AVTOVAZ GROUP
CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITORS' REPORT
31 December 2002

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PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the shareholders JSC AVTOVAZ:

1. We have audited the accompanying consolidated balance sheet of JSC AVTOVAZ (the "Company") and its subsidiaries (the "Group") as of 31 December 2002 and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended, as expressed in the equivalent purchasing power of the Russian Rouble (RR) at 31 December 2002. These financial statements as set out on pages 3 to 22 are the responsibility of the Group'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. As at 31 December 2002 development costs relating to a new range of vehicles amounting to RR 714 million have been capitalised. In our opinion, the recognition criteria in IAS 38, "Intangible Assets", have not been met, and therefore, assets have been overstated and expenses have been understated by RR 714 million as at and for the year ended 31 December 2002.

4. In our opinion, except for the matter referred to in paragraph 3 above, the accompanying consolidated 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 Group 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.

5. Without further qualifying our opinion, we draw your attention to Note 2 to the financial statements which sets out a number of matters that raise substantial doubt that the Group will be able to continue as a going concern as well as management's plans regarding the strengthening of the financial condition and performance of the Group. The accompanying financial statements have been prepared assuming that the Group will continue as a going concern and, consequently, do not include any adjustments that might be required if the Group proves not to be a going concern.

6. As explained in Note 3, US dollar (US$) amounts presented in the financial statements are translated from RR as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 31 December 2002 of RR 31.78 to US$ 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 Group or its results of operations or cash flows in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Moscow, Russian Federation
3 June 2003

AVTOVAZ GROUP
Consolidated Balance Sheet at 31 December 2002
(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)
(Amounts translated into US dollars for convenience purposes, Note 3)

	RR million		US$ million
			Unaudited
	31 December 2002	31 December 2001	31 December 2002
ASSETS			
Current assets:			
Cash and cash equivalents (Note 6)	**2,751**	4,569	87
Trade receivables, net (Notes 5 and 7)	**8,247**	9,116	260
Prepaid expenses, advances and other receivables	**6,662**	6,837	209
Inventories (Note 8)	**18,484**	14,661	581
Total current assets	**36,144**	35,183	1,137
Property, plant and equipment (Note 9)	**100,383**	97,455	3,159
Available-for-sale investments (Note 10)	**466**	305	15
Investments in associates (Note 11)	**754**	478	24
Development costs	**714**	-	22
Other assets	**519**	419	16
Total assets	**138,980**	133,840	4,373
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables current (Note 5)	**17,444**	16,628	549
Other payables (Note 12)	**7,525**	7,161	237
Taxes payable-current (Note 15)	**2,822**	3,859	89
Provisions (Note 13)	**4,760**	4,367	150
Short-term debt (Note 14)	**9,296**	4,947	292
Advances from customers	**1,061**	4,230	33
Total current liabilities	**42,908**	41,192	1,350
Long-term debt (Note 14)	**4,005**	3,292	126
Long-term taxes payable (Note 15)	**4,491**	5,483	141
Deferred tax liability (Note 24)	**10,762**	7,710	339
Total liabilities	**62,166**	57,677	1,956
Minority interest	**12,784**	12,284	402
Shareholders' equity:			
Share capital (Note 17)	**28,890**	30,193	909
Currency translation adjustment	**1,119**	961	35
Retained earnings	**34,021**	32,725	1,071
Total shareholders' equity	**64,030**	63,879	2,015
Total liabilities and shareholders' equity	**138,980**	133,840	4,373

V. Vilchik
President – General Director
3 June 2003

N. Khatuntsov
Chief Accountant

The accompanying notes 1 to 28 are an integral part of the consolidated financial statements.

AVTOVAZ GROUP

Consolidated Statement of Income for the year ended 31 December 2002

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3, except for earnings per share)
(Amounts translated into US dollars for convenience purposes, Note 3)

	RR million		US$ million
	Year ended 31 December		
	2002	2001	**Unaudited** 2002
Net sales (Note 18)	**119,432**	129,905	3,758
Cost of sales (Notes 19 and 23)	**(101,233)**	(105,904)	(3,185)
Gross profit	**18,199**	24,001	573
Administrative expenses (Notes 20 and 23)	**(9,046)**	(7,431)	(285)
Distribution costs (Note 23)	**(2,947)**	(2,688)	(93)
Research and development expenses (Notes 21 and 23)	**(1,425)**	(2,874)	(45)
Other operating expenses (Note 22)	**(731)**	(2,340)	(23)
Reversal of impairment loss (Note 9)	**1,902**	-	60
Operating income	**5,952**	8,668	187
Interest expense	**(3,077)**	(3,636)	(97)
Foreign exchange loss	**(1,266)**	(83)	(40)
Monetary gain	**4,187**	6,003	132
Gains on extinguishment and forgiveness of tax debts and other borrowings (Note 16)	**601**	9,787	19
(Loss) gain from change of fair value of available-for-sale investments and derivatives, net	**(133)**	230	(4)
Profit before taxation	**6,264**	20,969	197
Income tax expense (Note 24)	**(4,932)**	(1,913)	(155)
Net profit	**1,332**	19,056	42
Minority interest	**(241)**	(3,139)	(8)
Net income attributable to shareholders of the AVTOVAZ Group	**1,091**	15,917	34
Weighted average number of shares outstanding during the year (000's)	**14,980**	15,101	14,980
Earnings per share (in RR and US $)	**73**	1,054	2.30

