

SOLLERS GROUP

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

30 JUNE 2016

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Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Public Joint Stock Company Sollers and its subsidiaries (the "Group") as of 30 June 2016 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".

29 August 2016
Moscow, Russian Federation

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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 Condensed Interim Statement of Financial Position at 30 June 2016
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	Russian Roubles million		Supplementary information US\$ million (Note 2)	
		At 30 June 2016	At 31 December 2015	At 30 June 2016	At 31 December 2015
ASSETS					
Non-current assets:					
Property, plant and equipment	5	10,398	10,477	162	144
Goodwill		1,484	1,484	23	20
Development costs	6	899	616	14	9
Other intangible assets		283	192	5	3
Deferred income tax assets		719	754	11	10
Investments in joint ventures and associates	7	746	1,203	12	16
Financial instruments	7	8,372	9,200	130	126
Other financial assets		31	33	-	-
Other non-current assets		154	105	2	1
Total non-current assets		23,086	24,064	359	329
Current assets:					
Inventories	8	5,979	3,982	93	55
Trade and other receivables	9	4,214	5,607	66	77
Other current assets		5	4	-	-
Cash and cash equivalents	10	2,620	711	41	10
Total current assets		12,818	10,304	200	142
TOTAL ASSETS		35,904	34,368	559	471
LIABILITIES AND EQUITY					
Equity					
Share capital	11	530	530	8	7
Share premium	11	4,538	4,538	71	62
Additional paid-in capital	11	1,438	1,438	22	20
Retained earnings		9,456	9,416	147	129
Equity attributable to the Company's owners		15,962	15,922	248	218
Non-controlling interest		449	455	7	6
Total equity		16,411	16,377	255	224
Non-current liabilities:					
Long-term borrowings	13	4,741	3,868	74	53
Deferred income tax liabilities		922	1,107	14	15
Other long-term liabilities		1	1	-	-
Total non-current liabilities		5,664	4,976	88	68
Current liabilities:					
Trade accounts payable		5,080	6,062	79	83
Advances received and other payables	12	3,386	1,723	53	24
Taxes payable		2,603	2,071	41	28
Warranty and other provisions		758	773	12	11
Short-term borrowings	13	2,002	2,386	31	33
Total current liabilities		13,829	13,015	216	179
Total liabilities		19,493	17,991	304	247
TOTAL LIABILITIES AND EQUITY		35,904	34,368	559	471

Approved and signed on 29 August 2016:

General Director
V. A. Shvetsov

First Deputy General Director
N. A. Sobolev

Sollers Group
Consolidated Condensed Interim Statement of Comprehensive Income
for the six-month period ended 30 June 2016
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	Russian Roubles million		Supplementary information US\$ million (Note 2)	
		Six-months ended 30 June		Six-months ended 30 June	
		2016	2015	2016	2015
Sales	14	13,426	15,690	191	273
Cost of sales		(9,933)	(12,506)	(141)	(218)
Gross profit		3,493	3,184	50	55
Distribution costs		(947)	(765)	(13)	(13)
General and administrative expenses		(1,342)	(1,160)	(19)	(20)
Other operating income, net		112	(19)	2	-
Operating profit		1,316	1,240	20	22
Finance costs, net		(107)	(382)	(2)	(7)
Financial instrument recognition and change in fair value	7	(828)	6,969	(12)	121
Share of loss of impaired joint venture, including impairment	7	-	(6,973)	-	(121)
Share of profit/(loss) of joint ventures and associates	7	(212)	8	(3)	-
Profit before income tax		169	862	3	15
Income tax income / (expense)		(135)	76	(2)	1
Profit for the period		34	938	1	16
Total comprehensive income for the period		34	938	1	16
Profit is attributable to:					
Owners of the Company		40	940	1	16
Non-controlling interest		(6)	(2)	-	-
Profit for the period		34	938	1	16
Total comprehensive income is attributable to:					
Owners of the Company		40	940	1	16
Non-controlling interest		(6)	(2)	-	-
Total comprehensive income for the period		34	938	1	16
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		1.15	27.44	0.02	0.48
Earnings per share (in Russian Roubles and US\$) – diluted		1.15	27.44	0.02	0.48

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 2015: no items).

