

SOLLERS GROUP

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

30 JUNE 2010

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ZAO PricewaterhouseCoopers Audit
White Square Office Center
10 Butyrsky Val
Moscow
125047 Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001
www.pwc.com

Report on the Review of the Consolidated Condensed Interim Financial Information for the six-month period ended 30 June 2010

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

Introduction

We have reviewed the accompanying consolidated condensed balance sheet of Open Joint Stock Company "Sollers" and its subsidiaries (together, the "Group") as at 30 June 2010 and the related consolidated condensed statements of income, cash flows and changes in equity 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".

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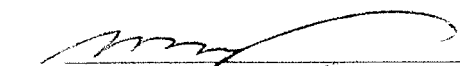
6 October 2010
Moscow, Russian Federation


Sollers Group
Consolidated Condensed Interim Balance Sheet at 30 June 2010
(in millions of Russian Roubles)

(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	RR million		Supplementary information US\$ million (Note 2)	
		At 30 June 2010	31 December 2009	At 30 June 2010	31 December 2009
ASSETS					
Non-current assets:					
Property, plant and equipment	6	22,893	23,039	734	762
Goodwill		1,484	1,484	48	49
Development costs		830	828	27	27
Other intangible assets		868	913	28	30
Deferred income tax assets		1,706	1,300	55	43
Other non-current assets		1,370	967	43	32
Other financial assets		57	251	2	8
Total non-current assets		29,208	28,782	937	951
Current assets:					
Inventories	8	11,615	13,191	373	436
Trade and other receivables	9	6,874	6,882	220	228
Other current assets		200	27	6	1
Cash and cash equivalents	10	4,817	3,990	154	132
Total current assets		23,506	24,090	753	797
TOTAL ASSETS		52,714	52,872	1,690	1,748
LIABILITIES AND EQUITY					
Equity					
Share capital	11	530	530	17	18
Treasury shares		(574)	(892)	(18)	(29)
Share options		61	57	2	2
Share premium		5,062	5,337	162	176
Additional paid-in capital		1,438	1,438	46	48
Retained earnings		(2,653)	(1,394)	(85)	(46)
Total capital and reserves attributable to the Company's equity holders		3,864	5,076	124	169
Minority interest		5,331	5,210	171	172
Total equity		9,195	10,286	295	341
Non-current liabilities:					
Long-term borrowings	13	18,944	16,908	607	559
Trade accounts payable		1,035	2,694	4	5
Deferred income tax liabilities		946	918	30	30
Other long-term liabilities		111	154	33	89
Total non-current liabilities		21,036	20,674	674	683
Current liabilities:					
Trade accounts payable		9,394	7,655	301	253
Advances received and other payables	12	3,836	2,696	123	89
Taxes payable		639	1,160	20	38
Warranty and other provisions		113	114	4	4
Short-term borrowings	13	8,501	10,287	273	340
Total current liabilities		22,483	21,912	721	724
Total liabilities		43,519	42,586	1,395	1,407
TOTAL LIABILITIES AND EQUITY		52,714	52,872	1,690	1,748

Approved for issue and signed on behalf of the Board of Directors on 6 October 2010:


General Director
V. A. Shvetsov


Chief Financial Officer
N. A. Sobolev

Sollers Group**Consolidated Condensed Interim Statement of Income for the six-month period ended 30 June 2010***(in millions of Russian Roubles)**(Amounts translated into US Dollars for convenience purposes, Note 2)*

	Note	RR million		Supplementary information US\$ million (Note 2)	
		Six-months ended 30 June 2010	2009	Six-months ended 30 June 2010	2009
Sales	14	20,258	9,847	674	298
Cost of sales		(17,388)	(8,542)	(578)	(259)
Gross profit		2,870	1,305	96	39
Distribution costs		(848)	(748)	(28)	(23)
General and administrative expenses		(2,202)	(1,841)	(73)	(56)
Other operating expenses		(118)	(263)	(4)	(8)
Operating loss		(298)	(1,547)	(9)	(48)
Finance costs, net		(995)	(2,614)	(33)	(79)
Loss before income tax		(1,293)	(4,161)	(42)	(127)
Income tax credit		155	523	5	16
Loss for the period		(1,138)	(3,638)	(37)	(111)
Attributable to:					
Equity holders of the Company		(1,259)	(3,270)	(41)	(100)
Minority interest		121	(368)	4	(11)
Loss for the period		(1,138)	(3,638)	(37)	(111)
Weighted average number of shares outstanding during the period (in thousands of shares) – basic and diluted		33,628	32,844	33,628	32,844
Loss per share (in RR and US\$) – basic		(37.44)	(99.56)	(1.22)	(3.04)

Other than as presented above, the Group did not have any items to be recorded in the statement of comprehensive income and accordingly no such statement has been presented (2009: no items).

