# Report on Review of Interim Financial Information
***Public Joint-Stock Company AVTOVAZ***
***and its subsidiaries***
for the six-month period ended 30 June 2018

*July 2018*

# Report on Review of Interim Financial Information
# Public Joint-Stock Company AVTOVAZ
# and its subsidiaries

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# Report on Review of Interim Financial Information

To the shareholders of Public Joint-Stock Company AVTOVAZ

### *Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of Public Joint-Stock Company AVTOVAZ and its subsidiaries (the Group), which comprise the interim condensed consolidated statement of financial position as at 30 June 2018, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of cash flows and interim condensed consolidated statement of changes in equity for the six-month period then ended, and selected explanatory notes (interim financial information). Management of the Group is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

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### *Emphasis of matter*

We draw attention to Note 2 "Going concern" to the interim condensed consolidated financial statements, which indicates that as of 30 June 2018, the Group's consolidated current liabilities exceeded its consolidated current assets by 11,600 million rubles. As stated in Note 2, this condition, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

A.V. Milinov
Partner
Ernst & Young LLC

26 July 2018

#### *Details of the entity*

Name: Public Joint-Stock Company AVTOVAZ
Record made in the State Register of Legal Entities on 23 September 2002, State Registration Number 1026301983113.
Address: Russia 445024, Togliatti, Yuzhnoye shosse, 36.

#### *Details of the auditor*

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

**AVTOVAZ GROUP**

**INTERNATIONAL FINANCIAL REPORTING STANDARDS**
**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**30 June 2018**

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## AVTOVAZ GROUP
## Interim Condensed Consolidated Statement of Financial Position
## as at 30 June 2018
**(In millions of Russian rubles unless otherwise stated)**

| | Note | 30 June 2018 Unaudited | 31 December 2017 Audited |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Intangible assets | 6 | **6,567** | 6,667 |
| Property, plant and equipment | 7 | **34,033** | 35,004 |
| Investments in associates and a joint venture | 8 | **1,396** | 1,057 |
| Non-current financial assets | 9 | **-** | 1 |
| Deferred tax assets | | **3,116** | 1,423 |
| Other non-current assets | 10 | **12,014** | 12,932 |
| **Total non-current assets** | | **57,126** | 57,084 |
| **CURRENT ASSETS** | | | |
| Inventories | 11 | **23,843** | 23,951 |
| Trade receivables | 12 | **22,785** | 14,815 |
| Current financial assets | 9 | **1** | 23 |
| Other current assets | 13 | **8,596** | 9,664 |
| Cash and cash equivalents | 14 | **8,291** | 8,855 |
| **Total current assets** | | **63,516** | 57,308 |
| **TOTAL ASSETS** | | **120,642** | 114,392 |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 15 | **83,501** | 53,695 |
| Share premium | 15 | **41,916** | 26,918 |
| Translation adjustment | | **533** | 506 |
| Accumulated losses | | **(145,988)** | (149,017) |
| **Shareholders' equity – parent-company shareholders' share** | | **(20,038)** | (67,898) |
| **Shareholders' equity – non-controlling interests' share** | | **658** | 659 |
| **Total shareholders' equity** | | **(19,380)** | (67,239) |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | | **4** | 2,660 |
| Provisions – long-term | 16 | **1,224** | 1,045 |
| Non-current financial liabilities | 17 | **62,206** | 56,571 |
| Advances received | | **1,354** | 1,523 |
| Other non-current liabilities | | **118** | 160 |
| **Total non-current liabilities** | | **64,906** | 61,959 |
| **CURRENT LIABILITIES** | | | |
| Provisions – short-term | 16 | **4,616** | 6,028 |
| Current financial liabilities | 17 | **12,947** | 36,942 |
| Trade payables | | **36,042** | 55,350 |
| Income tax liability | | **286** | 80 |
| Other tax liabilities | 18 | **12,106** | 6,866 |
| Advances received | | **1,511** | 1,878 |
| Other current liabilities | 19 | **7,608** | 12,528 |
| **Total current liabilities** | | **75,116** | 119,672 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **120,642** | 114,392 |

Yves Caracatzanis
President, PJSC AVTOVAZ

26 July 2018

Natalia Vassilieva
Director, Accounting and Reporting – Chief Accountant

**(In millions of Russian rubles unless otherwise stated)**

| | Note | Six months ended 30 June Unaudited 2018 | 2017 |
|---|---|---|---|
| **Revenues** | 20 | **134,746** | 102,485 |
| Cost of goods and services sold | 21 | **(120,400)** | (95,644) |
| Research and development expenses | 22 | **(1,061)** | (636) |
| Selling, general and administrative expenses | 23 | **(6,047)** | (6,209) |
| **Operating margin** | | **7,238** | (4) |
| Other operating income and expenses | 24 | **387** | (190) |
| *Other operating income* | | ***1,141*** | *459* |
| *Other operating expenses* | | ***(754)*** | *(649)* |
| **Operating profit/(loss)** | | **7,625** | (194) |
| Net interest income and expenses | | **(3,822)** | (3,792) |
| *Interest income* | | ***296*** | *951* |
| *Interest expenses* | | ***(4,118)*** | *(4,743)* |
| Other financial income and expenses | 25 | **(13)** | (413) |
| **Net financial income/(expenses)** | | **(3,835)** | (4,205) |
| **Share in net income/(loss) of associates and a joint venture** | 8 | **337** | 157 |
| **Profit/(loss) before taxation** | | **4,127** | (4,242) |
| Current and deferred taxes | 26 | **(1,028)** | (171) |
| **Profit/(loss) for the period** | | **3,099** | (4,413) |
| **Profit/(loss) attributable to:** | | | |
| Parent-company shareholders' share | | **2,989** | (4,427) |
| Non-controlling interests' share | | **110** | 14 |
| | | **3,099** | (4,413) |
| **Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:** | | | |
| Translation adjustment | | **43** | (5) |
| **Total other comprehensive income/(loss) for the period to be reclassified to profit or loss in subsequent periods, net of taxes** | | **43** | (5) |
| **Total comprehensive income/(loss) for the period, net of taxes** | | **3,142** | (4,418) |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Parent-company shareholders' share | | **3,016** | (4,430) |
| Non-controlling interests' share | | **126** | 12 |
| **Total comprehensive income/(loss) for the period, net of taxes** | | **3,142** | (4,418) |
| **Profit/(loss) per share (in RUB):** | | | |
| **Basic/diluted, profit/(loss) for the period attributable to ordinary/preference equity holders of the Company** | | **0.36** | (0.85) |

