ANNUAL REPORT | 2003 | JSC AVTOVAZ

AVTOVAZ GROUP*
OPERATING HIGHLIGHTS FOR 2003

Vehicle unit sales, JSC AVTOVAZ

	2003	2002	Change
	000's units	000's units	%
Domestic market	626	577	8.49
Export market	92	98	(6.12)
Total	**718**	**675**	**6.3**
Automotive assembly kits sales	**98**	**101**	**(2.97)**
	RR mln	RR mln	%
Net sales	130,772	119,432	9.49
Operating income	5,941	5,591	6.26

Consolidated Statement of Income**

For the year ended 31 December

	2003	2002	Change
	RR mln	RR mln	%
Net sales	130,772	119,432	9.49
Cost of sales	(110,003)	(99,331)	10.74
Gross profit	20,769	20,101	3.32
Interest expense	(3,416)	(3,077)	(11.02)
Other expense, net	(14,402)	(15,896)	(9.4)
Net income for the year	2,951	1,128	161.61

Consolidated Balance Sheet**

At 31 December

	2003	2002	Change
	RR mln	RR mln	%
Cash and cash equivalents	6,767	2,751	145.98
Other current assets	37,069	33,393	11.01
Non-current assets	108,228	102,836	5.24
Total liabilities	72,562	62,166	16.72
Minority interest	1,290	1,587	(18.71)
Total shareholders' equity	78,212	75,227	3.97

Share price and dividend development, JSC AVTOVAZ***

For the year ended 31 December

	2003	2002	Change
Share price	RR	RR	%
Ordinary share			
Closing	774.7	679.72	+13.97
Annual high	906.42	1201.31	-24.55
Annual low	582.06	558.64	+4.19
Preference share			
Closing	471.88	371.17	+27.13
Annual high	525.68	667.54	-21.25
Annual low	339.77	319.10	+6.48
Dividends			
Per ordinary share	6.00	5.00	+20.0
Per preference share	95.00	17.00	+458.82

* The AVTOVAZ Group mentioned hereinafter is the parent company (JSC AVTOVAZ or the "Company") and all of its subsidiaries and associated companies. The references to "we", "us", "AVTOVAZ", etc, may be applied to both the AVTOVAZ Group and JSC AVTOVAZ depending on the context.

** Financial information was extracted from Consolidated IFRS Financial Statements of the AVTOVAZ Group.

*** Share price information shown here and below represents weighted average prices of shares of JSC AVTOVAZ at the Moscow Inter-bank Currency Exchange (MICEX).

AVTOVAZ

AVTOVAZ

is developing and will continue

its development – in technological,

organisational or any other area.

