SOLLERS GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2018

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

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

Details of auditor
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State Registration number: 1027700115409
Address: Russia, 123007, Moscow, Khoroshevskoye Shosse 32A, Premise VII, Office 57
Baker Tilly Rus JSC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Baker Tilly Rus JSC is included in the control copy of the register of auditors and audit organizations, main registration number 11603076265.

Details of the audited entity
Name: Public Joint-Stock Company SOLLERS
State Registration number: 1023501244524
Address: 10 Testovskaya Str., Moscow, Russia, 123317

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INDEPENDENT AUDITOR’S REPORT

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

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company SOLLERS and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

Valuation of the investments in Ford-SOLLERS JV

We focused on this issue due to the materiality of the amount of investment in Ford-SOLLERS JV as of December 31, 2018. A financial instrument recognized as a result of the received right to sell a stake in Ford-SOLLERS JV at fair value is recognized as part of the current assets in the amount of 9,379 million rubles.

Further details are provided in Note 10 “Investments in associates and joint ventures” to the consolidated financial statements.

We checked the correctness of the assessment of the financial instrument recognized as a result of the received right to sell a stake in Ford-SOLLERS JV for compliance with IFRS requirements.

We discussed with the management of the Group their further plans related to the Ford-SOLLERS JV.

We analyzed the documentary substantiation of the Group’s right to receive reimbursement based on the sale of a stake in Ford-SOLLERS JV in the amount of 9,379 million rubles, and made sure that the Group would be able to realize the financial instrument at its fair value.

Assessment of compliance with the covenants of the loan agreements

The Group has a significant amount of the borrowed funds to finance its activities. The amount of the borrowed funds raised by the Group amounted to 5,690 million rubles as of December 31, 2018. The terms of the loan agreements contain a number of financial and non-financial covenants. Further details are provided in Note 16 “Borrowings” to the consolidated financial statements.

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

- calculated the financial covenants;

- checked the observance of non-financial restrictive conditions;

- checked the disclosures in these consolidated financial statements.

Other information

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

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

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

Other matter

The audit of the Group's annual consolidated financial statements for the year ended December 31, 2017 was conducted by another auditor, who expressed an unmodified opinion on these consolidated financial statements on April 28, 2018.

Responsibilities of Management and the Audit Committee of the Board of Directors for the consolidated financial statements

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

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

The Audit Committee of the Board of Directors 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 skepticism throughout the audit. We also:

a) Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

d) Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

e) Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit
resulting in this independent auditor's report is Z.B. Shalumov

April 29, 2019

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

April 29, 2019
Moscow, Russian Federation

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 2018	At 31 December 2017	At 31 December 2018	At 31 December 2017
ASSETS					
Non-current assets					
Property, plant and equipment	6	10,970	11,181	158	194
Goodwill	7	1,484	1,484	21	26
Development costs	8	3,204	2,179	46	38
Other intangible assets	9	773	438	11	8
Deferred income tax assets	27	961	690	14	12
Investments in associates and joint ventures	10	2,438	2,261	35	39
Financial instruments	10	-	7,620	-	132
Other financial assets		45	37	1	1
Other non-current assets	11	69	122	1	2
Total non-current assets		**19,944**	**26,012**	**287**	**452**
Current assets					
Inventories	12	5,108	5,442	74	94
Trade and other receivables	13	14,194	9,216	205	160
Financial instruments	10	9,379	-	135	-
Restricted cash	14	1,761	876	25	15
Cash and cash equivalents	14	226	2,306	3	40
Total current assets		**30,668**	**17,840**	**442**	**309**
TOTAL ASSETS		**50,612**	**43,852**	**729**	**761**
LIABILITIES AND EQUITY					
Equity					
Share capital	15	530	530	8	9
Share premium	15	4,538	4,538	65	79
Additional paid-in capital	15	1,438	1,438	21	25
Retained earnings		12,099	12,007	174	208
Equity attributable to the Company's owners		**18,605**	**18,513**	**268**	**321**
Non-controlling interest	31	364	464	5	8
Total equity		**18,969**	**18,977**	**273**	**329**
Liabilities					
Non-current liabilities					
Long-term borrowings	16	1,254	2,830	18	49
Deferred income tax liabilities	27	1,507	1,359	22	24
Deferred income	17	1,147	923	17	16
Total non-current liabilities		**3,908**	**5,112**	**57**	**89**
Current liabilities					
Trade accounts payable	18	15,817	7,609	228	132
Advances received and other payables	18	1,834	950	26	17
Taxes payable	19	4,890	2,427	70	42
Warranty and other provisions	20	758	816	11	14
Short-term borrowings	16	4,436	7,961	64	138
Total current liabilities		**27,735**	**19,763**	**399**	**343**
Total liabilities		**31,643**	**24,875**	**456**	**432**
TOTAL LIABILITIES AND EQUITY		**50,612**	**43,852**	**729**	**761**

Approved for issue and signed on behalf of the Board of Directors on 29 April 2019

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First Deputy General Director N.A. Sobolev	Deputy General Director for Finance and Economics E.A. Frolova

The accompanying notes on pages 5 to 45 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	**2018**	**2017**	**2018**	**2017**
Sales	21	39,479	35,764	630	613
Cost of sales	22	(34,088)	(28,620)	(544)	(491)
Gross profit		**5,391**	**7,144**	**86**	**122**
Distribution costs	23	(3,538)	(2,867)	(56)	(49)
General and administrative expenses	24	(2,867)	(2,511)	(46)	(43)
Other operating (expenses)/ income, net	25	(9)	22	-	-
Operating (loss)/ profit		**(1,023)**	**1,788**	**(16)**	**30**
Finance costs, net	26	(1,007)	(588)	(16)	(10)
Change in fair value of financial instrument	10	1,759	(261)	28	(4)
Share in profit of joint ventures	10	232	412	4	7
(Loss)/ profit before income tax		**(39)**	**1,351**	**-**	**23**
Income tax income/ (expense)	27	85	(352)	1	(6)
Profit for the year		**46**	**999**	**1**	**17**
Total comprehensive income for the year		**46**	**999**	**1**	**17**
Profit is attributable to:					
Owners of the Company		32	989	1	17
Non-controlling interest	31	14	10	-	-
Profit for the year		**46**	**999**	**1**	**17**
Total comprehensive income is attributable to:					
Owners of the Company		32	989	1	17
Non-controlling interest		14	10	-	-
Total comprehensive income for the year		**46**	**999**	**1**	**17**
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 per share (in RR and US$) – basic		0.94	28.86	0.02	0.49
Profit per share (in RR and US$) – diluted		0.94	28.86	0.02	0.49

The accompanying notes on pages 5 to 45 are an integral part of these consolidated financial statements.

