JSC "UAZ"

Financial Statements

31 December 2002

Contents

ZAO PricewaterhouseCoopers Audit
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AUDITORS' REPORT

To the shareholders JSC "UAZ":

1. We have audited the accompanying balance sheet of JSC "UAZ" (the "Company") as of 31 December 2002 and the related statements of operations, of cash flows and of changes in shareholders' equity for the year then ended, and the opening balance sheet at the date of transition to International Financial Reporting Standards as of 31 December 2000 as expressed in the equivalent purchasing power of the Russian Rouble (RR) at 31 December 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the accompanying financial statements, expressed in the equivalent purchasing power of the Russian Rouble at 31 December 2002, present fairly, in all material respects, the financial position of the Company as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

4. As explained in Note 2, US dollar (US$) amounts presented in the financial statements are translated from Russian Roubles (RR) as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 31 December 2002 of RR 31.78 to US$ 1. The US$ amounts are presented solely for the convenience of the reader and should not be construed as a representation that the RR amounts have been or could have been converted to US$ at this rate, nor that the US$ amounts present fairly the financial position of the Company or its results of operations or cash flows in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Moscow, Russia
15 September 2003

(in millions of Russian Roubles, Note 2)

	Note	RR million At 31 December			Unaudited US$ thousand At 31 December	
		2002	**2001**	2000	**2002**	**2001**
ASSETS						
Current assets:						
Cash and cash equivalents	5	34	7	258	1,070	220
Available-for-sale investments	9	95	5	55	2,989	157
Accounts receivable and prepayments	6	600	944	1,065	18,880	29,704
Inventories	7	1,349	1,702	2,249	42,448	53,556
Total current assets		**2,078**	**2,658**	**3,627**	**65,387**	**83,637**
Non-current assets:						
Property, plant and equipment	8	5,076	5,267	5,605	159,722	165,734
Available-for-sale investments	9	38	45	12	1,196	1,416
Other assets		1	1	4	31	31
Total non-current assets		**5,115**	**5,313**	**5,621**	**160,949**	**167,181**
Total assets		**7,193**	**7,971**	**9,248**	**226,336**	**250,818**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Accounts payable		794	696	1,765	24,984	21,901
Taxes payable	13	303	314	4,131	9,534	9,880
Short-term borrowings	11	1,094	1,602	532	34,424	50,409
Provision for warranties	12	24	29	30	755	913
Advances received and accrued expenses	10	432	567	1,099	13,593	17,841
Total current liabilities		**2,647**	**3,208**	**7,557**	**83,290**	**100,944**
Non-current liabilities:						
Long-term borrowings	11	1,154	1,117	795	36,312	35,148
Long-term taxes payable	13	329	1,077	-	10,352	33,889
Deferred tax liability	22	647	654	958	20,359	20,579
Total non-current liabilities		**2,130**	**2,848**	**1,753**	**67,023**	**89,616**
Total liabilities		**4,777**	**6,056**	**9,310**	**150,313**	**190,560**
Shareholders' equity:	15					
Share capital		7,445	7,445	7,445	234,267	234,267
Additional paid-in capital		1,019	1,019	799	32,064	32,064
Retained losses		(6,048)	(6,549)	(8,306)	(190,308)	(206,073)
Total shareholders' equity/(deficit)		**2,416**	**1,915**	**(62)**	**76,023**	**60,258**
Total liabilities and shareholders' equity		**7,193**	**7,971**	**9,248**	**226,336**	**250,818**

General Director
V.V. Klochai

Chief Accountant
T.I. Levina

15 September 2003

(in millions of Russian Roubles, Note 2)

		RR million		Unaudited US$ thousand	
		Year ended 31 December		Year ended 31 December	
	Note	2002	2001	2002	2001
Sales	16	8,907	8,879	280,271	279,390
Cost of sales	17	(8,026)	(8,767)	(252,549)	(275,865)
Gross profit		**881**	**112**	**27,722**	**3,525**
Distribution costs	18	(345)	(205)	(10,856)	(6,451)
General and administrative expenses	19	(840)	(736)	(26,432)	(23,159)
Research and development expenses		-	(25)	-	(787)
Other operating income/(expenses)	20	169	(4)	5,318	(126)
Operating loss		**(135)**	**(858)**	**(4,248)**	**(26,998)**
Interest expense, net		(514)	(309)	(16,174)	(9,723)
Net foreign exchange gain/(loss)		(1)	-	(31)	-
Monetary gain	2	555	980	17,464	30,837
Gains on restructuring of tax debts and other payables	14	599	1,646	18,848	51,794
Income before taxation		**504**	**1,459**	**15,859**	**45,910**
Income tax credit/(expense)	22	(3)	298	(94)	9,377
Net income		**501**	**1,757**	**15,765**	**55,287**
Weighted average number of shares outstanding during the year (thousands)	15	1,667,346	1,667,346	1,667,346	1,667,346
Earnings per share (in RR and US$)	23	0.30	1.05	0.01	0.03