Our main strategic objective

remains unchanged – to retain our indisputable

leadership on the Russian

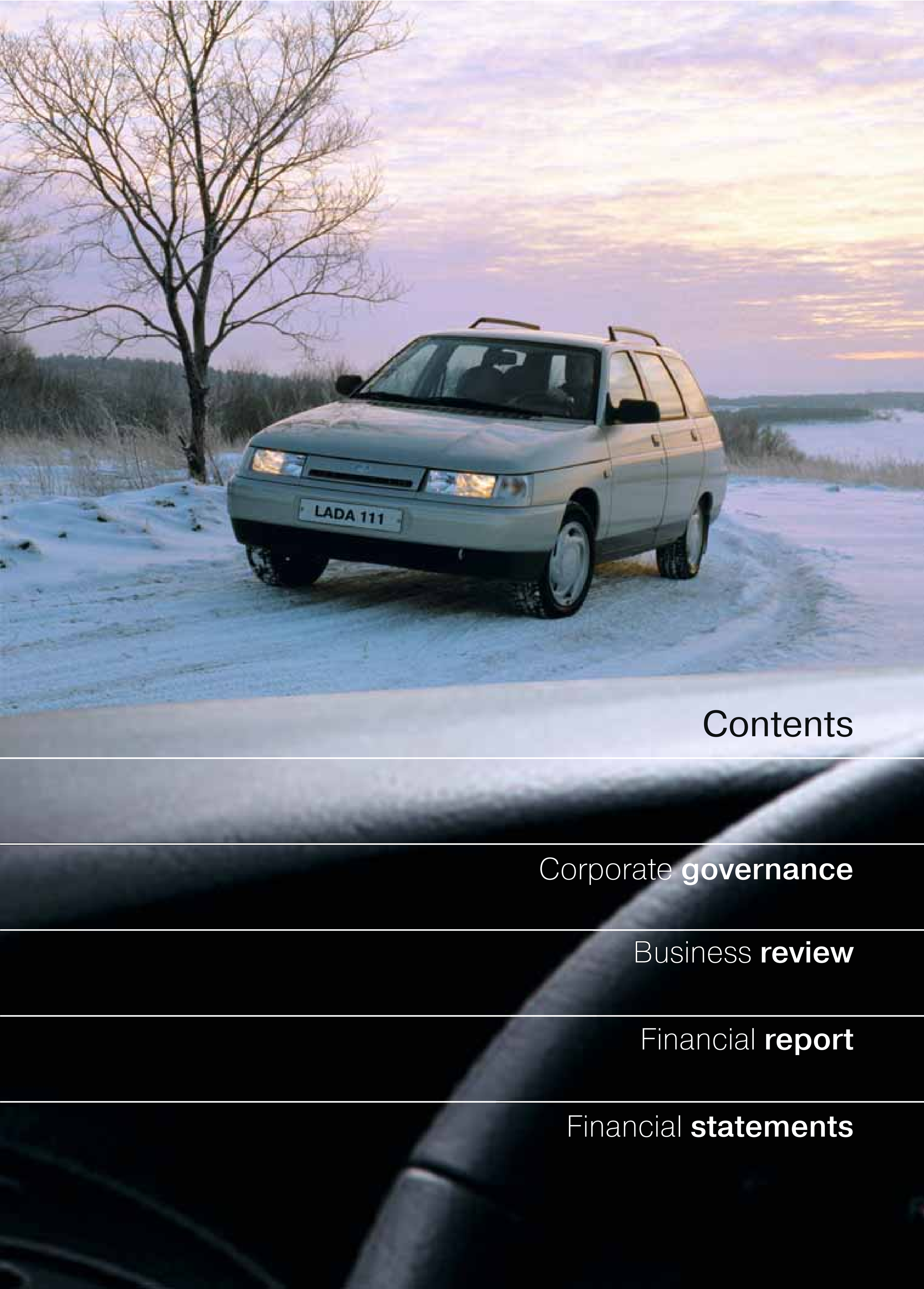
automotive market by offering quality

vehicles at reasonable prices

and in due course to join the elite

of the major automotive producers.

From the report of V.V. Kadannikov, Chairman of the Board of Directors of JSC AVTOVAZ,
at the General Shareholders' Meeting



Contents

V.V. Kadannikov,
Chairman
of the Board of Directors
of JSC AVTOVAZ

In the reporting year JSC AVTOVAZ celebrated an anniversary – on January 5, 1993 the state enterprise PO AVTOVAZ was reorganized into a joint stock company. Ten years is a short period in historical terms. However, those ten years witnessed drastic changes in both the political and economic environment in Russia. Most of the time JSC AVTOVAZ had to forge its way in an environment where the maximum planning horizons never exceeded a one-year period.

During the ten years, AVTOVAZ:

- survived the ordeals of political turbulence and economic severance from State support. Not only did it withstand the test, but it also proved its leadership as the main driver of the Russian automotive industry. We are determined to build on this success and continue our constructive work aimed at the development of Russia's technological and intellectual base;
- withstood the test of hyperinflation, barter and "virtual economy"; we stood our ground and moved from a survival strategy to a strategy of development. We were able to develop and bring to production new car models even in the most difficult of times;
- passed the test of demands for transparency posed by financial markets and corporate discipline required of a public company: since 1999 we have been publishing an annual report, including IFRS consolidated financial statements; our securities are listed on both Russian and foreign stock exchanges;
- withstood the test of international competition, maintained and strengthened our market position – competition has forced us to take serious steps to improve both the quality of production and organization of management of the whole enterprise.