(in millions of Russian Roubles)

		RR million		Supplementary information US$ million (Note 2)	
		Year ended 31 December		Year ended 31 December	
	Note	**2018**	**2017**	**2018**	**2017**
Cash flows from operating activities					
(Loss)/ profit before income tax		**(39)**	**1,351**	**-**	**23**
Adjustments for:					
Depreciation		1,172	1,119	19	19
Amortisation		321	235	5	4
Provision for impairment of receivables and write-offs	24	30	21	-	-
Provision for inventories	12	(257)	26	(4)	-
Salary and guarantee provision	18,20	(72)	(375)	(1)	(6)
Other provision movements	20	40	(32)	1	(1)
Loss on disposal of other non-current assets		28	1	-	-
Net gain on disposal of property, plant and equipment	25	(27)	(142)	-	(2)
Gain on disposal of investments	25	(8)	(7)	-	-
Change in fair value of financial instrument	10	(1,759)	261	(28)	4
Share of profit of joint ventures and associates	10	(232)	(412)	(4)	(7)
Finance costs, net	26	711	588	11	10
Amortization of government grants		(62)	-	(1)	-
Development expenses write-off	8	7	-	-	-
Operating cash flows before working capital changes		**(147)**	**2,634**	**(2)**	**44**
Decrease/ (increase) in inventories		736	(480)	12	(8)
Increase in trade and other receivables		(5,161)	(630)	(82)	(10)
Increase/(decrease) in trade accounts payable, advances received and other payables		9,003	(1,349)	143	(23)
Increase/(decrease) in taxes payable		2,466	(739)	39	(13)
Cash provided from operations		**6,897**	**(564)**	**110**	**(10)**
Income taxes		92	151	2	3
Interest paid		(746)	(708)	(12)	(12)
Net cash from/(used in) operating activities		**6,243**	**(1,121)**	**100**	**(19)**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(985)	(1,260)	(16)	(22)
Proceeds from the sale of property, plant and equipment and advances received		62	167	1	3
Development costs	8	(1,265)	(843)	(20)	(14)
Purchase of other non-current assets	9	(451)	(240)	(7)	(4)
Depositing of special funds on special accounts	14	(885)	(876)	(14)	(15)
Dividends received from participation in joint venture	10	100	75	2	1
Proceeds from government R&D subsidies	17	328	285	5	5
Proceeds from disposal of subsidiary net of cash disposed		-	13	-	-
Investment in joint venture	10	(35)	-	(1)	-
Net cash used in investing activities		**(3,131)**	**(2,679)**	**(50)**	**(46)**
Cash flows from financing activities					
Borrowings received		19,594	20,843	312	357
Repayment of borrowings		(24,732)	(17,055)	(394)	(292)
Dividends paid to the Group's shareholders		-	(18)	-	-
Change of non-controlling interest in subsidiaries	31	(54)	-	(1)	-
Net cash from/(used in) financing activities		**(5,192)**	**3,770**	**(83)**	**65**
Net decrease in cash and cash equivalents		**(2,080)**	**(30)**	**(33)**	**-**
Effect of exchange rate changes on cash and cash equivalents		**-**	**-**	**(4)**	**2**
Cash and cash equivalents at the beginning of the year		**2,306**	**2,336**	**40**	**38**
Cash and cash equivalents at the end of the year		**226**	**2,306**	**3**	**40**

The accompanying notes on pages 5 to 45 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 the Company's owners	Non-controlling interest	Total equity
Balance at 1 January 2017		**530**	**4,538**	**1,438**	**11,018**	**17,524**	**454**	**17,978**
Profit for the year		-	-	-	989	**989**	10	**999**
Total comprehensive income for 2017		**-**	**-**	**-**	**989**	**989**	**10**	**999**
Balance at 31 December 2017		**530**	**4,538**	**1,438**	**12,007**	**18,513**	**464**	**18,977**
Profit for the year		-	-	-	32	**32**	14	**46**
Purchase of non-controlling interest in subsidiary	**31**	-	-	-	60	**60**	(114)	**(54)**
Total comprehensive income for 2018		**-**	**-**	**-**	**92**	**92**	**(100)**	**(8)**
Balance at 31 December 2018		**530**	**4,538**	**1,438**	**12,099**	**18,605**	**364**	**18,969**

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 2018 for SOLLERS PJSC, previously called OAO "Severstal-auto", (the "Company") and its subsidiaries (the "Group"). The Group adopted its new name "SOLLERS" in 2008.

The Company was incorporated as an open joint stock company in the Russian Federation in March 2002 by OAO "Severstal" (the predecessor) by contributing its controlling interests in PAO "Ulyanovsky Avtomobilny Zavod" (PAO "UAZ") and PAO "Zavolzhskiy Motorny Zavod" (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. As of 31 December 2018 and 31 December 2017 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.

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.

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

These consolidated financial statements were approved for issue by the First Deputy General Director and the Deputy General Director for Finance and Economics on 29 April 2019.

Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 30). During 2018 Russian economy was gradually recovering from the economic downturn of 2015 and 2016. But the economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

2. Basis of preparation and significant accounting policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and by the revaluation of available for sale securities. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4). These financial statements are prepared on a going concern basis.The Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Federal Law on Accounting of the Russian Federation. The consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

2.1 Presentation currency

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

2.2 Supplementary information

The supplementary information presented in US Dollars in addition to Russian Roubles (the Group's presentation currency) is presented for three primary statements: Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows. US Dollar ("US$") amounts shown in the consolidated financial statements are translated from the Russian Rouble ("RR") amounts as a matter of arithmetic computation only. The Consolidated Statement of Financial Position have been translated at the official rate of the Central Bank of the Russian Federation at 31 December 2018 of RR 69.4706 = US$1 (31 December 2017: RR 57.6002 = US$1). The Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows have been translated at the average exchange rates during the years ended 31 December 2018 of RR 62.7078 = US$1 (2017: RR 58.3529 = 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 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 predecessor method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to retained earnings within equity.

2.6 Associates and joint ventures

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

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

Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates or joint ventures reduce the carrying value of the investment in respective associates or joint ventures. Other post-acquisition changes in the Group's share of net assets of an associate or joint venture are recognised as follows: (i) the Group's share of profits or losses of associates and joint ventures is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates and joint ventures are recognised in profit or loss within the share of result of associates and joint ventures. The share of associates' or joint ventures' results is recognised in the consolidated financial statements from the date significant influence acquisition or the date that joint control commences until the date at which it ceases.