**(In millions of Russian rubles unless otherwise stated)**

| | Note | Six months ended 30 June Unaudited 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit/(loss) before taxation | | **4,127** | (4,242) |
| Adjustments for: | | | |
| Depreciation and amortisation | | **3,685** | 3,369 |
| Reversal of provision for specific non-current assets | 24 | **(87)** | (42) |
| Charge to provision for impairment of financial assets | | **23** | 824 |
| Movements in provisions | 16 | **(1,233)** | (181) |
| Interest income | | **(296)** | (951) |
| Interest expense | | **4,118** | 4,906 |
| Share in net (income)/loss of associates and a joint venture | 8 | **(337)** | (157) |
| Gain on disposal of property, plant and equipment | 24 | **(132)** | (47) |
| Gain on disposal of subsidiaries and associates | 24 | **(335)** | (30) |
| Foreign exchange effect | | **39** | 563 |
| **Operating cash flows before working capital changes** | | **9,572** | 4,012 |
| Net change in inventories | | **90** | (618) |
| Net change in trade receivables | | **(8,441)** | (2,099) |
| Net change in other assets | | **(1,461)** | 940 |
| Net change in trade payables and other liabilities | | **4,173** | 5,471 |
| Net change in other tax liabilities | | **5,259** | 761 |
| Net change in advances received | | **(343)** | (348) |
| **Cash generated from operations** | | **8,849** | 8,119 |
| Income tax paid | | **(94)** | (170) |
| Interest received | | **274** | 959 |
| Interest paid | | **(3,409)** | (4,260) |
| **Net cash generated from operating activities** | | **5,620** | 4,648 |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment and intangible assets | | **(2,629)** | (3,510) |
| Proceeds from the sale of property, plant and equipment and jointly-controlled assets | | **1,096** | 818 |
| Proceeds from the sale of financial assets | | **18** | 2 |
| Proceeds from the sale of subsidiaries less cash disposed of | | **(99)** | - |
| Dividends received | | **6** | - |
| **Net cash used in investing activities** | | **(1,608)** | (2,690) |
| **Cash flows from financing activities:** | | | |
| Proceeds from loans and borrowings | | **13,990** | 7,201 |
| Repayment of loans and borrowings | | **(18,525)** | (13,675) |
| Acquisition of non-controlling interest | | **(87)** | - |
| Dividends paid to non-controlling interests | | **-** | (6) |
| **Net cash used in financing activities** | | **(4,622)** | (6,480) |
| Effect of exchange rate changes | | **46** | - |
| **Net decrease in cash and cash equivalents** | | **(564)** | (4,522) |
| **Cash and cash equivalents at the beginning of the period** | 14 | **8,855** | 17,610 |
| **Cash and cash equivalents at the end of the period** | 14 | **8,291** | 13,088 |

**(In millions of Russian rubles unless otherwise stated)**

| | Shareholders' equity - parent-company shareholders' share | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Shares paid | Translation adjustment | Accumu-lated losses | Total | Shareholders' equity - non-controlling interests' share | Total shareholders' equity |
| **Balance at 31 December 2016** | **39,172** | **15,300** | **26,141** | **482** | **(139,336)** | **(58,241)** | **662** | **(57,579)** |
| Profit/(loss) for the period | - | - | - | - | (4,427) | (4,427) | 14 | (4,413) |
| Other comprehensive loss | - | - | - | (3) | - | (3) | (2) | (5) |
| **Total comprehensive income/(loss)** | **-** | **-** | **-** | **(3)** | **(4,427)** | **(4,430)** | **12** | **(4,418)** |
| Dividends | - | - | - | - | - | - | (11) | (11) |
| Shares registered (Note 15) | 14,523 | 11,618 | (26,141) | - | - | - | - | - |
| **Balance at 30 June 2017 (Unaudited)** | **53,695** | **26,918** | **-** | **479** | **(143,763)** | **(62,671)** | **663** | **(62,008)** |
| **Balance at 31 December 2017** | **53,695** | **26,918** | **-** | **506** | **(149,017)** | **(67,898)** | **659** | **(67,239)** |
| Profit for the period | - | - | - | - | 2,989 | 2,989 | 110 | 3,099 |
| Other comprehensive income | - | - | - | 27 | - | 27 | 16 | 43 |
| **Total comprehensive income** | **-** | **-** | **-** | **27** | **2,989** | **3,016** | **126** | **3,142** |
| Acquisition of non-controlling interest | - | - | - | - | 40 | 40 | (127) | (87) |
| Shares registered (Note 15) | 29,806 | 14,998 | - | - | - | 44,804 | - | 44,804 |
| **Balance at 30 June 2018 (Unaudited)** | **83,501** | **41,916** | **-** | **533** | **(145,988)** | **(20,038)** | **658** | **(19,380)** |

## 1. Corporate information

Public Joint-Stock Company AVTOVAZ ("the Company" or PJSC AVTOVAZ) and its subsidiaries' ("the Group") principal activities include the manufacture and sale of passenger automobiles. The Group's manufacturing facilities are based in the cities of Togliatti and Izhevsk of the Russian Federation. The Group has a sales and service network spanning the Commonwealth of Independent States ("CIS") and other countries. The parent company, PJSC AVTOVAZ, was incorporated as an open joint stock company in the Russian Federation on 5 January 1993. The registered office of PJSC AVTOVAZ is in Yuzhnoye Shosse, 36, Togliatti, Samara region, 445024, the Russian Federation.

In December 2012 major shareholders of the Company signed a partnership agreement. According to this agreement a new entity Alliance Rostec Auto B.V. was created. As at 30 June 2018 61.09% of equity interest in Alliance Rostec Auto B.V. belonged to Renault s.a.s. and 38.91% to the Rostec State Corporation. As at 30 June 2018 83.53% of total equity shares of the Company belonged to Alliance Rostec Auto B.V., 11.21% to Renaissance Securities (Cyprus) Limited and 5.26% to other shareholders.

These interim condensed consolidated financial statements were authorised for issue by the president of PJSC AVTOVAZ on 26 July 2018.

## 2. Going concern

The operating performance of the Group as well as its liquidity position was affected by economic conditions and other business factors described in Note 27.5 below. For the six months ended 30 June 2018 the Group generated a net profit of RUB 3,099 (for the six months ended 30 June 2017: incurred a net loss RUB 4,413). As at 30 June 2018 the Group's current liabilities exceeded its current assets by RUB 11,600 (31 December 2017: RUB 62,364).

To address the current economic and market environment and to further improve the Group's performance management is implementing an anti-crisis plan, including revenue improvements, cost reduction measures and sales of non-core assets.

During the first half of 2018 the Group demonstrated positive trends by improving its results as follows:

- the Group received a positive operating cash flow and net result;
- the Group managed to refinance most of its current financial liabilities by non-current. New finance arrangements contain no specific financial debt covenants which might give lenders a right to request accelerated payment of loans;
- as a result of the private offering (see Note 15 for details) the Group improved its liquidity position.

The Group is currently negotiating various financing options for the operating and investing activities, including the following:

- forgiveness of the remaining part of interest-free borrowings from the Rostec State Corporation with nominal value of RUB 21 billion;
- signing additional non-current loan agreements.

The fact that as at 30 June 2018 the Group's current liabilities exceeded its current assets by RUB 11,600, as well as significant dependence on the shareholders' support, financial and market conditions discussed in Note 27.5 below create a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The management of the Group is confident that the Group will receive support from the shareholders at a level required to finance its operations in the foreseeable future and will continue as a going concern in the foreseeable future and has no plans to discontinue or significantly reduce its activities.

## 3. Basis of preparation and changes to the Group's accounting policies

### 3.1 Basis of preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with AVTOVAZ Group's annual consolidated financial statements as at 31 December 2017.