AVTOVAZ GROUP
Consolidated Statement of Cash Flows for the year ended 31 December 2002
(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)
(Amounts translated into US dollars for convenience purposes, Note 3)

	RR million		US$ million
	Year ended 31 December		
	2002	2001	**Unaudited** 2002
Cash flows from operating activities:			
Profit before taxation	**6,264**	20,969	197
Adjustments for:			
Depreciation	**5,869**	5,947	185
Provision for bad debts	**(55)**	(211)	(2)
Provisions	**347**	120	11
Interest expense	**3,077**	3,635	97
Gains on extinguishment and forgiveness of tax debts and other borrowings	**(601)**	(9,787)	(19)
Loss on disposal of property, plant and equipment	**229**	551	7
Loss (gain) from change of fair value of available-for-sale investments and derivatives, net	**133**	(230)	4
Reversal of impairment loss	**(1,902)**	-	(60)
Gain (loss) on disposal of investments	**156**	(58)	5
Impairment loss on investments in associates	**-**	1,008	-
Unrealised foreign exchange effect on non-operating balances	**1,226**	188	39
Monetary effect on non-operating balances	**(2,239)**	(4,799)	(71)
Operating cash flows before working capital changes	**12,504**	17,333	393
Decrease (increase) in gross trade receivables	**868**	(277)	27
Decrease in prepaid expenses, advances and other receivables	**67**	150	2
Increase in inventories	**(4,036)**	(203)	(127)
Increase in trade payables and other payables and accrued expenses	**510**	2,259	16
Decrease in other taxes payable	**(602)**	(3,913)	(19)
Decrease in advances from customers	**(3,169)**	(577)	(99)
Cash provided from operations	**6,142**	14,772	193
Income taxes paid	**(2,531)**	(4,341)	(80)
Interest paid	**(1,050)**	(1,563)	(32)
Net cash provided from operating activities	**2,561**	8,868	81
Cash flows from investing activities:			
Purchase of property, plant and equipment	**(7,994)**	(6,749)	(252)
Proceeds from the sale of property, plant and equipment	**358**	75	11
Proceeds from the sale of investments	**80**	21	3
Purchase of investments	**(296)**	(40)	(9)
Net cash used in investing activities:	**(7,852)**	(6,693)	(247)
Cash flows from financing activities:			
Proceeds from borrowings	**12,932**	5,024	407
Repayment of loans and long-term taxes payable	**(8,741)**	(6,221)	(275)
Purchase of treasury shares	**(400)**	-	(13)
Dividends paid	**(164)**	-	(5)
Net cash (used in) provided from financing activities	**3,627**	(1,197)	114
Effect of inflation on cash	**(234)**	(309)	(8)
Effect of exchange rate changes	**80**	108	3
Net (decrease) increase in cash and cash equivalents	**(1,818)**	777	(57)
Cash and cash equivalents at the beginning of the period	**4,569**	3,792	144
Cash and cash equivalents at the end of the period (Note 6)	**2,751**	4,569	87

AVTOVAZ GROUP
Consolidated Statement of Changes in Shareholders' Equity
for the year ended 31 December 2002

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)
(Amounts translated into US dollars for convenience purposes, Note 3)

In RR million	Share capital	Treasury shares (Notes 5C and 17)	Currency translation adjustment	Retained earnings	Total shareholders' equity
Balances as of 31 December 2000	**64,251**	**(34,040)**	**822**	**16,480**	**47,513**
Sale of treasury shares (ordinary)	-	42	-	270	312
Purchase of treasury shares (preference)	-	(60)	-	57	(3)
Currency translation adjustment	-	-	139	-	139
Profit for the year	-	-	-	15,918	15,918
Balances as of 31 December 2001	**64,251**	**(34,058)**	**961**	**32,725**	**63,879**
Sale of treasury shares (ordinary)	-	428	-	(90)	338
Purchase of treasury shares (ordinary)	-	(1,731)	-	530	(1,201)
Currency translation adjustment	-	-	158	-	158
Dividends	-	-	-	(235)	(235)
Profit for the year	-	-	-	1,091	1,091
Balances as of 31 December 2002	**64,251**	**(35,361)**	**1,119**	**34,021**	**64,030**

(Unaudited) In US$ million	Share capital	Treasury shares	Currency translation adjustment	Retained earnings	Total shareholders' equity
Balances as of 31 December 2002	**2,022**	**(1,113)**	**35**	**1,071**	**2,015**

The statutory accounting reports of JSC AVTOVAZ (the "Company") are the basis for profit distribution and other appropriations. 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 700. As at 31 December 2002 the Company had no other distributable reserves.

1. JSC AVTOVAZ and subsidiaries

JSC AVTOVAZ and its subsidiaries' (the "Group") principal activities include the manufacture and sale of passenger automobiles. The Group's manufacturing facilities are primarily based in the Samara Oblast of Russia. The Group has a sales and service network spanning the Commonwealth of Independent States and some other countries. The parent company, JSC AVTOVAZ ("the Company" or JSC AVTOVAZ), was incorporated as an open joint stock company in the Russian Federation on 5 January 1993. At 31 December 2002 the Group employed 153,021 employees (2001: 151,343). JSC AVTOVAZ is registered at Yuzhnoye Shosse, 36, Togliatti, 445633, Russian Federation.

