

**SOLLERS GROUP**

**CONSOLIDATED CONDENSED  
INTERIM FINANCIAL INFORMATION  
PREPARED UNDER INTERNATIONAL  
FINANCIAL REPORTING STANDARDS**

**30 JUNE 2019**

**(UNAUDITED)**

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## **REPORT ON REVIEW OF CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION**

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

### **Details of auditor**

Name: Baker Tilly Rus JSC

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: SOLLERS Public Joint Stock Company

Address: Russia, 123317, Moscow, Testovskaya str, 10

State Registration number: 1023501244524



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## **REPORT ON REVIEW OF CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION**

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

### *Introduction*

We have reviewed the accompanying consolidated condensed interim statement of financial position of SOLLERS PJSC and its subsidiaries (the Group) as of June 30, 2019 and the related consolidated condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

### *Scope of Review*

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

### *Conclusion*

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

The engagement partner on the review  
resulting in this report on review  
of consolidated condensed interim financial information

Z.B. Shalumov

Moscow, Russian Federation

August 27, 2019

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.

**SOLLERS Group**  
**Consolidated Condensed Interim Statement of Financial Position at 30 June 2019**  
*(in millions of Russian Roubles)*  
*(amounts translated into US Dollars for convenience purposes, Note 2)*

	Note	Russian Roubles million		Supplementary information US\$ million (Note 2)	
		At 30 June 2019	At 31 December 2018	At 30 June 2019	At 31 December 2018
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5	10,729	10,970	170	158
Goodwill		1,484	1,484	24	21
Development costs	6	3,561	3,204	56	46
Other intangible assets		740	773	12	11
Deferred income tax assets		518	961	8	14
Investments in joint ventures	7	2,646	2,438	42	35
Other financial assets		49	45	1	1
Other non-current assets	5	144	69	2	1
<b>Total non-current assets</b>		<b>19,871</b>	<b>19,944</b>	<b>315</b>	<b>287</b>
<b>Current assets</b>					
Inventories	8	6,679	5,108	106	74
Trade and other receivables	9	14,299	14,194	227	205
Financial instruments		-	9,379	-	135
Restricted cash	10	3,422	1,761	54	25
Cash and cash equivalents	10	2,523	226	40	3
<b>Total current assets</b>		<b>26,923</b>	<b>30,668</b>	<b>427</b>	<b>442</b>
<b>TOTAL ASSETS</b>		<b>46,794</b>	<b>50,612</b>	<b>742</b>	<b>729</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Equity</b>					
Share capital	11	530	530	8	8
Share premium	11	4,538	4,538	72	65
Additional paid-in capital	11	1,438	1,438	23	21
Retained earnings		11,969	12,099	190	174
<b>Equity attributable to the Company's owners</b>		<b>18,475</b>	<b>18,605</b>	<b>293</b>	<b>268</b>
Non-controlling interest		358	364	6	5
<b>Total equity</b>		<b>18,833</b>	<b>18,969</b>	<b>299</b>	<b>273</b>
<b>Non-current liabilities</b>					
Long-term borrowings	13	1,021	1,254	16	18
Deferred income tax liabilities		1,364	1,507	22	22
Deferred income and other non-current liabilities		1,195	1,147	19	17
<b>Total non-current liabilities</b>		<b>3,580</b>	<b>3,908</b>	<b>57</b>	<b>57</b>
<b>Current liabilities</b>					
Trade accounts payable	12	14,010	15,817	222	228
Advances received and other payables	12	1,390	1,834	22	26
Taxes payable		2,222	4,890	35	70
Warranty and other provisions		574	758	9	11
Short-term borrowings	13	6,185	4,436	98	64
<b>Total current liabilities</b>		<b>24,381</b>	<b>27,735</b>	<b>386</b>	<b>399</b>
<b>Total liabilities</b>		<b>27,961</b>	<b>31,643</b>	<b>443</b>	<b>456</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>46,794</b>	<b>50,612</b>	<b>742</b>	<b>729</b>

Approved and signed on behalf of the Board of Directors on 27 August 2019

General Director  
N.A. Sobolev

Chief Financial Officer  
E.A. Frolova

**SOLLERS Group**  
**Consolidated Condensed Interim Statement of Comprehensive Income for the six-month period**  
**ended 30 June 2019**  
*(in millions of Russian Roubles)*  
*(amounts translated into US Dollars for convenience purposes, Note 2)*