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

2.6 Associates and joint ventures (continued)

However, when the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables; the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture. Unrealised gains on transactions between the Group, its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.7 Disposals of subsidiaries, associates or joint ventures

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

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

2.8 Financial instruments –measurement

The accounting policies adopted after January 1, 2018

Financial instruments – initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement

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

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

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

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

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

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

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

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

2.8 Financial instruments –measurement (continued)

Subsequent measurement

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

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

Derecognition

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

- the rights to receive cash flows from the asset have expired;

or

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

The accounting policies adopted before January 1, 2018

Non-derivative financial assets and liabilities – recognition and derecognition

The Group initially recognises loans, receivables and payables on the date they originate. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises the financial liability at the time when its obligations under the respective agreement are settled or terminated, or their effective period expires. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to offset if it the right not contingent on an event in the future and is legally enforceable both in the ordinary course of business and in the event of default, insolvency or bankruptcy of the Group or any of the counterparties.

Loans and receivables – measurement

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

(in millions of Russian Roubles – RR)

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

2.9 Property, plant and equipment

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

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

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

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

2.10 Depreciation

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

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

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

2.11 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.

2.12 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).

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

2.12 Finance lease receivables (continued)

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.

2.13 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.

2.14 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.

2.15 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 commercials.

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

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

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

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

2.15 Other intangible assets (continued)

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

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

2.16 Inventories

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

2.17 Income taxes

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

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

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

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

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

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

2.18 Trade and other receivables

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

2.19 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.

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.

2.20 Prepayments

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

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

2.21 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.

2.22 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.

2.23 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.

2.24 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.

2.25 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.

2.26 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.

2.27 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 22 and 24).

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

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

2.28 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.

2.29 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.

2.30 Foreign currency translation

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

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

At 31 December 2018, the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 69.4706, Euro 1 = RR 79.4605, Korean Won 1 000 = RR 62.1911, Chinese yuan 10 = RR 100.997 (2017: US$ 1 = RR 57.6002, Euro 1 = RR 68.8668, Korean Won 1 000 = RR 54.0119, Chinese yuan 10 = RR 88.4497). RR The principal average rate of exchange used for translating income and expenses was US$ 1 = RR 62.7078 RR (2017: US$ 1 = RR 58.3529).

2.31 Revenue recognition

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

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

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

Sales of goods

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

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

2.31 Revenue recognition (continued)

Variable consideration

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

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

Comprehensive contracts for sales and maintenance of products

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

Significant financing component in the contract

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

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

Warranty liabilities

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

Disclosure requirements

IFRS 15 containes more detailed requirements for information disclosure, rather than IAS had. The Group applies IFRS 15 using the cumulative effect recognition method. The adoption of IFRS 15 had no material impact on the consolidated financial statements of the Group.

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

2.33 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 1,835 for the year ended 31 December 2018 (2017: RR 1,794).

2.34 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.

2.35 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.

2.36 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 expecta tions 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. 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. Critical accounting estimates and judgements in applying accounting policies (continued)

3.2 Impairment of assets (including goodwill)

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

Management have used judgement when evaluating any indicators of potential impairment of the Group's non-current assets (including property, plant and equipment, intangibles and goodwill), or, when testing for impairment as at 31 December 2018 as required.

During the year 2018, the Russian automotive market grew by 13% comparing to 2017. The total market sales amounted to 1.8 mln. units.

The growth in automotive sales was caused by overall positive trend in the Russian economy. Despite real disposable income not growing and car prices went up considerably, during last couple of years, the market accumulated substantial deferred demand, which was realized in 2018. In addition, the analysts noticed some shift of customer preferences from used vehicles to new vehicles.

The Group has decreased its unit sales in 2018 due to the growth in sales prices first of all.

The Group has a number of advantages in comparison with other brands because of the high level of production localisation and a limited number of foreign suppliers. This fact protects the Group from the foreign exchange volatility. Besides, the Group's market share is planned to increase following the product development and improvement, enhancing the model range, increase of export sales and re-positioning of key players on the automarket.

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

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

Cash flows beyond the five-year period are extrapolated using estimated growth rate of 3% (31 December 2017: 3%); these growth rates do not exceed the forecasted inflation rates as well as account for specific Groups' opportunities in the current market environment described above. The discount rate used of 16.7% (31 December 2017: 15.6% 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 10% in each future period would result in a need to reduce the carrying value of goodwill by RR 1,484 and the carrying value of non-current assets by RR 363.

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 1% would result in a need to reduce the carrying value of goodwill by RR 49.

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

3.3 Tax legislation and deferred income tax recognition

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

Deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on taxable profits earned in the past three years; the possibility of challenges to the deductibility of expenses; the time period available in order to utilise the losses and expectations of future taxable income that are believed to be reasonable under the circumstances. The balance includes RR 1,571 (2017: RR 867). For details of the deferred tax assets recognised as at 31 December 2018, see Note 27. Management expects the losses to be utilised in the next few years based on current profit forecasts.

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

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The adoption of this standard has had no material impact on the consolidated financial statements of the Group.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The adoption of this standard has had no material impact on the consolidated financial statements of the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the consolidated financial statements of the Group.

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

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

The majority of the contracts conducted before 31 December 2018 include the lease for which the underlying asset is of low value (office equipment and personal computers) and short-term leases (i.e. lease term of 12 months or less), which allow the recognition exemption for the lessee according to the standard. Based on the examination of contract base at 31 December 2018 the adoption of IFRS 16 will have no material impact on the consolidated financial statements of the Group.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- how an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date.

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;

- determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group. These amendments are not applicable to the Group.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

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

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since current practice of the Group is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since current practice of the Group is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

(in millions of Russian Roubles – RR)

5. Balances and transactions with related parties

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

5.1 Balances and transactions with related parties

Balances with related parties of the Group as at 31 December 2018 and 31 December 2017 consist of the following:

Balances

Nature of relationship	Board of directors	Other related parties	Associates and joint ventures	Total
As at 31 December 2018				
Accounts receivable	-	96	252	348
Trade and other accounts payable	-	473	4	477
As at 31 December 2017				
Accounts receivable	-	68	30	98
Trade and other accounts payable	-	160	2	162

Transactions with related parties of the Group for the years ended 31 December 2018 and 31 December 2017 consist of the following:

Transactions

Nature of relationship	Parent company	Other related parties	Associates and joint ventures	Total
Year ended 31 December 2017				
Sales of vehicles and components, services	-	92	266	358
Purchases less discounts	-	4,194	4	4,198
Year ended 31 December 2016				
Sales of vehicles and components, services	-	6	335	341
Purchases less discounts	-	3,152	48	3,200

5.2 Key management compensation

The compensation paid to nine members of key management (year ended 31 December 2017: nine people) for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. Each director receives a fee for serving in that capacity and is reimbursed reasonable expenses in conjunction with their duties. No additional fees, compensation or allowances are paid.

Total key management compensation included in expenses in the consolidated statement of comprehensive income for the year ended 31 December 2018 comprises:

- short-term employee benefits amounting to RR 296 including payments to the State Pension Fund and other social taxes of RR 40 (2017: RR 366 including payments to the State Pension Fund and other social taxes of RR 50).