Sollers Group
Consolidated Condensed Interim Statement of Cash Flows
for the six-month period ended 30 June 2016
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Russian Roubles million		Supplementary information US\$ million (Note 2)	
	Six months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Cash flows from operating activities				
Profit before income tax	169	862	3	15
Adjustments for:				
Depreciation	441	455	6	8
Amortisation	101	94	1	2
Provision for impairment of receivables	(38)	62	(1)	1
Interest expense	448	556	6	10
Financial instrument recognition and change in fair value	828	(6,969)	12	(121)
Share of loss of joint ventures and associates, including impairment	212	6,965	3	121
Other provision movements	(545)	(199)	(7)	(3)
Gain on sale of property, plant and equipment and other non-current assets	(67)	(8)	(1)	-
Loss on disposal of investments and other assets	2	3	-	-
Inventory provision movement	(16)	163	-	3
Operating cash flows before working capital changes	1,535	1,984	22	36
Decrease in accounts receivable and prepayments	1,230	2,521	18	44
Increase in inventories	(1,946)	(1,680)	(28)	(30)
Increase in other current assets	(1)	(1)	-	-
Increase/(decrease) in accounts payable, advances received and other payables	1,215	(1,598)	17	(28)
Increase/(decrease) in taxes payable, other than income tax	405	(445)	6	(8)
Cash provided from operations	2,438	781	35	14
Income tax paid	10	(772)	-	(14)
Interest paid	(486)	(656)	(7)	(11)
Net cash from/(used in) operating activities	1,962	(647)	28	(11)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(410)	(594)	(6)	(10)
Proceeds from the sale of property, plant and equipment	100	44	1	1
Development costs	(333)	(96)	(5)	(2)
Purchase of intangibles and other non-current assets	(141)	(83)	(2)	(1)
Dividends received from joint ventures	250	72	4	1
Net cash used in investing activities	(534)	(657)	(8)	(11)
Cash flows from financing activities				
Proceeds from borrowings	8,870	7,678	126	134
Repayment of borrowings	(8,388)	(11,637)	(119)	(203)
Purchase of non-controlling interest in Group's subsidiary	-	(197)	-	(3)
Dividends paid to the Group's shareholders	(1)	-	-	-
Net cash from/(used in) financing activities	481	(4,156)	7	(72)
Net increase/(decrease) in cash and cash equivalents	1,909	(5,460)	27	(94)
Effect of exchange rate changes on cash and cash equivalents	-	-	4	(3)
Cash and cash equivalents at the beginning of the period	711	6,484	10	115
Cash and cash equivalents at the end of the period	2,620	1,024	41	18

The accompanying notes on page 8 to 16 are an integral part of this consolidated condensed interim financial information.

Sollers Group**Consolidated Condensed Interim Statement of Changes in Equity for the six-month period ended 30 June 2016***(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 2014	530	4,538	1,438	5,862	12,368	1,092	13,460
Profit for the period	-	-	-	940	940	(2)	938
Total recognised income for the reporting period	-	-	-	940	940	(2)	938
Change of interest in subsidiary (Note 17)	-	-	-	309	309	(309)	-
Purchase of non-controlling interest in subsidiary	-	-	-	109	109	(306)	(197)
Balance at 30 June 2015	530	4,538	1,438	7,220	13,726	475	14,201
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

The accompanying notes on page 8 to 16 are an integral part of this consolidated condensed interim financial information.

1 The Sollers Group and its operations

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” for the six-month period ended 30 June 2016 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 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.

By the end of 2011 the Group established the joint venture with Japanese Mitsui&Co., Ltd located in Vladivostok. Toyota vehicles production started in February 2013. In June 2015 the project was completed according to its initial schedule.

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 2016 the Group continued exclusive distribution of the SsangYong SUVs.

In August 2012 the Group disposed 16% stake in joint venture Sollers-Isuzu and recognised the remained investment as 50%-50% joint venture. The Sollers-Isuzu production of lights-duty trucks is located in Ulyanovsk. In December 2015 the Group disposed of 50% stake in joint venture Sollers-Isuzu and derecognised the investment in the joint venture.

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.

This consolidated condensed interim financial information was approved for issue by the General Director and First Deputy General Director on 29 August 2016.

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 16). During the six-month period ended 30 June 2016 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing 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 2015 prepared in accordance with International Financial Reporting Standards (“IFRS”).

2 Basis of preparation and significant accounting policies (continued)

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 2015. The Group has adopted all new standards and interpretations that were effective from 1 January 2016. The impact of the adoption of these new standards and interpretations has not been significant with respect to this consolidated condensed interim financial information.

2.3 Supplementary information

U.S. Dollar (“US\$”) amounts shown in the primary statements are translated from the RR as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 30 June 2016 of Russian Rouble 64.2575 = US\$ 1 (at 31 December 2015 of Russian Rouble 72.8827 = 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 2016 of Russian Rouble 70.26 = US\$ 1 and 30 June 2015 of Russian Rouble 57.40 = 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 2016 and 31 December 2015 consist of the following:

Balances

Nature of relationship	Parent company	Joint ventures	Other related parties	Total
As at 30 June 2016				
Accounts receivable	-	48	441	489
Trade and other payables	-	4	80	84
As at 31 December 2015				
Accounts receivable	-	24	19	43
Trade and other payables	-	5	217	222

Transactions with related parties of the Group for the six-month periods ended 30 June 2016 and 30 June 2015 consist of the following:

Transactions

Nature of relationship	Parent company	Joint ventures	Other related parties	Total
Six-month period ended 30 June 2016				
Sales of vehicles, components and services	-	208	43	251
Purchases of goods and services	-	10	756	766
Six-month period ended 30 June 2015				
Sales of vehicles, components and services	-	52	121	173
Purchases of goods and services	-	791	636	1,427

4 Balances and transactions with related parties (continued)**4.2 Directors' compensation**

The compensation paid to the nine members of key management (2015: 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 405 for the six-month period ended 30 June 2016 (RR 223 for the six-month period ended 30 June 2015).