	Note	Russian Roubles million		Supplementary information US\$ million (Note 2)	
		Six-months ended 30 June		Six-months ended 30 June	
		2019	2018	2019	2018
Sales	14	15,107	14,132	231	238
Cost of sales		(11,518)	(10,551)	(176)	(178)
<b>Gross profit</b>		<b>3,589</b>	<b>3,581</b>	<b>55</b>	<b>60</b>
Distribution costs		(1,558)	(1,184)	(24)	(20)
General and administrative expenses		(875)	(1,911)	(13)	(32)
Other operating expenses, net		(70)	(70)	(1)	(1)
<b>Operating profit</b>		<b>1,086</b>	<b>416</b>	<b>17</b>	<b>7</b>
Finance costs, net		(489)	(522)	(7)	(9)
Financial instrument change in fair value		(645)	590	(10)	10
Share of profit of joint ventures and associates	7	278	66	4	1
<b>Profit before income tax</b>		<b>230</b>	<b>550</b>	<b>4</b>	<b>9</b>
Income tax expense		(366)	(107)	(6)	(2)
<b>(Loss)/profit for the period</b>		<b>(136)</b>	<b>443</b>	<b>(2)</b>	<b>7</b>
<b>Total comprehensive (loss)/income for the period</b>		<b>(136)</b>	<b>443</b>	<b>(2)</b>	<b>7</b>
<b>(Loss)/profit is attributable to:</b>					
Owners of the Company		(130)	442	(2)	7
Non-controlling interest		(6)	1	-	-
<b>(Loss)/profit for the period</b>		<b>(136)</b>	<b>443</b>	<b>(2)</b>	<b>7</b>
<b>Total comprehensive (loss)/income is attributable to:</b>					
Owners of the Company		(130)	442	(2)	7
Non-controlling interest		(6)	1	-	-
<b>Total comprehensive (loss)/income for the period</b>		<b>(136)</b>	<b>443</b>	<b>(2)</b>	<b>7</b>
Weighted average number of shares outstanding during the period (in thousands of shares) – basic		34,270	34,270	34,270	34,270
Weighted average number of shares outstanding during the period (in thousands of shares) – diluted		34,270	34,270	34,270	34,270
(Loss)/earnings per share (in Russian Roubles and US\$) – basic		(3.80)	12.88	(0.06)	0.22
(Loss)/earnings per share (in Russian Roubles and US\$) – diluted		(3.80)	12.88	(0.06)	0.22

Other than as presented above, the Group did not have any items to be recorded as other comprehensive income in the statement of comprehensive income (six months ended 30 June 2018: no items).

**SOLLERS Group****Consolidated Condensed Interim Statement of Cash Flows for the six-month period ended 30 June 2019***(in millions of Russian Roubles)**(amounts translated into US Dollars for convenience purposes, Note 2)*

