SOLLERS GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2016

CONTENTS

Independent Auditor's Report

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

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

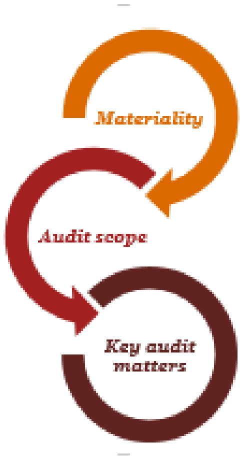
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to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

AO PricewaterhouseCoopers Audit
White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047
T: +7 (495) 967-6000, F:+7 (495) 967-6001, www.pwc.ru

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."

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.

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."

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

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."

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).

(in millions of Russian Roubles)

		RR million		**Supplementary information US$ million (Note 2)**	
		Year ended 31 December		**Year ended 31 December**	
	Note	**2016**	**2015**	**2016**	**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**

1. The Sollers Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for Sollers OJSC, previously called OAO "Severstal-auto", (the "Company") and its subsidiaries (the "Group"). The Group adopted its new name "Sollers" in 2008.

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 PAO "Ulyanovsky Avtomobilny Zavod" (PAO "UAZ") and PAO "Zavolzhskiy Motor Works" (PAO "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 who is the principal shareholder of the Company.

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

In 2011 the Group established the joint venture with Ford Motor Company. 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 year 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.

These consolidated financial statements were approved for issue by the General Director and First Deputy General Director on 10 April 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 31). During 2016 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

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

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

2.1 Presentation currency

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

2.2 Supplementary information

US Dollar ("US$") amounts shown in the consolidated financial statements are translated from the Russian Rouble ("RR") amounts as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 31 December 2016 of RR 60.6569 = US$1 (31 December 2015: RR 72.8827 = US$1). The profit or loss statement and cash flow statement have been translated at the average exchange rates during the years ended 31 December 2016 of RR 67.0349 = US$1 (2015: RR 60.9579 = US$1). The US$ amounts are presented solely for the convenience of the reader, and should not be construed as a representation that RR amounts have been or could have been converted to the US$ at this rate, nor that the US$ amounts present fairly the financial position and results of operations and cash flows of the Group.

2.3 Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value. Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

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

2.3 Consolidated financial statements (continued)

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

2.4 Purchases and sales of non-controlling interests

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

2.5 Purchases of subsidiaries from parties under common control

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

2.6 Associates and joint ventures

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables; the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Joint ventures are those joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. When a joint venture is created through loss of control of a subsidiary, the initial carrying amount is recognised at fair value. Subsequently, they are accounted for using the equity method of accounting. The share of joint ventures' results is recognised in the consolidated financial statements from the date that joint control commences until the date at which it ceases.

Unrealised gains on transactions between the Group, its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

2.7 Disposals of subsidiaries, associates or joint ventures

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

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

2.8 Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. 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 solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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

2.9 Classification of financial assets

The Group classifies its financial assets into the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Other financial assets at fair value through profit and loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading investments.

Trading investments are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading investments if it has an intention to sell them within a short period after purchase, i.e. within 12 months The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit and loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the fair value through profit and loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held-to-maturity assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each reporting date.

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

2.10 Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year in the period in which they arise. Other financial liabilities are carried at amortised cost.

2.11 Initial recognition of financial instruments

Trading investments, derivatives and other financial instruments at fair value through profit and loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation techniques to determine the fair value of options and bonds that are not traded in an active market. Differences may arise between the fair value at initial recognition which is considered to be the transaction price and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight line basis over the term of the options and bonds.

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

2.12 Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

2.13 Valuation of investments

Available-for-sale investments. The Group classifies investments as available for sale at the time of purchase. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit and loss. Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive payment is established and inflow of benefits is probable. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit and loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit and loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed through current period's profit and loss.

Held-to-maturity investments. Held-to-maturity investments are carried at amortised cost using the effective interest method, net of a provision for incurred impairment losses.

Trading investments. Trading investments are carried at fair value. Interest earned on trading investments calculated using the effective interest method is presented in the consolidated profit or loss as finance income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and inflow of benefits is probable. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit and loss as gains less losses from trading investments in the period in which they arise.

Embedded derivatives. Foreign currency forwards embedded into sales-purchase contracts are separated from the host contracts and accounted for separately unless the contract is denominated in the functional currency of any substantial party to the contract or in a currency that is commonly used in the economic environment in which the transaction takes place, such as in US Dollars and Euros for contracts within the Russian Federation.

2.14 Property, plant and equipment

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

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

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

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

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

2.15 Depreciation

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

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

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

2.16 Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit and loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

2.17 Finance lease receivables

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

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

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

2.18 Share based compensation

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

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

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

2.19 Goodwill

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

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

2.20 Other intangible assets

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

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

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

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

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

2.21 Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Inventories at the reporting date include expected sales returns subsequent to the period end, where the related sales, profit margin and receivables balance are reversed. Inventories are initially recognised when the Group has control of the inventory, expects it to provide future economic benefits and the cost of the inventory can be measured reliably. For components imported from outside of the Russian Federation, this is typically at the point of delivery to the Group's warehouse and accepted by the Group.

2.22 Income taxes

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

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

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

2.22 Income taxes (continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

2.23 Trade and other receivables

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

2.24 Impairment of financial assets carried at amortised cost

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

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

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

Impairment losses are always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

2.24 Impairment of financial assets carried at amortised cost (continued)

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

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

2.25 Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit and loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit and loss.

2.26 Cash and cash equivalents

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

2.27 Share capital

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

2.28 Treasury shares

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

2.29 Dividends

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

2.30 Value added tax

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

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

2.31 Borrowings

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

2.32 Government grants and subsidies

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

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

In 2014 started the government programm of vehicle park renewal. Government subsidies partly compensate production costs and general expenses of the Group (notes 23 and 25).

The Group is subject to number of subsidies, including vehicle park renewal and export sales support (notes 18, 23 and 25).