(in millions of Russian Roubles – RR)

6. 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 2017	6,887	9,853	3,847	855	21,442
Additions	-	-	-	1,286	1,286
Disposals	(100)	(220)	(141)	(4)	(465)
Transfers	211	432	520	(1,163)	-
Balance at 31 December 2017	**6,998**	**10,065**	**4,226**	**974**	**22,263**
Additions	-	-	-	1,182	1,182
Disposals	(22)	(144)	(49)	(97)	(312)
Transfers	123	1,033	520	(1,676)	-
Balance at 31 December 2017	**7,099**	**10,954**	**4,697**	**383**	**23,133**
Accumulated depreciation					
Balance at 1 January 2017	**(2,421)**	**(5,489)**	**(2,378)**	**-**	**(10,288)**
Depreciation expense for year	(142)	(706)	(296)	-	(1,144)
Disposals	38	223	89	-	350
Balance at 31 December 2017	**(2,525)**	**(5,972)**	**(2,585)**	**-**	**(11,082)**
Depreciation expense for year	(137)	(584)	(494)	-	(1,215)
Disposals	9	80	45	-	134
Balance at 31 December 2017	**(2,653)**	**(6,476)**	**(3,034)**	**-**	**(12,163)**
Net book value					
Balance at 31 December 2017	**4,473**	**4,093**	**1,641**	**974**	**11,181**
Balance at 31 December 2018	**4,446**	**4,478**	**1,663**	**383**	**10,970**

As at 31 December 2018, bank borrowings are secured on land and buildings and plant and equipment. The book value of these items of property, plant and equipment included above is RR 1,141 (31 December 2017: RR 2,599). See Note 16.

As at 31 December 2018, construction in progress consists mainly of equipment. Upon completion, assets are transferred to plant and equipment. During the year ended 31 December 2018, the Group capitalised borrowing costs of RR 74 (2017: RR 49) as part of the cost of the qualifying assets (see Note 2.14). The annual capitalisation rate was 13.7% (2017: 11.7%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 31 December 2018, the book value of the land amounted to RR 604 (2017: RR 610).

7. 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.

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

	31 December 2018	31 December 2017
UAZ CGU	1,484	1,484
Total goodwill	**1,484**	**1,484**

(in millions of Russian Roubles – RR)

7. Goodwill (continued)

Impairment tests for goodwill

Management conducted impairment test for goodwill at 31 December 2018. See details of impairment testing in Note 3.2.

As a result of the assessment performed by the management, no impairment loss was identified as at 31 December 2018 (31 December 2017: nil).

8. Development costs

As a result of assessment of future economic benefits to the Group for each individual project, as at 31 December 2018, development costs were written off in the amount of RUB 7 (31 December 2017: nil).

	2018	2017
Cost		
Balance at the beginning of the year	3,848	3,005
Additions	1,265	843
Write-off	(7)	-
Balance at the end of the year	**5,106**	**3,848**
Accumulated amortisation		
Balance at the beginning of the year	(1,669)	(1,524)
Amortisation charge	(233)	(145)
Write-off	-	-
Balance at the end of the year	**(1,902)**	**(1,669)**
Net book value		
Balance at the end of the year	**3,204**	**2,179**

Breakdown of development costs

	31 December 2018	31 December 2017
Development of new off-road vehicle (UAZ Patriot)	860	661
Development of new light commercial vehicle (UAZ-2360)	138	181
Development of new light commercial vehicle (UAZ-Profi)	331	70
Development of new platform	1,621	1,031
Other	254	236
Total development costs	**3,204**	**2,179**

9. Other intangible assets

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

	2018	2017
Cost		
Balance at the beginning of the year	1,117	879
Additions	451	240
Disposals	(36)	(2)
Balance at the end of the year	**1,532**	**1,117**
Accumulated amortisation		
Balance at the beginning of the year	(679)	(591)
Amortisation charge	(88)	(89)
Disposals	8	1
Balance at the end of the year	**(759)**	**(679)**
Net book value		
Balance at the end of the year	**773**	**438**

(in millions of Russian Roubles – RR)

10. Investments in associates and joint ventures

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

	31 December 2018	**31 December 2017**
Mazda-SOLLERS JV	1,460	1,431
SOLLERS-Bussan JV	312	326
SOLLERS-Finance JV	655	504
ISUZU-SOLLERS JV	11	-
Total	**2,438**	**2,261**

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

	2018	**2017**
Carrying amount at 1 January	**1,261**	**1,914**
Share in (losses)/profit of other joint ventures	232	412
Unrealised profit from sales to joint venture	10	10
Investment in the joint venture	35	-
Dividends received from joint venture	(100)	(75)
Carrying amount at 31 December	**2,438**	**2,261**

SOLLERS-Finance JV

In November 2010, the Group established a 50% – 50% joint venture with a bank for the development of leasing services and contributed OOO SOLLERS-Finance, a previously wholly owned subsidiary, to the joint venture. During the year ended 31 December 2018, the dividends of RR 100 were received from the SOLLERS-Finance JV (2017: RR 75).

At 31 December 2018 the SOLLERS-Finance JV has contractual capital expenditure commitments in respect of vehicles amounted to RR 85 (31 December 2017: RR 225).

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.

The financing for Mazda-SOLLERS joint venture have been agreed and obtained from Vnesheconombank (further "VEB"). As of 31 December 2018 the loan was fully repaid.

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. In the year 2017, the contract was amended and the investment commitment was enhanced to RR 2,800. In 2018 no editional invesments were made.

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 2018, no impairment was identified (31 December 2017: nil).

10. Investments in associates and joint ventures (continued)

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 June 30, 2015, the carrying value of the investment in Ford-SOLLERS JV on the Group's balance amounts to nil.

On 31 March 2015, the Group and Ford Motor Company agreed on certain changes to the joint venture structure and shareholders agreement to support the Ford SOLLERS business in the near term and provide a platform for future growth. Under these agreements, Ford Motor Company 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 of 31 December 2018 the ownership structure of Ford-SOLLERS JV did not change.

The financial instrument was recognised as a part of current assets in the amount of RR 9,379 representing its fair value at the reporting date. The financial instrument will be utilised in the upcoming strategic restructuring of the Ford Sollers JV at fair value (see Note 32). As of 31 December 2017 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/loss and analysed by level 3 measurements in the fair value hierarchy.

At 31 December 2018 the Ford-SOLLERS JV has contractual capital expenditure commitments in respect of property, plant and equipment amounted to RR 1,190 (31 December 2017: RR 1,558) and operating lease commitments for RR 352 (31 December 2017: RR 443).

The financing for Ford-SOLLERS joint venture 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-investor Ford Motor Company have pledged 100% interest in the joint venture to the VEB.