5 Property, plant and equipment

Acquisitions of property, plant, and equipment for the period amounted to RR 426 (for six-month period ended 30 June 2015: RR 1,299). Disposals of property, plant, and equipment for the period amounted to RR 31 (for six-month period ended 30 June 2015: RR 38).

Bank borrowings are secured on properties at 30 June 2016 to the value of RR 2,993 (31 December 2015: RR 2,977); see Note 13.

During six-month period ended 30 June 2016 the Group capitalised borrowing costs of RR 32 (six-month period ended 30 June 2015: RR 43) in the cost of the qualifying assets, annual capitalisation rate was 13% (six-month period ended 30 June 2015: 11%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 30 June 2016, the cost of the land amounted to RR 635 (31 December 2015: RR 633).

6 Development costs

	30 June 2016	30 June 2015
Cost		
Balance at the beginning of the period	2,025	1,755
Additions	333	96
Balance at the end of the period	2,358	1,851
Accumulated amortisation and impairment		
Balance at the beginning of the period	(1,409)	(1,321)
Amortisation charge	(50)	(45)
Balance at the end of the period	(1,459)	(1,366)
Net book value	899	485

7 Investments in joint ventures

Investments in joint ventures are presented by followings assets:

	30 June 2016	31 December 2015
Ford-Sollers JV	-	-
Mazda-Sollers JV	-	245
Sollers-Bussan JC	300	464
Sollers-Finance JV	446	494
Total investments in joint ventures	746	1,203

Sollers Group**Notes to the Consolidated Condensed Interim Financial Information at 30 June 2016***(in millions of Russian Roubles – RR)***7 Investments in joint ventures (continued)**

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

	30 June 2016	30 June 2015
Carrying amount at 1 January	1,203	9,756
Share of loss of Ford-Sollers JV, including impairment	-	(6,973)
Share of profit of joint ventures	(212)	8
Unrealised profit adjustment on sale of non-current assets to joint venture	5	4
Dividends received	(250)	(72)
Carrying amount at the end of the reporting period	746	2,723

Sollers-Finance JV

During the 6 month ended 30 June 2016 the dividends of RR 100 were received from the Sollers-Finance JV (6 month ended 30 June 2015: RR 72).

Sollers-Isuzu JV

In December 2015 the Group sold its share in Sollers-Isuzu JV to the other venturer for RR 1,350.

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.

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 2016 no impairment was identified (31 December 2015: nil).

During the 6 month ended 30 June 2016 the dividends of RR 150 were received from the Sollers-Bussan JV (6 month ended 30 June 2015: nil).

Mazda-Sollers JV

As of 30 June 2016 the Group's accumulated share of losses of Mazda-Sollers JV exceeded Group's interest in the JV. During the 6 month ended 30 June 2016 the Group recognised its share of the JV net loss in the amount of RR 251. As a result the Group discontinued recognising its share of further losses.

Ford-Sollers JV

During the 6 month ended 30 June 2015 management have 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 the reporting date the carrying value of the investment in Ford-Sollers JV on the Group's balance amounts to null.

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% at the beginning of the reporting period to 49.9% at 31 December 2015.

As a result of the agreements reached a financial instrument of RR 8,372 was recognised in the Group's balance sheet 31 December 2015: RR 9,200). 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.

Sollers Group**Notes to the Consolidated Condensed Interim Financial Information at 30 June 2016***(in millions of Russian Roubles – RR)***7 Investments in joint ventures (continued)**

At 30 June 2016 and 31 December 2015, 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 2016	14,534	14,340
Mazda-Sollers JV	11,155	12,370
Sollers-Bussan JV	622	23
Sollers-Finance JV	2,757	1,947
Total at 31 December 2015	9,904	7,224
Mazda-Sollers JV	7,146	6,303
Sollers-Bussan JV	986	57
Sollers-Finance JV	1,772	864

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 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
Six-month period ended 30 June 2015	24,967	306	16
Mazda-Sollers JV	11,258	(647)	(637)
Sollers-Isuzu JV	1,650	(131)	(234)
Sollers-Bussan JV	11,793	974	800
Sollers-Finance JV	266	110	87