(in millions of Russian Roubles, Note 2)

	Note	RR million Year ended 31 December 2002	RR million Year ended 31 December 2001	Unaudited US$ thousand Year ended 31 December 2002	Unaudited US$ thousand Year ended 31 December 2001
Cash flows from operating activities					
Income before taxation		**504**	**1,459**	**15,859**	**45,910**
Adjustments for:					
Depreciation	8	418	409	13,153	12,870
Provision for impairment of receivables		1	22	31	692
Gains on restructuring of tax debts and other payables	14	(599)	(1,646)	(18,848)	(51,794)
Interest expense		514	309	16,174	9,723
Provisions for warranties	12	(6)	4	(189)	126
Inflation effect on non-operating items		(148)	30	(4,657)	944
Operating cash flows before working capital changes		**684**	**587**	**21,523**	**18,471**
Decrease in accounts receivable and prepayments		342	99	10,761	3,115
Decrease in inventories		354	547	11,139	17,212
Decrease (increase) in other current assets		(90)	50	(2,832)	1,573
Decrease in accounts payable, advances received and accrued expenses		(93)	(642)	(2,926)	(20,201)
Increase (decrease) in taxes payable, other than income		13	(1,082)	409	(34,046)
Cash provided from/(used in) operations		**1,210**	**(441)**	**38,074**	**(13,876)**
Income taxes paid		(9)	(17)	(283)	(535)
Interest paid		(224)	(182)	(7,048)	(5,727)
Net cash provided from/(used in) operating activities		**977**	**(640)**	**30,743**	**(20,138)**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(226)	(72)	(7,111)	(2,266)
Purchase of available-for-sale investments		-	(29)	-	(913)
Proceeds from the sale of available-for-sale investments		7	-	220	-
Net cash used in investing activities:		**(219)**	**(101)**	**(6,891)**	**(3,179)**
Cash flows from financing activities:					
Proceeds from borrowings		3,204	3,173	100,818	99,843
Repayment of borrowings and long-term taxes payable		(4,083)	(2,653)	(128,477)	(83,480)
Effect of inflation on financing activities		191	169	6,010	5,318
Net cash provided from/(used in) financing activities		**(688)**	**689**	**(21,649)**	**21,681**
Effect of inflation on cash		(43)	(199)	(1,353)	(6,262)
Net increase/(decrease) in cash and cash equivalents		**27**	**(251)**	**850**	**(7,898)**
Cash and cash equivalents at the beginning of the period		**7**	**258**	**220**	**8,118**
Cash and cash equivalents at the end of the period	5	**34**	**7**	**1,070**	**220**

(in millions of Russian Roubles, Note 2)

	Share capital	Additional paid-in capital	Retained losses	Total shareholders' equity/(deficit)
Balance at 31 December 2000	**7,445**	**799**	**(8,306)**	**(62)**
Contribution from shareholders (Note 11)		220	-	220
Net income for the year	-	-	1,757	1,757
Balance at 31 December 2001	**7,445**	**1,019**	**(6,549)**	**1,915**
Net income for the year	-	-	501	501
Balance at 31 December 2002	**7,445**	**1,019**	**(6,048)**	**2,416**

	Share capital	Additional paid-in capital	Retained losses	Total shareholders' equity/(deficit)
Unaudited **US$ thousand**				
Balance at 31 December 2001	**234,267**	**32,064**	**(206,073)**	**60,258**
Balance at 31 December 2002	**234,267**	**32,064**	**(190,308)**	**76,023**

1 JSC "UAZ" and its operations

JSC "UAZ" (the "Company") principal activities include the manufacture and sale of passenger automobiles, light trucks and minibuses. The Company's manufacturing facilities are primarily based in the City of Ulyanovsk in Russia.

Prior to 31 December 2001 the Company was directly controlled by Severstal Group. In May 2002 the controlling interest was transferred to a newly established JSC "Severstal-auto", which is controlled by shareholders of Severstal Group.