Sollers Group
Consolidated Condensed Interim Statement of Cash Flows
for the six-month period ended 30 June 2010

(in millions of Russian Roubles)

(Amounts translated into US Dollars for convenience purposes, Note 2)

	RR million		Supplementary information US\$ million (Note 2)	
	Six months ended 30 June 2010	2009	Six months ended 30 June 2010	2009
Cash flows from operating activities				
Loss before income tax	(1,293)	(4,161)	(42)	(127)
Adjustments for:				
Depreciation	782	634	26	19
Amortisation	182	202	6	6
Share options	22	29	1	1
Provision for impairment of receivables	2	(36)	-	(1)
Interest expense	1,459	1,406	49	43
Provisions movements	38	(31)	1	(1)
Development expenses write-off	6	28	-	1
Expenses financed by government grant	(44)	(44)	(1)	(1)
Foreign exchange on borrowings	(435)	101	(15)	3
Loss on sale of property, plant and equipment and other non-current assets	99	129	4	4
Inventory provision movement	(76)	(30)	(3)	(1)
Operating cash flows before working capital changes	742	(1,773)	26	(54)
Decrease in accounts receivable and prepayments	6	6,582	-	199
Decrease/ (increase) in inventories	1,652	(759)	55	(23)
Decrease/(increase) in other current assets	(174)	9	(6)	-
Increase/(decrease) in accounts payable, advances received and other payables	3,148	(3,279)	105	(99)
Increase/(decrease) in taxes payable, other than income tax	(570)	(459)	(19)	(14)
Decrease in other long-term liabilities	(1,659)	-	(55)	-
Cash provided from operations	3,145	321	106	9
Income tax paid	(174)	223	(6)	7
Interest paid	(1,520)	(1,489)	(51)	(45)
Net cash from/ (used in) operating activities	1,451	(945)	49	(29)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(794)	(1,543)	(27)	(47)
Proceeds from the sale of property, plant and equipment	78	52	2	2
Development costs	(102)	(33)	(3)	(1)
Purchase of intangibles and other non-current assets	(102)	(92)	(3)	(3)
Net cash used in investing activities	(920)	(1,616)	(31)	(49)
Cash flows from financing activities				
Proceeds from borrowings	6,774	7,191	224	217
Repayment of borrowings and long-term taxes payable	(6,088)	(4,535)	(203)	(137)
Purchase/Sale of treasury shares	25	(123)	1	(4)
Dividends paid	(415)	-	(14)	-
Net cash from financing activities	296	2,533	8	76
Net increase/ (decrease) in cash and cash equivalents	827	(28)	26	(2)
Effect of exchange rate changes on cash and cash equivalents	-	-	(4)	(1)
Cash and cash equivalents at the beginning of the period	3,990	899	132	31
Cash and cash equivalents at the end of the period	4,817	871	154	28

The accompanying notes on page 5 to 16 are an integral part of this consolidated condensed interim financial information.

Sollers Group
Consolidated Condensed Interim Statement of Changes in Equity for the six-month period ended 30 June 2010
(in millions of Russian Rubles)

	Share capital	Treasury shares	Share options	Share premium	Additional paid-in capital	Retained earnings	Attributable to equity shareholders of the Company	Minority interest	Total equity
Balance at 31 December 2008	530	(1,609)	-	6,058	1,438	4,063	10,480	4,764	15,244
Loss for the period	-	-	-	-	-	(3,270)	(3,270)	(368)	(3,638)
Share options	-	-	29	-	-	-	29	-	29
Treasury shares	-	772	-	(721)	-	-	51	-	51
Balance at 30 June 2009	530	(837)	29	5,337	1,438	793	7,290	4,396	11,686
Balance at 31 December 2009	530	(892)	57	5,337	1,438	(1,394)	5,076	5,210	10,286
Loss for the period	-	-	-	-	-	(1,259)	(1,259)	121	(1,138)
Share options	-	318	4	(275)	-	-	47	-	47
Balance at 30 June 2010	530	(574)	61	5,062	1,438	(2,653)	3,864	5,331	9,195

The accompanying notes on page 5 to 16 are an integral part of this consolidated condensed interim financial information.