2. Going concern and operating environment of the Group

A. Operating environment of the Group

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.

B. Going concern

During the transition to a market economy the Group has experienced, as have some other large manufacturing entities in Russia, financial difficulties. This has resulted in losses in prior years and the build-up of outstanding obligations to the tax authorities, lenders of finance and suppliers. As a result of these matters the Group's current liabilities exceeded its current assets as at 31 December 2002 by RR 6,764 (at 31 December 2001: RR 6,009).

In order to improve the Group's financial position management plans to undertake the following initiatives:

- Complete the restructuring of its debt obligations to Vnesheconombank;
- Continue the strategic partnership with General Motors Corporation ("GM") and the European Bank for Reconstruction and Development ("EBRD") by considering further potential joint projects;
- Establishing an "Industrial Technological Park" to attract world-class automotive suppliers; and
- Seek long-term finance.

In view of the initiatives discussed above and continued support by the government of the national automotive industry, management is confident that the Group will continue as a going concern for the foreseeable future. Therefore, these consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that would be necessary if the Group was unable to continue as a going concern.

3. Basis of presentation of the consolidated financial statements

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

JSC AVTOVAZ and its domestic subsidiaries, which account for approximately 95% of assets and liabilities of the Group, maintain their accounting records in Russian Roubles ("RR") and prepare their 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 recorded for the purpose of fair presentation in accordance with IFRS. Similarly, adjustments to conform with IFRS, where necessary, are recorded in the financial statements of companies not resident in the Russian Federation.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale investments are shown at fair value. The preparation of consolidated financial statements in conformity with IFRS requires management to make prudent 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 fair values of financial instruments, depreciation of property, plant and equipment, the impairment provisions, deferred profits taxes and the provision for doubtful debts and other payables. Actual results could differ from these estimates.

A. 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 in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

3. Basis of presentation of the financial statements (continued)

A. Accounting for the effect of inflation (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 income 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.
- Gains or losses that arise as a result of holding monetary assets and liabilities for the period are included in the statement of income as a monetary gain or loss.

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29.

B. U.S. Dollar Translation

U.S. dollar ("US$") amounts shown in the accompanying 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 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 AVTOVAZ in accordance with IFRS.

4. Summary of significant accounting policies

A. Group reporting

Subsidiary undertakings

Subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the operations, are included into the consolidated financial statements. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between the Group's companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest at the balance sheet date includes the minority shareholders' portion of the pre-acquisition fair values of the identifiable assets and liabilities of subsidiaries at the acquisition date, and the minority's portion of movements in those subsidiaries' equity since the date of acquisition. Minority interest includes a portion of the net assets of the Group attributable to minority shareholders in subsidiaries that own shares in JSC AVTOVAZ, as discussed in Note 5C.

Minority interest is presented separately from liabilities and shareholder's equity.

4. Summary of significant accounting policies (continued)

A. Group reporting (continued)

Associated undertakings

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Group generally has between 20% and 50% of the voting rights, or otherwise has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated undertakings includes goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

B. Investments

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, are classified 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.

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 Group. Cost of purchase includes transaction costs. 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 income in the period in which they arise.

C. Revenue recognition

Revenues on domestic sales of automobiles, spare parts and miscellaneous production 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.

Value-added and excise taxes are deducted to obtain the value of revenue.

D. 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 Group 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.

E. Value added tax

Value added taxes 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 gross basis and disclosed separately as a current asset and liability. 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.

F. Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis, and includes material, labour and the appropriate indirect manufacturing costs (based on normal operating capacity). Obsolete and slow-moving inventories are written down, taking into account their expected use, to their future realisable value.

G. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. 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.

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

4. Summary of significant accounting policies (continued)

H. Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost restated to the equivalent purchasing power of the RR at 31 December 2002. At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the 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 restated 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	40 to 50
Foundry equipment	25
Plant, machinery and equipment	10 to 20
Other	5 to 10

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 consolidated statement of income as incurred.

I. Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method for financial reporting and accounting for deferred income taxes. 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 and associates, 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.

J. Borrowings and restructured taxes

Borrowings are recognised initially at cost, which is a fair value of the proceeds received (as 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.

K. Foreign currency transactions and translation

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

Monetary assets and liabilities of the Group, which are denominated in 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 consolidated statement of operations.

Foreign subsidiary balance sheets and statements of income have been translated in RR at the exchange rate ruling at 31 December 2002 and average exchange rates for the year then ended, respectively. Differences arising from translation of foreign subsidiaries' balances are included in shareholders' equity as currency translation adjustments.

L. Product warranty costs

Estimated costs of future product warranties are fully provided for at the time of the sale of products.

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

4. Summary of significant accounting policies (continued)

M. Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred for development projects are recognised as intangible assets if, and only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably.

N. Social costs

The Group incurs costs on social activities, principally within the City of Togliatti. These costs include the provision of health services and kindergartens. These amounts represent an implicit cost of employing principally production workers and, accordingly, have been charged to cost of sales in the Group's IFRS consolidated financial statements.