	Russian Roubles million		Supplementary information US\$ million (Note 2)	
	Six months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
<b>Cash flows from operating activities</b>				
Profit before income tax	230	550	4	9
Adjustments for:				
Depreciation	574	552	9	9
Amortisation	164	173	2	3
Provision for impairment of receivables	(19)	9	-	-
Interest expense	547	387	8	7
Financial instrument change in fair value	645	(590)	10	(10)
Share of (profit)/loss of joint ventures and associates	(278)	(66)	(4)	(1)
Other provision movements	(237)	67	(4)	1
Loss/(profit) on sale of property, plant and equipment and other non-current assets	62	15	1	-
Increase in fair value of other investments	(4)	(1)	-	-
Amortization of government grants	(22)	(40)	-	(1)
Inventory provision movement	129	25	2	-
<b>Operating cash flows before working capital changes</b>	<b>1,791</b>	<b>1,081</b>	<b>28</b>	<b>17</b>
Decrease in accounts receivable and prepayments	2,799	832	42	14
Increase in inventories	(1,644)	(124)	(25)	(2)
Increase/(decrease) in accounts payable, advances received and other payables	(2,406)	332	(37)	6
Increase/(decrease) in taxes payable, other than income tax	(3,054)	82	(47)	2
<b>Cash (used in)/from operations</b>	<b>(2,514)</b>	<b>2,203</b>	<b>(39)</b>	<b>37</b>
Income tax paid	(303)	(16)	(5)	-
Interest paid	(299)	(410)	(5)	(7)
<b>Net cash (used in)/from operating activities</b>	<b>(3,116)</b>	<b>1,777</b>	<b>(49)</b>	<b>30</b>
<b>Cash flows from investing activities:</b>				
Purchase of property, plant and equipment	(478)	(446)	(7)	(8)
Proceeds from the sale of property, plant and equipment	101	27	1	1
Development costs	(482)	(492)	(7)	(8)
Purchase of intangibles and other non-current assets	(87)	(93)	(1)	(2)
Proceeds from government R&D subsidies	24	28	-	1
Depositing of special funds on special accounts	(1,662)	144	(25)	2
Investment in joint venture	(25)	(15)	-	-
Result from option sale	6,469	-	99	-
Dividends received from joint ventures	100	-	1	-
<b>Net cash from/(used in) investing activities</b>	<b>3,960</b>	<b>(847)</b>	<b>61</b>	<b>(14)</b>
<b>Cash flows from financing activities</b>				
Lease payments	(8)	-	-	-
Proceeds from borrowings	5,461	12,664	84	213
Repayment of borrowings	(4,000)	(15,477)	(61)	(261)
<b>Net cash from/(used in) financing activities</b>	<b>1,453</b>	<b>(2,833)</b>	<b>23</b>	<b>(48)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,297</b>	<b>(1,903)</b>	<b>35</b>	<b>(32)</b>
Effect of exchange rate changes on cash and cash equivalents	-	-	2	(2)
<b>Cash and cash equivalents at the beginning of the period</b>	<b>226</b>	<b>2,306</b>	<b>3</b>	<b>40</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>2,523</b>	<b>403</b>	<b>40</b>	<b>6</b>

The accompanying notes on page 5 to 14 are an integral part of this consolidated condensed interim financial information.

**SOLLERS Group****Consolidated Condensed Interim Statement of Changes in Equity for the six-month period ended 30 June 2019***(in millions of Russian Roubles)*

	Share capital	Share premium	Additional paid-in-capital	Retained earnings	Attributable to equity shareholders of the Company	Non-controlling interest	Total equity
<b>Balance at 31 December 2017</b>	<b>530</b>	<b>4,538</b>	<b>1,438</b>	<b>12,007</b>	<b>18,513</b>	<b>464</b>	<b>18,977</b>
Profit for the period	-	-	-	442	442	1	443
<b>Total comprehensive income for the reporting period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>442</b>	<b>442</b>	<b>1</b>	<b>443</b>
<b>Balance at 30 June 2018</b>	<b>530</b>	<b>4,538</b>	<b>1,438</b>	<b>12,449</b>	<b>18,955</b>	<b>465</b>	<b>19,420</b>
<b>Balance at 31 December 2018</b>	<b>530</b>	<b>4,538</b>	<b>1,438</b>	<b>12,099</b>	<b>18,605</b>	<b>364</b>	<b>18,969</b>
Loss for the period	-	-	-	(130)	(130)	(6)	(136)
<b>Total comprehensive loss for the reporting period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(130)</b>	<b>(130)</b>	<b>(6)</b>	<b>(136)</b>
<b>Balance at 30 June 2019</b>	<b>530</b>	<b>4,538</b>	<b>1,438</b>	<b>11,969</b>	<b>18,475</b>	<b>358</b>	<b>18,833</b>

The accompanying notes on page 5 to 14 are an integral part of this consolidated condensed interim financial information.



## 1 The Group and its operations

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” for the six-month period ended 30 June 2019 for PJSC “SOLLERS” (the “Company”) and its subsidiaries (the “Group”).

The Company was incorporated as an open joint stock company in the Russian Federation in March 2002 by OJSC “Severstal” (the “Predecessor”) by contributing its controlling interests in LLC “Ulyanovsky Avtomobilny Zavod” (LLC “UAZ”) and PJSC “Zavolzhskiy Motorny Zavod” (PJSC “ZMZ”), which were acquired at the end of 2000, in exchange for the Company’s share capital.

The immediate parent company of the Group is LLC “ERFIX”. As of 30 June 2019 and 31 December 2018 the ultimate controlling party of the Group is Vadim Shvetsov, the main participant of LLC “ERFIX”.

The Company’s shares are listed on MOEX.