PROGRESS AND LESSONS OF THE FIRST DECADE: **a Basis for Further Development**

Our ability to monitor the dynamics of the market and introduce timely changes into management processes and production engineering has ensured the survival of JSC AVTOVAZ in a highly uncertain environment of the transition period. We have spared from poverty and unemployment hundreds of thousands of our employees and workers in allied industries, and we intend to continue to do so.

The Board of Directors has in the first place focused on the long-term perspective - the development of production and enhancement of our engineering performance standards, improvement of business efficiency, streamlining of the organisational structure, growth of the Company's capitalization, strengthening of its position on the stock exchange (and not only in Russia) and, accordingly, growth of the Company's attractiveness to investors.

Since July 2002 when the Russian Government approved the Concept of the development of the automotive industry in Russia, JSC AVTOVAZ has, in its strategy, been pursuing the objectives, tasks and priorities set forth in the Concept. Specifically, as per the terms and conditions governing Stage 1 of the Concept implementation (through 2004), we increase every year the production of vehicles meeting the requirements of both EURO-2 and EURO-3. Preparations are now underway to ensure that ALL car models manufactured by JSC AVTOVAZ meet at least EURO-2 environmental safety standards.

Our strategy provides for a full renewal of the model range by 2008 and putting into production new models at least once every five years. Within the framework of that strategy, several new projects are in various stages of implementation.

Throughout its whole history, JSC AVTOVAZ has been the leader of Russia's automotive industry and has always been committed to the idea of development and growth. Without such a commitment, no significant result can be achieved - in times past, at present or in times to come. As often as not, we have to work under challenging or critical conditions, and our proactive approach which is focused on further development and growth has justified itself, both in the past and today.

When questions are raised as regards our strategy or our future, all answers can be reduced to just one phrase, pure and simple: "AVTOVAZ is developing and will continue its development – in technological, organisational or any other area". Therefore, our main strategic objective remains unchanged – ***to retain our indisputable leadership on the Russian automotive market by offering quality vehicles at reasonable prices and in due course to join the elite of the major automotive producers.***

During the decade of our development in the form of an open joint stock company (which was a new legal form to us), JSC AVTOVAZ has successfully adapted to a market economy and is now ready for new challenges. We assure our shareholders, partners and clients that in years to come we will not only preserve our existence, but will be growing and developing our business.

V.A. Vilchik,
President-General Director
of JSC AVTOVAZ

Our Company entered the year 2003 under rather difficult conditions caused by a sudden drop in sales of passenger cars and, accordingly, a significant decrease in production. During January and February 2003, the Company worked under a special timetable, whereby the workweek was cut to 30 hours. The Board of Directors and the Board of Management undertook contingency measures with a view to strengthening and expanding the dealer network in the regions as well as bringing our products closer to the ultimate buyer. To this end, starting from 1 March 2003 the Company itself covered the costs incurred in delivering vehicles to wholesale buyers in the regions. Additional certain steps have been taken to improve the quality of vehicles, rectify common defects, lengthen warranty periods and meet the wholesale buyers' requirements as regards vehicle colour, model and modification. These and other steps made it possible to improve sales and eliminate a backlog of unsold vehicles. Since March 2003, the Company's assembly lines have been operating at full capacity and with a 48-hour workweek, i.e. 11 shifts per week, including the morning shift on Saturdays. In the reporting year, all vehicles produced by the Company were sold, and we managed to successfully overcome a traditional downturn in the consumer demand during the autumn-winter season.