ISUZU-SOLLERS JV

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

At 31 December 2018, the Group held 50% interest in joint ventures Mazda SOLLERS, SOLLERS-Bussan, ISUZU-SOLLERS and SOLLERS-Finance (at 31 December 2017, 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:

(in millions of Russian Roubles – RR)

10. Investments in associates and joint ventures (continued)

	Total assets	Total liabilities	Revenue	Operating profit/(loss)	Profit/(loss)
Joint ventures:					
Total at 31 December 2018	**19,049**	**13,968**	**41,566**	**383**	**465**
Mazda-SOLLERS JV	12,486	9,275	40,210	(133)	39
SOLLERS-Bussan JV	634	11	-	(53)	(29)
SOLLERS-Finance JV	5,893	4,668	1,356	629	502
ISUZU-SOLLERS JV	36	14	-	(60)	(47)
Total at 31 December 2017	**13,184**	**8,431**	**28,397**	**912**	**824**
Mazda-SOLLERS JV	8,081	4,909	27,490	662	604
SOLLERS-Bussan JV	671	19	-	(72)	(39)
SOLLERS-Finance JV	4,432	3,503	907	322	259

11. Other non-current assets

	31 December 2018	31 December 2017
Advances for construction in progress and equipment	17	122
Other non-current assets	52	-
Total other non-current assets	**69**	**122**

12. Inventories

	31 December 2018	31 December 2017
Raw materials	2,282	2,956
Less: provision	(30)	(52)
Total raw materials	**2,252**	**2,904**
Work in progress	1,106	942
Total work in progress	**1,106**	**942**
Finished products	1,767	1,848
Less: provision	(17)	(252)
Total finished products	**1,750**	**1,596**
Total	**5,108**	**5,442**

At 31 December 2018 and 31 December 2017, there were no any pledged inventories.

13. Trade and other receivables

	31 December 2018	31 December 2017
Trade receivables	5,060	3,210
Less: provision for impairment	(44)	(50)
Total trade receivables	**5,016**	**3,160**
Other receivables, including subsidies receivables	8,574	5,548
Less: provision for impairment	(42)	(28)
Total other receivables	**8,532**	**5,520**
Advances to suppliers, other than for equipment	232	147
Less: provision for impairment	(9)	(3)
Total advances to suppliers, other than for equipment	**223**	**144**
Taxes prepayments	30	147
VAT recoverable, net	390	239
Other prepayments	3	6
Total	**14,194**	**9,216**

(in millions of Russian Roubles – RR)

13. Trade and other receivables (continued)

Tax prepayments include profit tax prepayments in amount of RR 6 (31 December 2017: RR 137).

The Group receives government subsidies, which partially compensate production, administrative and finance cost. During 2018 the subsidies recognised in the Cost of sales amounted to RR 9,712 (2017: RR 9,837), the amounts recognised in the General and administrative expenses totalled RR 671 (2017: RR 1,262), in the Distribution costs – RR 92 (2017: RR 158) and in the Finance costs – RR 0 (2017: RR 124).

Trade receivables are represented by currency as follows:

Currency	31 December 2018	31 December 2017
Russian Roubles	4,996	3,146
US Dollars	20	14
Total	**5,016**	**3,160**

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

	31 December 2018	31 December 2017
Current and not impaired – exposure to		
- Group 1 – large corporate clients	2,750	1,258
- Group 2 – dealers	1,861	1,448
- Group 3 – other clients	354	408
Total current and not impaired	**4,965**	**3,114**
Past due but not impaired		
- less than 30 days overdue	22	33
- 30 to 90 days overdue	16	8
- 90 to 180 days overdue	4	1
- 180 to 360 days overdue	6	4
- over 360 days overdue	3	-
Total past due but not impaired	**51**	**46**
Individually determined to be impaired (gross)		
- less than 30 days overdue	-	-
- 30 to 90 days overdue	-	-
- 180 to 360 days overdue	-	2
- over 360 days overdue	44	48
Total individually impaired	**44**	**50**
Less impairment provision	**(44)**	**(50)**
Total	**5,016**	**3,160**

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 2018 was RR 51 (31 December 2017: RR 46) and the fair value of the collateral for the individually determined to be impaired receivables was RR 44 as of 31 December 2018 (31 December 2017: RR 50).

(in millions of Russian Roubles – RR)

13. Trade and other receivables (continued)

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

	31 December 2018			31 December 2017		
	Trade receivables	Other financial receivables	Advances to suppliers	Trade receivables	Other financial receivables	Advances to suppliers
Provision for impairment at start of year	**50**	**28**	**3**	**56**	**35**	**1**
Amounts written off during the year as uncollectible	(11)	(5)	-	(13)	(8)	-
Provision for impairment during the year	5	19	6	7	1	2
Provision for impairment at end of year	**44**	**42**	**9**	**50**	**28**	**3**

14. Cash and cash equivalents

	31 December 2018	31 December 2017
Cash on hand and balances with banks	209	362
Cash deposits	17	1,944
Total	**226**	**2,306**

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

	0%-1%	3-4%	5-6%	9%	Non-interest bearing	Total
As at 31 December 2018						
Cash on hand and balances with banks	-	161	-	-	48	**209**
Cash deposits	-	-	17	-	-	**17**
Total	**-**	**161**	**17**	**-**	**48**	**226**

	0%-3%	3-5%	7%	9%	Non-interest bearing	Total
As at 31 December 2017						
Cash on hand and balances with banks	-	158	-	-	204	**362**
Cash deposits	221	-	1,723	-	-	**1,944**
Total	**221**	**158**	**1,723**	**-**	**204**	**2,306**

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

Currency	31 December 2018	31 December 2017
US Dollars	9	2
Total	**9**	**2**

(in millions of Russian Roubles – RR)

14. Cash and cash equivalents (continued)

The carrying value of cash and cash equivalents as at 31 December 2018 and 31 December 2017 is approximately equal to their fair value. The Group holds 98% of its cash and cash equivalents in the top-2 Russian banks. Credit ratings of the banks where accounts were held as at the year-end date are set out in the analysis below:

	31 December 2017	31 December 2016
Rating by AKRA		
- AAA (ru)	181	170
Rating by Expert-RA		
- ruAAA	44	2,120
Other		
- Unrated	1	16
Total	**226**	**2,306**

At 31 December 2018, restricted cash consisted of RR 466, acquired under the contracts for special-purpose funding with state fund for industrial development (31 December 2017: RR 542) and RR 1,295 acquired under state defense order (31 December 2017: RR 334).

15. Shareholders' equity

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

	Number of outstanding ordinary shares (thousands)	Share capital	Share premium	Additional paid-in capital
At 31 December 2018	34,270	530	4,538	1,438
At 31 December 2017	34,270	530	4,538	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2017: 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 2018, the total comprehensive income for the Company reported in the published annual statutory reporting financial statements was RR 99 (2017: net profit RR 889) and the closing balance of the accumulated profit including the current reporting period net statutory profit was RR 10,631 (31 December 2017: RR 10,532). 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 2018.

