

SOLLERS GROUP

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

30 JUNE 2012

Contents

Report on Review of Consolidated Condensed Interim Financial Information

Consolidated Condensed Interim Balance Sheet	4
Consolidated Condensed Interim Statement of Income.....	5
Consolidated Condensed Interim Statement of Cash Flows.....	6
Consolidated Condensed Interim Statement of Changes in Equity	7

Notes to the Consolidated Condensed Interim Financial Information

1	The Group and its operations	8
2	Basis of preparation and significant accounting policies.....	9
3	Adoption of new or revised standards and interpretations and new accounting pronouncements	9
4	Balances and transactions with related parties	9
5	Property, plant and equipment	10
6	Development costs.....	11
7	Inventories.....	11
8	Trade and other receivables.....	11
9	Cash and cash equivalents	12
10	Shareholders' equity.....	12
11	Other long-term liabilities.....	13
12	Advances received and other payables.....	13
13	Short and long-term borrowings	13
14	Sales	13
15	Segment information	13
16	Contingencies, commitments and operating risks	14
17	Principal subsidiaries.....	15
18	Subsequent events.....	15



Report on Review of Consolidated Condensed Interim Financial Information

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

Introduction

We have reviewed the accompanying consolidated condensed interim statement of financial position of Open Joint Stock Company "Sollers" and its subsidiaries (together, the "Sollers Group" or the "Group") as at 30 June 2012 and the related consolidated condensed interim statements of comprehensive 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 came 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".

ZAO PricewaterhouseCoopers Audit

7 September 2012
Moscow, Russian Federation

Sollers Group
Consolidated Condensed Interim Balance Sheet at 30 June 2012
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	Russian Roubles million		Supplementary information US\$ million (Note 2)	
		At 30 June 2012	At 31 December 2011	At 30 June 2012	At 31 December 2011
ASSETS					
Non-current assets:					
Property, plant and equipment	5	11,860	12,527	361	389
Goodwill		1,484	1,484	45	46
Development costs	6	503	524	15	16
Other intangible assets		171	199	5	6
Deferred income tax assets		816	874	25	27
Investments in joint ventures, associates and other financial assets		12,456	11,943	380	371
Other non-current assets		579	596	18	19
Total non-current assets		27,869	28,147	849	874
Current assets:					
Inventories	7	6,130	6,700	187	208
Trade and other receivables	8	9,759	11,034	297	343
Other current assets		191	256	6	8
Cash and cash equivalents	9	2,594	2,957	79	92
Total current assets		18,674	20,947	569	651
TOTAL ASSETS		46,543	49,094	1,418	1,525
LIABILITIES AND EQUITY					
Equity					
Share capital	10	530	530	16	16
Treasury shares	10	-	(653)	-	(20)
Share options	10	56	77	2	2
Share premium	10	4,466	4,893	136	152
Additional paid-in capital	10	1,438	1,438	44	45
Retained earnings		3,166	1,092	96	34
Total capital and reserves attributable to the Company's equity holders		9,656	7,377	294	229
Non-controlling interest		6,712	6,177	205	192
Total equity		16,368	13,554	499	421
Non-current liabilities:					
Long-term borrowings	13	6,095	5,851	186	182
Deferred income tax liabilities		996	1,208	30	38
Other long-term liabilities	11	575	48	17	1
Total non-current liabilities		7,666	7,107	233	221
Current liabilities:					
Trade accounts payable		11,398	13,104	347	407
Advances received and other payables	12	1,400	1,680	43	52
Taxes payable		1,009	2,321	31	72
Warranty and other provisions		444	345	13	11
Short-term borrowings	13	8,258	10,983	252	341
Total current liabilities		22,509	28,433	686	883
Total liabilities		30,175	35,540	919	1,104
TOTAL LIABILITIES AND EQUITY		46,543	49,094	1,418	1,525

Approved for issue and signed on behalf of the Board of Directors on 7 September 2012:


General Director
V. A. Shvetsov


Chief Financial Officer
N. A. Sobolev

The accompanying notes on page 8 to 15 are an integral part of this consolidated condensed interim financial information.