Sollers Group

Notes to the Consolidated Condensed Interim Financial Information at 30 June 2010

(in millions of Russian Roubles - RR)

1 The Group and its operations

The consolidated condensed interim financial information has been prepared in accordance with International Financial Reporting Standards for the six-month period ended 30 June 2010 for Sollers OJSC (the "Company") and its subsidiaries (the "Group").

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

The Company was incorporated as an open joint stock company in the Russian Federation in March 2002 by OAO "Severstal" (the predecessor) by contributing its controlling interests in OAO "Ulyanovsky Avtomobilny Zavod" (OAO "UAZ") and OAO "Zavolzhskiy Motor Works" (OAO "ZMZ"), which were acquired through purchases close to the end of 2000, in exchange for the Company's share capital.

In February 2010, the Group announced an initiative to establish a global alliance with FGA in the format of a joint venture for the production of Passenger Cars and SUVs. A Memorandum of Understanding was signed on 11 February 2010. The total production capacity of the new joint venture will be up to 500,000 vehicles per year by 2016. The project will be implemented in the Republic of Tatarstan. The joint venture is expected to receive support from the Russian Government in raising long-term loans at a subsidised interest rate for an estimated amount of € 2.1 billion.

The immediate parent company is Newdeal Investments Limited. The ultimate controlling party of the Group is Vadim Shvetsov who is the principal shareholder of the Company.

The Company's shares are listed on RTS and MICEX.

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

During the six-month period ended 30 June 2010 the Group incorporated one new subsidiary: LLC Saryarka Autoprom.

These consolidated condensed interim financial information were approved for issue by the General Director and Chief Financial Officer on 6 October 2010.

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

- Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.
- The rise in Russian and emerging market risk premium resulted in a steep increase in foreign financing costs.
- The depreciation of the Russian Rouble against hard currencies (compared to RR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.
- As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Customers of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay amounts owed. Suppliers and other business partners of the Group were also impacted by the deteriorating economic conditions and their ability to provide extended credit terms or support investment projects.

The volume of financing available in particular from overseas has significantly reduced since August 2008. However, in the second half of 2009, in conjunction with the programmes announced by the Government particularly in support of domestic production in the automotive sector, the Group has been able to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. More recently in 2010, lower interest rates have enabled the Group to reduce the finance cost on its borrowings.

1 The Group and its operations (continued)

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard No.34, Interim financial reporting ("IAS 34"). These condensed consolidated interim financial statements do 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 2009 prepared in accordance with International Financial Reporting Standards ('IFRS'). The 31 December 2009 consolidated balance sheet data has been derived from audited financial statements for the year ended 31 December 2009.

2.2 Significant accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2009.

2.3 Supplementary information

U.S. Dollar ("US\$") amounts shown in the consolidated financial 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 2010 of RR 31.20 = US\$1 (at 31 December 2009 of RR 30.24 = US\$1). The statements of income and cash flow have been translated at the average exchange rates during the six-month period ended 30 June 2010 of RR 30.07 = US\$1 and 30 June 2009 of RR 33.07 = US\$1. The difference was recognised in equity. 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.

2.4 Changes in presentation

In the consolidated condensed interim financial information, certain prior year balances have been reclassified for presentation purposes (see Note 13).

3 Adoption of new and revised standards and interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on the consolidated condensed interim financial information.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on the consolidated condensed interim financial information.

3 Adoption of new and revised standards and interpretations (continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions.

It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The revised IAS 27 did not have an impact on the consolidated condensed interim financial information.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have an impact on consolidated condensed interim financial information.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have an impact on the consolidated condensed interim financial information.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have an impact on the consolidated condensed interim financial information.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have an impact on the consolidated condensed interim financial information.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, "Determining Whether an Arrangement Contains a Lease" when the application of their national accounting requirements produced the same result. The amendments did not have an impact on the consolidated condensed interim financial information.

3 Adoption of new and revised standards and interpretations (continued)

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards*, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have an impact on the consolidated condensed interim financial information.

4 New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its consolidated financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

4 New accounting pronouncements (continued)

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

5 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.