2.33 Trade and other payables

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

2.34 Provisions for liabilities and charges

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

2.35 Foreign currency translation

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

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

At 31 December 2016, the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 60.6569, Euro 1 = RR 63.8111, Korean Won 1 000 = RR 50,4400, Chinese yuan 10 = RR 87,2824 (2015: US$ 1 = RR 72.8827, Euro 1 = RR 79.6972, Korean Won 1 000 = RR 62,1728, Chinese yuan 10 = RR 11,2298). RR The principal average rate of exchange used for translating income and expenses was US$ 1 = RR 67.0349 RR (2015: US$ 1 = RR 60.9579).

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

2.36 Revenue recognition

Revenues from sales of vehicles, engines and automotive components are recognised at the point of transfer of the major of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. The group generally retains physical possession of the vehicle ownership document ("PTS") until cash is collected from the dealer, however, it considers that substantially all risks and rewards are transferred upon shipment.

An estimate is made for vehicles that are returned to the Group subsequent to the period end where a dealer is not able to settle receivables owed to the Group. In such instances, the related sales revenue, profit margin and trade receivable balances are reversed during the period and the vehicles are included as inventories as at the period end date.

Sales of services are recognised in the accounting period in which the services are rendered. Sales are shown net of VAT, excise, discounts and other bonuses to dealers.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up. Interest income is recognised on a time-proportion basis using the effective interest method.

2.37 Research and development costs

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

2.38 Employee benefits

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

Labour expenses include state pension contributions of RR 1 815 for the year ended 31 December 2016 (2015: RR 1,675).

2.39 Earnings per share

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

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

2.40 Offsetting

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

2.41 Segment reporting

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

3. Critical accounting estimates and judgements in applying accounting policies

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

3.1 Remaining useful life of property, plant and equipment

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

3.2 Impairment of assets (including goodwill)

Management has considered the goodwill allocation to CGU due to business restructuring finalised in 2016. ZMZ CGU is not managed as separate CGU; mainly its products are manufactored for the Group's internal use. Applying these considerations management treats UAZ CGU and ZMZ CGU as single CGU. Accordingly, management made a decision to reallocate Goodwill to a single UAZ CGU.

Management have used judgement when evaluating any indicators of potential impairment of the Group's non-current assets (including property, plant and equipment, intangibles and goodwill), or, when testing for impairment as at 31 December 2016 as required.

During the year 2016 there was a slowdown of 11% in the Russian automotive market. The total market sales amounted to 1.4 mln. units. The slowdown was driven mostly by macroeconomic factors, such as negative macroeconomic trend and substantial contraction of a real disposable income combined with increases in retail prices for cars.

The Group has increased its UAZ retail sales on the Russian market in 2016 despite the difficult macroeconomic environment.

The Group has an attractive price positioning of its products in comparison with other brands because of the high level of production localisation. Besides, the Group's market share is planned to increase following the product development and improvement, enhancing the model range, increase of export sales and re-positioning of key players on the automarket.

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

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

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

3.2 Impairment of assets (including goodwill) (continued)

Cash flows beyond the five-year period are extrapolated using estimated growth rate of 3% (31 December 2015: 3%); these growth rates do not exceed the forecasted inflation rates as well as account for specific Groups's opportunities in the current market environment described above. The discount rate used of 17% (31 December 2015: 17% for both CGUs) is pre-tax and reflect specific risks related to the CGU.

The inherence of no impairment is sensitive to the level of future revenues. With all other assumptions held constant, a reduction in revenues by 15% in each future period would result in a need to reduce the carrying value of goodwill by RR 878.

The inherence of no impairment is sensitive to the discount rate used in the model. With all other assumptions held constant, an increase of the discount rate by 3% would result in a need to reduce the carrying value of goodwill by RR 318.

3.3 Tax legislation and deferred income tax recognition

Russian tax, currency and customs legislation is subject to varying interpretations. Related accounting treatment requires the use of estimates and judgements as further detailed in Note 31.

Deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on taxable profits earned in the past three years; the possibility of challenges to the deductibility of expenses; the time period available in order to utilise the losses and expectations of future taxable income that are believed to be reasonable under the circumstances. For details of the deferred tax assets recognised as at 31 December 2016, see Note 28. The balance includes RR 604 (2015: RR 472). Management expects the losses to be utilised in the next few years based on current profit forecasts.

3.4 Revenue recognition

The Group's revenues in 2016 includes RR 4 497 (2015: RR 1 969) received from the sale to a third party, where the Group acts as an agent of this third party for sale of products up to 2018. Agency agreement clause has a delcredere paragraph, which requires repurchase of the cars in certain limited situations. The Group analysed the terms of the sale and agency agreements and concluded that significant risks and rewards are transferred to a third party when the products are passed on to the first carrier, and the Group has no material continuous involvement.

4. Adoption of new or revised standards and interpretations

The following amended standards became effective from 1 January 2016, but did not have any material impact on the Group.

- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

5. New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently assessing the impact of the amendment on its financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

(in millions of Russian Roubles – RR)

5. New accounting pronouncements (continued)

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

6. Balances and transactions with related parties

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

6.1 Balances and transactions with related parties

Balances with related parties of the Group as at 31 December 2016 and 31 December 2015 consist of the following:

Balances

Nature of relationship	Board of directors	Other related parties	Joint ventures	Total
As at 31 December 2016				
Accounts receivable	-	229	17	246
Trade and other accounts payable	437	348	3	788
As at 31 December 2015				
Accounts receivable	-	19	24	43
Trade and other accounts payable	583	217	5	805

Transactions with related parties of the Group for the years ended 31 December 2016 and 31 December 2015 consist of the following:

Transactions

Nature of relationship	Parent company	Other related parties	Joint ventures	Total
Year ended 31 December 2016				
Sales of vehicles and components, services	-	17	338	355
Purchases less discounts	-	2,032	49	2,081
Year ended 31 December 2015				
Sales of vehicles and components, services	-	323	280	603
Purchases less discounts	-	1,793	(63)	1,730

(in millions of Russian Roubles – RR)

6. Balances and transactions with related parties (continued)

6.2 Key management compensation

The compensation paid to the nine members of key management (year ended 31 December 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 compensation included in expenses in the consolidated profit or loss for the year ended 31 December 2016 comprises:

- short-term employee benefits amounting to RR 1,001 including payments to the State Pension Fund and other social taxes of RR 133 (2015: RR 965 including payments to the State Pension Fund and other social taxes of RR 129).