The Company was incorporated as an open joint stock company in the Russian Federation in October 1992. On the date of incorporation the majority of assets and liabilities previously managed by the state conglomerate "UAZ" were transferred to the Company. At 31 December 2002 the Company employed 23,678 employees (2001: 25,555). JSC "UAZ" is registered at Moskovskoe shosse, 8, Ulyanovsk, 432008, Russian Federation.

2 Basis of presentation of the financial statements

These financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS"), including International Accounting Standards and Interpretations issued by the IASB.

The Company maintains its accounting records in Russian Roubles ("RR") and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. These financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to the fair value of financial instruments, the impairment provisions, deferred profits taxes, warranty provision, vacation accrual and the provision for impairment of receivables. Actual results could differ from these estimates.

First time application of IFRS

The Company has prepared IFRS financial statements for the first time as at and for the year ended 31 December 2002. The Company has early adopted the provisions of IFRS 1 which require corresponding figures to be presented and an opening IFRS balance sheet be prepared as at the date of transition to IFRS of 31 December 2000. Although not required by IFRS 1, this balance sheet was presented for the convenience of the reader.

The Company has elected to take an exemption under IFRS 1 and used fair values for all property, plant and equipment as at date of transition to IFRS.

Accounting for the effect of inflation

The adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation include the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Corresponding figures for the year ended 31 December 2001 have also been restated for the changes in the general purchasing power of the RR at 31 December 2002.

(in millions of Russian Roubles, Note 2)

2 Basis of presentation of the financial statements (continued)

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index (“CPI”), published by the Russian State Committee on Statistics (“Goscomstat”), and from indices obtained from other sources for years prior to 1992. The indices used to restate the financial statements, based on 1988 prices (1988 = 100) for the five years ended 31 December 2002, and the respective conversion factors, are:

Year	Indices	Conversion Factor
1998	1,216,400	2.24
1999	1,661,481	1.64
2000	1,995,937	1.37
2001	2,371,572	1.15
2002	2,730,154	1.00

The main guidelines followed in restating the financial statements are:

- All amounts, including corresponding figures, are stated in terms of the measuring unit current at 31 December 2002;
- Monetary assets and liabilities held at 31 December 2002 are not restated because they are already expressed in terms of the monetary unit current at 31 December 2002;
- Non-monetary assets and liabilities (those balance sheet items that are not expressed in terms of the monetary unit current at 31 December 2002) and components of shareholders’ equity are restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to the balance sheet date;
- All items in the statement of operations and cash flows are restated by applying the change in the general price index from the dates when the items were initially transacted to the balance sheet date; and
- Gains or losses that arise as a result of holding monetary assets and liabilities for the period are included in the statement of operations as a monetary gain or loss.

U.S. Dollar Translation

U.S. dollar (“US$”) amounts shown in the accompanying 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 31 December 2002 of RR 31.78 = US$1. The US$ amounts are presented solely for the convenience of the reader, and should not be construed as a representation that RR amounts have been or could have been converted to the US$ at this rate, nor that the US$ amounts present fairly the financial position and results of operations and cash flows of the Company in accordance with IFRS.

3 Summary of significant accounting policies

3.1 Investments

The Company has classified investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, as available-for-sale. These are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Company. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of operations in the period in which they arise.

(in millions of Russian Roubles, Note 2)

3 Summary of significant accounting policies (continued)

3.2 Cash and cash equivalents

Cash comprises cash on hand and cash held on demand with banks. Cash equivalents comprise short-term investments which are readily converted to cash, are not subject to significant risk of changes in value and mature within three months of the balance sheet date.

3.3 Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables and includes value added taxes. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

3.4 Value added tax

Value added tax related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a net basis and disclosed separately from the actual VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

3.5 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs and administrative overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Provision is made for potential losses on obsolete or slow-moving inventories taking into account their expected use and future realisable value.

3.6 Property, plant and equipment

Property, plant and equipment has been recorded at fair values as at 31 December 2000, which is the Company's transition date to IFRS (Note 2). Subsequently, the Company has applied the provisions of IAS 29 and adjusted the fair value of property plant and equipment for the changes in general purchasing power of the RR.