NEVER REST ON YOUR LAURELS

During the reporting year the stock market demonstrated a sustained interest in JSC AVTOVAZ shares, which correspondingly impacted our share price. As a result, the growth in market price of ordinary shares in 2003 was 12.44%, and preference shares – 24.6%.

Special attention is given to the dividend policy which is a major factor supporting the Company's share price. The Board of Directors recommended that the General Shareholders' Meeting should allocate RR 631 million, or 13.5% of net profits generated in the 2003 financial year, for payment of dividends on all shares in the Company. The dividend is three times greater than last year.

The Company continued to pursue coordinated policies as regards salary/wages arrangements and social protection of our employees. We have established a flat level of minimum salary/wages which cannot fall below the minimum subsistence level set by federal law; unified and consistent social benefits and guarantees have been put in place. Income of our employees is not limited to their salaries/wages. Social benefits and payments under social guarantees account for a considerable portion of their income. However, it is noteworthy that in recent years steps have been taken to increase the proportion of salary/wages which provides labour incentives, and to bring down the proportion of social benefits which are provided irrespective of an employee's contribution to overall work. In 2003, social payments per employee amounted to RR 23,610, which on average means an additional RR 1,967.5 per month. In December 2003, total income of a core-production employee, including social payments, amounted to RR 10,834, whereas in March 2004 – RR 11,838. Labour costs remain one of our major expense items.

The difficulties in sales of vehicles experienced in 2002 and 2003 have shaped requirements as regards the Company's management system.

The marketing strategy of JSC AVTOVAZ is rooted in the realities of the Russian market. The main criteria on the Russian automotive market are functionality and price. Functionality includes reliability, safety, comfort and level of accessories. Despite a shift in demand towards higher-price niches, a price of USD 7,000 to USD 8,000 remains a ceiling for mass demand on the Russian market. The affordable price of our vehicles on the Russian market is therefore an area of focus for us.

Our marketing strategy comprises three major areas:

- Developing customer loyalty;
- Expanding the market in the fast-growing services sector;
- Meeting the demands of small business.

More than half of Russian passenger cars are represented by LADA vehicles. That is a huge potential of customer loyalty which we do not intend to lose. Our customers remain highly loyal to AVTOVAZ. However, we should make every effort to keep abreast of the competition. Therefore, one of the Company's greatest priorities is to improve and expand our client service in order to raise customer satisfaction. The development of the services sector is a significant factor influencing both the volume and structure of the passenger car market.

Small business is also on the rise in Russia. It puts great emphasis on mobility, hence the growing demand for vehicles. However, a start-up business can not afford an expensive car. As a rule, such businesses are our potential customers. We think that by offering them practical and affordable vehicles we play an important social role, helping to boost economic activity of the population, encouraging self-accomplishment of people and raising employment.

Our marketing strategy enables us to monitor the Company's position on the market in order to ensure the Company's competitive advantage in the segment of practical cars for pragmatic customers whose incomes are in the lower middle bracket. This social group accounts for most of the economically active population in Russia, CIS and developing countries.

Renewal of technologies and model range – is a priority task dictated by the market. Our program for the development of AVTOVAZ' model range through 2008 provides for a considerable improvement of consumer properties as regards safety and toxicity levels.

The Kalina project represents qualitative progress in vehicle design, implementation of new technologies of welding, painting and assembly as well as organisation of production. Technical solutions used in manufacturing of the Kalina vehicles have been developed in cooperation with the leading suppliers of equipment, namely Eisenmann (Germany), KUKA and others. To ensure quality, a modular assembly principle was applied. Doors and dashboard will be preassembled outside assembly lines. Modern testing equipment will make it possible to perform objective diagnostics of main characteristics of a vehicle. Mass production of the LADA KALINA will start on 18 November 2004.

In parallel, we are preparing to begin the manufacture of the PROJECT 2170 model which would replace the 2110 family. Within the framework of that project, design documentation has been developed, five prototypes have been manufactured and test-runs have been performed. Manufacturing is scheduled to begin by the end of 2006.