7. Property, plant and equipment

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

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
Balance at 1 January 2015	6,008	8,771	2,840	912	18,531
Additions	-	-	-	1,994	1,994
Disposals	(28)	(214)	(68)	(12)	(322)
Transfers	748	726	288	(1,762)	-
Balance at 31 December 2015	**6,728**	**9,283**	**3,060**	**1,132**	**20,203**
Additions	-	-	-	1,734	1,734
Disposals	(111)	(134)	(210)	(40)	(495)
Transfers	270	704	997	(1,971)	-
Balance at 31 December 2016	**6,887**	**9,853**	**3,847**	**855**	**21,442**
Accumulated depreciation					
Balance at 1 January 2015	**(2,163)**	**(4,689)**	**(2,077)**	**-**	**(8,929)**
Depreciation expense for year	(185)	(518)	(256)	-	(959)
Disposals	10	99	53	-	162
Balance at 31 December 2015	**(2,338)**	**(5,108)**	**(2,280)**	**-**	**(9,726)**
Depreciation expense for year	(146)	(420)	(334)	-	(900)
Disposals	63	39	236	-	338
Balance at 31 December 2016	**(2,421)**	**(5,489)**	**(2,378)**	**-**	**(10,288)**
Net book value					
Balance at 31 December 2015	**4,390**	**4,175**	**780**	**1,132**	**10,477**
Balance at 31 December 2016	**4,466**	**4,364**	**1,469**	**855**	**11,154**

As at 31 December 2016, bank borrowings are secured on land and buildings and plant and equipment. The value of these items of property, plant and equipment included above is RR 2,848 (31 December 2015: RR 2,977). See Note 17.

As at 31 December 2016 construction in progress consists mainly of equipment. Upon completion, assets are transferred to plant and equipment. During the year ended 31 December 2016, the Group capitalised borrowing costs of RR 49 (2015: RR 53) as part of the cost of the qualifying assets (see Note 2.14). The annual capitalisation rate was 12,8% (2015: 8.9%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 31 December 2016, the cost of the land amounted to RR 625 (2015: RR 633).

(in millions of Russian Roubles – RR)

8. Goodwill

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

In 2016 management has considered the goodwill allocation to CGU due to business restructuring finalised in 2016. ZMZ CGU is not managed as separate CGU; mainly its products are manufactored for the Group's internal use. Applying these considerations management treats UAZ CGU and ZMZ CGU as a single CGU. Accordingly, management made a decision to reallocate Goodwill to a single UAZ CGU.

	31 December 2016	31 December 2015
UAZ CGU	1,484	1,207
ZMZ CGU	-	277
Total goodwill	**1,484**	**1,484**

Impairment tests for goodwill

Management have tested goodwill for impairment at 31 December 2016. See details of impairment testing in Note 3.2.

As a result of the assessment performed by management, no impairment loss has been identified as at 31 December 2016 (31 December 2015: nil).

9. Development costs

Following an assessment of future economic benefits to the Group for each individual project, as at 31 December 2016, development costs were not written off (31 December 2015: nil).

	31 December 2016	31 December 2015
Cost		
Balance at the beginning of the year	2,025	1,755
Additions	980	270
Write-off	-	-
Balance at the end of the year	**3,005**	**2,025**
Accumulated amortisation		
Balance at the beginning of the year	(1,409)	(1,321)
Amortisation charge	(115)	(88)
Write-off	-	-
Balance at the end of the year	**(1,524)**	**(1,409)**
Net book value		
Balance at the end of the year	**1,481**	**616**

Breakdown of development costs

	31 December 2016	31 December 2015
Development of new off-road vehicle (UAZ Patriot)	699	345
Development of Euro-4 engine for UAZ	11	23
Development of new light commercial vehicle (UAZ-2360)	122	27
Improvement of selected vehicle component parts	3	22
Improvement of vehicles and engines to satisfy Euro-4 requirements	-	32
Development of new vehicle	471	-
Other	175	167
Total development costs	**1,481**	**616**

(in millions of Russian Roubles – RR)

10. Other intangible assets

Other intangible assets mainly comprise of exclusive licences, which were provided for a period of 4 to 10 years:

	31 December 2016	31 December 2015
Cost		
Balance at the beginning of the year	691	640
Additions	201	156
Disposals	(13)	(105)
Balance at the end of the year	**879**	**691**
Accumulated amortisation		
Balance at the beginning of the year	(499)	(491)
Amortisation charge	(100)	(103)
Disposals	8	95
Balance at the end of the year	**(591)**	**(499)**
Net book value		
Balance at the end of the year	**288**	**192**

11. Investments in joint ventures and associates

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

	31 December 2016	31 December 2015
Mazda-Sollers JV	1,118	245
Sollers-Bussan JV	346	464
Sollers-Finance JV	450	494
Total	**1,914**	**1,203**

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

	31 December 2016	31 December 2015
Carrying amount at 1 January	**1,203**	**9,756**
Share of (losses)/profit of other joint ventures	1,026	(486)
Share of loss of impaired joint venture, including impairment	-	(6,973)
Unrealised profit from sales to joint venture	10	10
Disposal of investment in joint venture	-	(833)
Dividends received from joint venture	(325)	(271)
Carrying amount at 31 December	**1,914**	**1,203**

Sollers-Finance JV

In November 2010, the Group established a joint venture with a bank for the development of leasing services and contributed OOO "Sollers-Finance", a previously wholly owned subsidiary, to the joint venture. During the year ended 31 December 2016 the dividends of RR 175 were received from the Sollers-Finance JV (2015: RR 71).

At 31 December 2016 the Sollers-Finance JV has contractual capital expenditure commitments in respect of vehicles amounted to RR 155 (31 December 2015: RR 42).

Sollers-Isuzu JV

In 2012 the Group disposed of its 16% stake of ZAO Sollers-Isuzu to the other venture and the Group's share declined to 50%.

During 2013 the additional shares issue was performed by the joint venture. In December 2013 the Group paid its contribution amounted to RR 100. The JV structure remained 50% – 50%.

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

11. Investments in joint ventures and associates (continued)

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.

During the year 2015 the Group has pledged it's share in OOO "DC SanYong" as a collateral for working capital facility related to SsangYong business at Mazda-Sollers JV.