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

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

In 2011 the Group established the joint venture with Ford Motor Company to manufacture Ford branded vehicles in Russia.

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, PJSC “SOLLERS” 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 (Note 17).

During the second half 2012 the Group finalized the foundation of the joint venture with Mazda Motor Corporation in Vladivostok for production of Mazda SUVs and passenger cars. Mazda-Sollers joint venture launched the production of Mazda SUVs in September 2012 and production of passenger cars in April 2013. Since 2019 the joint venture exports locally produced engines for Mazda vehicles to Japan.

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

This consolidated condensed interim financial information was approved for issue by the General Director and Chief Financial Officer on 27 August 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 16). The Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. 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

### 2.1. Basis of preparation

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard No. 34 “Interim financial reporting” (“IAS 34”). This consolidated condensed interim financial information does not contain all the information required for the preparation of the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2018 prepared in accordance with International Financial Reporting Standards (“IFRS”).

## **2 Basis of preparation and significant accounting policies (continued)**

### **2.2. Significant accounting policies**

The accounting policies adopted and critical accounting estimates are consistent with those of the annual consolidated financial statements for the year ended 31 December 2018. The Group has adopted all new standards and interpretations that were effective from 1 January 2019. The impact of the adoption of these new standards and interpretations has not been significant with respect to this consolidated condensed interim financial information.

### **2.3. Supplementary information**

U.S. Dollar (“US\$”) amounts shown in the primary statements are translated from the RR as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 30 June 2019 of Russian Rouble 63.0756 = US\$ 1 (at 31 December 2018 of Russian Rouble 69.4706 = US\$ 1). The statements of comprehensive income and cash flows have been translated at the average exchange rates during the six-month period ended 30 June 2019 of Russian Rouble 65.3384 = US\$ 1 and 30 June 2018 of Russian Rouble 65.3290 = US\$ 1. The US\$ amounts are presented solely for the convenience of the reader, and should not be treated as a representation that RR amounts have been or could have been converted to the US\$ at this rate, nor that the US\$ amounts present fairly the financial position and results of operations and cash flows of the Group in accordance with IFRS.

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

## **3 New standards, interpretations and amendments adopted by the Group**

During the preparation of these interim condensed consolidated financial information, the Group followed the same accounting policies and methods of computation as compared with those applied in the annual consolidated financial statements for the year ended December 31, 2018, except for changes resulted from the adoption of new and amended IFRSs.

The nature and the impact of the adoption of new and amended standards, which became effective on January 1, 2019, are described below.

### **IFRS 9 Financial Instruments (amendments) - Prepayment Features with Negative Compensation**

These amendments cover two issues: what financial assets can be measured at amortised cost and how to account for the modification of a financial liability. The amendments permit more financial assets to be measured at amortised cost than under the previous version of IFRS 9, in particular, some prepayable financial assets. The amendments confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The amendments did not have any impact on the Group’s financial position or performance.

### **IFRS 16 Leases**

IFRS 16 replaced existing IFRS leases requirements. For lessees, the new standard marks a significant change from previous IFRS requirements. Under the new standard, the distinction between operating and finance leases is removed: an asset and a liability are recognised for almost all leases, with limited exemptions. The Group adopted the standard using the modified retrospective approach which means that the cumulative effect of the adoption is recognised in retained earnings as at January 1, 2019 and that comparatives are not restated.

Most of the contracts concluded as of January 1, 2019, provide for the rental of low-value assets (office equipment, personal computers) and short-term leases (i.e. leases with a term of not more than 12 months), which, within the framework of the standard, allow exemption from recognition for tenants. Based on the analysis of the contractual base as of January 1, 2019, the first application of IFRS 16 did not have a material impact on the interim condensed consolidated financial information of the Group.

The Group applied the practical simplifications required by IFRS 16 at the date of initial application, the right-of-use asset and lease liability were not recognized for leases that expire within 12 months after January 1, 2019.

The Group also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made under IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease.

### 3 New standards, interpretations and amendments adopted by the Group (continued)

#### IAS 19 Employee Benefits (amendments) - Plan Amendment, Curtailment or Settlement

The amendments clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must: i) calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; ii) any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement; iii) separately recognise any changes in the asset ceiling through other comprehensive income. These amendments will apply to future plan amendments, curtailments, or settlements.

#### IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is an uncertainty over income tax treatments under IAS 12 Income Taxes. This interpretation did not have any impact on the financial position or performance.

#### Improvements to IFRSs

In December 2018, the IASB issued Annual Improvements to IFRSs. The document sets out amendments to IFRSs primarily with a view of removing inconsistencies and clarifying wording. The improvements did not have any impact on the financial position or performance of the Group.

### 4 Balances and transactions with related parties

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

#### 4.1. Balances and transactions with related parties

Balances with related parties of the Group as at 30 June 2019 and 31 December 2018 consist of the following:

##### Balances

Nature of relationship	Board of directors/ Parent Company	Other related parties	Associates and joint ventures	Total
<b>As at 30 June 2019</b>				
Accounts receivable	-	190	12	<b>202</b>
Trade and other payables	5	195	25	<b>225</b>
Loans received	15	-	-	<b>15</b>
Interest payable	1	-	-	<b>1</b>
<b>As at 31 December 2018</b>				
Accounts receivable	-	96	252	<b>348</b>
Trade and other payables	-	473	4	<b>477</b>

Transactions with related parties of the Group for the six-month periods ended 30 June 2019 and 30 June 2018 consist of the following:

##### Transactions

Nature of relationship	Parent company	Other related parties	Associates and joint ventures	Total
<b>Six-month period ended 30 June 2019</b>				
Sales of vehicles, components and services	1	8	83	<b>92</b>
Purchases of goods and services	-	1,804	37	<b>1,841</b>
Loans received	15	-	-	<b>15</b>
Interest expenses	1	-	-	<b>1</b>
<b>Six-month period ended 30 June 2018</b>				
Sales of vehicles, components and services	-	3	183	<b>186</b>
Purchases of goods and services	-	1,675	2	<b>1,677</b>

#### 4 Balances and transactions with related parties (continued)

##### 4.2. Key managements' and directors' compensation

The compensation paid to the nine members of the key management (2018: nine people) for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. Each director receives a fee for serving in that capacity and is reimbursed reasonable expenses in conjunction with their duties. No additional fees, compensation or allowances are paid.

Total key management and directors' compensation included in expenses in the statement of comprehensive income comprises short-term employee benefits amounting to RR 193 for the six-month period ended 30 June 2019 (RR 153 for the six-month period ended 30 June 2018).

#### 5 Property, plant and equipment and right-of-use assets

Acquisitions of property, plant, and equipment for the period amounted to RR 461 (for six-month period ended 30 June 2018: RR 517). Disposals of property, plant, and equipment for the period amounted to RR 77 (for six-month period ended 30 June 2018: RR 60).

Bank borrowings are secured on properties at 30 June 2019 to the value of RR 559 (31 December 2018: RR 1,141); see Note 13.

During six-month period ended 30 June 2019 the Group capitalized borrowing costs of RR 43 (six-month period ended 30 June 2018: RR 39) in the cost of the qualifying assets, annual capitalization rate was 22% (six-month period ended 30 June 2018: 13%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are located. At 30 June 2019, the cost of the land amounted to RR 602 (31 December 2018: RR 604).

At 30 June 2019, the Group had right-of-use assets, included in the other non-current assets in the amount of RR 59, and lease liabilities, included in other non-current liabilities in the amount of RR 52.

Right-of-use assets and liabilities movements under the lease contracts were the following:

<b>Right-of-use assets at 1 January 2019</b>	-
Additions (initial measurement)	60
Depreciation charge	(1)
Disposal	-
<b>Right-of-use asset at 30 June 2019</b>	<b>59</b>
<b>Lease liabilities at 1 January 2019</b>	-
Additions (initial measurement)	52
Interest expense	-
Disposal	-
<b>Right-of-use asset at 30 June 2019</b>	<b>52</b>

During six-month period ended 30 June 2019 total cash outflow for leases, including advance payments equalled RR 8.

The Group is committed to future cash outflows of RR 78 for the leases that have not yet commenced.

During six-month period ended 30 June 2019 the Group recognized in the cost of sales and general and administrative expenses the costs relating to short-term leases and leases of low-value assets amounted to RR 80.