Property, plant and equipment acquired subsequent to 31 December 2000 has been recorded at purchase or construction cost restated to the equivalent purchasing power of the RR at 31 December 2002. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of operations. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Depreciation is calculated on the amounts of property, plant and equipment on a straight-line basis. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	35 to 45
Plant and machinery	15 to 25
Other	5 to 12

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

3 Summary of significant accounting policies (continued)

3.7 Borrowings and restructured taxes

Borrowings are recognised initially at cost, which is the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. All borrowing costs are expensed. Interest expense, which is currently due, is recorded within other payables, whilst other interest that accrues is included within the borrowings themselves.

3.8 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.9 Foreign currency transactions

Monetary assets and liabilities, which are held by the Company and denominated in any currency other than RR (i.e. foreign currencies) at 31 December 2002, are translated into the RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of operations.

At 31 December 2002, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (US$) 1=RR 31.78 (31 December 2001: US$1= 30.14). 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.

3.10 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

The Company recognises the estimated liability to repair or replace products sold but that are still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements. Estimated costs of future product warranties are fully provided for at the time of the sale of products.

3.11 Shareholders' equity

Share capital

Ordinary shares and non-cumulative, non-redeemable preferred shares are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

3 Summary of significant accounting policies (continued)

3.11 Shareholders' equity (continued)

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

3.12 Revenue recognition

Revenues on sales of vehicles, automotive components and other products are recognised when they are dispatched to customers as this is the date that the risks and rewards of ownership are transferred to the customers.

Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

3.13 Employee benefits

Social costs

The Company incurs employee costs related to the provision of benefits such as health services and recreational activities. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to other operating expenses in the statement of operations.

Pension costs

In the normal course of business the Company contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the statement of operations, however, separate disclosures are not provided as these costs are not significant.

3.14 Earnings per share

Preference shares are considered to be participating shares, as their dividend may not be less than that given with respect to ordinary shares. An earning per share is determined by dividing the net income attributable to ordinary and preference shareholders by the weighted average number of participating ordinary and preference shares outstanding during the reporting year.

4 Balances and transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or 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.

The transactions with related parties noted below are made in the ordinary course of business on normal commercial terms, except for interest-free borrowings received from Severstal Group companies.

(in millions of Russian Roubles, Note 2)

4 Balances and transactions with related parties (continued)

Balances and transactions with related parties of the Company as at and for the years ended 31 December 2002 and 2001 consist of the following:

4.1 Balances with related parties:

Balance sheet caption	Relationship	**2002**	**2001**	2000
Trade receivables, gross:	Severstal Group companies	15	37	10
Long-term borrowings:	Severstal Group companies	1,154	1,116	795
Short-term borrowings:	Severstal Group companies	447	516	-
Trade payables current:	Severstal Group companies	81	111	578
Trade payables current:	Severstal-auto Group companies	86	9	15

4.2 Transactions with related parties:

Statement of operations caption	Relationship	**2002**	**2001**
Sales:	Severstal Group companies	65	173
Purchases:	Severstal Group companies	567	641
Purchases:	Severstal-auto Group companies	825	661

4.3 Directors' compensation:

Compensation paid to directors 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.

Additional fees, compensation and allowances to directors for their services in that capacity, and also for attending board meetings and board committees' meetings were not paid.

Total directors' compensation included in general and administrative expenses in the statement of operations amounted to RR 1 for the year ended 31 December 2002 (2001: RR 2).

5 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2002	**2001**	2000
RR denominated cash on hand and balances with banks	33	7	75
Foreign currency denominated balances with banks	1	-	4
Short-term bank bills of exchange	-	-	179
	34	**7**	258

6 Accounts receivable and prepayments

	2002	**2001**	2000
Trade receivables (net of provision for impairment of RR 19, RR 21 and RR 13 as at 31 December 2002, 2001 and 2000, respectively)	308	350	102
VAT recoverable	115	246	278
Advances to suppliers (net of provision for impairment of RR 12, RR 15 and RR 19 as at 31 December 2002, 2001 and 2000, respectively)	81	102	373
Other receivables (net of provision for impairment of RR 9, RR 10 and RR 11 as at 31 December 2002, 2001 and 2000, respectively)	73	240	306
Prepayments	23	6	6
	600	**944**	1,065

Included within VAT recoverable is RR 54 of deferred VAT payable (2001: RR 28).

(in millions of Russian Roubles, Note 2)

7 Inventories

Inventories consist of the following:

	2002	2001	2000
Raw materials	868	916	1,291
Work in progress	263	294	386
Finished products	243	614	685
Obsolescence provision	(25)	(122)	(113)
	1,349	**1,702**	2,249

Inventories of RR 621 (2001: RR 1,257) have been pledged as security for borrowings.