We constantly improve the environmental safety of our vehicles. Each year, we increase the production of vehicles meeting the requirements of EURO-2 and EURO-3.

Our task in the near term is to ensure smooth implementation of new base models at an interval of no more than five years.

Ensuring client satisfaction is a complex task. We have encountered a great deal of issues: from breaking the "production push mentality" inherited from the past to having our management system certified under international standards. Without this, it would be impossible to compete on global markets.

Sales management has undergone extensive transformation which was based on market relations between the participants of the process and a flexible pricing policy. We have completed a transition to a two-level system of market product distribution: "factory – regional distributor – dealers" or "regional sales department – dealers".

We continue to improve corporate relations within the Company based on our commitment to and responsibility for customer satisfaction. Following the certification of the quality management system of JSC AVTOVAZ to ISO 9001:2000 requirements, we have started to take all the steps necessary in order to ensure it complies with the international industry standards ISO/TS 16949. Accordingly, we are raising our requirements as regards quality management on the part of our suppliers whose impact upon the quality of final product cannot be overestimated.

Streamlining our relations with suppliers is a critical factor for enhancing the Company's competitiveness. Following global trends, JSC AVTOVAZ pursues a policy of concentrating its production facilities on manufacturing main systems of a vehicle, while seeking to strike an optimal balance between its own production of components and purchases of components from other manufacturers.

A project is underway to test-run an IT system for data exchange between JSC AVTOVAZ and its main suppliers based on Internet technologies. The objective of this work is to raise the quality of components and cut costs.

In general, we have now established a market-based system for the management of AVTOVAZ's supply chain.

Our reform of our corporate structure and management systems was aimed at one strategic objective – ensuring JSC AVTOVAZ' competitiveness for the long-term. During the reform, principal organisational changes have been introduced in the main areas of our activity. JSC AVTOVAZ is prepared for its transformation into a market-oriented, holding company consisting of business units that are structurally separated by product, function or territory based on a system of business processes. Business units within production and social functions have been established. The business units established enjoy significant economic independence, including the issues of economic incentives aimed at constant cutting of costs and generation of profits through increased efficiency. A unified strategic management centre (the Corporate Centre of JSC AVTOVAZ) has been put in place which comprises functional divisions reporting to vice-presidents by line of activity. The complex and multi-layer management system that was in place in previous years has been transformed into a simple two-level structure: the Corporate Centre and a business unit.

In line with this new structure, the budget management system has been modernised. It is based on the following foundation: fulfilling centralised orders, balancing resources, communicating business performance indicators and controlling budget implementation for each business unit and JSC AVTOVAZ in general.

JSC AVTOVAZ, with its renewed structure and management system, is now prepared to enter a new stage of its development – strategic partnerships with leading manufacturers of both vehicles and components as well as integration into the global automotive market.

Board of Directors of JSC AVTOVAZ

V.V. Kadannikov
Chairman of the Board of Directors,
JSC AVTOVAZ

V.A. Vilchik
President-General Director,
JSC AVTOVAZ

Y.B. Stepanov
First Vice-President –
First Deputy General Director,
JSC AVTOVAZ

N.M. Karagin
Chairman of the Workers' Union,
JSC AVTOVAZ

N.V. Lyachenkov
Member of the Board of Directors,
JSC AVTOVAZ

V.P. Yatsenko
Vice-President, OAO "Vneshtorgbank"

A.V. Nikolaev
Member of the Board of Directors, JSC AVTOVAZ

V.I. Doronin
Head of the Industry and Commerce Department, Administration of the Samara Region

N.N. Kosov
First Deputy Chairman, Vnesheconombank

K.G. Sakharov
Vice-President, Research and Development, JSC AVTOVAZ

A.A. Gavrikov
Director, Department of Corporate Clients Relations, Managing Director, OOO "Aton"

R.L. Sheinin
General Director, ZAO "Central Branch of Automobile Finance Corporation"