Sollers Group**Consolidated Condensed Interim Statement of Income for the six-month period ended 30 June 2012***(Amounts translated into US Dollars for convenience purposes, Note 2)*

	Note	Russian Roubles million		Supplementary information US\$ million (Note 2)	
		Six-months ended 30 June		Six-months ended 30 June	
		2012	2011	2012	2011
Sales	14	30,967	31,550	1,011	1,104
Cost of sales		(24,356)	(25,746)	(795)	(901)
Gross profit		6,611	5,804	216	203
Distribution costs		(1,110)	(1,228)	(36)	(43)
General and administrative expenses		(2,105)	(2,416)	(69)	(85)
Other operating income/(expenses)		43	(163)	1	(6)
Operating profit		3,439	1,997	112	69
Finance costs, net		(641)	(777)	(21)	(27)
Share of profit of joint ventures and associates		461	-	15	-
Profit before income tax		3,259	1,220	106	42
Income tax expense		(650)	(323)	(21)	(11)
Profit for the period		2,609	897	85	31
Attributable to:					
Equity holders of the Company		2,378	807	77	28
Non-controlling interest		231	90	8	3
Profit for the period		2,609	897	85	31
Weighted average number of shares outstanding during the period (in thousands of shares) – basic		34,033	33,692	34,033	33,692
Weighted average number of shares outstanding during the period (in thousands of shares) – diluted		34,177	34,197	34,177	34,197
Earnings/(loss) per share (in Russian Roubles and US\$) – basic		69.87	23.95	2.26	0.84
Earnings per share (in Russian Roubles and US\$) – diluted		69.58	23.59	2.25	0.83

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 (six months ended 30 June 2011: no items).

Sollers Group
Consolidated Condensed Interim Statement of Cash Flows
for the six-month period ended 30 June 2012

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

	Russian Roubles million		Supplementary information US\$ million (Note 2)	
	Six months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
Cash flows from operating activities				
Profit before income tax	3,259	1,220	106	42
Adjustments for:				
Depreciation	402	733	13	26
Amortisation	92	132	3	5
Share options	9	12	-	-
Provision for impairment of receivables	20	22	1	1
Interest expense	812	1,157	27	40
Share of profit of joint ventures and associates	(449)	-	(15)	-
Other provision movements	(171)	(12)	(6)	-
Development expenses write-off	-	23	-	1
Expenses financed by government grant	(8)	(9)	-	-
Loss on sale of property, plant and equipment and other non-current assets	53	109	2	4
Inventory provision movement	4	19	-	1
Operating cash flows before working capital changes	4,023	3,406	131	120
Decrease/(increase) in accounts receivable and prepayments	1,258	(1,691)	41	(59)
Decrease in inventories	628	493	20	17
(Increase)/decrease in other current assets	22	16	1	1
Decrease in accounts payable, advances received and other payables	(1,234)	(2,532)	(40)	(89)
(Decrease)/increase in taxes payable, other than income tax	(1,155)	594	(38)	21
Cash provided from operations	3,542	286	115	11
Income tax paid	(960)	(266)	(31)	(9)
Interest paid	(804)	(1,161)	(26)	(41)
Net cash from/(used in) operating activities	1,778	(1,141)	58	(39)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(342)	(494)	(11)	(17)
Proceeds from the sale of property, plant and equipment	497	483	16	17
Development costs	(36)	(84)	(1)	(3)
Purchase of intangibles and other non-current assets	(10)	(17)	-	(1)
Additional investments in joint ventures	(65)	-	(2)	-
Dividends received from joint ventures	12	-	-	-
Net cash from/(used in) investing activities	56	(112)	2	(4)
Cash flows from financing activities				
Proceeds from borrowings	4,236	5,202	138	183
Repayment of borrowings	(6,598)	(3,117)	(215)	(109)
Sale/(purchase) of treasury shares, net	182	(121)	6	(5)
Dividends paid to the Group's shareholders	(17)	(4)	(1)	-
Net cash (used in)/from financing activities	(2,197)	1,960	(72)	69
Net (decrease)/increase in cash and cash equivalents	(363)	707	(12)	26
Effect of exchange rate changes on cash and cash equivalents	-	-	(1)	8
Cash and cash equivalents at the beginning of the period	2,957	3,089	92	101
Cash and cash equivalents at the end of the period	2,594	3,796	79	135

The accompanying notes on page 8 to 15 are an integral part of this consolidated condensed interim financial information.