As at 31 December 2002 and 2001 finished goods of RR nil and RR 438 are recorded at net realisable value, respectively.

8 Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Land and buildings	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 31 December 2000	2,631	2,290	322	463	5,706
Additions	-	-	-	71	71
Disposals	-	(18)	(12)	-	(30)
Transfers	72	122	23	(217)	-
Balance at 31 December 2001	**2,703**	**2,394**	**333**	**317**	**5,747**
Additions	-	-	-	227	227
Disposals	(1)	(11)	(13)	-	(25)
Transfers	2	107	50	(159)	-
Balance at 31 December 2002	**2,704**	**2,490**	**370**	**385**	**5,949**
Accumulated Depreciation					
Balance at 31 December 2000	(34)	(57)	(10)	-	(101)
Depreciation expense for 2001	(139)	(229)	(41)	-	(409)
Disposals	-	18	12	-	30
Balance at 31 December 2001	**(173)**	**(268)**	**(39)**	**-**	**(480)**
Depreciation expense for 2002	(139)	(234)	(45)	-	(418)
Disposals	1	11	13	-	25
Balance at 31 December 2002	**(311)**	**(491)**	**(71)**	**-**	**(873)**
Net Book Value					
Balance at 31 December 2000	2,597	2,233	312	463	5,605
Balance at 31 December 2001	**2,530**	**2,126**	**294**	**317**	**5,267**
Balance at 31 December 2002	**2,393**	**1,999**	**299**	**385**	**5,076**

Bank borrowings are secured on properties as at 31 December 2002 to the value of RR 658 (2001: RR 826); see Note 11.

The assets transferred to the Company upon privatisation did not include the land on which the Company's factories and buildings, comprising the Company's principal manufacturing facilities, are situated. In 2000 the Company exercised the option to purchase this land having filed an application to the Property Fund of the Ulyanovsk Region. At 31 December 2002 cost of the land amounts to RR 871.

(in millions of Russian Roubles, Note 2)

9 Available-for-sale investments

Available-for-sale short-term investments mainly represents veksels of third parties received from customers as payment for goods or services provided. They have a turnover period of less than a year and have been used for further settlements for electricity and supply of components.

During 2002 and 2001 the following movements in long-term available-for-sale investments took place:

	2002	2001
Balance at 1 January	45	12
Additions	-	33
Disposals	(7)	-
Balance at 31 December	**38**	**45**

Available-for-sale long-term investments comprise principally non-marketable equity securities, which are not publicly traded or listed on the Russian stock exchange and, due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the discounted operating cash flows of the investee.

10 Advances received and accrued expenses

	2002	2001	2000
Advances from customers	181	212	630
Vacation accrual	106	85	81
Salaries payable	87	99	81
Other	58	171	307
	432	**567**	1,099

Included in Advances received and accrued expenses at 31 December 2001 was a balance of RR 174 related to old payables that the Company incurred back in the late 1980s-1990s. In 2002, after completing the required period of three years under Russian law, the Company wrote off the payables resulting in a gain of RR 174 (see Note 20).

In the year ended 31 December 2002 approximately 3% (2001: 1%) of the Company's settlements of accounts payable and accrued charges were settled via non-cash settlements.

11 Borrowings

Short-term borrowings

As at 31 December 2002 short-term borrowings consist of bank loans amounting to RR 647 (2001: RR 1,051) and of a payable-on-demand interest-free loan from Severstal Group amounting to RR 447 (2001: RR 551). As at 31 December 2002 and 2001 bank loans are represented by rouble-denominated loans from domestic financial institutions at fixed interest rates of 16.0% and 21.0% on average, respectively.

As at 31 December 2002 and 2001 loans for RR 647 and RR 1,051 respectively, inclusive of short-term borrowings, are guaranteed by collateral of inventories and equipment.

Long-term borrowings

Long-term debt consists of promissory notes held by Severstal Group amounting to RR 1,154 at 31 December 2002 (2001: RR 1,116).

Long-term debt is repayable as follows:

	2002	2001	2000
1 to 2 years	1,154	-	-
2 to 3 years	-	1,117	-
3 to 4 years	-	-	795
	1,154	**1,117**	795

(in millions of Russian Roubles, Note 2)

11 Borrowings (continued)

During 2000 the Company received a long-term rouble-denominated interest-free loan from Severstal Group in the amount of RR 1,594. This loan was recorded at cost, which is the fair value of proceeds received. The fair value of the proceeds received calculated using the discounted cash flows method, at a 22.0% discount rate, is RR 795. The resulting discount was credited to equity (additional paid-in capital) as a contribution by shareholders.