5.1 Balances and transactions with related parties

Balances with related parties of the Group as at 30 June 2010:

	Newdeal Investments Limited	Other related parties	Total
Nature of the relationship	Parent company	Significant influence	
At 30 June 2010			
Accounts receivable	-	9	9
Accounts payable	-	1	1

Balances with related parties of the Group as at 31 December 2009:

	Newdeal Investments Limited	Other related parties	Total
Nature of relationship	Parent company	Significant influence	
As 31 December 2009			
Accounts receivable	171	2	173

Transactions with related parties of the Group for the six-month periods ended 30 June 2010 and 30 June 2009 consist of the following:

	Newdeal Investments Limited	Members of the Board of Directors and Management	Other related parties	Total
Nature of relationship	Parent company	Significant influence	Significant influence over subsidiary	
Six-month period ended 30 June 2010				
Sales revenue	-	-	12	12
Share options	-	22	-	22
Six-month period ended 30 June 2009				
Sales revenue	-	-	10	10
Purchases	-	-	1	1
Share options	-	29	-	29
Capital transaction	174	-	-	174

5.2 Directors' compensation

The compensation paid to the nine members of key management (2009: nine people) for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. Each director receives a fee for serving in that capacity and is reimbursed reasonable expenses in conjunction with their duties. No additional fees, compensation or allowances are paid.

Total key management and directors' compensation included in expenses in the statement of income comprises:

- short-term employee benefits amounting to RR 52 for the six-month period ended 30 June 2010 (RR 45 for the six-month period ended 30 June 2009); and
- expenses recognised under equity-settled, share based compensation amounting to RR 15 for the six-month period ended 30 June 2010 (RR 21 for the six-month period ended 30 June 2009).

Sollers Group**Notes to the Consolidated Condensed Interim Financial Information at 30 June 2010***(in millions of Russian Roubles - RR)***6 Property, plant and equipment**

Acquisitions of property, plant, and equipment for the period amounted RR 704 (for six-month period ended 30 June 2009: RR 780). Disposals of property, plant, and equipment for the period amounted RR 55 (for six-month period ended 30 June 2009: RR 208).

Bank borrowings are secured on properties as at 30 June 2010 to the value of RR 13,367 (31 December 2009: RR 11,323); see Note 13.

During six-month period ended 30 June 2010 the Group capitalised borrowing costs of RR 124 (six-month period ended 30 June 2009: RR 211) in the cost of the qualifying assets, annual capitalisation rate was 14% (six-month period ended 30 June 2009: 13%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 30 June 2010, the cost of the land amounted to RR 1,711 (31 December 2009: RR 1,031).

7 Development costs

	30 June 2010	30 June 2009
Cost		
Balance at the beginning of the period	1,606	1,451
Additions	102	33
Disposal	(32)	(26)
Balance at the end of the period	1,676	1,458
Accumulated amortisation and impairment		
Balance at the beginning of the period	(777)	(513)
Amortisation charge	(93)	(132)
Disposal	24	-
Balance at the end of the period	(846)	(645)
Net book value	830	813

8 Inventories

	30 June 2010	31 December 2009
Raw materials	5,579	5,176
Less: provision	(94)	(86)
Total raw materials	5,485	5,090
Work in progress	839	862
Total work in progress	839	862
Finished products	5,292	7,324
Less: provision	(1)	(85)
Total finished products	5,291	7,239
Total	11,615	13,191

Inventories of RR 974 (31 December 2009: RR 5,978) have been pledged as security for borrowings, see Note 13.

Sollers Group
Notes to the Consolidated Condensed Interim Financial Information at 30 June 2010
(in millions of Russian Roubles - RR)

9 Trade and other receivables

	30 June 2010	31 December 2009
Trade receivables	4,794	4,646
Less: provision for impairment	(118)	(130)
Total financial assets	4,676	4,516
Other receivables	444	634
Less: provision for impairment	(25)	(17)
Total other receivables	419	617
Advances to suppliers, other than for equipment	1,111	675
Less: provision for impairment	(8)	(8)
Total advances to suppliers, other than for equipment	1,103	667
Taxes prepayments	11	28
VAT recoverable, net	603	996
Other prepayments	62	58
Total	6,874	6,882

Foreign currency denominated net trade receivables:

Currency	30 June 2010	31 December 2009
Russian Roubles	4,505	4,410
US Dollars	167	106
Euro	4	-
Total	4,676	4,516

The carrying value of accounts receivable and prepayments as at 30 June 2010 and 31 December 2009 is approximately equal to their fair value.

10 Cash and cash equivalents

	30 June 2010	31 December 2009
Cash on hand and balances with banks	1,885	915
Cash deposits	2,277	3,054
Letters of credit	655	-
Short-term bank promissory notes	-	21
Total	4,817	3,990

Foreign currency denominated cash balances consist of the following:

Currency	30 June 2010	31 December 2009
US Dollars	887	25
Japanese Yen	1	-
Euro	-	3
Total	888	28

The carrying value of cash and cash equivalents as at 30 June 2010 and 31 December 2009 is approximately equal to their fair value.