#### 6 Development costs

	30 June 2019	30 June 2018
<b>Cost</b>		
Balance at the beginning of the period	5,106	3,848
Additions	482	492
Disposals	(1)	(7)
<b>Balance at the end of the period</b>	<b>5,587</b>	<b>4,333</b>
<b>Accumulated amortisation and impairment</b>		
Balance at the beginning of the period	(1,902)	(1,669)
Amortisation charge	(124)	(136)
<b>Balance at the end of the period</b>	<b>(2,026)</b>	<b>(1,805)</b>
<b>Net book value</b>	<b>3,561</b>	<b>2,528</b>

## 7 Investments in joint ventures

Investments in joint ventures are presented by followings assets:

	30 June 2019	31 December 2018
Mazda-Sollers JV	1,615	1,460
Sollers-Bussan JV	307	312
Sollers-Finance JV	701	655
Isuzu-Sollers JV	23	11
<b>Total investments in joint ventures</b>	<b>2,646</b>	<b>2,438</b>

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

	30 June 2019	30 June 2018
<b>Carrying amount at 1 January</b>	<b>2,438</b>	<b>1,914</b>
Share of profit of joint ventures	278	66
Unrealized profit adjustment on sale of non-current assets to joint venture	5	5
Investment in Isuzu-Sollers JV	25	15
Dividends received	(100)	-
<b>Carrying amount at the end of the reporting period</b>	<b>2,646</b>	<b>2,347</b>

### **Sollers-Finance JV**

During the 6 month ended 30 June 2019 the dividends of RR 100 were received from the Sollers-Finance JV (6 month ended 30 June 2018: RR 0).

As of June 30, 2019 Sollers-Finance JV had contractual commitments to acquire the lease objects amounting to RR 103 (31 December 2018: RR 85).

### **Sollers-Bussan JV**

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

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

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

The carrying value of Sollers-Bussan JV investment have been tested by management for impairment. As of 30 June 2019 no impairment was identified (31 December 2018: nil). **Mazda-Sollers JV**

In August 2012 the Group paid its contribution to share capital of 50%-50% joint venture with Mazda Motor Corporation in amount of RR 750 and finalized the foundation. The production of Mazda SUVs and passenger cars was launched in September 2012.

In September 2016, Mazda-SOLLERS JV signed a Special investment contract with the Ministry of Industry and Trade of the Russian Federation. Under the contract, Mazda SOLLERS JV commits to create a new engine production capacity in the Far East. Since 2019 the joint venture exports locally produced Mazda engines to Japan.

### **Ford-Sollers JV**

In March 2019 the Group and Ford Motor Company announced the plans for strategic restructuring of Ford-SOLLERS JV. In the first half of 2019 the Group has exercised the option to sale its share in the Ford-SOLLERS JV for USD 135 mln. payable on the commencement date.

According to the signed Memorandum of Understanding PJSC "SOLLERS" will receive 51% share of the 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 special vehicles.

New Ford-SOLLERS JV will be set on the basis of the existing Ford Sollers Elabuga, which is a resident of the ALABUGA Special Economic Zone. The joint venture starts 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.

## 7 Investments in joint ventures (continued)

### Isuzu-Sollers JV

In the first half of 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.

During the 6 month ended 30 June 2019 the Group has made additional contribution of RR 25 to the Isuzu-Sollers joint venture.

At 30 June 2019 the Group held 50% interest in joint ventures Mazda-Sollers, Sollers-Bussan, Sollers-Finance and Isuzu-Sollers (31 December 2018: 50% interest in joint ventures Mazda-Sollers, Sollers-Bussan, Sollers-Finance and Isuzu-Sollers). The summarised financial information of the Joint ventures, including full amounts of total assets and liabilities, is as follows:

	<b>Total assets</b>	<b>Total liabilities</b>
<b>Total at 30 June 2019</b>	<b>19,906</b>	<b>14,430</b>
Mazda-Sollers JV	13,413	9,903
Sollers-Bussan JV	621	7
Sollers-Finance JV	5,818	4,513
Isuzu-Sollers JV	54	7
<b>Total at 31 December 2018</b>	<b>19,049</b>	<b>13,968</b>
Mazda-Sollers JV	12,486	9,275
Sollers-Bussan JV	634	11
Sollers-Finance JV	5,893	4,668
Isuzu-Sollers JV	36	14