O. Interest expense and interest income

Interest income and expenses are recognised on the accrual basis, as earned or incurred.

P. Earnings (loss) 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 earnings per share is determined by dividing the net income attributable to ordinary and preference shareholders by the weight average number of participating shares outstanding during the reporting year. Losses are allocated to preference shares in this calculation.

Q. Pension costs

The Group's obligatory contributions to the Pension Fund of the Russian Federation are expensed as incurred.

R. Treasury shares

Treasury shares are stated at nominal value, restated to the equivalent power of the RR at 31 December 2002, any difference between cost and nominal value on the purchase of treasury shares is recorded direct to retained earnings. Any gains or losses arising on the disposal of treasury shares are recorded direct to the consolidated statement of changes in shareholders' equity.

S. Provisions

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

T. Dividends

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

5. Principal subsidiaries, balances and transactions with related parties

The principal subsidiaries of the Group and the degree of control exercised by the Group are as follows:

Entity	Country of Incorporation	Activity	**31 December 2002 % share**	31 December 2001 % share
OAO DAAZ	Russia	Car components	**100**	100
OAO SAAZ	Russia	Car components	**100**	100
OAO AvtoVAZtrans	Russia	Transport	**100**	100
OAO TEVIS	Russia	Utilities	**100**	100
OAO SeAZ	Russia	Car assembly	**100**	100
OAO Elektroset	Russia	Power supply	**100**	100
OAO AvtoVAZstroi	Russia	Construction	**100**	100
Lada International Ltd.	Cyprus	Car distribution	**99.9**	99.9
OAO AVVA	Russia	Investments	**85**	84
Oy Konela Ab	Finland	Car distribution	**70**	70
ZAO CB AFC	Russia	Financial	**58,5**	57
ZAO IFC	Russia	Financial	**51**	51
OOO Eleks-Polyus	Russia	Car distribution	**51**	51
133 Technical Service Centres	Russia	Car service centres	**50.1-100**	50.1-100

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

5. Principal subsidiaries, balances and transactions with related parties (continued)

All of the above subsidiaries have been consolidated. During 2002, the Group disposed of 9 subsidiaries in the technical service centre category that are not material in the overall context of the Group (2001: 6 subsidiaries). The result of this disposal is included in other operating expenses in the statement of operations.

The principal associated companies and degree of ownership by the Group are as follows:

Entity	Country of Incorporation	Activity	**31 December 2002 % share**	31 December 2001 % share
FerroVAZ GmbH	Germany	Metal production	**50**	50
ZAO GM-AVTOVAZ	Russia	Vehicle production	**47.6**	47.6
Lada Hellas S.A.	Greece	Car distribution	**50**	50
Lada Parts Hellas S.A.	Greece	Spare parts distribution	**50**	50
National Trade Bank	Russia	Bank services	**27**	-
Avtomobilny Bankirsky Dom	Russia	Bank services	**36**	-
ZAO ASOL	Russia	Insurance	**34**	-

The transactions with related parties noted below are made in the ordinary course of business on normal commercial terms. Balances and transactions with related parties of the Group as at 31 December 2002 and 31 December 2001 consist of the following:

A. Balances with related parties:

Consolidated balance sheet caption	Relationship	**31 December 2002**	31 December 2001
Trade receivables, gross:	Associates	**355**	642
Provision for doubtful debts:	Associates	**(76)**	(221)
Trade payables current:	Associates	**440**	421

B. Transactions with related parties:

Consolidated statement of income caption	Relationship	**Year ended 31 December 2002**	Year ended 31 December 2001
Net sales:	Associates	**2,470**	3,040
Purchases:	Associates	**6,122**	5,185

C. Cross shareholding:

At 31 December 2002 OAO AVVA, an 85% owned subsidiary of JSC AVTOVAZ, owned 38% of the ordinary shares of JSC AVTOVAZ. ZAO "Central Branch of Automobile Financial Corporation" (ZAO CB AFC), a company in which JSC AVTOVAZ has an effective ownership of 58.5%, in turn owns 24% of the ordinary shares of JSC AVTOVAZ. Furthermore, ZAO IFC, a 51% owned subsidiary of JSC AVTOVAZ, owns 2% of the ordinary shares of JSC AVTOVAZ. As a result, 64% (2001: 62%) of the ordinary voting share capital of JSC AVTOVAZ is held by entities within the AVTOVAZ Group. The shares of JSC AVTOVAZ that are owned by subsidiaries are recognised as treasury shares in these financial statements.

Compensation of the Board of Directors and the Management Board is disclosed at Note 28.

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	31 December 2002	31 December 2001
RR denominated cash on hand and balances with banks	**974**	3,032
Foreign currency denominated balances with banks	**1,777**	1,537
	2,751	4,569

7. Trade receivables

	31 December 2002	31 December 2001
Trade receivables		
Rouble denominated	**4,488**	5,510
Foreign currency denominated	**4,257**	4,502
	8,745	10,012
Less Provision for doubtful debts		
Rouble denominated	**(361)**	(557)
Foreign currency denominated	**(137)**	(339)
	(498)	(896)
Net receivable		
Rouble denominated	**4,127**	4,953
Foreign currency denominated	**4,120**	4,163
	8,247	9,116

Net trade receivables denominated in foreign currencies consist of the following:

Currency	**31 December 2002**	31 December 2001
Euro	**986**	1,119
US$	**3,131**	2,993
Other currencies	**3**	51
Total net trade receivables denominated in foreign currencies	**4,120**	4,163

8. Inventories

Inventories consist of the following:

	31 December 2002	31 December 2001
Raw materials	**9,355**	8,904
Work in progress	**3,064**	2,931
Finished products	**6,065**	2,826
	18,484	14,661

Inventories of RR 289 (2001: nil) are recorded at net realisable value, net of obsolescence provision of RR 524 at the year ended 31 December 2002 (2001: RR 643).