During year, 2018 no dividends were paid for the year ended 31 December 2017.

(in millions of Russian Roubles – RR)

16. Borrowings

The Group's long-term borrowings consisted of bank loans amounted to RR 800 (31 December 2017: RR 2,408) and funding from federal and regional funds for industrial development amounted to RR 454 (31 December 2017: RR 422).

The Group's long-term borrowings are denominated in Russian Roubles at 31 December 2018 and 31 December 2017. The carrying amounts of long-term borrowings approximates to their fair values at 31 December 2018 and at 31 December 2017.

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

	31 December 2018	**31 December 2017**
Bank loans	4,377	7,905
Borrowings from federal and regional funds	10	-
Interest payable	49	56
Total short-term borrowings	**4,436**	**7,961**

The Group's short-term borrowings are denominated in Russian Roubles at 31 December 2018 and 31 December 2017. The carrying amounts of short-term borrowings approximates to their fair values at 31 December 2018 and at 31 December 2017.

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

Property, plant and equipment of RR 1,141 (31 December 2017: RR 2,599) are pledged as collateral for long-term and short-term borrowings. See Note 6.

17. Deferred income

In 2018, the Group received a government subsidy to compensate Group's development costs on the new vehicle in the amount of RR 328 (2017: RR 285).

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.

In 2017, the Group received loans from federal and regional funds for industrial development under the interest rate below the market. The difference between the fair value of loans and the amount of cash received was recognized as a deferred income amounted to RR 77 (2017: RR 120). Deferred income movement contained the following:

Balance at 1 January 2017	**-**
Deferred income recognised in the year	120
Total at 31 December 2017	**120**
Deferred income recognised in the year	-
Written-off against interest payable	(43)
Total at 31 December 2018	**77**

(in millions of Russian Roubles – RR)

18. Trade accounts payable and advances received and other payables

At 31 December 2018 trade accounts payable amounts to RR 15,817 (31 December 2017: RR 7,609). The amount includes trade payables with the reverse factoring settlement in the amount of RR 5,376 (31 December 2017: RR 273).

	31 December 2018	31 December 2017
Accrued liabilities and other creditors	147	85
Dividends payable	-	-
Liabilities for purchased property, plant and equipment	54	37
Total financial liabilities within other payables	**201**	**122**
Bonus accrual	117	56
Advances received	1,015	273
Accrued employee benefit costs	300	275
Vacation accrual	201	224
Total advances received and other payables	**1,834**	**950**

There were no overdue payables as at 31 December 2018, including in respect of trade payables (31 December 2017: nil).

19. Taxes payable

	31 December 2018	31 December 2017
Value-added tax	688	20
Payments to the State Pension Fund and other social taxes	179	173
Income tax	7	1
Property tax	33	27
Personal income tax	60	53
Excise tax	17	11
Utilisation tax	3,892	2,128
Other taxes	14	14
Total	**4,890**	**2,427**

The Group had no tax liabilities past due at 31 December 2018 (31 December 2017: nil).

20. Warranty and other provisions

During the year ended 31 December 2018 and 31 December 2017, the following movements in warranty and other provisions were recorded:

	Warranty	Tax and other claims	Total
Balance at 1 January 2017	**502**	**248**	**750**
Additional provision	476	58	534
Recovered provision	(21)	(19)	(40)
Utilised in the year	(371)	(57)	(428)
Balance at 31 December 2017	**586**	**230**	**816**
Additional provision	370	170	477
Recovered provision	-	(17)	(17)
Utilised in the year	(480)	(38)	(518)
Balance at 31 December 2018	**476**	**282**	**758**

The Group provides a two-year or three-year warranty on most UAZ vehicles, except for a four-year warranty on the “UAZ Profi”; the “UAZ Hunter” with a one-year warranty and warranty on ZMZ engines, which covers the period of warranty on the particular vehicle. The Group 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.

(in millions of Russian Roubles – RR)

21. Sales

	Year ended 31 December 2018	Year ended 31 December 2017
Vehicles	29,943	27,887
Automotive components	6,866	5,534
Engines	1,269	989
Services	720	600
Other sales	681	754
Total	**39,479**	**35,764**

22. Cost of sales

	Year ended 31 December 2018	Year ended 31 December 2017
Materials and components	24,897	22,592
Government subsidies	*(5,894)*	*(5,729)*
Labour costs	5,530	5,509
Government subsidies	*(1,822)*	*(3,392)*
Other production costs	12,412	9,372
Government subsidies	*(1,996)*	*(716)*
Depreciation and amortisation	1,279	1,215
Change in finished goods and work in progress	(318)	(231)
Total	**34,088**	**28,620**

The utilisation tax of RR 9,399 is recognised in other production costs in 2018 (2017: RR 6,949).

23. Distribution costs

	Year ended 31 December 2018	Year ended 31 December 2017
Transportation	2,205	1,701
Advertising	514	333
Labour costs	419	436
Check and inspection performed by dealers	24	57
Materials	218	137
Other	158	203
Total	**3,538**	**2,867**

24. General and administrative expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Labour costs	2,024	2,102
Government subsidies	*(671)*	*(1,262)*
Services provided by third parties	456	489
Depreciation and amortisation	163	147
Rent	96	98
Taxes other than income	225	200
Business travel	292	288
Fire brigade and security costs	182	166
Repairs and maintenance	38	46
Transportation	70	70
Materials	18	18
Insurance	14	17
Training costs	17	18
Movement in the provision for impairment of receivables	30	21
Other	(87)	93
Total	**2,867**	**2,511**

(in millions of Russian Roubles – RR)

25. Other operating expenses/ (income) – net

	Year ended 31 December 2018	Year ended 31 December 2017
Net income on disposals of property, plant, equipment and investments	(35)	(149)
Accounts payables written-off	(12)	(18)
Charitable donations	46	120
Social expenses	24	24
Profit on disposal of materials	(60)	(34)
Research and development expenses	7	-
Other provisions accrual	(10)	(10)
Other	49	45
Total	**9**	**(22)**

26. Finance costs, net

	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense, net	772	746
Government subsidy of interest expenses	-	(124)
Foreign exchange losses	296	1
Discounting	13	14
Total finance costs, net	**1,081**	**637**
Less capitalised finance costs	(74)	(49)
Total finance costs, net	**1,007**	**588**

The Group's capitalised borrowing costs of RR 74 mainly arising on financing attributable to the construction of property, plant and equipment (2017: RR 49).

Interests paid during 2017 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 2018 the corresponding compensation was not aplicable.