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

	<b>Revenue</b>	<b>Operating profit/ (loss)</b>	<b>Net profit/ (loss)</b>
<b>Six-month period ended 30 June 2019</b>	<b>23,190</b>	<b>547</b>	<b>557</b>
Mazda-Sollers JV	22,458	234	300
Sollers-Bussan JV	-	(20)	(10)
Sollers-Finance JV	732	365	292
Sollers-Isuzu JV	-	(32)	(25)
<b>Six-month period ended 30 June 2018</b>	<b>18,104</b>	<b>119</b>	<b>133</b>
Mazda-Sollers JV	17,472	(131)	(73)
Sollers-Bussan JV	-	(28)	(16)
Sollers-Finance JV	632	281	225
Sollers-Isuzu JV	-	(3)	(3)

## 8 Inventories

	<b>30 June 2019</b>	<b>31 December 2018</b>
Raw materials	3,470	2,282
Less: provision for impairment	(27)	(30)
<b>Total raw materials</b>	<b>3,443</b>	<b>2,252</b>
Work in progress	1,418	1,106
<b>Total work in progress</b>	<b>1,418</b>	<b>1,106</b>
Finished products	1,967	1,767
Less: provision for impairment	(149)	(17)
<b>Total finished products</b>	<b>1,818</b>	<b>1,750</b>
<b>Total</b>	<b>6,679</b>	<b>5,108</b>

**SOLLERS Group****Notes to the Consolidated Condensed Interim Financial Information at 30 June 2019***(in millions of Russian Roubles – RR)***9 Trade and other receivables**

	<b>30 June 2019</b>	<b>31 December 2018</b>
Trade receivables	2,397	5,060
Less: provision for impairment	(20)	(44)
<b>Total financial assets</b>	<b>2,377</b>	<b>5,016</b>
Other receivables, including subsidies receivable	10,861	8,574
Less: provision for impairment	(47)	(42)
<b>Total other receivables</b>	<b>10,814</b>	<b>8,532</b>
Advances to suppliers, other than for equipment	340	232
Less: provision for impairment	(4)	(9)
<b>Total advances to suppliers, other than for equipment</b>	<b>336</b>	<b>223</b>
Taxes prepayments	649	30
VAT recoverable, net	120	390
Other prepayments	3	3
<b>Total</b>	<b>14,299</b>	<b>14,194</b>

The carrying value of trade accounts receivable and other receivables for the 30 June 2019 and 31 December 2018 is approximately equal to their fair value.

In the first half of 2019 the Group recognised VAT of RR 0 (six months ended 30 June 2019: RR 446) as an expense in the General and administrative expenses, recoverable as related to subsidised expenses.

The Group receives government subsidies, which partially compensate production, administrative, distribution and finance cost. During the six month ended 30 June 2019 the subsidies recognised in the Cost of sales totalled RR 5,642 (six months ended 30 June 2018: RR 5,866), in the General and administrative expenses – RR 1,014 (six months ended 30 June 2018: RR 390) and in the Distribution costs – RR 37 (six months ended 30 June 2018: 67).

**10 Cash and cash equivalents**

	<b>30 June 2019</b>	<b>31 December 2018</b>
Cash on hand and balances with banks	1,200	209
Cash deposits	1,124	17
Letter of credit	199	-
<b>Total</b>	<b>2,523</b>	<b>226</b>

The carrying value of cash and cash equivalents as at 30 June 2019 and 31 December 2018 is approximately equal to their fair value.

At 30 June 2019, restricted cash consisted of RR 375, acquired under the contracts for special-purpose funding with state fund for industrial development (31 December 2018: RR 466), RR 522 acquired under state defense order (31 December 2018: RR 1,295) and RR 2,525 in escrow account for the acquisition of the share in new Ford-SOLLERS JV (Note 7).

## 11 Shareholders' equity

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

	Number of outstanding ordinary shares (thousands)	Share capital, RR	Share premium, RR	Additional paid-in capital, RR
At 30 June 2019	34,270	530	4,538	1,438
At 31 December 2019	34,270	530	4,538	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2018: 82,074 thousand). The nominal value of all shares is 12.5 roubles per share.

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the six-month ended 30 June 2019, the net statutory loss for the Company as reported in the published interim statutory reporting forms was RR 141 (for the six-month period ended 30 June 2018 net loss amounted to RR 4) and the closing balance of the accumulated profit including the current reporting period net statutory profit as of 30 June 2019 totalled to RR 10,490 (31 December 2018: RR 10,631). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly, at present, management believes that it would not be appropriate to disclose an amount for the distributable reserves in this consolidated condensed interim financial information.