**3. Basis of preparation and changes to the Group's accounting policies (continued)**

**3.2 New standards, interpretations and amendments adopted by the Group**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is 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.

The standard 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.

*Sale of goods*

The Group's contracts with customers for the sale of vehicles generally include one performance obligation. The Group has concluded that revenue from sale of vehicles should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

*Variable consideration*

Some contracts with customers provide a right of return and discounts. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances and discounts. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contact inception and updated thereafter.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group assessed individual contracts to determine the estimated variable consideration a related constraint. Application of the constraint did not have an impact on the Group's interim condensed consolidated financial statements.

*Warranty obligations*

The Group provides warranties for general repairs and does not provide extended warranties or maintenance services in its contracts with customers. As such, the Group determines that such warranties are assurance-type warranties under IFRS 15, which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its current practice.

*Rendering of services*

The Group recognised service revenue in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

*Presentation and disclosure requirements*

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. Information required by IFRS 15 is provided above and is in Note 5 below.

Adoption of IFRS 15 did not have an impact on the Group's interim condensed consolidated financial statements.

**3. Basis of preparation and changes to the Group's accounting policies (continued)**

**3.2 New standards, interpretations and amendments adopted by the Group (continued)**

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 has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 and without adjusting the comparative information for the period beginning 1 January 2017.

*Classification and measurement*

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9.

*Impairment model*

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis.

The Group performed detailed analysis and has not determined significant effects from moving from an incurred loss model under IAS 39 to an expected loss model as required by IFRS 9. As a result of this analysis, the Group concluded that IFRS 9 did not have an impact on the Group's interim condensed consolidated financial statements.

The following amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group:

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*
Amendments to IAS 40 *Transfers of Investment Property*
Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4 *Applying* IFRS *9 Financial Instruments* with IFRS 4 *Insurance Contracts*
Amendments to IAS 28 *Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*
Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters*

**4. Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

During the six months ended 30 June 2018 the Group did not update its mid-term plan approved in December 2016. The current economic situation and the Russian automotive market conditions slightly improved compared to the previous periods. The Group determined there were no indicators of impairment of non-financial assets, as well as indications that an impairment loss recognised in previous periods no longer existed or had decreased at the end of the reporting period ended 30 June 2018. As a result, the Group decided not to perform an impairment test as at 30 June 2018.

**5. Balances and transactions with related parties**

For the purpose of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. The Group entered into transactions with the following related parties: shareholders, associates, a joint venture, entities under common control and significant influence via shareholder and key management.

In addition, transactions with companies directly or indirectly controlled by the Russian Government are considered to be transactions with related parties, as one of the major shareholders of the Company, the Rostec State Corporation is owned by the Russian Government.

**(In millions of Russian rubles unless otherwise stated)**

**5. Balances and transactions with related parties (continued)**

**5.1 Balances and transactions with companies directly or indirectly controlled by the Russian Government**

As at 30 June 2018 and 31 December 2017 the Group had balances with the companies controlled by the Russian Government, which are detailed below:

| | **Unaudited 30 June 2018** | 31 December 2017 |
|---|---|---|
| Prepayments for PPE before provision charge | **101** | 105 |
| Provision for impairment of prepayments for PPE | **(4)** | (4) |
| Non-current financial assets before provision charge | **3,201** | - |
| Provision for impairment of non-current financial assets | **(3,201)** | - |
| Other non-current assets before provision charge | **3,545** | - |
| Provision for impairment of other non-current assets | **(3,545)** | - |
| Trade receivables before provision charge | **1,568** | 4,700 |
| Provision for impairment of trade receivables | **(421)** | (3,679) |
| Current financial assets before provision charge | **-** | 3,218 |
| Provision for impairment of current financial assets | **-** | (3,201) |
| Other current assets before provision charge | **1,295** | 3,529 |
| Provision for impairment of other current assets | **(348)** | (662) |
| Cash and cash equivalents | **4,910** | 7,961 |
| **Total assets** | **7,101** | 11,967 |
| | | |
| Financial liabilities | **72,942** | 80,961 |
| Other non-current liabilities | **118** | 160 |
| Provisions – short-term | **49** | 332 |
| Trade payables | **2,677** | 2,869 |
| Current advances received | **40** | 7 |
| Other current liabilities | **96** | 62 |
| **Total liabilities** | **75,922** | 84,391 |

As at 30 June 2018 the Group pledged assets with the carrying value of RUB 8,324 (31 December 2017: RUB 10,866) as collateral to the companies controlled by the Russian Government.

As at 30 June 2018 the amount of collateral received by the Group from companies controlled by the Russian Government, mainly in the form of pledges of property and property rights for loans issued, amounted to RUB 898 (31 December 2017: RUB 839).

During the six months ended 30 June 2018 and 30 June 2017 the Group entered into transactions with companies controlled by the Russian Government, which are detailed below:

| | **Unaudited Six months ended 30 June 2018** | Six months ended 30 June 2017 |
|---|---|---|
| Sales | **1,758** | 1,254 |
| Purchases of goods, equipment and services | **(13,918)** | (12,448) |
| Interest income | **189** | 553 |
| Interest expenses | **(3,730)** | (4,728) |
| Charge to provision for impairment of other non-current assets | **(9)** | - |
| Charge to provision for impairment of trade receivables | **(64)** | (60) |
| Reversal of/(charge to) provision for impairment of other current assets | **91** | (30) |
| Charge to provision for impairment of current financial assets | **-** | (829) |
| Reversal of/(charge to) provision for lawsuits, claims and warranty | **179** | (196) |

In the course of its ordinary business, the Group enters into transactions with the companies controlled by the Russian Government. In the Russian Federation, electricity and transport tariffs are regulated by the Federal Antimonopoly Service. Bank loans are obtained based on the market interest rates. Taxes are accrued and paid in accordance with the applicable tax law.

**(In millions of Russian rubles unless otherwise stated)**

**5. Balances and transactions with related parties (continued)**

**5.2 Balances and transactions with other related parties**

The nature of the related party relationships for those related parties with whom the Group entered into transactions or had balances outstanding at 30 June 2018 and 31 December 2017, except for companies directly or indirectly controlled by the Russian Government, are detailed below:

| | Relationship | **Unaudited** **30 June 2018** | 31 December 2017 |
|---|---|---|---|
| Prepayments for PPE before provision charge | Significant influence via shareholder | **20** | 20 |
| Receivables for jointly-controlled assets | Control via shareholder | **9,343** | 10,302 |
| Receivables for jointly-controlled assets | Significant influence via shareholder | **2,497** | 2,630 |
| Trade receivables before provision charge | Associates | **1** | 1 |
| Provision for impairment of trade receivables | Associates | **-** | (1) |
| Trade receivables before provision charge | Joint venture | **540** | 676 |
| Trade receivables before provision charge | Control via shareholder | **3,597** | 3,685 |
| Provision for impairment of trade receivables | Control via shareholder | **(2)** | (4) |
| Trade receivables before provision charge | Significant influence via shareholder | **1,918** | 1,747 |
| Other current assets before provision charge | Associates | **1** | 3 |
| Provision for impairment of other current assets | Associates | **-** | (2) |
| Other current assets before provision charge | Control via shareholder | **4** | 305 |
| Other current assets before provision charge | Significant influence via shareholder | **-** | 15 |
| Provision for impairment of other current assets | Significant influence via shareholder | **-** | (1) |
| **Total assets** | | **17,919** | 19,376 |
| | | | |
| Financial liabilities | Control via shareholder | **-** | 9,432 |
| Non-current advances received | Significant influence via shareholder | **1,236** | 1,420 |
| Non-current advances received | Control via shareholder | **118** | 103 |
| Provisions – short-term | Associates | **-** | 44 |
| Provisions – short-term | Significant influence via shareholder | **1,209** | 1,147 |
| Trade payables | Associates | **120** | 111 |
| Trade payables | Joint venture | **38** | 35 |
| Trade payables | Significant influence via shareholder | **2,914** | 2,211 |
| Trade payables | Control via shareholder | **4,360** | 24,148 |
| Current advances received | Significant influence via shareholder | **444** | 408 |
| Current advances received | Control via shareholder | **35** | 20 |
| Other current liabilities | Significant influence via shareholder | **864** | 780 |
| Other current liabilities | Control via shareholder | **71** | 2,720 |
| **Total liabilities** | | **11,409** | 42,579 |

**(In millions of Russian rubles unless otherwise stated)**

**5. Balances and transactions with related parties (continued)**

**5.2 Balances and transactions with other related parties (continued)**

Transactions with other related parties for the six months ended 30 June 2018 and 30 June 2017 were as follows:

| | | **Unaudited** | |
|---|---|---|---|
| | Relationship | **Six months ended 30 June 2018** | Six months ended 30 June 2017 |
| Sales | Joint venture | **2,833** | 2,723 |
| Sales | Associates | **3** | 1,467 |
| Sales | Control via shareholder | **17,138** | 15,310 |
| Sales | Significant influence via shareholder | **7,615** | 7,018 |
| Purchases of goods and services | Joint venture | **(232)** | (188) |
| Purchases of goods and services | Associates | **(373)** | (479) |
| Purchases of goods, services, equipment and intangible assets | Control via shareholder | **(18,917)** | (15,001) |
| Purchases of goods, services, equipment and intangible assets | Significant influence via shareholder | **(1,006)** | (1,048) |
| Charge to provision for impairment of trade receivables | Significant influence via shareholder | **-** | (465) |
| Reversal of/(charge to) provision for impairment of trade receivables | Control via shareholder | **2** | (1) |
| Reversal of provision for impairment of other current assets | Control via shareholder | **1** | - |
| Charge to provision for claims and warranty | Significant influence via shareholder | **(62)** | (35) |
| Reversal of provision for restructuring | Associates | **44** | - |
| Interest expenses | Control via shareholder | **(85)** | (160) |
| Administrative expenses | Short-term employee benefits - compensation of the Key Management | **(255)** | (259) |

**6. Intangible assets**

Movements in intangible assets, which included development costs and licenses, were as follows:

| | **Unaudited** |
|---|---|
| **Balance at 31 December 2016** | **6,659** |
| Additions | 659 |
| Amortisation charge | (732) |
| Reversal of provision for specific assets | 21 |
| **Balance at 30 June 2017** | **6,607** |
| **Balance at 31 December 2017** | **6,667** |
| Additions | 712 |
| Amortisation charge | (797) |
| Charge to provision for specific assets | (15) |
| **Balance at 30 June 2018** | **6,567** |

In 2008 the Group and Renault s.a.s. signed license agreements in relation to production, assembling and sale of licensed cars and engines. As at 30 June 2018 intangible assets included licenses for production, assembling and sale of cars with the net book value of RUB 936 and engines with the net book value of RUB 229, with the residual useful life of 66 and 30 months, respectively.

**(In millions of Russian rubles unless otherwise stated)**

## 7. Property, plant and equipment

Movements in property, plant and equipment were as follows:

| | **Unaudited** |
|---|---|
| **Balance at 31 December 2016** | **35,816** |
| Additions | 1,989 |
| Disposals | (54) |
| Depreciation charge | (2,667) |
| Reversal of provision for specific assets | 21 |
| **Balance at 30 June 2017** | **35,105** |
| **Balance at 31 December 2017** | **35,004** |
| Additions | 1,947 |
| Disposals | (102) |
| Depreciation charge | (2,918) |
| Reversal of provision for specific assets | 102 |
| **Balance at 30 June 2018** | **34,033** |

## 8. Investments in associates and a joint venture

Movements in investments in associates were as follows:

| | **Unaudited** |
|---|---|
| **Balance at 31 December 2016** | **193** |
| Share in net income/(loss) of associates | 3 |
| Translation adjustment | 8 |
| **Balance at 30 June 2017** | **204** |
| **Balance at 31 December 2017** | **206** |
| Share in net income/(loss) of associates | 7 |
| Translation adjustment | 8 |
| Dividends | (6) |
| **Balance at 30 June 2018** | **215** |

Interest in a joint venture consisted of investment in a joint venture GM-AVTOVAZ located in Togliatti, the Samara region of the Russian Federation. GM-AVTOVAZ produces the Chevrolet NIVA vehicles from the assembly kits supplied by the Group. PJSC AVTOVAZ and General Motors Holdings LLC equally hold 50% in share capital of GM-AVTOVAZ.

Movements in investments in a joint venture was as follows:

| | **Unaudited** |
|---|---|
| **Balance at 31 December 2016** | **2,413** |
| Share in net income/(loss) of a joint venture | 154 |
| **Balance at 30 June 2017** | **2,567** |
| **Balance at 31 December 2017** | **851** |
| Share in net income/(loss) of a joint venture | 330 |
| **Balance at 30 June 2018** | **1,181** |

As at 30 June 2018 GM-AVTOVAZ had contractual commitments of RUB 1,561 to purchase equipment from third parties (31 December 2017: RUB 3,331).

## 9. Financial assets

Financial assets consisted of the following:

| | **Unaudited** | |
|---|---|---|
| | **30 June 2018** | 31 December 2017 |
| Loans issued less provision | **1** | 6 |
| Other | **-** | 18 |
| | **1** | 24 |
| | | |
| Total non-current financial assets | **-** | 1 |
| Total current financial assets | **1** | 23 |
| | **1** | 24 |

As at 30 June 2018 loans issued by the Group were secured by property and property rights in the amount of RUB 916 (31 December 2017: RUB 857).