The Group ceased the production of SsangYong vehicles on Mazda-Sollers JV premises in 2015.

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.

Sollers-Bussan JV

By the end of 2011 the Group established 50% – 50% joint venture with Japanese Mitsui&Co., Ltd located in Vladivostok, where Toyota vehicles were produced. In June 2015 the project was completed according to its initial schedule.

As of the date of approval of the financial statements Group management is considering alternative ways of Sollers-Bussan assets utilisation.

The carrying value of Sollers-Bussan JV investment have been tested by management for impairment. As of 31 December 2016 no impairment was identified (31 December 2015: nil).

During the year ended 31 December 2016 the dividends of RR 150 were received from the Sollers-Bussan JV (2015: RR 200).

Ford-Sollers JV

In February 2011, the Group announced cancellation of the alliance with FIAT SPA and the signing of Memorandum of understanding to establish a new joint venture in Russia with Ford. In May 2011 Sollers and Ford signed an Agreement to establish a joint venture for exclusive production and distribution of Ford vehicles in the Russian Federation.

On 1 October 2011 the Group completed formation of 50% – 50% Ford-Sollers JV and the commencement of the joint venture was announced. Ford Sollers JV manufactures a range of Ford passenger cars and light commercial vehicles in the St. Petersburg region and in the Republic of Tatarstan. The project implies development of large-scale production facilities with a high level of localization as well as maintaining of R&D activities.

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

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 year 2015 to 49.9% at 31 December 2015.

As a result of the agreements reached a financial instrument of RR 7,881 was recognised in the Group's balance sheet as of 31 December 2016 (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. Financial instrument is carried at fair value through profit or loss and analysed by level three measurements in the fair value hierarchy.

(in millions of Russian Roubles – RR)

11. Investments in joint ventures and associates (continued)

At 31 December 2016 the Ford-Sollers JV has contractual capital expenditure commitments in respect of property, plant and equipment amounted to RR 1,772 (31 December 2015: RR 3,667) and operating lease commitments for RR 559 (31 December 2015: RR 224).

The financing for the joint ventures Mazda-Sollers and Ford-Sollers have been agreed and obtained from Vnesheconombank (further "VEB"). The borrowings are secured by joint ventures' property, plant and equipment. Additionally the Group together with the co-investors Mazda Motor Co and Ford, respectively, have pledged 100% interest in the joint ventures to the VEB.

For Joint ventures' contingencies refer to note 31.

At 31 December 2016 , the Group held 50% interest in joint ventures Mazda Sollers, Sollers-Bussan and Sollers-Finance (at 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, liabilities, revenues, operating and net profit/(loss), is as follows:

	Total assets	Total liabilities	Revenue	Operating profit/(loss)	Profit/(loss)
Joint ventures:					
Total at 31 December 2016	**12,193**	**8,112**	**27,000**	**2,485**	**2,051**
Mazda-Sollers JV	8,465	5,897	26,355	2,070	1,725
Sollers-Bussan JV	749	57	-	64	63
Sollers-Finance JV	2,979	2,158	645	351	263
Total at 31 December 2015	**9,904**	**7,224**	**39,804**	**(275)**	**(971)**
Mazda-Sollers JV	7,146	6,303	21,958	(1,537)	(1,560)
Sollers-Isuzu JV	-	-	4,267	92	(407)
Sollers-Bussan JV	986	57	13,016	880	764
Sollers-Finance JV	1,772	864	563	290	232

12. Other non-current assets

	31 December 2016	31 December 2015
Advances for construction in progress and equipment	43	102
Other non-current assets	-	3
Total other non-current assets	**43**	**105**

13. Inventories

	31 December 2016	31 December 2015
Raw materials	2,709	2,427
Less: provision	(52)	(43)
Total raw materials	**2,657**	**2,384**
Work in progress	858	587
Less: provision	-	-
Total work in progress	**858**	**587**
Finished products	1,675	1,286
Less: provision	(226)	(275)
Total finished products	**1,449**	**1,011**
Total	**4,964**	**3,982**

At 31 December 2016 and 31 December 2015 there were no any pledged inventories.

(in millions of Russian Roubles – RR)

14. Trade and other receivables

	31 December 2016	31 December 2015
Trade receivables	3,097	1,501
Less: provision for impairment	(56)	(122)
Total trade receivables	**3,041**	**1,379**
Other receivables, including subsidies receivables	4,360	2,930
Less: provision for impairment	(35)	(12)
Total other receivables	**4,325**	**2,918**
Advances to suppliers, other than for equipment	281	475
Less: provision for impairment	(1)	(5)
Total advances to suppliers, other than for equipment	**280**	**470**
Taxes prepayments	405	337
VAT recoverable, net	785	498
Other prepayments	7	5
Total	**8,843**	**5,607**

Tax prepayments include profit tax prepayments in amount of RR 390 (31 December 2015: RR 314).

Trade receivables are represented by currency as follows:

Currency	31 December 2016	31 December 2015
Russian Roubles	2,955	1,378
Chinese yuan	85	-
US Dollars	1	1
Total	**3,041**	**1,379**

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

	31 December 2016	31 December 2015
Current and not impaired – exposure to		
- Group 1 – large corporate clients	2,252	464
- Group 2 – dealers	404	218
- Group 3 – other clients	358	627
Total current and not impaired	**3,014**	**1,309**
Past due but not impaired		
- less than 30 days overdue	13	21
- 30 to 90 days overdue	14	15
- 90 to 180 days overdue	-	8
- 180 to 360 days overdue	-	23
- over 360 days overdue	-	3
Total past due but not impaired	**27**	**70**
Individually determined to be impaired (gross)		
- less than 30 days overdue	-	5
- 30 to 90 days overdue	9	4
- 180 to 360 days overdue	1	48
- over 360 days overdue	46	65
Total individually impaired	**56**	**122**
Less impairment provision	**(56)**	**(122)**
Total	**3,041**	**1,379**

The Group retains the PTS (vehicle registration certificate representing the certificate of title of a vehicle) as a pledge when other documents are transferred to the dealer in conjunction with a sale. Management considers that this serves as collateral in relation for the trade receivables in Group 2 and Group 3. The fair value of the collateral for the past due but not impaired receivables as at 31 December 2016 was RR 27 (31 December 2015: RR 70) and the fair value of the collateral for the individually determined to be impaired receivables was RR 56 as of 31 December 2016 (31 December 2015: RR 122).