Soilers Group
Consolidated Interim Statement of Changes in Equity for the six-month period ended 30 June 2012
(in millions of Russian Roubles)

	Share capital	Treasury shares	Share options	Share premium	Additional paid-in capital	Retained earnings	Attributable to shareholders of the Company	Non-controlling interest	Total equity
Balance at 31 December 2010	530	(724)	77	5,062	1,438	(3,144)	3,239	5,719	8,958
Profit for the period	-	-	-	-	-	807	807	90	897
Total recognised income for the reporting period	-	-	-	-	-	807	807	90	897
Treasury shares disposal	-	465	-	-	-	-	465	-	465
Treasury shares acquisition	-	(135)	-	-	-	-	(135)	-	(135)
Share options	-	-	(7)	(276)	-	-	(283)	-	(283)
Balance at 30 June 2011	530	(394)	70	4,786	1,438	(2,337)	4,093	5,809	9,902
Balance at 31 December 2011	530	(653)	77	4,893	1,438	1,092	7,377	6,177	13,554
Profit for the period	-	-	-	-	-	2,378	2,378	231	2,609
Total recognised income for the reporting period	-	-	-	-	-	2,378	2,378	231	2,609
Change of interest in subsidiary (Note 17)	-	-	-	-	-	(304)	(304)	304	-
Treasury shares disposal	-	733	-	(458)	-	-	275	-	275
Treasury shares acquisition	-	(80)	-	-	-	-	(80)	-	(80)
Share options	-	-	(21)	31	-	-	10	-	10
Balance at 30 June 2012	530	-	56	4,466	1,438	3,166	9,656	6,712	16,368

The accompanying notes on page 8 to 15 are an integral part of this consolidated condensed interim financial information.

1 The Group and its operations

The consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" for the six-month period ended 30 June 2012 for OJSC Sollers (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, and Vladivostok in the Russian Federation.

On 1 October 2011 the Group has established the joint venture with Ford with production assets located in Vsevolozhsk in the St.Petersburg region, Naberezhnye Chelny and Elabuga in the Republic of Tatarstan. Ford-Sollers joint venture is intended for exclusive production and distribution of Ford branded vehicles in Russia. By the end of 2011 the Group established the joint venture with Japanese Mitsui&Co., Ltd located in Vladivostok, where Toyota vehicles are planned to be produced. During the second half 2012 the Group intends to finalize the foundation of the joint venture with Mazda Motor Corporation in Vladivostok also (Note 18) for production of Mazda SUVs and passenger cars.

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 "Zavolzhiy Motor Works" (OAO "ZMZ"), which were acquired through purchases close to the end of 2000, in exchange for the Company's share capital.

The immediate parent company is 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 MICEX-RTS.

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

This consolidated condensed interim financial information was approved for issue by the General Director and Chief Financial Officer on 7 September 2012.

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. Starting from 2011 the Russian economy demonstrated a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector. In particular, a number of these factors have helped the automotive industry in general to recover and sales of new vehicles in Russia have significantly increased during the year ended 31 December 2011 and first half 2012 to date compared to the previous periods, although volumes are yet to return to the peak levels achieved prior to the onset of the financial crisis.

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 which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard No. 34, "Interim financial reporting" ("IAS 34"). This consolidated condensed interim financial information does not contain all the information required for the preparation of the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2011 prepared in accordance with International Financial Reporting Standards ("IFRS"). The 31 December 2011 consolidated balance sheet data has been derived from audited financial statements for the year ended 31 December 2011.