11 Shareholders' equity

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

	Number of outstanding ordinary shares (thousands)	Number of treasury shares (thousands)	Share capital, RR	Treasury shares	Share premium, RR	Additional paid-in capital, RR
At 31 December 2009	34,270	799	530	(892)	5,337	1,438
At 30 June 2010	34,270	515	530	(574)	5,062	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2009: 82,074 thousand). The nominal value of all shares is 12.5 roubles per share.

11 Shareholders' equity (continued)

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 period ended 30 June 2010, the net statutory profit for the Company as reported in the published interim statutory reporting forms was RR 6,581 (loss for the six-month period ended 30 June 2009: RR 224) and the closing balance of the accumulated profit including the current reporting period net statutory profit as of 30 June 2010 totalled to RR 10,211 (31 December 2009: RR 3,630). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in the consolidated condensed interim financial information.

No dividends were declared at the General Shareholders' Meetings during the six-month period ended 30 June 2010 or during the year ended 31 December 2009.

During the six-month period ended 30 June 2010, the Group disposed of 285 thousand ordinary shares (six month ended 30 June 2009: 807 thousand ordinary shares and acquired an additional 85 thousand ordinary shares).

Share based compensation

On 10 March 2009, the Group granted to members of key management and other employees options to acquire 855,000 of the Group's ordinary shares at an exercise price of US\$3 that represented the average market share price for the three months preceding the grant date. The market share price at the grant date was US\$3. The vesting period for the options is one year for 285,000 options; two years for 285,000 options and three years for 285,000 options. These options are exercisable until 1 March 2013 subject to an employee meeting certain conditions, including remaining in employment in the Group up until the date of vesting.

On 30 May 2007, the Group granted to members of key management and other employees options to acquire 790,000 of the Group's ordinary shares at an exercise price of US\$30.50 which represented the average market share price for the three months preceding the grant date. The market share price at the grant date was US\$30. Options on 150,000 shares are exercisable for three years after a one-year vesting period, subject to certain conditions, including the employee remaining in employment in the Group up until the vesting date. Options on 640,000 shares were exercisable for two years after a two-year vesting period, although this option to exercise was cancelled by the Group on 10 March 2009. On 30 May 2008, the Group granted to members of key management and other employees options to acquire 80,000 of the Group's ordinary shares at an exercise price of US\$60.86 which represented the average market share price for the three months preceding the grant date. The market share price at the grant date was US\$63.25. These options are exercisable for three years after a one-year vesting period subject to the employee meeting certain conditions, including remaining in employment in the Group up until the date of vesting.

During the six-month period ended 30 June 2010, 290,000 options were exercised (six-month period ended 30 June 2009 no options were exercised).

12 Advances received and other payables

	30 June 2010	31 December 2009
Liabilities for purchased property, plant and equipment	265	464
Dividend payable	277	692
Accrued liabilities and other creditors	108	103
Total financial liabilities within advances and other payables	650	1,259
Accrued employee benefit costs	287	221
Vacation accrual	122	113
Bonus accrual	85	56
Advances received	2,692	1,047
Total advances received and other payables	3,836	2,696

Sollers Group

Notes to the Consolidated Condensed Interim Financial Information at 30 June 2010

(in millions of Russian Roubles - RR)

13 Short and long-term borrowings

As at 30 June 2010, short-term borrowings totalled RR 8,501 (31 December 2009: RR 10,287), including short-term loans of RR 5,702 (31 December 2009: RR 5,688), bonds of RR 2,555 (31 December 2009: RR 4,325) and interest accrued on loans of RR 244 (31 December 2009: RR 274).

Rouble-denominated bonds of RR 2,993 classified as long-term in prior year financial statements, were renegotiated in July 2010 as set out in the original bond prospectus. As a result of renegotiation, the Group changed the bond interest rate from 7.7% to 12.5%. Because the bond holders had the right to redeem their bonds during the renegotiation, these bonds have been classified as short-term as at 30 June 2010 and 31 December 2009 in the consolidated condensed interim financial information. Subsequent to the balance sheet date, RR 1,886 of these bonds were not redeemed and accordingly have been classified as long-term borrowings effective July 2010.