(in millions of Russian Roubles – RR)

14. Trade and other receivables (continued)

Movements in the impairment provision for trade and other receivables are as follows:

	31 December 2016			31 December 2015		
	Trade receivables	Other financial receivables	Advances to suppliers	Trade receivables	Other financial receivables	Advances to suppliers
Provision for impairment at start of year	**122**	**12**	**5**	**113**	**61**	**3**
Amounts written off during the year as uncollectible	(34)	(3)	-	-	(46)	(1)
Provision for impairment during the year	(32)	26	(4)	9	(3)	3
Provision for impairment at end of year	**56**	**35**	**1**	**122**	**12**	**5**

15. Cash and cash equivalents

	31 December 2016	31 December 2015
Cash on hand and balances with banks	266	197
Cash deposits	2,070	514
Total	**2,336**	**711**

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

	1%-3%	6%	7%	9%	Non-interest bearing	Total
As at 31 December 2016						
Cash on hand and balances with banks	2	-	-	-	264	**266**
Cash deposits	-	1,899	150	21	-	**2,070**
Total	**2**	**1,899**	**150**	**21**	**264**	**2,336**

	1%-3%	3%-4%	7%-9%	10%-11%	Non-interest bearing	Total
As at 31 December 2015						
Cash on hand and balances with banks	19	-	-	-	178	**197**
Cash deposits	-	63	42	409	-	**514**
Total	**19**	**63**	**42**	**409**	**178**	**711**

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

Currency	31 December 2016	31 December 2015
US Dollars	2	58
Total	**2**	**58**

(in millions of Russian Roubles – RR)

15. Cash and cash equivalents (continued)

The carrying value of cash and cash equivalents as at 31 December 2016 and 31 December 2015 is approximately equal to their fair value. The Group holds cash and cash equivalents in the top-10 Russian banks. Credit ratings of the banks where accounts were held as at the year-end date are set out in the analysis below:

	31 December 2016	31 December 2015
Rating by Fitch		
- AAA (rus)	-	183
Rating by Moody's		
- Baa1.ru	-	38
- Aa1.ru	-	31
Rating by S&P		
- ru AA	-	1
- ru AA+	1,735	427
- ru AA-	-	29
Other		
- Unrated	601	2
Total	**2,336**	**711**

16. Shareholders' equity

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

	Number of outstanding ordinary shares (thousands)	Share capital	Share premium	Additional paid-in capital
At 31 December 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. All issued ordinary shares are fully paid. Each ordinary share carries one vote.

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

In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the accumulated profit. For the year ended 31 December 2016, the net statutory profit for the Company reported in the published annual statutory reporting financial statements was RR 4,942 (2015: net profit RR 1,080) and the closing balance of the accumulated profit including the current reporting period net statutory profit was RR 9,643 (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 these consolidated financial statements.

By the date of approval of these consolidated financial statements, no dividends were proposed by the Board of Directors for the year ended 31 December 2016.

During year 2016 no dividends were paid for the year ended 31 December 2015.

17. Borrowings

The Group's long-term borrowings consisted of bank loans amounted to RR 3,420 (31 December 2015: RR 3,868).

The Group's long-term borrowings are denominated in Russian Roubles at 31 December 2016 and 31 December 2015. The carrying amounts of long-term borrowings approximates to their fair values as at 31 December 2016 and 31 December 2015.

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

	31 December 2016	31 December 2015
Bank loans	3,647	2,358
Interest payable	9	28
Total short-term borrowings	**3,656**	**2,386**

(in millions of Russian Roubles – RR)

17. Borrowings (continued)

The Group's short-term borrowings are denominated in Russian Roubles at 31 December 2016 and 31 December 2015. The carrying amounts of short-term borrowings approximates to their fair values at 31 December 2016 and at 31 December 2015.

Certain of the Group's borrowings are subject to covenant requirements that the Group is required to comply with, or otherwise could result in an acceleration of the repayment period. See Note 31.

Property, plant and equipment of RR 2,848 (31 December 2015: RR 2,977) are pledged as collateral for long-term and short-term borrowings. See Note 7.

At 31 December 2016 long-term borrowings of 445 and short-term borrowings of RR 211 were secured by 100% share in the Group's subsidiary OOO Rosalit, besides property, plant and equipment.

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

18. Deferred income

In the second half of the year 2016 the Group received a government subsidy to compensate Group's development costs on the new vehicle in the amount of RR 518. The Group has capitalised related development costs. Accordingly, the government subsidy was recognised as a deferred income on the Group's balance sheet. The deferred income will be recognised as revenue to match the amortisation of the capitalised development costs. Amortisation of the deferred income recognised will commence when the Group meets all conditions attached to the subsidy.

19. Advances received and other payables

	31 December 2016	31 December 2015
Accrued liabilities and other creditors	224	113
Dividends payable	18	38
Liabilities for purchased property, plant and equipment	36	15
Total financial liabilities within other payables	**278**	**166**
Bonus accrual	568	696
Advances received	1,034	648
Accrued employee benefit costs	287	118
Vacation accrual	171	95
Total advances received and other payables	**2,338**	**1,723**

There were no overdue payables as at 31 December 2016, including in respect of trade payables (31 December 2015: nil).

20. Taxes payable

	31 December 2016	31 December 2015
Value-added tax	224	230
Payments to the State Pension Fund and other social taxes	181	195
Income tax	55	18
Property tax	31	23
Personal income tax	15	20
Excise tax	23	18
Utilisation tax	2,656	1,555
Other taxes	47	12
Total	**3,232**	**2,071**

The Group had no tax liabilities past due at 31 December 2016 (31 December 2015: nil).