In 2001 the Company received an additional long-term rouble-denominated interest-free loan from Severstal Group in the amount of RR 540. This loan was recorded at cost, which is the fair value of proceeds received. The fair value of the proceeds received calculated using the discounted cash flows method, at a 19.0% discount rate, is RR 220. The resulting discount was credited to equity (additional paid-in capital) as a contribution by shareholders.

The increase in the carrying amount of these shareholders' loans in subsequent years will be recognized in the statement of operations as interest expense.

As at 31 December 2002, fair value of this long-term debt was estimated to be RR 1,194 using a current market interest rate of 17.0%. As at 31 December 2001, carrying value of these liabilities approximates their fair value.

12 Provision for warranties

During 2002 and 2001 the following movements of the warranty provision took place:

	Warranties
Balance at 31 December 2000	**30**
Additional provision	29
Utilised in the year	(30)
Balance at 31 December 2001	**29**
Additional provision	24
Utilised in the year	(29)
Balance at 31 December 2002	**24**

The Company gives one-year warranty on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RR 24 (2001: RR 29) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and replacements.

13 Taxes payable

Current taxes payable

Current taxes payable are comprised of the following:

	2002	**2001**	2000
Current portion of taxes restructured to long-term	180	157	-
Road users' and other taxes	72	142	1,352
Value-added tax	31	-	656
Income tax payable	13	-	11
Tax penalties and interest	7	13	1,803
Excise	-	2	309
	303	**314**	4,131

The Company had no tax liabilities past due at 31 December 2002 and 2001.

(in millions of Russian Roubles, Note 2)

13 Taxes payable (continued)

Long-term taxes payable

Long-term taxes payable comprise various taxes payable to the Russian Government which were previously past due and which have been restructured to be repaid over a period of up to 10 years following the application of the Russian Government Resolutions No. 761 dated 2 November 2001 "On restructuring of tax liabilities of JSC UAZ to the Federal Budget", No. 1002 dated 3 September 1999 "Terms of the restructuring of payables to the Federal Budget" and No. 699 dated 1 October 2001 "On restructuring of social insurance contributions payable to state non-budget funds as at 1 January 2001", as described below. The maturity profile is as follows:

	2002			**2001**		
	Federal	**Regional taxes and other state funds**	**Total**	**Federal**	**Regional taxes and other state funds**	**Total**
Current	62	118	180	23	134	157
1 to 2 years	45	12	57	78	148	226
2 to 3 years	103	3	106	54	66	120
3 to 4 years	2	87	89	122	32	154
4 to 5 years	1	73	74	103	26	129
Thereafter	1	2	3	439	9	448
Total restructured	214	295	509	819	415	1,234
Less: current portion of taxes payable	(62)	(118)	(180)	(23)	(134)	(157)
Long-term portion of restructured taxes	**152**	**177**	**329**	**796**	**281**	**1,077**

In the event that the Company fails to make current tax payments and payments of restructured tax liabilities by the end of each quarter, the Ministry of Taxes and Duties may, within one month, may recommend to the Government to cancel the restructuring agreement and call-in the entire liability.

The Company is in compliance with the terms of restructuring the federal, regional and local tax debts at 31 December 2002. Management is confident that the Company will continue to abide by the terms of the restructuring.

As at 31 December 2002, fair value of these liabilities was estimated to be RR 354 using a current market interest rate of 16.4%. As at 31 December 2001, carrying value of these liabilities approximates their fair value.

14 Gains on restructuring of tax debts and other payables

Gains on restructuring of debts credited to the statement of operations comprise:

	2002	**2001**
Gain on restructuring of tax debts	-	1,646
Gain on forgiveness of tax debts	599	-
	599	**1,646**

(in millions of Russian Roubles, Note 2)

14 Gains on restructuring of tax debts and other payables (continued)

Gain on restructuring of tax debts

The gain on restructuring of tax debt arises from the application of Resolution of the Russian Government No. 1002 dated 3 September 1999 and certain restructuring agreements which restructure current tax debts by deferring payment of liabilities to the federal and regional tax authorities and the pension and road funds to between 1 and 10 years at zero or preferential interest rates. This restructuring constituted a substantial modification in terms of the difference between the recorded value of the tax liabilities prior to restructuring and fair value of the future cash flows of the restructured liabilities. The difference between the recorded and fair value of the restructured tax liabilities, using a discount rate of 19.0%, is accounted for as a gain on restructuring of tax debt and, accordingly, a gain of RR 1,646 was included in the net gain on restructuring of tax debts in 2001.