**(In millions of Russian rubles unless otherwise stated)**

**9. Financial assets (continued)**

Movements in provision for impairment of financial assets were as follows:

| | Unaudited |
|---|---|
| **Balance at 31 December 2016** | **3,112** |
| Charge/(unused amounts reversed) | 1,322 |
| Utilised | (3) |
| **Balance at 30 June 2017** | **4,431** |
| **Balance at 31 December 2017** | **4,358** |
| Charge/(unused amounts reversed) | 436 |
| Utilised | (3) |
| Disposal of subsidiaries | (42) |
| **Balance at 30 June 2018** | **4,749** |

**10. Other non-current assets**

Other non-current assets consisted of the following:

| | Unaudited 30 June 2018 | 31 December 2017 |
|---|---|---|
| Receivables for jointly-controlled assets | **11,840** | 12,932 |
| Other receivables less provision and other non-current assets | **174** | - |
| | **12,014** | 12,932 |

Assembly agreements with Renault and Nissan contain characteristics of joint arrangements and have been classified as joint operations in accordance with IFRS 11. Receivables for jointly-controlled assets as at 30 June 2018 amounted to RUB 11,840 (31 December 2017: RUB 12,932). During the six months ended 30 June 2018 Renault and Nissan's shares in additions to property, plant and equipment in the amount of RUB 8 (for the six months ended 30 June 2017: RUB 23) were classified as non-current receivables under IFRS 11. During the six months ended 30 June 2018 the Group received RUB 1,100 (for the six months ended 30 June 2017: RUB 868) of cash from Renault and Nissan to redeem a part of these receivables.

In 2018 the Group signed an agreement with OAT Group on the restructuring of trade and other receivables with maturity dates from 2023 to 2025. As at 30 June 2018 the non-current receivable from OAT Group amounted to RUB 3,545. This receivable was fully impaired in prior periods.

Movements in provision for impairment of other non-current assets were as follows:

| | Unaudited |
|---|---|
| **Balance at 31 December 2017** | **-** |
| Charge/(unused amounts reversed) | 9 |
| Reclassification from trade receivables and other current assets | 3,536 |
| **Balance at 30 June 2018** | **3,545** |

**11. Inventories**

Inventories consisted of the following:

| | Unaudited 30 June 2018 | 31 December 2017 |
|---|---|---|
| Raw materials | **11,812** | 11,598 |
| Work in progress | **3,945** | 3,468 |
| Finished goods (at lower of cost and net realisable value) | **8,086** | 8,885 |
| | **23,843** | 23,951 |

During the six months ended 30 June 2018 RUB 71 was recognised as an expense for slow-moving inventories and inventories carried at net realisable value (for the six months ended 30 June 2017: RUB 249). This was recognised in cost of goods and services sold.

**(In millions of Russian rubles unless otherwise stated)**

### 12. Trade receivables

The ageing analysis of trade receivables was as follows:

| | | | Past due but not impaired | | |
|---|---|---|---|---|---|
| | Trade receivables | Neither past due nor impaired | < 3 months | 3 to 6 months | 6 to 12 months |
| **30 June 2018 (unaudited)** | **22,785** | **22,445** | **292** | **48** | **-** |
| 31 December 2017 | 14,815 | 14,325 | 358 | 132 | - |

As at 30 June 2018 trade receivables were secured by vehicles with total selling price of RUB 11,879 as collateral (31 December 2017: RUB 5,448).

Movements in provision for impairment of trade receivables were as follows:

| | **Unaudited** |
|---|---|
| **Balance at 31 December 2016** | **2,534** |
| Charge/(unused amounts reversed) | 561 |
| Utilised | (8) |
| Disposal of subsidiaries | (13) |
| **Balance at 30 June 2017** | **3,074** |
| **Balance at 31 December 2017** | **4,064** |
| Charge/(unused amounts reversed) | 64 |
| Utilised | (2) |
| Disposal of subsidiaries | (49) |
| Reclassification to other non-current assets | (3,319) |
| **Balance at 30 June 2018** | **758** |

### 13. Other current assets

Other current assets consisted of the following:

| | **Unaudited** **30 June 2018** | 31 December 2017 |
|---|---|---|
| Other receivables less provision and other current assets | **7,241** | 5,720 |
| Value added tax | **710** | 690 |
| Prepayments less provision | **580** | 660 |
| Other tax receivables | **65** | 141 |
| Assets of a non-state pension fund | **-** | 2,453 |
| | **8,596** | 9,664 |

During the six months ended 30 June 2018 shares of a non-state pension fund held by the Group were transferred free-of-charge to the Rostec State Corporation.

Movements in provision for impairment of other current assets were as follows:

| | **Unaudited** |
|---|---|
| **Balance at 31 December 2016** | **1,069** |
| Charge/(unused amounts reversed) | 41 |
| Disposal of subsidiaries | (10) |
| **Balance at 30 June 2017** | **1,100** |
| **Balance at 31 December 2017** | **1,174** |
| Charge/(unused amounts reversed) | (89) |
| Utilised | (6) |
| Disposal of subsidiaries | (34) |
| Reclassification to other non-current assets | (217) |
| **Balance at 30 June 2018** | **828** |

**(In millions of Russian rubles unless otherwise stated)**

### 14. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

| | Unaudited 30 June 2018 | 31 December 2017 |
|---|---|---|
| Short-term deposits | **5,296** | 7,011 |
| Cash at banks | **2,995** | 1,844 |
| | **8,291** | 8,855 |

As at 30 June 2018 cash at banks denominated in euro amounted to RUB 42, in US dollar to RUB 394 (31 December 2017: in euro – RUB 128, in US dollar – RUB 51).

As at 30 June 2018 cash deposits denominated in rubles were RUB 5,296 (31 December 2017: RUB 7,011) and bore interest ranging from 5.5% to 13.0% (31 December 2017: 6.3% - 13.0%).

### 15. Shareholder's equity

The carrying value and the legal value of share capital authorised, issued and fully paid, as represented by classes of shares, were as follows:

| | **Unaudited 30 June 2018** | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **No. of shares** | **Legal statutory value** | **Carrying amount** | No. of shares | Legal statutory value | Carrying amount |
| Class A preference | **461,764,300** | **2,309** | **9,235** | 461,764,300 | 2,309 | 9,235 |
| Ordinary | **10,688,153,662** | **53,441** | **74,266** | 4,726,988,118 | 23,635 | 44,460 |
| Total outstanding share capital | **11,149,917,962** | **55,750** | **83,501** | 5,188,752,418 | 25,944 | 53,695 |

In the first half of 2018 the Company increased its capital through private offering of 5,961,165,049 own ordinary shares with par value of 5 Russian rubles to Alliance Rostec Auto B.V. and 495 own ordinary shares with par value of 5 Russian rubles to minority shareholders.

Contributions of RUB 61.4 billion for the shares were made by offsetting:

- the Company's payables and borrowings from Renault s.a.s. for RUB 30.7 billion (RUB 24.7 billion and RUB 6.0 billion, respectively), and
- the Company's interest-free borrowings from the Rostec State Corporation with nominal value of RUB 30.7 billion maturing in 2032.

Difference between par value of shares issued and carrying value of contribution received was recognised as share premium. Deferred tax liability of RUB 5.0 billion, which was previously recognized as a result of discounting of RUB 30.7 billion loans from the Rostec State Corporation was also recognized in share premium.

In the first half of 2018 Renault s.a.s. also made an additional contribution through Alliance Rostec Auto B.V. of RUB 3.4 billion to the Company's capital in the form of forgiveness of loans. The contribution was accounted for as an increase in share premium.

495 shares of the Company were issued and paid by cash consideration of RUB 5 thousand.