(in millions of Russian Roubles – RR)

21. Warranty and other provisions

During the year ended 31 December 2016 and 31 December 2015, the following movements in warranty and other provisions were recorded:

	Warranty	Tax and other claims	Total
Balance at 1 January 2015	**496**	**30**	**526**
Additional provision	345	291	636
Utilised in the year	(357)	(32)	(389)
Balance at 31 December 2015	**484**	**289**	**773**
Additional provision	363	46	409
Utilised in the year	(345)	(87)	(432)
Balance at 31 December 2016	**502**	**248**	**750**

The Group provides a one-year warranty on most UAZ vehicles, except a three-year warranty on the UAZ Patriot; one and two-year warranty on ZMZ engines; and a three-year warranty period on sport utility vehicles. The Group undertakes to repair or replace items that fail to perform satisfactorily. A provision has also been recognised for SsangYong vehicles based on expected costs to be incurred that are not covered by warranties provided by the supplier.

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

22. Sales

	Year ended 31 December 2016	Year ended 31 December 2015
Vehicles	28,774	30,957
Automotive components	4,187	4,314
Engines	716	970
Services	888	1,267
Other sales	1,056	841
Total	**35,621**	**38,349**

23. Cost of sales

	Year ended 31 December 2016	Year ended 31 December 2015
Materials and components	23,670	24,572
Government subsidies	*(7,413)*	*(5,547)*
Labour costs	5,303	4,553
Government subsidies	*(2,750)*	*(2,117)*
Other production costs	9,700	6,303
Government subsidies	*(392)*	*(390)*
Depreciation and amortisation	942	900
Change in finished goods and work in progress	(709)	2,098
Total	**28,351**	**30,372**

The utilisation tax of RR 7,614 is recognised in other production costs in 2016 (2015: RR 5,059).

24. Distribution costs

	Year ended 31 December 2016	Year ended 31 December 2015
Transportation	1,321	1,061
Advertising	288	173
Labour costs	395	351
Check and inspection performed by dealers	50	36
Materials	114	84
Commission fee	-	8
Other	132	200
Total	**2,300**	**1,913**

(in millions of Russian Roubles – RR)

25. General and administrative expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Labour costs	2,773	2,381
Government subsidies	*(1,597)*	*(726)*
Services provided by third parties	406	460
Depreciation and amortisation	159	174
Rent	198	132
Taxes other than income	170	173
Business travel	259	178
Fire brigade and security costs	140	132
Repairs and maintenance	64	109
Transportation	74	48
Materials	43	41
Insurance	10	40
Training costs	18	15
Movement in the provision for impairment of receivables	(44)	90
Other	104	111
Total	**2,777**	**3,358**

26. Other operating income – net

	Year ended 31 December 2016	Year ended 31 December 2015
Net income on disposals of property, plant, equipment and investments	(120)	(481)
Accounts payables written-off	(14)	(3)
Charitable donations	8	7
Social expenses	41	25
(Profit)/loss on disposal of materials	(40)	(91)
Research and development expenses	1	-
Other provisions accrual	(22)	204
Other	70	28
Total	**(76)**	**(311)**

27. Finance costs, net

	Year ended 31 December 2016	Year ended 31 December 2015
Interest expense, net	877	1,060
Government subsidy of interest expenses	(174)	(211)
Foreign exchange losses, net	(412)	339
Discounting	(3)	-
Total finance costs, net	**288**	**1,188**
Less capitalised finance costs	(49)	(53)
Total finance costs, net	**239**	**1,135**

The Group’s capitalised borrowing costs of RR 49 mainly arising on financing attributable to the construction of property, plant and equipment (2015: RR 53).

Interests paid during 2016 and 2015 to State banks were partly compensated under Government Decrees #640 dated 1 August 2011 and #357 dated 6 June 2005. The compensation was recognised within finance costs of the consolidated profit or loss of the reporting periods to match it with the costs that they are intended to compensate.

(in millions of Russian Roubles – RR)

28. Income tax expense

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

	Year ended 31 December 2016	**Year ended 31 December 2015**
Current income tax expense	139	488
Deferred tax charge / (benefit)	(3)	22
Income tax expense	**136**	**510**

The income tax rate applicable to the majority of the Group's income is 20% (2015: 20%). A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2016	**Year ended 31 December 2015**
Profit/(loss) before income tax	**1,737**	**3,623**
Theoretical tax charge at statutory rate (2016: 20%; 2015: 20%)	347	725
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-assessable gains at 20%	(211)	(215)
Income tax expense	**136**	**510**

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (31 December 2015: 20%).

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

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

Since 1 January 2017 carryover of the tax losses that existed at 31 December 2016 and that will arise going forward are not limited in time.

	1 January 2015	**Movement in the year ended 31 December 2015**	**31 December 2015**	**Movement in the year ended 31 December 2016**	**31 December 2016**
Tax effects of deductible temporary differences:					
Losses carried forward	348	124	**472**	132	**604**
Equity investments	-	-	**-**	2	**2**
Accounts payable and provisions	476	229	**705**	(312)	**393**
Inventories	295	(266)	**29**	104	**133**
Other current assets	-	-	**-**	18	**18**
Other long-term liabilities	-	-	**-**	104	**104**
Total	**1,119**	**87**	**1,206**	**48**	**1,254**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(857)	26	**(831)**	(20)	**(851)**
Accounts receivable	(448)	(95)	**(543)**	(209)	**(752)**
Equity investments	(145)	(40)	**(185)**	183	**(2)**
Total	**(1,450)**	**(109)**	**(1,559)**	**(46)**	**(1,605)**
Recognised deferred tax asset, net	616	138	**754**	25	**779**
Recognised deferred tax liability, net	(947)	(160)	**(1,107)**	(23)	**(1,130)**
Total net deferred tax assets / (liabilities)	**(331)**	**(22)**	**(353)**	**2**	**(351)**

28. Income tax expense (continued)

The Group has not recorded a deferred tax liability in respect of temporary differences associated with investments in subsidiaries and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and does not intend for them to reverse in the foreseeable future. Un-remitted earnings from subsidiaries and joint ventures were RR 10,027 at 31 December 2016 (31 December 2015: RR 13,467), mostly being subject to tax rate on dividends of 0%.

29. Segment information

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

Since 2011 the Group restructured its automotive, engine and autocomponents segments after PAO UAZ has become the major customer of PAO ZMZ. The sales of engine and autocomponents segments became immaterial in terms of segment reporting and are no longer disclosed separately. As 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 22. Management considers that across the range of vehicles and models produced, these are considered as similar products.