27. Income tax (benefit)/ expense

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

	Year ended 31 December 2018	Year ended 31 December 2017
Current income tax expense	38	34
Deferred tax (benefit)/ charge	(123)	318
Income tax expense	**(85)**	**352**

The income tax rate applicable to the majority of the Group's income is 20% (2017: 20%). A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2018	Year ended 31 December 2017
(Loss)/ profit before income tax	**(39)**	**1,351**
Theoretical tax charge at statutory rate (2018: 20%; 2017: 20%)	(8)	270
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-assessable (gains)/ losses at 20%	(77)	82
Income tax (benefit)/ expense	**(85)**	**352**

(in millions of Russian Roubles – RR)

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

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 2017: 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.The accumulated tax losses should not reduce the tax base of the period by more than 50%.

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

	1 January 2017	**Movement in the year ended 31 December 2017**	**31 December 2017**	**Movement in the year ended 31 December 2018**	**31 December 2018**
Tax effects of deductible temporary differences:					
Losses carried forward	604	263	867	704	1,571
Equity investments	2	(33)	(31)	31	-
Accounts payable and provisions	393	(148)	245	73	318
Inventories	133	(96)	37	23	60
Other current assets	18	6	24	(5)	19
Other long-term liabilities	104	27	131	53	184
Total	**1,254**	**19**	**1,273**	**879**	**2,152**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(851)	(1)	(852)	253	(599)
Accounts receivable	(752)	(242)	(994)	(687)	(1,681)
Equity investments	(2)	(94)	(96)	(322)	(418)
Total	**(1,605)**	**(337)**	**(1,942)**	**(756)**	**(2,698)**
Recognised deferred tax asset, net	**779**	(89)	**690**	271	**961**
Recognised deferred tax liability, net	**(1,130)**	(229)	**(1,359)**	(148)	**(1,507)**
Total net deferred tax liability	**(351)**	**(318)**	**(669)**	**123**	**(546)**

28. Segment information

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

Since 2011, the Group restructured its automotive, engine and autocomponents segments after PAO UAZ has become the major customer of PAO ZMZ. As at 31 December 2018 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 21. Management considers that across the range of vehicles and models produced, these are considered as similar products.

29. Financial risk management

29.1 Financial risk factors

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

(a) Market risk

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

(i) Currency risk

The Group is exposed to currency risk from changes in the exchange rate of following currencies: Euro, US Dollars, Korean Won 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)

29. Financial risk management (continued)

29.1 Financial risk factors (continued)

The positions are monitored monthly. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2018:

	Monetary financial assets			Monetary financial liabilities		
	Cash and cash equivalents	**Financial instruments**	**Accounts receivable**	**Accounts payable**	**Borrowings**	**Net balance sheet position**
US Dollars	9	9,379	20	(585)	-	**8,823**
Euros	-	-	-	(582)	-	**(582)**
Korean won	-	-	-	(88)	-	**(88)**
Chinese yuan	-	-	-	(713)	-	**(713)**
Swiss franc	-	-	-	(1)	-	**(1)**
Total foreign currencies	**9**	**9,379**	**20**	**(1,969)**	**-**	**7,439**
Russian Roubles	217	-	5,095	(14,049)	(5,690)	**(14,427)**
Total	**226**	**9,379**	**5,115**	**(16,018)**	**(5,690)**	**(6,988)**

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2017:

		Monetary financial assets		Monetary financial liabilities		
	Cash and cash equivalents	**Financial instruments**	**Accounts receivable**	**Accounts payable**	**Borrowings**	**Net balance sheet position**
US Dollars	2	7,620	14	(603)	-	**7,033**
Euros	-	-	-	(395)	-	**(395)**
Korean won	-	-	-	(52)	-	**(52)**
Chinese yuan	-	-	-	(489)	-	**(489)**
Total foreign currencies	**2**	**7,620**	**14**	**(1,539)**	**-**	**6,097**
Russian Roubles	2,304	-	3,208	(6,192)	(10,791)	**(11,471)**
Total	**2,306**	**7,620**	**3,222**	**(7,731)**	**(10,791)**	**(5,374)**

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:

	2018	**2017**
Impact on profit and loss and on equity of:		
US Dollar strengthening by 10% (10% for 2017)	882	703
US Dollar weakening by 10% (10% for 2017)	(882)	(703)
Euro strengthening by 10% (10% for 2017)	(58)	(40)
Euro weakening by 10% (10% for 2017)	58	40
Korean won strengthening by (10% for 2017)	(9)	(5)
Korean won weakening by (10% for 2017)	9	5
Chinese yuan strengthening by (10% for 2017)	(71)	(49)
Chinese yuan weakening by (10% for 2017)	71	49

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.

(in millions of Russian Roubles – RR)

29. Financial risk management (continued)

29.1 Financial risk factors (continued)

(ii) Price risk

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

(iii) Interest rate risk

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

	Demand and less than 3 month	From 3 to 12 months	More than 1 year	Total
31 December 2018				
Fixed interest rates	721	2,566	1,331	**4,618**
Interest rates based on key rate	300	800	-	**1,100**
Total	**1,021**	**3,366**	**1,331**	**5,718**

	Demand and less than 3 month	From 3 to 12 months	More than 1 year	Total
31 December 2017				
Fixed interest rates	1,800	6,105	1,950	**9,855**
Interest rates based on key rate	-	-	1,000	**1,000**
Total	**1,800**	**6,105**	**2,950**	**10,855**

At 31 December 2018, if interest rates at that date had been 200 basis points lower (31 December 2017: 200 basis points lower) with all other variables held constant, the interest expense for the year would have been RR 164 lower (2017: RR 178 lower). If interest rates at that date had been 100 basis points higher (31 December 2017: 100 basis points higher) with all over variables held constant, the interest expense for the year would have been RR 82 higher (31 December 2017: RR 89 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.	2018	2017
Assets		
Cash and cash equivalents	0%-5.5%	0%-7%
Liabilities		
Borrowings	1%-11.6%	1%-12.2%

(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.

(in millions of Russian Roubles – RR)

29. Financial risk management (continued)

29.1 Financial risk factors (continued)

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

	31 December 2018	31 December 2017
Cash and cash equivalents	226	2,306
Restricred cash	1,761	876
Accounts receivable, including long-term accounts receivable	5,068	3,160
Financial instruments (derivative)	9,379	7,620
Other accounts receivable and financial assets	47	62
Total on-balance sheet exposure	**16,481**	**14,024**
Financial guarantees, Note 30	34	90
Total maximum exposure to credit risk	**16,515**	**14,114**

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

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

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

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

The Group's cash and cash equivalents are held in 8 banks (31 December 2017: 10 banks), 98% of cash and cash equivalents are held in 2 leading Russian banks. Management monitor AKRA and Expert-RA ratings of the banks used to manage the level of credit risk that the Group is exposed to. Management considers that the credit risk associated with these banks is negligible.

