest	32	454	455	7	6
Total equity		**17,978**	**16,377**	**296**	**224**
Liabilities					
Non-current liabilities					
Long-term borrowings	17	3,420	3,868	56	53
Deferred income tax liabilities	28	1,130	1,107	19	15
Deffered income	18	518	-	9	-
Other long term liabilities		-	1	-	-
Total non-current liabilities		**5,068**	**4,976**	**84**	**68**
Current liabilities					
Trade accounts payable		8,181	6,062	135	83
Advances received and other payables	19	2,338	1,723	39	24
Taxes payable	20	3,232	2,071	53	28
Warranty and other provisions	21	750	773	12	11
Short-term borrowings	17	3,656	2,386	60	33
Total current liabilities		**18,157**	**13,015**	**299**	**179**
Total liabilities		**23,225**	**17,991**	**383**	**247**
TOTAL LIABILITIES AND EQUITY		**41,203**	**34,368**	**679**	**471**

Approved for issue and signed on behalf of the Board of Directors on 10 April 2017.

General Director
V.A. Shvetsov

First Deputy General Director
N.A. Sobolev

The accompanying notes on pages 5 to 40 are an integral part of these consolidated financial statements.

		RR million		Supplementary information US$ million (Note 2)	
		Year ended 31 December		Year ended 31 December	
	Note	**2016**	**2015**	**2016**	**2015**
Sales	22	35,621	38,349	531	629
Cost of sales	23	(28,351)	(30,372)	(423)	(498)
Gross profit		**7,270**	**7,977**	**108**	**131**
Distribution costs	24	(2,300)	(1,913)	(34)	(31)
General and administrative expenses	25	(2,777)	(3,358)	(41)	(55)
Other operating income, net	26	76	311	1	5
Operating profit		**2,269**	**3,017**	**34**	**50**
Finance costs, net	27	(239)	(1,135)	(3)	(19)
Financial instrument recognition	11	(1,319)	9,200	(20)	151
Share of loss of impaired joint venture, including impairment	11	-	(6,973)	-	(114)
Share of profit of other joint ventures	11	1,026	(486)	15	(8)
Profit before income tax		**1,737**	**3,623**	**26**	**60**
Income tax expense	28	(136)	(510)	(2)	(8)
Profit for the year		**1,601**	**3,113**	**24**	**52**
Total comprehensive income for the year		**1,601**	**3,113**	**24**	**52**
Profit is attributable to:					
Owners of the Company		1,602	3,132	24	52
Non-controlling interest	32	(1)	(19)	-	-
Profit for the year		**1,601**	**3,113**	**24**	**52**
Total comprehensive income is attributable to:					
Owners of the Company		1,602	3,132	24	52
Non-controlling interest		(1)	(19)	-	-
Total comprehensive income for the year		**1,601**	**3,113**	**24**	**52**
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
Profit/(loss) per share (in RR and US$) – basic		46.71	91.39	0.70	1.52
Profit/(loss) per share (in RR and US$) – diluted		46.71	91.39	0.70	1.52

Other than as presented above, the Group did not have in year 2016 any items to be recorded as other comprehensive income in the statement of comprehensive income (2015: no items).