As at 30 June 2010, long-term borrowings totalled RR 18,944 (31 December 2009: RR 16,908), including bank loans of RR 16,898 (31 December 2009: RR 16,908); bonds of RR 2,000 (31 December 2009: nil) and interest accrued on loans amounting to RR 46 (31 December 2009: nil). The bonds are RR-denominated and were issued by the Group in April 2010 on MICEX for RR 2,000. The maturity date is 1 May 2013 and the coupon rate per annum is 13%.

Property, plant and equipment and inventories of RR 14,341 (31 December 2009: RR 17,301) are pledged as collateral for long-term and short-term borrowings; see Notes 6 and 8.

14 Sales

	Six-month period ended 30 June 2010	Six-month period ended 30 June 2009
Vehicles	16,561	6,950
Engines	537	450
Automotive components	1,944	1,504
Services	591	187
Other sales	625	756
Total	20,258	9,847

15 Segment information

The Group has implemented IFRS 8, Operating segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group which are regularly reviewed by the "chief operating decision maker" in order to allocate resources to segments and to assess their performance. The Group's operating segments are reported based on the financial information provided to the Group's Chief Executive Officer and that are used to make strategic decisions.

The Chief Executive Officer considers information in relation to the following business segments:

- (1) Automotive segment – representing the manufacture and distribution of vehicles on a wholesale basis;
- (2) Engine segment – representing the manufacture and sale of engines; and
- (3) Retail segment – representing the sale of vehicles through the Group's dealer network.

Included within "other" are aspects of the Group's business that are not included in any of these reporting segments.

As a result of the adoption of IFRS 8, the Group has identified a separate retail segment with the segment data for the prior period restated to be presented on a comparative basis.

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

Each of the operating segments identified represents a component that engages in business activities that earn revenues and incur expenses and whose operating results are regularly reviewed by the Chief Executive Officer and for which discrete financial information is available.

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

Sollers Group

Notes to the Consolidated Condensed Interim Financial Information at 30 June 2010

(in millions of Russian Roubles - RR)

15 Segment information (continued)

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 and presented within the vehicles category. The Group did not have transactions with a single external customer that amounted to ten per cent or more of the Group's revenues (2009: no transactions).

The segment results for the six-month period ended and balances at 30 June 2010 are as follows:

	Vehicles segment	Engines segment	Retail segment	Other	Total
Sales	18,021	3,005	1,738	147	22,911
Inter-segmental sales	(1,598)	(880)	(29)	(146)	(2,653)
Net sales	16,423	2,125	1,709	1	20,258
Operating loss	(85)	(83)	(130)	-	(298)

The segment results for the six-month period ended 30 June 2009 and balances at 30 June 2009 are as follows:

	Vehicles segment	Engines segment	Retail segment	Other	Total
Sales	6,743	2,284	1,476	59	10,562
Inter-segmental sales	(190)	(437)	(39)	(49)	(715)
Net sales	6,553	1,847	1,437	10	9,847
Operating loss	(1,041)	(337)	(169)	-	(1,547)

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

16 Contingencies, commitments and operating risks

16.1 Contractual commitments and guarantees

As at 30 June 2010, the Group had contractual commitments of RR 773 for the purchase of property, plant and equipment from third parties (31 December 2009: RR 3,744).

16.2 Taxation

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

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

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

Different interpretations and applications of the Russian Tax Code are possible. For example, in relation to Russian taxpayers where outstanding loans are controlled by a foreign company owning directly or indirectly more than 20% of the charter capital of the Russian entity, thin capitalisation limits could be applied to the respective loan interest under certain circumstances even where loans are with other subsidiaries or Russian banks for the purpose of financing Russian business activities. Management do not anticipate any tax exposures will arise in practice.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained.

16 Contingencies, commitments and operating risks (continued)

16.2 Taxation (continued)

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

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

Management have validated that, after consideration of any waivers obtained or the subsequent repayment of outstanding borrowings, the Group was in full compliance with all covenants attached to contracts entered into, including borrowing agreements with lenders, as at 30 June 2010 (31 December 2009: no exceptions). Where requirements were not complied with at certain times during the year, all these instances had been remedied prior to 30 June 2010 (2009: no exceptions).

As at the date of approval of this consolidated condensed interim financial information, management considers that the Group is in full compliance with all covenant requirements.

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

17 Subsequent events

In July 2010, the Group repaid RR 1,107 of RR-denominated bonds following the offer period for redemption.

After the balance sheet date, the Group agreed extensions to existing short-term borrowings for RR 2,300 at market interest rates available until 2012.