As a result of this capital increase, Alliance Rostec Auto B.V. accumulated holding of more than 75% of the Company share capital and filed a mandatory offer to buy the Company's shares from minority shareholders at 12.4 Russian rubles for each ordinary share and 12.2 Russian rubles for each preferred share.

In May 2018 the Annual Shareholders' Meeting made a decision not to pay dividends on ordinary and preference shares of the Company in respect of 2017.

**(In millions of Russian rubles unless otherwise stated)**

### 16. Provisions

Movements in provisions were as follows:

| | Lawsuits and claims | Restructuring | Warranty | Other | Total |
|---|---|---|---|---|---|
| **Balance at 31 December 2017** | **2,217** | **1,492** | **3,171** | **193** | **7,073** |
| Charge | 139 | 213 | 855 | 147 | 1,354 |
| Utilised | (168) | (308) | (678) | (4) | (1,158) |
| Unused amounts reversed | (1,160) | (47) | (222) | - | (1,429) |
| **Balance at 30 June 2018 (unaudited)** | **1,028** | **1,350** | **3,126** | **336** | **5,840** |
| Non-current | - | 261 | 963 | - | 1,224 |
| Current | 1,028 | 1,089 | 2,163 | 336 | 4,616 |
| | **1,028** | **1,350** | **3,126** | **336** | **5,840** |

During the six months ended 30 June 2018 provision for lawsuits and claims was partly reversed as the Company had won several lawsuits.

The management expects that the non-current part of provisions will be utilised during the next 3 years and the current part of provisions will be utilised during the next 12 months.

### 17. Financial liabilities

Current financial liabilities consisted of the following:

| | **Unaudited 30 June 2018** | 31 December 2017 |
|---|---|---|
| Ruble-denominated interest-bearing loans and borrowings | **12,947** | 36,840 |
| Foreign currency denominated interest-bearing loans and borrowings | - | 102 |
| | **12,947** | 36,942 |

Non-current financial liabilities consisted of the following:

| | **Unaudited 30 June 2018** | 31 December 2017 |
|---|---|---|
| Ruble-denominated interest-bearing loans and borrowings | **57,131** | 39,451 |
| Ruble-denominated interest-free borrowings | **3,982** | 9,301 |
| Ruble-denominated interest-free promissory notes | **1,093** | 987 |
| Foreign currency denominated interest-bearing loans and borrowings | **-** | 6,832 |
| | **62,206** | 56,571 |

Average interest rate was 10.35% for outstanding ruble-denominated bank loans (31 December 2017: 11.10%). As of 30 June 2018 the Group had no bank loans denominated in foreign currencies (31 December 2017: bank loans denominated in foreign currencies had average interest rate of 3.00%). As at 30 June 2018 the Group had RUB 23,009 (31 December 2017: RUB 13,396) of bank loans with a floating interest rate.

Ruble-denominated interest-free borrowings and promissory notes consisted of the following liabilities:

| | | | **Unaudited 30 June 2018** | | 31 December 2017 | |
|---|---|---|---|---|---|---|
| | Original date | Maturity date | Nominal value | Carrying value | Nominal value | Carrying value |
| Ruble-denominated interest-free borrowings | 5 June 2009 | 5 June 2032 | - | - | 25,000 | 4,506 |
| | 29 April 2010 | 29 April 2032 | 20,582 | 3,982 | 26,282 | 4,795 |
| | | | **20,582** | **3,982** | **51,282** | **9,301** |
| Ruble-denominated interest-free promissory notes | 23 April 2001 | 7 March 2020 | 1,481 | 1,093 | 1,481 | 987 |

During the first half of 2018 ruble-denominated interest-free loans from the Rostec State Corporation with nominal value of RUB 30,700 were contributed as a result of capital increase described in Note 15.

As at 30 June 2018 the Company had an open credit line in Vnesheconombank with the limit of RUB 51,883. The loan can be used only to finance investment projects of the Company. As at 30 June 2018 an outstanding principal balance under this credit line amounted to RUB 31,192 (31 December 2017: RUB 33,177). The Vnesheconombank loan is repayable by equal quarterly instalments up to the end of 2026.

**(In millions of Russian rubles unless otherwise stated)**

**17. Financial liabilities (continued)**

As at 30 June 2018 LADA Izhevsk had an open credit line in Vnesheconombank with the limit of RUB 8,116. The loan can be used only to finance investment projects of LADA Izhevsk. As at 30 June 2018 an outstanding principal balance under this credit line amounted to RUB 7,350 (31 December 2017: RUB 7,327). The Vnesheconombank loan is repayable by equal quarterly instalments up to the end of 2026.

As at 30 June 2018 there were no breaches of the Group's loan agreements with banks.

As at 30 June 2018 the Group had available RUB 36,402 (31 December 2017: RUB 18,167) of undrawn committed borrowing facilities, of which RUB 19,756 was available for future operating activities and RUB 16,646 was available for investment activities.

As at 30 June 2018 the Group's loans and borrowings of RUB 38,662 (31 December 2017: RUB 50,277) were secured with property, plant and equipment with the carrying value of RUB 8,396 (31 December 2017: RUB 11,399) and finished goods with the carrying value of RUB 2 (31 December 2017: RUB 1,299).

Changes in liabilities arising from financing activities were as follows:

| | 31 December 2017 | Changes in cash flows | Foreign exchange changes | Amortization of discounted liabilities | Changes due to capital increase | Other changes | 30 June 2018 |
|---|---|---|---|---|---|---|---|
| Current interest-bearing loans and borrowings | 36,942 | (17,668) | - | - | (2,600) | (3,727) | 12,947 |
| Non-current interest-bearing loans and borrowings | 46,283 | 13,133 | 1 | 18 | (6,769) | 4,465 | 57,131 |
| Non-current interest-free borrowings | 9,301 | - | - | 386 | (5,705) | - | 3,982 |
| Non-current interest-free promissory notes | 987 | - | - | 106 | - | - | 1,093 |
| **Total liabilities from financing activities** | **93,513** | **(4,535)** | **1** | **510** | **(15,074)** | **738** | **75,153** |

The 'Other changes' column includes the effect of reclassification of non-current portion of loans and borrowings to current based on repayment schedules, disposal of subsidiaries and the effect of accrued but not yet paid interest on loans and borrowings. The Group classifies interest paid as cash flows from operating activities.