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies

The accounting policies adopted and critical accounting estimates are consistent with those of the annual consolidated financial statements for the year ended 31 December 2011. The Group has adopted all new standards and interpretations that were effective from 1 January 2012. The impact of the adoption of these new standards and interpretations has not been significant with respect to this consolidated condensed interim financial information.

2.3 Supplementary information

U.S. Dollar ("US\$") amounts shown in the primary statements are translated from the RR as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 30 June 2012 of Russian Rouble 32.8169 = US\$1 (at 31 December 2011 of Russian Rouble 32.1961 = 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 2012 of Russian Rouble 30.6390 = US\$1 and 30 June 2011 of Russian Rouble 28.5600 = US\$1. The US\$ amounts are presented solely for the convenience of the reader, and should not be treated as a representation that RR amounts have been or could have been converted to the US\$ at this rate, nor that the US\$ amounts present fairly the financial position and results of operations and cash flows of the Group in accordance with IFRS.

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

3 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements

There are no new IFRSs or IFRICs that are effective for the first time for this interim period that would be expected to have a material impact on this Group.

4 Balances and transactions with related parties

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

4.1 Balances and transactions with related parties

Balances with related parties of the Group as at 30 June 2012 and 31 December 2011 consist of the following:

Balances	Newdeal Investments Limited	Members of the Board of Directors and Management	Other related parties	Total
	Parent company	Significant influence	Associates and joint ventures	
As at 30 June 2012				
Trade accounts receivable	-	-	8	8
Other accounts receivable	-	12	43	55
Trade accounts payable	-	-	1	1
As at 31 December 2011				
Trade accounts receivable	-	-	237	237
Other accounts receivable	-	-	177	177
Advances received	-	-	10	10
Trade accounts payable	-	-	32	32

4 Balances and transactions with related parties (continued)

4.1 Balances and transactions with related parties (continued)

Transactions with related parties of the Group for the six-month periods ended 30 June 2012 and 30 June 2011 consist of the following:

Nature of relationship	Newdeal Investments Limited	Members of the Board of Directors and Management	Other related parties	Total
	Parent company	Significant influence	Associates and joint ventures	
Six-month period ended 30 June 2012				
Sales revenue	-	-	113	113
Purchases of services	-	-	5	5
Share options	-	14	-	14
Capital transaction	247	-	-	247
Six-month period ended 30 June 2011				
Sales revenue	-	-	123	123
Share options	-	12	-	12
Capital transaction	150	-	-	150

4.2 Directors' compensation

The compensation paid to the nine members of key management (2011: 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 71 for the six-month period ended 30 June 2012 (RR 140 for the six-month period ended 30 June 2011); and
- expenses recognised under equity-settled, share based compensation amounting to RR 9 for the six-month period ended 30 June 2012 (RR 9 for the six-month period ended 30 June 2011).

During the reporting period ended 30 June 2012, 150,000 options were exercised at an exercise price of US\$ 3 (the reporting period ended 30 June 2011: 138,000 options at an exercise price US\$ 3) by members of key management.

5 Property, plant and equipment

Acquisitions of property, plant, and equipment for the period amounted RR 345 (for six-month period ended 30 June 2011: RR 591). Disposals of property, plant, and equipment for the period amounted RR 546 (for six-month period ended 30 June 2011: RR 583).

Bank borrowings are secured on properties as at 30 June 2012 to the value of RR 3,513 (31 December 2011: RR 4,773); see Note 13.

During six-month period ended 30 June 2012 the Group capitalised borrowing costs of RR 55 (six-month period ended 30 June 2011: RR 120) in the cost of the qualifying assets, annual capitalisation rate was 9% (six-month period ended 30 June 2011: 10%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 30 June 2012, the cost of the land amounted to RR 690 (31 December 2011: RR 686).