Credit risks concentration

Excepting state and corporate contracts no single debtor of the Group accounts for more than 14.3% (31 December 2017: 9.2%) 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.

(in millions of Russian Roubles – RR)

29. Financial risk management (continued)

29.1 Financial risk factors (continued)

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 2018 and 31 December 2017. 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 2018 and 31 December 2017.

	Demand and less than 3 months	From 3 to 12 months	More than 1 year	More than 5 years	Total
31 December 2018					
Total monetary financial assets	**7,102**	**9,379**	**-**	**-**	**16,481**
Cash and cash equivalents	226	-	-	-	**226**
Restricted cash	1,761	-	-	-	**1,761**
Trade receivables	5,068	-	-	-	**5,068**
Financial instruments	-	9,379	-	-	**9,379**
Other receivables	47	-	-	-	**47**
Total monetary financial liabilities	**(17,088)**	**(3,366)**	**(1,331)**	**-**	**(21,785)**
Borrowings	(1,070)	(3,366)	(1,331)	-	**(5,767)**
Trade payables	(15,817)	-	-	-	**(15,817)**
Other payables	(201)	-	-	-	**(201)**
Future interest payments	**(125)**	**(188)**	**(92)**	**-**	**(405)**
Net monetary financial liabilities at 31 December 2018	**(10,111)**	**5,825**	**(1,423)**	**-**	**(5,709)**
31 December 2017					
Total monetary financial assets	**6,400**	**4**	**7,620**	**-**	**14,024**
Cash and cash equivalents	2,306	-	-	-	**2,306**
Restricted cash	876	-	-	-	**876**
Trade receivables	3,156	4	-	-	**3,160**
Financial instruments	-	-	7,620	-	**7,620**
Other receivables	62	-	-	-	**62**
Total monetary financial liabilities	**(9,586)**	**(6,106)**	**(2,950)**	**-**	**(18,642)**
Borrowings	(1,856)	(6,105)	(2,950)	-	**(10,911)**
Trade payables	(7,608)	(1)	-	-	**(7,609)**
Other payables	(122)	-	-	-	**(122)**
Future interest payments	**(245)**	**(357)**	**(164)**	**-**	**(766)**
Net monetary financial liabilities at 31 December 2017	**(3,431)**	**(6,459)**	**4,506**	**-**	**(5,384)**

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

(in millions of Russian Roubles – RR)

29. Financial risk management (continued)

29.2 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 2018 to be RR 22,672 (31 December 2017: RR 26,586).

The gearing ratios at 31 December 2018 and 31 December 2017 were as follows:

	31 December 2018	31 December 2017
Long-term borrowings	1,254	2,830
Short-term borrowings	4,436	7,961
Less: cash and cash equivalents and restricted cash	(1,987)	(3,182)
Net debt	**3,703**	**7,609**
Equity	18,969	18,977
Total net debt and equity	22,672	26,586
Gearing ratio	**16%**	**29%**

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

Fair value of financial instruments

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

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

The fair value of long-term and short-term borrowings is disclosed in Note 16. The fair value of the financial instrument recognised due to received right of the share in JV sale is disclosed in Note 10. The carrying value of other financial instruments approximates to their fair value. Level three measurements were applied.

30. Contingencies, commitments and operating risks

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

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

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm’s length. Tax liabilities arising from transactions between companies within the Group are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. Russian transfer pricing legislation is also applicable to all the Joint ventures in which the Group participates.

Management of respective companies has also implemented internal control procedures to identify controlled transactions and test prices / profit margins in controlled transactions, and ensure compliance with the TP legislation. Management takes all necessary steps to maintain this internal control system.

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

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

Capital commitments. Company’s commitments totalled RR 776 at 31 December 2018 (31 December 2017: RR 377). The commitments include contractual obligations to purchase, construct or develop property, plant and equipment.

Guarantees. Guarantees are irrevocable assurance that the Group will make payments in the event that another party cannot meet its obligations. As of 31 December 2018, In addition the Group has issued financial guarantees for other related parties for RR 34 (31 December 2017: RR 90).

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 2018 (31 December 2017: 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.

(in millions of Russian Roubles – RR)

31. Principal subsidiaries

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

		31 December 2018	31 December 2017
Entity	**Activity**	**% of effective interest (total share capital)**	**% of effective interest (total share capital)**
OOO “DC SanYong”	Auto trading	100.00	100.00
PAO “Zavolzhskiy Motorny Zavod” (further “ZMZ”)	Manufacture and sale of engines for passenger automobiles, trucks and buses	96.19	94.98
OOO “RosALit”	Manufacture and sale of metal products	96.19	94.98
OOO “Ulyanovsky Avtomobilny Zavod” (before PAO “Ulyanovsky Avtomobilny Zavod”)	Manufacture and sale of passenger automobiles, light trucks and minibuses, engines and parts	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 or stockholders’ stakes.

During the year ended 31 December 2018, as a result of a minority stake acquisition, the Group’s effective interest in ZMZ increased. During 2018 the Group bought-out from third parties shares of ZMZ for RR 54. The Group’s result of RR 60 was recognised in equity.

At 31 December 2018, the Group had one subsidiary with non-controlling interests that is material (at 31 December 2017, the Group had one subsidiary with non-controlling interests that are material):

	31 December 2018		31 December 2017	
	Carrying amount	**The non-controlling interest’s share**	**Carrying amount**	**The non-controlling interest’s share**
ZMZ	364	3.81%	464	5.02%
Total	**364**	**-**	**464**	**-**

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

	ZMZ
Carrying amount at 1 January 2017	**454**
Non-controlling interest in current year result	10
Carrying amount at 31 December 2017	**464**
Non-controlling interest in current year result	14
Change of non-controlling in the subsidiary	(114)
Carrying amount at 31 December 2018	**364**

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

	Total assets	**Total liabilities**	**Revenue**	**Profit**	**Net cash flows**
Total at 31 December 2018					
ZMZ	10,972	(1,426)	2,586	370	(191)
Total at 31 December 2017					
ZMZ	11,154	(1,924)	2,405	191	217

32. Post balance sheet date events

In March 2019 the Group and Ford Motor Company announced the plans for strategic restructuring of Ford-SOLLERS JV. According to the signed Memorandum of Understanding, SOLLERS PJSC will obtain 51% share in new Ford-SOLLERS JV, Ford Motor Company's share will be 49%. New joint venture will be involved in the production and distribution of Ford Transit commercial vehicles, as well as the localization and further development of the line of the special vehicles.

New Ford-SOLLERS JV will be set up on the basis of the existing Ford Sollers Elabuga plant, which is a resident of the ALABUGA Special Economic Zone. The joint venture plans to start operations on July 1, 2019. The joint venture will undertake the warranty service and spare parts supply for all Ford vehicles, previously sold in Russia.

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