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

9. Property, plant and equipment

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

	Buildings	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 31 December 2000	71,250	101,864	9,933	18,573	201,620
Additions	-	-	-	7,878	7,878
Disposals	(1,278)	(1,869)	(175)	(2,541)	(5,863)
Transfers	1,654	6,819	591	(9,064)	-
Balance at 31 December 2001	71,626	106,814	10,349	14,846	203,635
Additions	-	-	-	10,056	10,056
Disposals	(2,179)	(2,876)	(308)	(1,185)	(6,548)
Transfers	1,228	4,261	830	(6,319)	-
Balance at 31 December 2002	**70,675**	**108,199**	**10,871**	**17,398**	**207,143**
Accumulated Depreciation					
Balance at 31 December 2000	(29,682)	(56,920)	(9,386)	(6,068)	(102,056)
Depreciation expense for 2001	(1,929)	(3,746)	(272)	-	(5,947)
Disposals	714	934	77	98	1,823
Balance at 31 December 2001	(30,897)	(59,732)	(9,581)	(5,970)	(106,180)
Depreciation expense for 2002	(1,750)	(3,662)	(457)	-	(5,869)
Disposals	790	1,803	179	615	3,387
Reversal of impairment loss	1,098	-	-	804	1,902
Balance at 31 December 2002	**(30,759)**	**(61,591)**	**(9,859)**	**(4,551)**	**(106,760)**
Net Book Value					
Balance at 31 December 2001	40,729	47,082	768	8,876	97,455
Balance at 31 December 2002	**39,916**	**46,608**	**1,012**	**12,847**	**100,383**

Assets Under Construction ("AUC") includes the cost of fixed assets which have yet to be put into production. The majority of the transfers out from AUC were placed in service and transferred into Buildings and Plant and Equipment.

As a result of indicators of impairment, management assessed the recoverability of property, plant and equipment at 31 December 1998, which does not include AUC. Value in use of cash generating units was estimated through a review of estimated discounted cash flows. Based upon this assessment management recorded an impairment provision of RR 4,550. In addition, recoverability of AUC projects was assessed for projects not expected to be completed within the foreseeable future. Based on this assessment, management recorded a provision of RR 6,184.

In view of two consecutive years of operating profits accompanied by improvements in Russia's economy, which have led to a reduction in discount rates from 20% to 12%, management reviewed the necessity for the impairment provision in relation to property, plant and equipment previously recorded and subsequently reversed an impairment provision for Property, plant and equipment in the amount of RR 1,098. Additionally, management assessed the recoverability of AUC projects and, subsequently, reversed an impairment provision for AUC in the amount of RR 804.

The remaining provision of RR 4,551 included in accumulated depreciation of AUC relates to projects that are not expected to bring any economic benefits to the Group in the future.

The assets transferred to the Company upon privatisation do not include the land on which the Company's factory and buildings, comprising the Group's principal manufacturing facilities, are situated. The Company has the option to purchase this land upon application to the Property Fund of the Samara Oblast or to continue occupying this land under a rental agreement. Russian legislation does not specify an expiry date to this option. At 31 December 2002 the Company has not filed any application to exercise the purchase option.

Included in Property, plant and equipment and AUC are social assets (such as rest houses, kindergartens, sports and medical facilities) of RR 4,075 and RR 3,592 as of 31 December 2002 and 2001, respectively. These assets are fully provided for.

At 31 December 2002 and 31 December 2001, the gross carrying value of fully depreciated property, plant and equipment was RR 46,630 and RR 43,786 respectively.

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

10. Available-for-sale investments

	2002
Balance at 31 December 2001	305
Additions	125
Revaluation surplus	92
Disposals	(56)
Balance at 31 December 2002	466

Available-for-sale 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. For other investments traded in active markets, fair value is determined by reference the current market value at the close of business on 31 December.

11. Investments in associates

	2002
Balance at 31 December 2001	478
Additions	252
Share of income	24
Balance at 31 December 2002	754

12. Other payables and accrued expenses

Other payables and accrued expenses includes the following:

	31 December 2002	31 December 2001
Interest payable	**1,536**	1,704
Payables for financial assets	**2,077**	1,835
Payable to customs authorities	**117**	549
Salaries payable	**1,070**	311
Vacation and salary accruals	**1,302**	1,371
Other	**1,423**	1,391
Total	**7,525**	7,161

During 2002, interest payable of EURO 16 million on the loan from the Ministry of Finance was restructured. For details of this restructuring, see Note 16.