Gain on forgiveness of tax debts

During 2002 a gain was recorded reflecting the forgiveness of the interest previously accrued in excess of the principal debt of RR 599.

15 Shareholders' equity

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

	Number of outstanding shares (thousands)		Total number of shares (thousands)	Share Capital
	Preference shares	Ordinary shares		
At 31 December 2000	416,837	1,250,509	1,667,346	7,445
At 31 December 2001	416,837	1,250,509	1,667,346	7,445
At 31 December 2002	416,837	1,250,509	1,667,346	7,445

Class A preference shares, which were issued to employees free of charge at the privatisation date (see Note 1), give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Preference shares have no rights of redemption or conversion but carry non-cumulative dividends per share of 10% of Russian accounting net profits for the year. If the Company fails to pay dividends, or has no profits in any year, the preferred shareholders have the right to vote in the next general shareholders' meeting. These voting rights will continue until the year when the guaranteed dividend for that year is paid.

Dividends declared for a single common share cannot exceed the dividend declared for a single preference share for any period. As such, the preference holders share in earnings along with ordinary holders and thus the preference shares are considered participating shares.

No dividends on ordinary and preference shares were declared and paid in 2002 or 2001, and as a result, in both years preference shareholders were entitled to vote.

The statutory accounting reports of the Company are the basis for profit distribution. Russian legislation identifies the basis of distribution as the net profit. For 2002, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 1,573. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

(in millions of Russian Roubles, Note 2)

15 Shareholders' equity (continued)

The reconciliation of statutory shareholders' equity as of 31 December 2002 and 2000, and results of operations of the Company as of 31 December 2002 and for the year then ended to the shareholders' equity and results of operations in accompanying IFRS financial statements is as follows:

	2002		2000
	Results of operations	**Shareholders' equity**	**Shareholders' equity**
Reported in Russian statutory financial statements	1,573	2,815	(1,088)
Adjustment to restate property, plant and equipment to fair value at the date of transition to IFRS	692	(378)	1,446
Provision for impairment of receivables	1	(40)	(43)
Provision for warranties	2	(24)	(30)
Gain on restructuring of tax debt and other borrowings	(1,235)	675	-
Provision for deferred income tax	7	(647)	(807)
Inflation of opening shareholders' equity	(252)	-	-
Discount of loan from Severstal Group	-	-	799
Other adjustments	(287)	15	(339)
Reported in IFRS financial statements	**501**	**2,416**	**(62)**

16 Sales

Sales were as follows:

	2002	**2001**
Vehicles	7,677	7,538
Automotive components	856	931
Other sales	374	410
	8,907	**8,879**

17 Cost of sales

The components of cost of sales were as follows:

	2002	**2001**
Materials and components used	5,827	6,768
Labour costs	1,354	1,304
Depreciation	332	320
Production overheads	181	117
Other	12	79
Changes in finished goods and work in progress	320	179
	8,026	**8,767**

18 Distribution costs

Distribution costs comprise:

	2002	**2001**
Transportation	258	132
Materials	26	13
Labour costs	15	13
Other	46	47
	345	**205**

(in millions of Russian Roubles, Note 2)

19 General and administrative expenses

General and administrative expenses comprise:

	2002	2001
Labour costs	313	231
Services provided by third parties	122	66
Taxes (property, road users')	184	115
Repairs and maintenance	55	66
Fire brigade expenses	54	40
Depreciation	86	89
Training costs	19	19
Provision for impairment of receivables	1	22
Other	6	88
	840	**736**

20 Other operating (income)/expenses

The components of other operating (income)/expenses were as follows:

	2002	2001
Write-off of payables	(174)	(16)
Social expenses	22	38
Charity	12	15
Sales of materials	(7)	-
Other	(22)	(33)
	(169)	**4**

21 Labour expenses

Labour expenses included in different captions of the statement of operations were as follows:

	2002	2001
Cost of sales	1,354	1,304
Administrative expenses	313	231
Distribution costs	15	13
	1,682	**1,548**

Labour expenses are comprised of wages, salaries, bonuses, payroll taxes, vacation and salary accruals.