No dividends were declared at the General Shareholders' Meetings during the six-month period ended 30 June 2019 or during the year ended 31 December 2018.

## 12 Trade payables, advances received and other payables

At 30 June 2019 trade accounts payable amounts to RR 14,010 (31 December 2018: RR 15,817). The amount includes trade payables with the reverse factoring settlement in the amount of RR 6,821 (31 December 2018: RR 5,376).

	30 June 2019	31 December 2018
Accrued liabilities and other creditors	253	147
Liabilities for purchased property, plant and equipment	21	54
<b>Total financial liabilities within advances and other payables</b>	<b>274</b>	<b>201</b>
Advances received	589	1,015
Bonus accrual	82	117
Accrued employee benefit costs	262	300
Vacation accrual	183	201
<b>Total advances received and other payables</b>	<b>1,390</b>	<b>1,834</b>

## 13 Short and long-term borrowings

The Group's long-term borrowings consisted of bank loans amounted to RR 571 (31 December 2018: RR 800) and funding from federal and regional funds of industrial development amounted to RR 450 (31 December 2018: RR 454).

The Group's long-term borrowings are denominated in Russian Roubles at 30 June 2019 and 31 December 2018. The carrying amounts of long-term borrowings approximates to their fair values at 30 June 2018 and at 31 December 2019.

At 30 June 2018, short-term borrowings totalled RR 6,185 (31 December 2018: RR 4,436), including short-term loans of RR 6,050 (31 December 2018: loans of RR 4,377), funding from federal and regional funds of industrial development and other loans amounted to RR 36 (31 December 2018: RR 10) and interest accrued on loans of RR 99 (31 December 2018: RR 49).

The carrying amounts of short-term borrowings approximates to their fair values as at 30 June 2019 and 31 December 2018.

Property, plant and equipment of RR 559 (31 December 2018: RR 1,141) are pledged as collateral for long-term and short-term borrowings (see Note 5).



## 14 Sales

	Six-month period ended 30 June 2019	Six-month period ended 30 June 2018
Vehicles	11,092	10,067
Automotive components	2,831	2,837
Engines	528	517
Services	331	325
Other sales	325	386
<b>Total</b>	<b>15,107</b>	<b>14,132</b>

## 15 Segment information

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

At 30 June 2019 and at 31 December 2018 the Group activities are considered as one reporting segment: production and sale of vehicles.

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

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

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

Revenues from external customers are presented in Note 14. Management considers that across the range of vehicles and models produced; these are considered as similar products. During the six months ended 30 June 2019 and 30 June 2018 the Group did not have transactions with a single external customer that amounted to 10% or more of the Group's revenues.

## 16 Contingencies, commitments and operating risks

**Contractual commitments and guarantees.** As at 30 June 2018, the Group had contractual commitments of RR 606 including contractual obligations to purchase of property, plant and equipment from third parties (31 December 2018: RR 776).

**Taxation.** Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by the tax authorities. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

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

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

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

## **16 Contingencies, commitments and operating risks (continued)**

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

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice, management believes there are no legal proceedings or claims that may cause material effect on Group's results or financial position except those disclosed in this consolidated condensed interim financial information.

**Guarantees.** Guarantees are irrevocable assurance that the Group will make payments in the event that another party cannot meet its obligations. As of 30 June 2019, the Group has issued financial guarantees for other related parties for RR 69 (31 December 2018: RR 34).

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

As at 30 June 2019 the Group was in full compliance with all covenants (31 December 2019: full compliance with all covenants).

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

## **17 Post balance sheet date events**

In July 2019, the Group completed the deal of the acquisition of the controlling stake in new Ford-SOLLERS JV. The new shareholder structure of the joint venture comprises Ford Motor Company with the share of 49% and PJSC "SOLLERS" with 51% stake.

The Group will determine the transaction price and the fair value of the acquired identifiable net assets required under IFRS 3 by the end of 2019.

The joint venture started operations on July 1, 2019 in the segment of light commercial vehicles with Ford Transit model. The complete knocked-down (CKD) assembly of Ford Transit, including welding and painting works, is carried out at the Ford Sollers Elabuga plant in Special Economic Zone "ALABUGA" (Elabuga, Tatarstan).