Consolidated Statement of Cash Flows for the year ended 31 December 2016

(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	RR million Year ended 31 December 2016	RR million Year ended 31 December 2015	Supplementary information US$ million (Note 2) Year ended 31 December 2016	Supplementary information US$ million (Note 2) Year ended 31 December 2015
Cash flows from operating activities					
Profit before income tax		**1,737**	**3,623**	**26**	**60**
Adjustments for:					
Depreciation		866	950	13	16
Amortisation		215	191	3	3
Provision for impairment of receivables and write-offs		(44)	90	(1)	2
Provision for inventories	13	(40)	(170)	(1)	(3)
Salary and guarantee provision		(33)	171	-	3
Other provision movements		(41)	259	(1)	4
Loss on disposal of other non-current assets		43	9	1	-
Gain on disposal of investment in joint venture	11	-	(517)	-	(8)
Net (gain)/loss on disposal of property, plant and equipment		(120)	15	(2)	-
Gain on disposal of investments		-	16		-
Revaluation/recognition of financial instrument	11	1,319	(9,200)	20	(151)
Share of loss of impaired joint venture, including impairment	11	-	6,973	-	114
Share of profit of other joint ventures and associates	11	(1,026)	486	(15)	8
Finance costs, net		655	1,058	10	17
Operating cash flows before working capital changes		**3,531**	**3,954**	**53**	**65**
(Increase)/decrease in inventories		(906)	1,872	(14)	31
(Increase)/decrease in trade and other receivables		(3,156)	575	(47)	9
Increase/(decrease) in trade accounts payable, advances received and other payables		2,987	(4,553)	45	(75)
Increase in taxes payable		1,120	128	17	2
Cash provided from operations		**3,576**	**1,976**	**54**	**32**
Income taxes paid		(172)	(734)	(3)	(12)
Interest paid		(946)	(1,287)	(14)	(21)
Net cash from/(used in) operating activities		**2,458**	**(45)**	**37**	**(1)**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(1,570)	(1,306)	(23)	(21)
Proceeds from the sale of property, plant and equipment and advances received		275	190	4	3
Development costs	9	(981)	(270)	(15)	(4)
Purchase of other non-current assets		(241)	(157)	(4)	(3)
Proceeds from sale of investment in joint venture	11	-	1,350	-	22
Dividends received from participation in joint venture		325	271	5	4
Proceeds from government R&D subsidies		518	-	8	-
Proceeds from disposal of subsidiary net of cash disposed		-	(16)	-	-
Net cash (used in)/from investing activities		**(1,674)**	**62**	**(25)**	**1**
Cash flows from financing activities					
Proceeds from borrowings		16,534	17,751	247	291
Repayment of borrowings		(15,693)	(23,342)	(234)	(383)
Dividends paid to the Group's shareholders		-	(3)	-	-
Change in non-controlling interest in subsidiaries		-	(196)	-	(3)
Net cash fron/(used in) financing activities		**841**	**(5,790)**	**13**	**(95)**
Net increase/(decrease) in cash and cash equivalents		**1,625**	**(5,773)**	**25**	**(95)**
Effect of exchange rate changes on cash and cash equivalents				3	(10)
Cash and cash equivalents at the beginning of the year		**711**	**6,484**	**10**	**115**
Cash and cash equivalents at the end of the year		**2,336**	**711**	**38**	**10**

The accompanying notes on pages 5 to 40 are an integral part of these consolidated financial statements.

(in millions of Russian Roubles)

	Note	Share capital	Share premium	Additional paid-in-capital	Retained earnings	Total Attributable to equity holders of the Group	Non-controlling interest	Total equity
Balance at 1 January 2015		**530**	**4,538**	**1,438**	**5,862**	**12,368**	**1,092**	**13,460**
Profit for the year		-	-	-	3,132	**3,132**	(19)	**3,113**
Total comprehensive income for 2015		**-**	**-**	**-**	**3,132**	**3,132**	**(19)**	**3,113**
Change of interest in subsidiary	32	-	-	-	312	**312**	(312)	**-**
Purchase of non-controlling interest in subsidiary	32	-	-	-	110	**110**	(306)	**(196)**
Balance at 31 December 2015		**530**	**4,538**	**1,438**	**9,416**	**15,922**	**455**	**16,377**
Profit for the year		-	-	-	1,602	**1,602**	(1)	**1,601**
Total comprehensive income for 2016		**-**	**-**	**-**	**1,602**	**1,602**	**(1)**	**1,601**
Balance at 31 December 2016		**530**	**4,538**	**1,438**	**11,018**	**17,524**	**454**	**17,978**

The accompanying notes on pages 5 to 40 are an integral part of these consolidated financial statements.