13. Provisions

	Warranties	Customs claims	Tax claims	Legal and other claims	Termination benefits provision	Total
Balance at 31 December 2001	1,154	892	2,321	-	-	4,367
Inflationary gain	-	(117)	(305)	-	-	(422)
Utilised	(1,522)	-	-	-	-	(1,522)
Released	-	(775)	(69)	-	-	(844)
Additional provisions	1,917	-	624	290	350	3,181
Balance at 31 December 2002	1,549	-	2,571	290	350	4,760

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

13. Provisions (continued)

Warranties

The Group undertakes to repair vehicles or replace certain components that fail to perform satisfactorily during two years after sale (2001: one year) or until a mileage of 35,000 kilometres is reached.

Customs claims

In 2001 the Group made a provision for Customs claims for non-compliance with currency legislation in respect of non-timely repatriation of foreign currency proceeds in the amount of RR 892. Subsequently these claims were waived. The Group's management believe that no legal proceedings in respect of the above matter will be renewed in the future. Given these circumstances the previously provided amount was released to the statement of operations for the year ended 31 December 2002.

Tax claims

The majority of the balance is represented by a provision in respect of certain claims raised by the tax authorities for profits taxes. These claims were initiated due to disagreement in relation to the write-off of receivables in 1999-2000.

Termination benefits provision

In 2002, the Group made a provision for termination benefits amounting to RR 350. By undertaking to pay these benefits the Group encourages voluntary redundancy of employees who reach retirement age during 2003.

14. Short-term and long-term debt due after one year

Short-term debt by main categories:

Currency	Effective interest rate	**31 December 2002**	31 December 2001
Euro	6.8%-13.0%	**1,792**	1,948
US$	8.6%-13.0%	**1,067**	562
RR	17.0%-25.0%	**6,437**	2,437
Total loans from financial institutions		**9,296**	4,947

Long-term debt by category of loan consists of the following:

Currency	Effective interest rate	**31 December 2002**	31 December 2001
US$	8.6%	**347**	497
Euro	6.8%-10.2%	**2,690**	2,174
RR	18.0%-24.5%	**968**	621
Total loans from financial institutions		**4,005**	3,292

Long-term debt is repayable as follows:

	31 December 2002	31 December 2001
1 to 2 years	**1,530**	1,226
2 to 3 years	**564**	646
3 to 4 years	**593**	554
4 to 5 years	**374**	475
Over 5 years	**944**	391
	4,005	3,292

During 2002 the Company restructured its loan from the Ministry of Finance of RR 1,755 (EURO 53 million). During 2001 the Company restructured its obligations with Vnesheconombank of RR 4,373 (US$ 126 million) resulting in a reduction in the fair value of its obligations. This is discussed further in Note 16.

During 2002 the Company defaulted on the repayment of loans to Vnesheconombank (the Lender) and, as a result, the Lender has the option to call these loans. However, the Lender has agreed not to demand payment as a consequence of the breach and continued negotiations regarding the restructuring of the remaining debt (composed of short-term debt of RR 1,093 and long-term debt of RR 3,860).

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

14. Short-term and long-term debt due after one year (continued)

As at 31 December 2002 and 2001 loans for RR 8,348 and RR 3,288 respectively, inclusive of short-term borrowings, are guaranteed by collateral of receivables, inventories and equipment.

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

15. Taxation

Taxes payable-current

Taxes payable-current are comprised of the following:

	31 December 2002	31 December 2001
Value-added tax	**184**	757
Profit tax	**5**	250
Penalties, interest and provisions for profit tax	**7**	62
Property, road users, pensions and other taxes	**986**	1,088
Penalties and interest on other taxes	**674**	848
Excise tax	**1**	215
Current portion of taxes restructured to long-term	**965**	639
	2,822	3,859

The principal tax liabilities past due accrue interest each day at one three hundredth of the current refinancing rate of the Central Bank of Russia which, at 31 December 2002 was equal to an effective rate of 26% (31 December 2001: 30%). The principal tax liabilities past due at 31 December 2002 and 31 December 2001 were approximately RR 144 and RR 859 respectively.

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 1002 (dated 3 September 1999) and 927 (dated 29 December 2001). The carrying value of this debt and its maturity profile is as follows:

	31 December 2002	31 December 2001
Current	**965**	639
1 to 2 years	**809**	994
2 to 3 years	**566**	813
3 to 4 years	**1,034**	525
4 to 5 years	**212**	492
Thereafter	**1,870**	2,659
Total restructured	**5,456**	6,122
Less: portion of taxes payable – current	**(965)**	(639)
Long-term portion of restructured taxes	**4,491**	5,483

The above liability is carried at historical cost, which is the fair value of the obligation at the date of restructuring. This is calculated by discounting the restructured liability using discount rates ranging between 19.5% and 30.0%.

In the event of 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, recommend to the Government to cancel the restructuring agreement and call the entire liability.

As at 31 December 2002, fair value of these liabilities was estimated to be RR 5,970 using a current market interest rate of 16.0%-18.0%. As at 31 December 2001, carrying value of these liabilities approximates its fair value.

The Company is in compliance with the terms of restructuring the federal, regional and local tax debts at 31 December 2002.