22 Income tax expense/(credit)

	2002	2001
Income tax expense – current	10	6
Deferred tax expense/(credit) – origination and reversal of temporary differences	(7)	(4)
Deferred tax expense/(income) – effect of reduction in tax rate	-	(300)
Income tax expense/(credit)	**3**	**(298)**

(in millions of Russian Roubles, Note 2)

22 Income tax expense/(credit) (continued)

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2002	2001
Income before taxation	**504**	**1,459**
Theoretical tax charge at statutory rate of 24% (2001: 35%)	121	511
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-temporary elements of monetary gain	81	34
Gain on forgiveness of tax debts	(144)	-
Gain on restructuring of tax debts	-	(395)
Other	31	(2)
Inflation effect on deferred tax balance at the beginning of the year	(86)	(146)
Effect of reduction in tax rate	-	(300)
Income tax expense/(credit)	**3**	**(298)**

In general during 2002 the Company was subject to tax rates of approximately 24% on taxable profits. A profit tax rate of 24% has been enacted starting from 1 January 2002 as a result of the changes in the Russian tax legislation. Deferred tax assets/liabilities are measured at the rate of 24% as at 31 December 2002 (24% as at 31 December 2001).

	31 December 2000	Movement in the year	Change in tax rate	31 December 2001	Movement in the year	31 December 2002
Tax effects of deductible temporary differences:						
Accounts receivable	28	(9)	(5)	14	(5)	9
Inventories	(120)	129	(3)	6	(32)	(26)
Accounts payable	87	(216)	40	(89)	137	48
Other long-term liabilities	(280)	255	8	(17)	(46)	(63)
	(285)	**159**	**40**	**(86)**	**54**	**(32)**
Tax effects of taxable temporary differences:						
Property, plant and equipment	(690)	(152)	265	(577)	(43)	(620)
Investments	17	(3)	(5)	9	(4)	5
	(673)	**(155)**	**260**	**(568)**	**(47)**	**(615)**
Total net deferred tax (liability)/assets	**(958)**	**4**	**300**	**(654)**	**7**	**(647)**

The deferred tax assets will be realised in different periods than the deferred tax liabilities will be settled. Management believes that there will be sufficient taxable profits available at the time the temporary differences reverse to utilise the deferred tax assets.

23 Earnings per share

Earnings per share is calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary and preference shares in issue during the period.

	2002	2001
Weighted average number of ordinary shares outstanding (thousands)	1,250,509	1,250,509
Weighted average number of preference shares outstanding (thousands)	416,837	416,837
Weighted average number of ordinary and preference shares outstanding (thousands)	1,667,346	1,667,346
Net income	**501**	**1,757**
Basic/diluted earnings per share, RR	**0.30**	**1.05**

24 Contingencies, commitments and operating risks

24.1 Taxation

Russian tax legislation is subject to varying interpretations and changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

24.2 Insurance policies

The Company holds no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies covering all events subject to mandatory insurance. No provisions for insurance are included in the accompanying balance sheet.

24.3 Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company 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 enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

24.4 Legal proceedings

During the year, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these financial statements.

24.5 Operating environment of the Company

Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls and relatively high inflation.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

25 Financial risks

25.1 Credit risk

Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Company has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

25.2 Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company is exposed to interest rate risk through market value fluctuations of interest bearing borrowings. The Company has no significant interest-bearing assets.

25 Financial risks (continued)

25.3 Fair values

In assessing the fair value of non-traded financial instruments the Company uses a variety of methods including estimated discounted value of future cash flows, and makes assumptions that are based on market conditions existing at each balance sheet date.

At 31 December 2002 and 2001, the fair value of financial liabilities, which is estimated by discounting the future contractual cash flows at the current market interest rate for similar financial instruments with the same remaining maturity and were disclosed in relevant notes to these financial statements.

26 Post balance sheet events

The Annual General Shareholders' Meeting in 2003 decided not to pay dividends as a result of 2002 activities.

In March 2003 the Company signed an agreement with OOO "Severstal-auto" regarding the transfer to this company of executive management authority and provision of management services by this company. In accordance with the agreement, OOO "Severstal-auto" will receive compensation for management services in the amount of 0.4% of total assets per year.

As at 25 July 2003 the Federal Commission of Securities Market approved the additional issue of 2,500,000,000 ordinary shares of the Company at a nominal value of RR 1.