Sollers Group**Notes to the Consolidated Condensed Interim Financial Information at 30 June 2012***(in millions of Russian Roubles - RR)***6 Development costs**

	30 June 2012	30 June 2011
Cost		
Balance at the beginning of the period	1,401	1,748
Additions	36	85
Disposal	-	(23)
Balance at the end of the period	1,437	1,810
Accumulated amortisation and impairment		
Balance at the beginning of the period	(877)	(973)
Amortisation charge	(57)	(71)
Balance at the end of the period	(934)	(1,044)
Net book value	503	766

7 Inventories

	30 June 2012	31 December 2011
Raw materials	2,918	2,173
Less: provision	(34)	(33)
Total raw materials	2,884	2,140
Work in progress	1,150	1,256
Total work in progress	1,150	1,256
Finished products	2,160	3,364
Less: provision	(64)	(60)
Total finished products	2,096	3,304
Total	6,130	6,700

Inventories of RR 84 (31 December 2011: RR 84) have been pledged as security for borrowings, see Note 13.

8 Trade and other receivables

	30 June 2012	31 December 2011
Trade receivables	8,464	9,336
Less: provision for impairment	(151)	(151)
Total financial assets	8,313	9,185
Other receivables	571	575
Less: provision for impairment	(55)	(70)
Total other receivables	516	505
Advances to suppliers, other than for equipment	459	548
Less: provision for impairment	(17)	(3)
Total advances to suppliers, other than for equipment	442	545
Taxes prepayments	185	94
VAT recoverable, net	281	680
Other prepayments	22	25
Total	9,759	11,034

The carrying value of accounts receivable and prepayments as at 30 June 2012 and 31 December 2011 is approximately equal to their fair value.

At 30 June 2012, trade receivables arising from revenue contracts of RR 3,514 (31 December 2011: RR 3,923) were pledged as a security for a bill of credit.

Sollers Group**Notes to the Consolidated Condensed Interim Financial Information at 30 June 2012***(in millions of Russian Roubles - RR)***9 Cash and cash equivalents**

	30 June 2012	31 December 2011
Cash on hand and balances with banks	1,657	1,393
Cash deposits	930	1,564
Letters of credit	7	-
Total	2,594	2,957

The carrying value of cash and cash equivalents as at 30 June 2012 and 31 December 2011 is approximately equal to their fair value.

10 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 2011	34,270	799	530	(653)	4,893	1,438
At 30 June 2012	34,270	-	530	-	4,466	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2011: 82,074 thousand). The nominal value of all shares is 12.5 roubles per share.

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit.

For the six-month period ended 30 June 2012, the net statutory loss for the Company as reported in the published interim statutory reporting forms was RR 857 (loss for the six-month period ended 30 June 2011: RR 769) and the closing balance of the accumulated profit including the current reporting period net statutory profit as of 30 June 2012 totalled to RR 4,168 (31 December 2011: RR 5,008). 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 2012 or during the year ended 31 December 2011.

During the six-month period ended 30 June 2012, the Group disposed of 1,047 thousand ordinary shares and acquired 248 thousand ordinary shares (six month ended 30 June 2011 the Group disposed of 513 thousand ordinary shares and acquired 228 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. During the six-month period ended 30 June 2012, 248,000 options were exercised (six-month period ended 30 June 2011, 228,000 options were exercised) and 94,000 options were forfeited.

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.

Sollers Group**Notes to the Consolidated Condensed Interim Financial Information at 30 June 2012***(in millions of Russian Roubles - RR)***11 Other long-term liabilities**

In May 2012 the Group's subsidiary Sollers-Isuzu signed a Rescheduling agreement with a major supplier. The debt was rescheduled till 2015. Accordingly the amount of RR 536 was reclassified into long-term liabilities.

	30 June 2012	31 December 2011
Long-term accounts payable	536	-
Government grant	39	48
Total other long-term liabilities	575	48

12 Advances received and other payables

	30 June 2012	31 December 2011
Liabilities for purchased property, plant and equipment	81	151
Dividend payable	17	34
Accrued liabilities and other creditors	98	56
Total financial liabilities within advances and other payables	196	241
Accrued employee benefit costs	315	268
Vacation and bonus accrual	549	819
Advances received	340	352
Total advances received and other payables	1,400	1,680

13 Short and long-term borrowings

As at 30 June 2012, short-term borrowings totalled RR 8,258 (31 December 2011: RR 10,983), including short-term loans of RR 8,084 (31 December 2011: RR 10,786) and interest accrued on loans of RR 174 (31 December 2011: RR 197).