30. Financial risk management

30.1 Financial risk factors

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

(a) Market risk

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

(i) Currency risk

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

(in millions of Russian Roubles – RR)

30. Financial risk management (continued)

30.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The positions are monitored monthly. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2016:

	Monetary financial assets			Monetary financial liabilities		
	Cash and cash equivalents	**Financial instruments**	**Accounts receivable**	**Accounts payable**	**Borrowings**	**Net balance sheet position**
US Dollars	2	7,881	1	(758)	-	**7,126**
Euros	-	-	-	(477)	-	**(477)**
Korean won	-	-	-	(105)	-	**(105)**
Chinese yuan	-	-	85	(554)	-	**(469)**
Total foreign currencies	**2**	**7,881**	**86**	**(1,894)**	**-**	**6,075**
Russian Roubles	2,334	-	3,024	(6,565)	(7,076)	**(8,283)**
Total	**2,336**	**7,881**	**3,110**	**(8,459)**	**(7,076)**	**(2,208)**

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2015:

	Monetary financial assets			Monetary financial liabilities		
	Cash and cash equivalents	**Financial instruments**	**Accounts receivable**	**Accounts payable**	**Borrowings**	**Net balance sheet position**
US Dollars	58	9,200	1	(1,152)	-	**8,107**
Euros	-	-	-	(1,249)	-	**(1,249)**
Total foreign currencies	**58**	**9,200**	**1**	**(2,401)**	**-**	**6,858**
Russian Roubles	653	-	1,493	(3,827)	(6,254)	**(7,935)**
Total	**711**	**9,200**	**1,494**	**(6,228)**	**(6,254)**	**(1,077)**

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

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

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

	2016	**2015**
Impact on profit and loss and on equity of:		
US Dollar strengthening by 10% (20% for 2015)	713	1,621
US Dollar weakening by 10% (20% for 2015)	(713)	(1,621)
Euro strengthening by 10% (20% for 2015)	(48)	(249)
Euro weakening by 10% (20% for 2015)	48	249
Korean won strengthening by 10%	(11)	-
Korean won weakening by 10%	11	-
Chinese yuan strengthening by 10%	(47)	-
Chinese yuan weakening by 10%	47	-

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

(ii) Price risk

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

(in millions of Russian Roubles – RR)

30. Financial risk management (continued)

30.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk

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

	Demand and less than 3 month	From 3 to 12 months	More than 1 year	Total
31 December 2016				
Fixed interest rates	1	3,202	2,974	**6,177**
Interest rates based on key rate	56	389	445	**890**
Total	**57**	**3,591**	**3,419**	**7,067**

	Demand and less than 3 month	From 3 to 12 months	More than 1 year	Total
31 December 2015				
Fixed interest rates	641	448	2,300	**3,389**
Interest rates based on key rate	-	1,269	1,568	**2,837**
Total	**641**	**1,717**	**3,868**	**6,226**

At 31 December 2016, if interest rates at that date had been 200 basis points lower (31 December 2015: 200 basis points lower) with all other variables held constant, the interest expense for the year would have been RR 133 lower (2015: RR 180 lower). If interest rates at that date had been 100 basis points higher (31 December 2015: 100 basis points higher) with all over variables held constant, the interest expense for the year would have been RR 66 higher (31 December 2015: RR 90 higher).

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

In % p.a.	2016	2015
Assets		
Cash and cash equivalents	0%-9%	0%-11%
Liabilities		
Borrowings	9.00%-14.25%	9.00%-15.25%

(b) Credit risk

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

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

	31 December 2016	31 December 2015
Cash and cash equivalents	2,336	711
Accounts receivable, including long-term accounts receivable	3,041	1,381
Financial instruments	7,881	9,200
Other receivables	2	3
Other financial assets	67	110
Total on-balance sheet exposure	13,327	11,405
Financial guarantees, Note 31	47	135
Total maximum exposure to credit risk	**13,374**	**11,540**

All of the financial assets of the Group, except for RR 35 (31 December 2015: RR 33) in shares, categorised as available for sale, are loans and receivables.

30. Financial risk management (continued)

30.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

Management reviews the ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 14.

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

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

The Group's cash and cash equivalents are held with over 10 banks (31 December 2015: 10 banks) thus there is no significant exposure of the Group to a concentration of credit risk. Management monitor Moody's, Fitch and S&P ratings of the banks used to manage the level of credit risk that the Group is exposed to. Management considers that the credit risk associated with these banks is negligible.

Credit risks concentration

Excepting state and corporate contracts no single debtor of the Group accounts for more than 2,6% (31 December 2015: 3.6%) of the trade accounts receivable of the Group. However, the majority of the Group's trade receivables represent dealers who sell the Group's vehicles to consumers, and therefore are exposed in similar ways to reductions in the demand from consumers for new vehicle sales, and their ability to obtain access to credit in the financial markets in order to finance their businesses. As the Group maintains the PTS registration certificates to each vehicle and has insurance arrangements in place covering the vehicles held by the dealers, this mitigates the potential exposure of the Group in the event that a number of dealers are impacted in similar ways and are not able to repay amounts owed.

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

(c) Liquidity risk

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

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

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

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

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

The analysis below represents management expectations of repayment schedule of monetary assets and liabilities of the Group as of 31 December 2016 and 31 December 2015. The table below is based on the earliest possible repayment dates and on nominal cash flows including future interest payments. Foreign currency cash flows are translated using spot exchange rates as of 31 December 2016 and 31 December 2015.