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

16. Gains on extinguishment and forgiveness of debt

Gains on forgiveness and extinguishment of debt credited to the consolidated statement of income comprise:

	2002	2001
Gain on extinguishments of other borrowings	**601**	1,612
Gain on extinguishment of tax debts	**-**	4,749
Gain on forgiveness of tax debts	**-**	3,426
	601	9,787

Gain on extinguishments of other borrowings

During 2002, management negotiated the restructuring of the liability of EURO 53 million to the Ministry of Finance. This amount is restructured over the period of 2003-2011. This restructuring constituted a substantial modification in terms of the difference between the recorded value of that liability prior to restructuring and the present value of the future cash flows of the restructured liability. The difference between the recorded value and net present value of the restructured liability is accounted for as an extinguishment of debt and, accordingly, a gain of RR 601 was recognized in the Group's 2002 consolidated statement of income. The restructured debt is collaterised with equipment for EURO 81 million. During 2001, management negotiated the settlement of US$ 126 million of current and long-term debt payable to Vnesheconombank through consideration of US$ 55 million cash, RR 652 of non-interest bearing bills of exchange payable within one year, and RR 1,705 of non-interest bearing bills of exchange payable in 2020. The fair value of the settlement was considerably less than the initial value of the debt. The resulting gain of RR 1,612 was credited to the consolidated statement of income in 2001.

Gain on extinguishment of tax debts

In accordance with Resolutions 1002 (3 September 1999) and 927 (29 December 2001), during 2001 previously restructured tax debt and previously non-restructured tax debt were restructured. The resulting gain of RR 4,749 was credited to the consolidated statement of income in 2001. The terms of the restructuring were not changed materially during 2002.

Gain on forgiveness of tax debts

During 2001 a gain was recorded reflecting the forgiveness of the interest previously accrued in excess of the principal debt of RR 2,429. In addition, tax liabilities of RR 838 were forgiven following court decisions, and a further RR 159 was forgiven in accordance with a decision of the Tax Inspectorate of Togliatti. There was no tax forgiveness in 2002.

17. Share capital

The carrying value of share capital, as restated in terms of the purchasing power of the Rouble as at 31 December 2002, and the legal share capital value subscribed, issued and fully paid up, consists of the following classes of shares:

	31 December 2002			31 December 2001		
	No. of shares	**Legal statutory value**	**Carrying amount**	No. of shares	Legal statutory value	Carrying amount
Class A preference	**4,930,340**	**2,465**	**9,861**	4,930,340	2,465	9,861
Ordinary	**27,194,624**	**13,597**	**54,390**	27,194,624	13,597	54,390
Total share capital	**32,124,964**	**16,062**	**64,251**	32,124,964	16,062	64,251
Less: treasury share capital						
Class A preference	**(312,697)**	**(156)**	**(625)**	(13,163)	(6)	(26)
Ordinary	**(17,367,655)**	**(8,684)**	**(34,736)**	(17,015,684)	(8,508)	(34,032)
Total treasury share capital	**(17,680,352)**	**(8,840)**	**(35,361)**	(17,028,847)	(8,514)	(34,058)
Total outstanding share capital	**14,444,612**	**7,222**	**28,890**	15,096,117	7,548	30,193

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

17. Share capital (continued)

Ordinary shares give the holders the right to vote on all matters within the remit of the General Shareholders' Meeting.

Class A preference shares 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 obtain the right to vote on all matters within the remit of the General Shareholders' Meeting if at the previous Annual Shareholders' Meeting it was decided not to pay a dividend on preference shares even though the Company had statutory net profit for the year.

In accordance with the Company's Charter, preference shareholders are entitled to a dividend of a portion of net statutory profits for the year.

If the dividend paid on one ordinary share in the current year exceeds the dividend that is payable on one preference share, then the dividend paid on one preference share should be increased to the dividend paid on one ordinary share. As such, the preference holders share in earnings along with ordinary holders and thus the preference shares are considered participating shares for the purpose of the calculation of earnings per share.

In 2002, a dividend was declared and is being currently paid in respect of 2001 to holders of preference shares of RR 47.58 per preference share (2001: nil). As a result, in 2002 preference shareholders are not entitled to vote except for matters discussed above. No dividend was declared in respect to ordinary shares in 2002 and 2001.

At the Annual General Shareholders' Meeting of JSC AVTOVAZ that took place on 25 May 2002 the majority of shareholders voted for an amended version of the Charter of JSC AVTOVAZ. Subsequent to this event, a number of preference shareholders disputed in court this decision of the general shareholders' meeting. In its ruling of 2 April 2003, the court restricted the right of the general shareholders' meeting to take decisions to pay (declare) dividends on all shares of the Company. The Company's Board of Directors, which met on 24 April 2003, recommended to the Annual General Shareholders' Meeting, which is scheduled for 31 May 2003, to approve the decision regarding payment (declaration) of dividends of RR 17 per preference share and RR 5 per ordinary share subject to the arbitration court's cancelling its ruling of 2 April 2003.