As at 30 June 2012, long-term borrowings totalled RR 6,095 (31 December 2011: RR 5,851). As at 30 June 2012 the outstanding amount of long-term borrowings included bank loans only (31 December 2011: bank loans of RR 3,497 and bonds of RR 2,354).

Property, plant and equipment and inventories of RR 3,597 (31 December 2011: RR 4,857) and 100% shares of the Group's subsidiary OOO "Sollers-Dal'niy Vostok" are pledged as collateral for long-term and short-term borrowings see Notes 5 and 7.

14 Sales

	Six-month period ended 30 June 2012	Six-month period ended 30 June 2011
Vehicles	26,130	26,899
Automotive components	2,507	2,733
Services	682	578
Engines	820	634
Other sales	828	706
Total	30,967	31,550

15 Segment information

The Group has adopted 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.

In 2010, the Group began to restructure its retail network following changes to the Group's distribution strategy. As a result of these changes, in 2010 the retail segment has become immaterial for review by the Chief Executive Officer and thus is no longer disclosed as a separate segment but instead included within the automotive segment.

In 2011 the Group began to restructure its automotive and engine segments after UAZ has become the major customer of ZMZ. The sales of engine segment became immaterial in terms of segment reporting and thus is no longer disclosed separately.

15 Segment information (continued)

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

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

Performance is evaluated regularly on the basis of operating profit or loss. Accordingly, foreign currency gains/ losses, interest income/ expenses, income tax charges and information on assets and liabilities are excluded. Revenues from external customers are presented in Note 14. Management considers that across the range of vehicles and models produced; these are considered as similar products. During the six months ended 30 June 2012 and 30 June 2011 the Group did not have transactions with a single external customer that amounted to ten per cent or more of the Group's revenues.

Inter-group 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 2012, the Group had contractual commitments of RR 133 for the purchase of property, plant and equipment from third parties (31 December 2011: RR 129).

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 preceding 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. As Russian tax legislation does not provide definitive guidance in certain areas, other tax matters including assessment of tax bases could also have different interpretations. Nonetheless management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

Management is in process of preparation of the required documentation on the transfer pricing by 20 May 2013, which will provide sufficient evidence to support the Group's tax positions and related tax returns. Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated. Management estimates that possible exposure in relation to risks referred to above could substantially reduce recognised losses carried forward as at 31 December 2011. However, management do not anticipate any tax exposures will arise in practice.

16 Contingencies, commitments and operating risks (continued)

16.3. 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.

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

As at 30 June 2012 the Group was in full compliance with all covenants (31 December 2011: no exceptions).

16.5. 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 Principal subsidiaries

During the reporting period ended 30 June 2012, as part of an internal Group reorganisation, the Group's effective interest in OAO "Zavolzhiy Motor Works" was reduced although the Group retained a majority effective interest and there were no changes in voting rights. As a result of this reorganisation, an amount of RR 304 is recognised in the Statement of Changes in Equity.

18 Subsequent events

18.1 Borrowings

In July 2012 the Group repaid ahead of schedule VEB long-term borrowing amounted to RR 1,350.

In July 2012 the Group obtained a new long-term credit facilities from KB Guarantee Bank in amount of RR 470.

18.2 Joint ventures

Sollers-Isuzu JV. In May 2012 the Group entered to the agreement with intention of partial shares disposal in CJSC Sollers-Isuzu. By the reporting date a number of precedent conditions were yet to be achieved. As of the date when the financial information was authorised for issue the deal was finalised and 16% stake of CJSC Sollers-Isuzu was disposed off. By the end of 2012, the Group plans recognising this investment as 50%-50% joint venture accounted under equity method.

Mazda-Sollers JV. In August 2012 the Group paid its contribution to share capital of joint venture with Mazda Motor Co in amount of RR 750.