8 Inventories

	30 June 2016	31 December 2015
Raw materials	2,941	2,427
Less: provision	(38)	(43)
Total raw materials	2,903	2,384
Work in progress	1,199	587
Total work in progress	1,199	587
Finished products	2,142	1,286
Less: provision	(265)	(275)
Total finished products	1,877	1,011
Total	5,979	3,982

Sollers Group**Notes to the Consolidated Condensed Interim Financial Information at 30 June 2016***(in millions of Russian Roubles – RR)***9 Trade and other receivables**

	30 June 2016	31 December 2015
Trade receivables	1,080	1,501
Less: provision for impairment	(36)	(122)
Total financial assets	1,044	1,379
Other receivables	1,087	2,930
Less: provision for impairment	(14)	(12)
Total other receivables	1,073	2,918
Advances to suppliers, other than for equipment	1,163	475
Less: provision for impairment	(2)	(5)
Total advances to suppliers, other than for equipment	1,161	470
Taxes prepayments	153	337
VAT recoverable, net	779	498
Other prepayments	4	5
Total	4,214	5,607

The carrying value of trade accounts receivable and other receivables as at 30 June 2016 and 31 December 2015 is approximately equal to their fair value.

10 Cash and cash equivalents

	30 June 2016	31 December 2015
Cash on hand and balances with banks	968	197
Cash deposits	1,652	514
Total	2,620	711

The carrying value of cash and cash equivalents as at 30 June 2016 and 31 December 2015 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 2016	34,270	530	4,538	1,438
At 31 December 2015	34,270	530	4,538	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2015: 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 2016, the net statutory profit for the Company as reported in the published interim statutory reporting forms was RR 4,873 (for the six-month period ended 30 June 2015: RR 374) and the closing balance of the accumulated profit including the current reporting period net statutory profit as of 30 June 2016 totalled to RR 9,554 (31 December 2015: RR 4,682). 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 2016 or during the year ended 31 December 2015.

Sollers Group**Notes to the Consolidated Condensed Interim Financial Information at 30 June 2016***(in millions of Russian Roubles – RR)***12 Advances received and other payables**

	30 June 2016	31 December 2015
Liabilities for purchased property, plant and equipment	23	15
Dividend payable	37	38
Accrued liabilities and other creditors	259	113
Total financial liabilities within advances and other payables	319	166
Advances received	2,537	648
Accrued employee benefit costs	269	118
Vacation accrual	169	95
Bonus accrual	92	696
Total advances received and other payables	3,386	1,723

13 Short and long-term borrowings

At 30 June 2016, short-term borrowings totalled RR 2,002 (31 December 2015: RR 2,386), including short-term loans of RR 1,967 (31 December 2015: loans of RR 2,358) and interest accrued on loans of RR 35 (31 December 2015: RR 28). The carrying amounts of short-term borrowings approximates to their fair values as at 30 June 2016 and 31 December 2015.

At 30 June 2016, long-term borrowings totalled RR 4,741 (31 December 2015: RR 3,868), included bank loans only. The carrying amounts of long-term borrowings approximates to their fair values as at 30 June 2016 and 31 December 2015.

Property, plant and equipment of RR 2,993 (31 December 2015: RR 2,977) are pledged as collateral for long-term and short-term borrowings see Note 5.

At 30 June 2016 long-term borrowings of 480 (31 December 2015: RR 575) and short-term borrowings of RR 223 (31 December 2015: RR 111) were secured by 100% share in the Group's subsidiary OOO Rosalit, besides property, plant and equipment.

14 Sales

	Six-month period ended 30 June 2016	Six-month period ended 30 June 2015
Vehicles	10,388	12,409
Automotive components	1,791	2,008
Engines	463	506
Services	333	532
Other sales	451	235
Total	13,426	15,690

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 2016 and at 31 December 2015 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 2016 and 30 June 2015 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 2016, the Group had contractual commitments of RR 75 including contractual obligations to purchase of property, plant and equipment from third parties (31 December 2015: RR 30).

Taxation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

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

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

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

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

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

As at 30 June 2016 the Group was in full compliance with all covenants (31 December 2015: no exceptions).

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

17 Principal subsidiaries

During the reporting period ended 30 June 2015 the Group acquired 3.6% stake in PAO “UAZ” (previously OAO “UAZ”) for RR 197. The Group’s result (profit) of RR 109 was recognised in the Statement of Changes in Equity.

Following the PAO “UAZ” (previously OAO “UAZ”) stake acquisition during the reporting period ended 30 June 2015 the Group’s effective interest in PAO “ZMZ” (previously OAO “ZMZ”) has changed with no changes in voting rights. As a result, an amount of RR 309 is recognised in the Statement of Changes in Equity.