**18. Other tax liabilities**

Other tax liabilities consisted of the following:

| | **Unaudited** **30 June 2018** | 31 December 2017 |
|---|---|---|
| Utilisation fee | **8,018** | 4,007 |
| Value added tax | **2,675** | 1,564 |
| Property and other taxes | **833** | 661 |
| Social taxes | **580** | 634 |
| | **12,106** | 6,866 |

**19. Other current liabilities**

Other current liabilities consisted of the following:

| | **Unaudited** **30 June 2018** | 31 December 2017 |
|---|---|---|
| Salaries payable, vacation and other accruals | **3,401** | 3,080 |
| Dealer bonuses | **2,127** | 1,638 |
| Liabilities for PPE and intangible assets | **1,718** | 4,179 |
| Liabilities of a non-state pension fund | **-** | 2,685 |
| Deferred income on government subsidy | **-** | 520 |
| Other liabilities | **362** | 426 |
| | **7,608** | 12,528 |

(In millions of Russian rubles unless otherwise stated)

### 20. Revenues

Components of sales revenue were as follows:

| | Unaudited | |
|---|---|---|
| | **Six months ended 30 June 2018** | Six months ended 30 June 2017 |
| Sales of goods | **133,149** | 101,074 |
| Sales of services | **1,597** | 1,411 |
| | **134,746** | 102,485 |

### 21. Cost of goods and services sold

Cost of goods and services sold comprised expenses incurred in the manufacturing of vehicles, assembly kits and spare parts, mainly the cost of materials and components. The remaining costs for the six months ended 30 June 2018 principally included labour costs in the amount of RUB 12,744 (for the six months ended 30 June 2017: RUB 10,334), as well as depreciation and amortisation in the amount of RUB 2,845 (for the six months ended 30 June 2017: RUB 2,639).

During the six months ended 30 June 2018 based on Government regulations on utilisation fee the Group incurred costs of utilisation fee in the amount of RUB 12,550 (for the six months ended 30 June 2017: RUB 7,196).

### 22. Research and development expenses

Components of research and development expenses were as follows:

| | Unaudited | |
|---|---|---|
| | **Six months ended 30 June 2018** | Six months ended 30 June 2017 |
| Depreciation and amortisation | **504** | 425 |
| Labour costs | **287** | 135 |
| Third parties' services | **191** | - |
| Materials | **50** | 8 |
| Other | **29** | 68 |
| | **1,061** | 636 |

### 23. Selling, general and administrative expenses

Components of selling, general and administrative expenses were as follows:

| | Unaudited | |
|---|---|---|
| Selling expenses: | **Six months ended 30 June 2018** | Six months ended 30 June 2017 |
| Advertising | **1,191** | 754 |
| Labour costs | **860** | 632 |
| Depreciation and amortisation | **115** | 96 |
| Charge to provision for impairment of trade receivables and other current assets | **72** | 410 |
| Other | **425** | 447 |
| | **2,663** | 2,339 |

| | Unaudited | |
|---|---|---|
| General and administrative expenses: | **Six months ended 30 June 2018** | Six months ended 30 June 2017 |
| Labour costs | **1,943** | 2,436 |
| Third parties' services | **700** | 617 |
| Depreciation and amortisation | **221** | 219 |
| Transportation | **199** | 215 |
| Maintenance and servicing of office buildings | **126** | 121 |
| Other | **195** | 262 |
| | **3,384** | 3,870 |
| | | |
| | **6,047** | 6,209 |

**(In millions of Russian rubles unless otherwise stated)**

## 24. Other operating income and expenses

Components of other operating income and expenses were as follows:

| | Unaudited | |
|---|---|---|
| | **Six months ended 30 June 2018** | Six months ended 30 June 2017 |
| Gain on disposal of subsidiaries and associates | **335** | 30 |
| Gain on disposal of property, plant and equipment | **132** | 47 |
| Reversal of provision for specific non-current assets | **87** | 42 |
| Reversal of/(charge to) provision for termination payments to employees | **2** | (336) |
| (Charge to)/reversal of provision for restructuring | **(168)** | 26 |
| Other | **(1)** | 1 |
| | **387** | (190) |

## 25. Other financial income and expenses

Components of other financial income and expenses were as follows:

| | Unaudited | |
|---|---|---|
| | **Six months ended 30 June 2018** | Six months ended 30 June 2017 |
| Foreign exchange gain/(loss) | **1** | (383) |
| Other financial income and expenses | **(14)** | (30) |
| | **(13)** | (413) |

## 26. Current and deferred taxes

| | Unaudited | |
|---|---|---|
| | **Six months ended 30 June 2018** | Six months ended 30 June 2017 |
| Income tax expense – current | **(378)** | (218) |
| Deferred tax (expense)/benefit | **(650)** | 47 |
| | **(1,028)** | (171) |

As a result of capital increase the deferred tax liability on discounting of an interest-free loan from the Rostec State Corporation in the amount of RUB 4,999 was reclassified in the statement of financial position in the 'Share Premium' line (see Note 15).

## 27. Contingencies, commitments and guarantees

### 27.1 Contractual commitments and guarantees

As at 30 June 2018 the Group had contractual commitments for the purchase of property, plant and equipment and intangible assets from third parties in the amount of RUB 1,578 (31 December 2017: RUB 4,687).

### 27.2 Legal claims contingencies and legal proceedings

During the six months ended 30 June 2018, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. At the date of issuance of these interim condensed consolidated financial statements, the Group was in dispute with several suppliers in relation to claims received in total amount of RUB 2,132 (31 December 2017: RUB 2,561) and estimated as contingent liabilities .

In the opinion of management, the Group's liability, if any, in all pending litigations or other legal proceedings would not have a material effect upon the financial condition, results of operations or liquidity of the Group.

### 27.3 Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases of land at nominal amount are as follows:

| | Unaudited | |
|---|---|---|
| | **30 June 2018** | 31 December 2017 |
| Not later than 1 year | **136** | 108 |
| Later than 1 year and not later than 5 years | **517** | 418 |
| Later than 5 years | **4,390** | 3,372 |
| | **5,043** | 3,898 |

The amount of lease payments recognized as an expense for the six months ended 30 June 2018 was RUB 70 (for the six months ended 30 June 2017: RUB 39).

IFRS 16 Leases was issued in January 2016. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

**27. Contingencies, commitments and guarantees (continued)**

**27.3 Operating lease commitments (continued)**

The Group has identified its leases that fall within the scope of IFRS 16 and is currently reviewing their valuation in accordance with the principles of the standard. The property leases represent the main commitments of the Group and will constitute the majority of the retired contracts. The Group does not expect any significant effect on the operating result following the application of the standard. The negative impact that the application of this standard will have on the financial debt as well as the positive effects on the operating margin and the cash flows from operating activities are being analysed.

The Group plans to apply the standard as of 1 January 2019 using the so-called simplified retrospective method.

**27.4 Taxation**

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

In 2017, mechanisms were further implemented to counter the tax evasion using low tax jurisdictions and aggressive tax planning structures. In particular, these changes included the definition of beneficial ownership, tax residence of legal entities at the place of actual activity, as well as the approach to taxation of controlled foreign companies in the Russian Federation.

In addition, the tax benefit concept was legislatively established for all taxes levied on the territory of the Russian Federation, with a focus on:

- existence of a business purpose in business transactions,
- fulfilment of contract obligations by parties to the contract.

At the same time, a practical mechanism for applying this concept has not yet been fully established, and court practice on the changes introduced has not been formed yet.

These changes and recent trends in applying and interpreting certain provisions of Russian tax law indicate that the tax authorities may take a tougher stance in interpreting legislation and reviewing tax returns. It is therefore possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant taxes, penalties and fines may be accrued. It is not possible to determine the amounts of constructive claims or evaluate the probability of a negative outcome. Fiscal periods remain open to review for a period of three calendar years immediately preceding the year of review. Under certain circumstances, the tax authorities may review earlier tax periods.