18. Net sales revenue

The components of net sales were as follows:

	2002	2001
Finished vehicles	**95,023**	107,329
Automotive components and assembly kits	**17,857**	16,316
Other sales	**6,552**	6,260
	119,432	129,905

19. Cost of sales

The components of cost of sales were as follows:

	2002	2001
Materials and components used	**76,403**	79,347
Labour costs	**11,938**	8,474
Production overheads	**7,455**	8,299
Depreciation	**5,869**	5,947
Social expenditure	**2,997**	2,771
Changes in inventories of finished goods and work in progress	**(3,429)**	1,066
	101,233	105,904

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

20. Administrative expenses

Administrative expenses comprise:

	2002	2001
Salary	**3,398**	2,423
Road user tax	**1,053**	1,164
Other local and regional taxes	**1,982**	1,829
Employee transportation costs	**581**	526
Consultants' fees	**461**	106
Materials	**353**	412
Bank services	**203**	184
Repair expenses	**142**	128
Bad debt expense	**(55)**	(211)
Other	**928**	870
	9,046	7,431

21. Research and development expenses

Research and development expenses comprise:

	2002	2001
Labour costs	**630**	1,017
Materials	**366**	732
Other	**429**	1,125
	1,425	2,874

22. Other operating expenses

The components of other operating expenses were as follows:

	2002	2001
Write-off or loss on disposal of property, plant and equipment	**229**	551
Provisions and settlements of claims and similar charges	**18**	847
Gain (loss) on disposal of investments	**156**	(58)
Charitable donations	**355**	15
Goodwill	**(204)**	-
Other	**177**	985
	731	2,340

23. Labour expenses

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

	2002	2001
Cost of sales	**11,938**	8,474
Administrative expenses	**3,398**	2,423
Distribution costs	**146**	119
Research and development expenses	**630**	1 017
	16,112	12,033

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

24. Income tax expense

	2002	2001
Current profits tax	**1,880**	6,904
Movement in deferred tax account	**3,052**	(1,457)
Effect of tax rate change	**-**	(3,534)
	4,932	1,913

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2002, Note 3)

24. Income tax expense (continued)
The tax charge of the Group is reconciled as follows:

	2002	2001
IFRS profit before taxation in the Group's consolidated financial statements	**6,264**	20,969
Theoretical tax charge at statutory rate of 24% (2001: 35%)	**1,503**	7,339
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax penalties and interest	**329**	324
Non-temporary elements of monetary gains / losses	**2,714**	3,253
Non-deductible expenses, net	**755**	2,292
Temporary difference on statutory revaluation	**-**	(4,670)
Gain on extinguishment of tax obligations	**-**	(2,861)
Other	**644**	2,052
Inflation effect on deferred tax balance at the beginning of the year	**(1,013)**	(2,282)
Effect of reduction in tax rate	**-**	(3,534)
Tax charge	**4,932**	1,913

In general during 2002 the Group 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).

Deferred tax liabilities

	31 December 2001	Movement in the year	31 December 2002
Tax effects of temporary differences:			
Trade receivables	26	125	**151**
Inventories	39	20	**59**
Property, plant and equipment	(6,585)	(3,114)	**(9,699)**
Investments	624	(331)	**293**
Accounts payable and provisions	441	245	**686**
Long-term debt	(2,485)	169	**(2,316)**
Other temporary differences	230	(166)	**64**
Deferred tax liability	(7,710)	(3,052)	**(10,762)**

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

25. Barter transactions
Included in sales are non-cash transactions amounting to RR 1,104 (2001: RR 792). The transactions represent mainly sale of products in exchange for raw materials and services or cancellation of mutual balances with customers and suppliers within the operating activities.

26. Contingencies, commitments and guarantees
A. Contractual commitments and guarantees
As at 31 December 2002 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 934 (31 December 2001: RR 1,013).

Other than these commitments, there are no other commitments and guarantees in favour of third parties or related companies that were not disclosed in these consolidated financial statements.

26. Contingencies, commitments and guarantees (continued)

B. 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 Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group 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. In addition, the Group is subject to several claims from tax authorities for additional taxes and related fines and penalties. In the opinion of management, the ultimate outcome of these claims, other than those discussed in Note 13, should not have a material adverse effect on the result of operations or financial position of the Group.

C. Insurance policies

The Group 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 export shipments and for all events subject to mandatory insurance. No provisions for self-insurance are included in the accompanying consolidated balance sheet.

D. Environmental matters

The enforcement of environmental regulation in 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. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalised. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believe that there are no significant liabilities for environmental damage.

E. Legal proceedings

During the 2002 year, the Group 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 adverse effect on the result of operations or financial position of the Group, other than those discussed in Note 13.

27. Financial instruments and financial risk factors

A. Credit risk

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believe that there is no significant risk of loss to the Group beyond the allowance already recorded.

B. Foreign exchange risk

The Group's manufacturing operation is in the Russian Federation with limited imports of raw materials and components. Revenue from export of the Group's automobile production to western and eastern Europe is 7% (2001: 6%) of total revenue, these sales are denominated in hard currency. Net foreign currency receivables amount to RR 4,120 (31 December 2001: RR 4,163). The Group has debt obligations of RR 5,896 (31 December 2001: RR 5,181) denominated in hard currency.

C. Interest rate risk

The majority of interest rates on debt are fixed, these are disclosed in Note 14. Existing interest rates can be changed subject to agreement by the parties. Assets are generally non-interest bearing.

D. Fair values

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

28. Compensation of the Board of Directors and the Management Board

Total compensation of the members of the executive bodies (the Board of Directors composed of 12 members and the Management Board composed of 45 members) included in Administrative expenses in the consolidated statement of income amounted to RR 35 for the year ended 31 December 2002 (2001: RR 22).