(in millions of Russian Roubles – RR)

30. Financial risk management (continued)

30.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Demand and less than 3 months	From 3 to 12 months	More than 1 year	More than 5 years	Total
31 December 2016					
Total monetary financial assets	**5,431**	**15**	**7,881**	**-**	**13,327**
Cash and cash equivalents	2,336	-	-	-	**2,336**
Trade receivables	3,028	13	-	-	**3,041**
Financial instruments	-	-	7,881	-	**7,881**
Other receivables	67	-	-	-	**67**
Other financial assets	-	2	-	-	**2**
Total monetary financial liabilities	**(8,525)**	**(3,591)**	**(3,419)**	**-**	**(15,535)**
Borrowings	(66)	(3,591)	(3,419)	-	**(7,076)**
Trade payables	(8,181)	-	-	-	**(8,181)**
Other payables	(278)	-	-	-	**(278)**
Future interest payments	**(205)**	**(477)**	**(288)**	**-**	**(970)**
Net monetary financial liabilities at 31 December 2016	**(3,299)**	**(4,053)**	**4,174**	**-**	**(3,178)**
31 December 2015					
Total monetary financial assets	**2,154**	**50**	**9,201**	**-**	**11,405**
Cash and cash equivalents	711	-	-	-	**711**
Trade receivables	1,333	47	1	-	**1,381**
Financial instruments	-	-	9,200	-	**9,200**
Other receivables	110	-	-	-	**110**
Other financial assets	-	3	-	-	**3**
Total monetary financial liabilities	**(6,896)**	**(1,718)**	**(3,868)**	**-**	**(12,482)**
Borrowings	(669)	(1,717)	(3,868)	-	**(6,254)**
Trade payables	(6,061)	(1)	-	-	**(6,062)**
Other payables	(166)	-	-	-	**(166)**
Future interest payments	**(192)**	**(440)**	**(482)**	**-**	**(1,114)**
Net monetary financial liabilities at 31 December 2015	**(4,934)**	**(2,108)**	**4,851**	**-**	**(2,191)**

Financial guarantees issued by the Group are disclosed in Note 31.

30.2 Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by a sum of total equity and net debt. The Group considers total capital under management at 31 December 2016 to be RR 22,718 (31 December 2015: RR 22,309).

The gearing ratios at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
Long-term borrowings	3,420	3,868
Short-term borrowings	3,656	2,386
Less: cash and cash equivalents	(2,336)	(711)
Net debt	**4,740**	**5,543**
Equity	17,978	16,377
Total net debt and equity	22,718	21,920
Gearing ratio	**21%**	**25%**

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

30. Financial risk management (continued)

30.2 Capital risk management (continued)

Fair value of financial instruments

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

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

The fair value of long-term and short-term borrowings is disclosed in Note 17. The fair value of the financial instrument recognised due to received right of the share in JV sale is disclosed in Note 11. The carrying value of other financial instruments approximates to their fair value. Level three measurements were applied.

31. Contingencies, commitments and operating risks

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

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

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.

Management considers that as of the balance sheet date the Group has contingent liabilities, related to tax risks for RR 320 millions. These risks may arise as the result of various possible interpretations of legislation related to income tax. Management intends to protect the Group’s interpretation of tax code provisions in relation to tax liabilities. At the moment management believes that the Group’s interpretation of tax legislation could be proved, nevertheless, there is a risk that the Group will be subject to additional tax expenses, if management understanding is successfully challenged by tax authorities.

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

Capital commitments. Company’s commitments totalled RR 15 at 31 December 2016 (31 December 2015: RR 30) including contractual obligations to purchase, construct or develop property, plant and equipment.

(in millions of Russian Roubles – RR)

31. Contingencies, commitments and operating risks (continued)

Guarantees. Guarantees are irrevocable assurance that the Group will make payments in the event that another party cannot meet its obligations. As of 31 December 2015 the Group has issued a financial guarantee for working capital facility at its joint venture operations related to SsangYong business in amount of RR 110. In addition the Group has issued a financial guarantees for other related parties for RR 47 as of 31 December 2016 (31 December 2015: RR 25).

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

Management have validated that the Group was in full compliance with all covenants attached to contracts entered into, including borrowing agreements with lenders, as at 31 December 2016 (31 December 2015: no exceptions).

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

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

32. Principal subsidiaries

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

		31 December 2016	**31 December 2015**
Entity	**Activity**	**% of effective interest (total share capital)**	**% of effective interest (total share capital)**
OOO “DC SanYong”	Auto trading	100.00	100.00
OOO “Torgoviy dom Sollers”	Auto components trading	100.00	100.00
PAO “Zavolzhskiy Motor Works” (further “ZMZ”)	Manufacture and sale of engines for passenger automobiles, trucks and buses	94.98	94.98
OOO “RosALit”	Manufacture and sale of metal products	94.98	94.98
PAO “Ulyanovsky Avtomobilny Zavod” (further “UAZ”)	Manufacture and sale of passenger automobiles, light trucks and minibuses	100.00	100.00
OOO “Sollers-Dal’niy Vostok”	Vehicle production	100.00	100.00
OOO DC UAZ	Auto trading	100.00	100.00

The table presents the Group’s effective interest in total share capital comprising of ordinary shares and preference shares.

During the year ended 31 December 2015, the Group acquired 3.6% stake in UAZ for RR 196. The Group’s result (profit) of RR 110 was recognised in the Statement of Changes in Equity.

Following the UAZ stake acquisition during the reporting period ended 31 December 2015 the Group’s effective interest in ZMZ has changed with no changes in voting rights. As a result, an amount of RR 312 is recognised in the Statement of Changes in Equity

At 31 December 2016 the Group had one subsidiary with non-controlling interests that is material (at 31 December 2015 the Group had one subsidiary with non-controlling interests that are material):

	31 December 2016		**31 December 2015**	
	Carrying amount	**The non-controlling interest’s share**	**Carrying amount**	**The non-controlling interest’s share**
ZMZ	454	5.02%	455	5.02%
Total	**454**	**-**	**455**	**-**

(in millions of Russian Roubles – RR)

32. Principal subsidiaries (continued)

The table below summarises the movements in the carrying amount of the non-controlling interest in the Group's subsidiaries:

	ZMZ	UAZ
Carrying amount at 1 January 2015	**786**	**306**
Non-controlling interest in current year result	(19)	-
Dilution factor effect	(312)	-
Decrease of non-controlling interest due purchase by the Group	-	(306)
Carrying amount at 31 December 2015	**455**	**-**
Non-controlling interest in current year result	(1)	-
Carrying amount at 31 December 2016	**454**	**-**

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

	Total assets	Total liabilities	Revenue	Profit/ (loss)	Net cash flows
Total at 31 December 2016					
ZMZ	12,166	(3,126)	5,186	45	(141)
Total at 31 December 2015					
ZMZ	12,872	(3,878)	6,166	(277)	(726)