Management believes that at 30 June 2018 its interpretation of the relevant legislation is appropriate and that the Group’s tax, currency and customs positions will be sustained.

**27.5 Operating environment in Russia**

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

**28. Segment information**

For management purposes, the Group is organized into business units based on their products and services, and has the following reportable operating segments:

- automotive - production and sale of vehicles, assembly kits and automotive components produced by the Company, LADA Izhevsk, PSA VIS-AVTO and LADA Sport;
- dealership network - sales of vehicles and spare parts and services provided by technical centres;
- other segments - information about other business activities and operating segments that are not reportable based on quantitative thresholds was combined and disclosed as “Other segments”. Other segments include activities of other subsidiaries that are engaged in non-core activities.

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on financial information prepared in accordance with IFRS.

Transactions between the business segments are done on ordinary commercial terms and conditions.

**(In millions of Russian rubles unless otherwise stated)**

### 28. Segment information (continued)

The following table presents revenue, profit and assets information regarding the Group's operating segments:

| Unaudited | Automotive | | Dealership network | | Other segments | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| Six months ended 30 June | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **Revenues** | | | | | | | | | | |
| Sales to external customers | **115,772** | 85,802 | **8,882** | 6,805 | **10,092** | 9,878 | **-** | - | **134,746** | 102,485 |
| Inter-segment sales | **11,146** | 7,629 | **305** | 287 | **722** | 599 | **(12,173)** | (8,515) | **-** | - |
| Intra-segment sales | **40,853** | 32,530 | **7** | 9 | **1** | 1 | **(40,861)** | (32,540) | **-** | - |
| Total revenue | **167,771** | 125,961 | **9,194** | 7,101 | **10,815** | 10,478 | **(53,034)** | (41,055) | **134,746** | 102,485 |
| **Results** | | | | | | | | | | |
| Depreciation and amortisation | **(3,539)** | (3,229) | **(73)** | (55) | **(73)** | (85) | **-** | - | **(3,685)** | (3,369) |
| Impairment of assets | **(441)** | (2,086) | **(56)** | (99) | **(15)** | 36 | **-** | - | **(512)** | (2,149) |
| Interest expenses | **(4,104)** | (4,698) | **(14)** | (30) | **-** | (15) | **-** | - | **(4,118)** | (4,743) |
| Interest income | **273** | 916 | **12** | 23 | **11** | 12 | **-** | - | **296** | 951 |
| Share in net income/(loss) of associates and a joint venture | **337** | 157 | **-** | - | **-** | - | **-** | - | **337** | 157 |
| Current and deferred taxes | **(1,112)** | (41) | **-** | (21) | **84** | (109) | **-** | - | **(1,028)** | (171) |
| **IFRS profit/(loss) for the period** | **2,422** | (3,496) | **442** | (248) | **235** | (669) | **-** | - | **3,099** | (4,413) |

Inter-segment and intra-segment revenues from sales are eliminated on consolidation.

| | Automotive | | Dealership network | | Other segments | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **30 June 2018 (Unaudited)** | 31 December 2017 | **30 June 2018 (Unaudited)** | 31 December 2017 | **30 June 2018 (Unaudited)** | 31 December 2017 | **30 June 2018 (Unaudited)** | 31 December 2017 |
| Segment assets | **140,585** | 123,028 | **5,198** | 4,466 | **7,085** | 10,616 | **152,868** | 138,110 |
| Intra-segment eliminations | **(22,635)** | (13,472) | **(564)** | (508) | **(17)** | (19) | **(23,216)** | (13,999) |
| Inter-segment eliminations | **(8,005)** | (8,281) | **(339)** | (712) | **(666)** | (726) | **(9,010)** | (9,719) |
| **Total assets** | **109,945** | 101,275 | **4,295** | 3,246 | **6,402** | 9,871 | **120,642** | 114,392 |
| | | | | | | | | |
| Segment liabilities | **(157,142)** | (186,739) | **(3,230)** | (2,452) | **(3,603)** | (7,591) | **(163,975)** | (196,782) |
| Intra-segment eliminations | **19,074** | 9,911 | **278** | 299 | **3** | 4 | **19,355** | 10,214 |
| Inter-segment eliminations | **798** | 960 | **2,123** | 1,211 | **1,677** | 2,766 | **4,598** | 4,937 |
| **Total liabilities** | **(137,270)** | (175,868) | **(829)** | (942) | **(1,923)** | (4,821) | **(140,022)** | (181,631) |

Major part of non-current assets is located in the Russian Federation.

### 29. Financial instruments and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**(In millions of Russian rubles unless otherwise stated)**

### 29. Financial instruments and fair value hierarchy (continued)

Set out below is a comparison by category, quantitative and hierarchy disclosures of carrying amounts and fair values of financial instruments:

| | Carrying amount | | Fair values of assets and liabilities (Level 2) | |
|---|---|---|---|---|
| | **30 June 2018 (Unaudited)** | 31 December 2017 | **30 June 2018 (Unaudited)** | 31 December 2017 |
| **FINANCIAL ASSETS:** | | | | |
| Non-current financial assets | **-** | 1 | **-** | 1 |
| Other non-current assets | **12,014** | 12,932 | **12,014** | 12,932 |
| Trade receivables | **22,785** | 14,815 | **22,785** | 14,815 |
| Current financial assets | **1** | 23 | **1** | 23 |
| Current assets of a non-state pension fund – deposit accounts | **-** | 1,425 | **-** | 1,425 |
| Current assets of a non-state pension fund at fair value through profit or loss | **-** | 1,028 | **-** | 1,028 |
| Other current assets | **7,241** | 5,720 | **7,241** | 5,720 |
| Cash and cash equivalents | **8,291** | 8,855 | **8,291** | 8,855 |
| **Total** | **50,332** | 44,799 | **50,332** | 44,799 |
| **FINANCIAL LIABILITIES:** | | | | |
| Non-current financial liabilities | **62,206** | 56,571 | **63,253** | 58,913 |
| Other non-current liabilities | **118** | 160 | **118** | 160 |
| Current financial liabilities | **12,947** | 36,942 | **12,947** | 36,942 |
| Trade payables | **36,042** | 55,350 | **36,042** | 55,350 |
| Other current liabilities | **7,608** | 12,528 | **7,608** | 12,528 |
| **Total** | **118,921** | 161,551 | **119,968** | 163,893 |

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Cash and current deposits, financial assets, trade receivables, trade payables, other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Non-current receivables and borrowings are evaluated by the Group based on parameters such as interest rates, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 30 June 2018, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.
- The fair value of unquoted instruments, loans from banks, long-term promissory notes issued, obligations under finance leases as well as other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- Discount rate used for assessment of fair value of non-current borrowings was 11% (2017: 11%).

Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.

During the six months ended 30 June 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

### 30. Events after the reporting period

In July 2018, the Group signed a settlement agreement with Nissan Manufacturing Rus on compensation of losses due to cease of production of Nissan cars at the Izhevsk plant in the amount of RUB 1,877. This compensation had been received in full before these interim condensed consolidated financial statements were approved.