Board of Directors of JSC AVTOVAZ at 31.12.2003

Board of Management of JSC AVTOVAZ

As at 31.12.2003

Individual executive body

V.A. Vilchik President-General Director, JSC AVTOVAZ

Collective executive body

Chairman of the Board of Management:

V.A. Vilchik
President-General Director, JSC AVTOVAZ

Members of the Board of Management:

V.M. Alshin
Director, Power Supply, JSC AVTOVAZ

E.A. Antoshin
Director, Pilot Production Division of R&D Department, JSC AVTOVAZ

A.V. Vasilchuk
Director, Quality, JSC AVTOVAZ

N.M. Golovko
Director, Development, JSC AVTOVAZ

V.N. Golberg
Director, Production Recycling, JSC AVTOVAZ

V.I. Gouba
Chief Designer, JSC AVTOVAZ

V.A. Davydov
Director, Production Equipment Division, JSC AVTOVAZ

I.M. Dubrovin
Director, Production, JSC AVTOVAZ

N.A. Dudin
Director, Assembly Kit Center, JSC AVTOVAZ

V.P. Yeliseyev
Director, Plastic Parts Production, JSC AVTOVAZ

K.P. Yeroslayev
Director, Large Press Shop, JSC AVTOVAZ

Y.S. Zektser
General Director, All-Russia Automobile Alliance

G.I. Kazakova
Finance Director – Head of Treasury, JSC AVTOVAZ

V.B. Karmazin
Director, Vehicle Production Organization, JSC AVTOVAZ

V.G. Klintsev
Assistant to General Director – Head of the Technical Secretariat, JSC AVTOVAZ

A.I. Kovalev
Director, Tooling Production, JSC AVTOVAZ

V.K. Kotenev
Director, Sub-Assembly, JSC AVTOVAZ

I.A. Kropachev
Director, OAO SeAZ

N.A. Kuznetsov
Director, Property Department, JSC AVTOVAZ

V.N. Kuchai
Vice-President, Marketing, Sales and Cars Technical Services, JSC AVTOVAZ

A.K. Mamontov
General Director, OAO SeAZ

M.V. Moskalev
Vice-President, Strategy and Corporate Governance, JSC AVTOVAZ

A.P. Nametkin
Director, Cars and Spare Parts Sales and Technical Services, JSC AVTOVAZ

P.A. Nakhmanovich
Director, Public Relations, JSC AVTOVAZ

V.I. Ovcharenko
Director, Foundry, JSC AVTOVAZ

N.I. Ostudin
Director, Equipment Repair and Maintenance Division, JSC AVTOVAZ

S.V. Ochirov
Director, Security, JSC AVTOVAZ

A.V. Pakhomenko
Director, Economics and Planning, JSC AVTOVAZ

S.N. Perevezentsev
Director, Press Moulds and Dies, JSC AVTOVAZ

V.P. Peresypkinsky
Vice-President, Human Resources, JSC AVTOVAZ

V.P. Potemkin
General Director, OAO DAAZ

M.V. Polyakov
Director, Purchasing, JSC AVTOVAZ

A.N. Pushkov
Director, Engineering and Technological Provision, Chief Engineer, JSC AVTOVAZ

K.G. Sakharov
Vice-President, Research and Development, JSC AVTOVAZ

A.P. Sarychev
Director, Personnel, JSC AVTOVAZ

V.V. Sazhin
Director, Social Infrastructure, JSC AVTOVAZ

P.R. Senkov
Director, VAZ 1118 Project, JSC AVTOVAZ

P.N. Skrinsky
Vice-President, Production, JSC AVTOVAZ

V.M. Soloviev
Chief Technologist, JSC AVTOVAZ

Y.B. Stepanov
First Vice-President –
First Deputy General Director, JSC AVTOVAZ

V.I. Tikhonov
Director, Information Systems, JSC AVTOVAZ

N.P. Khatuntsov
Chief Accountant – Director of Accounting, Taxes and Audit, JSC AVTOVAZ

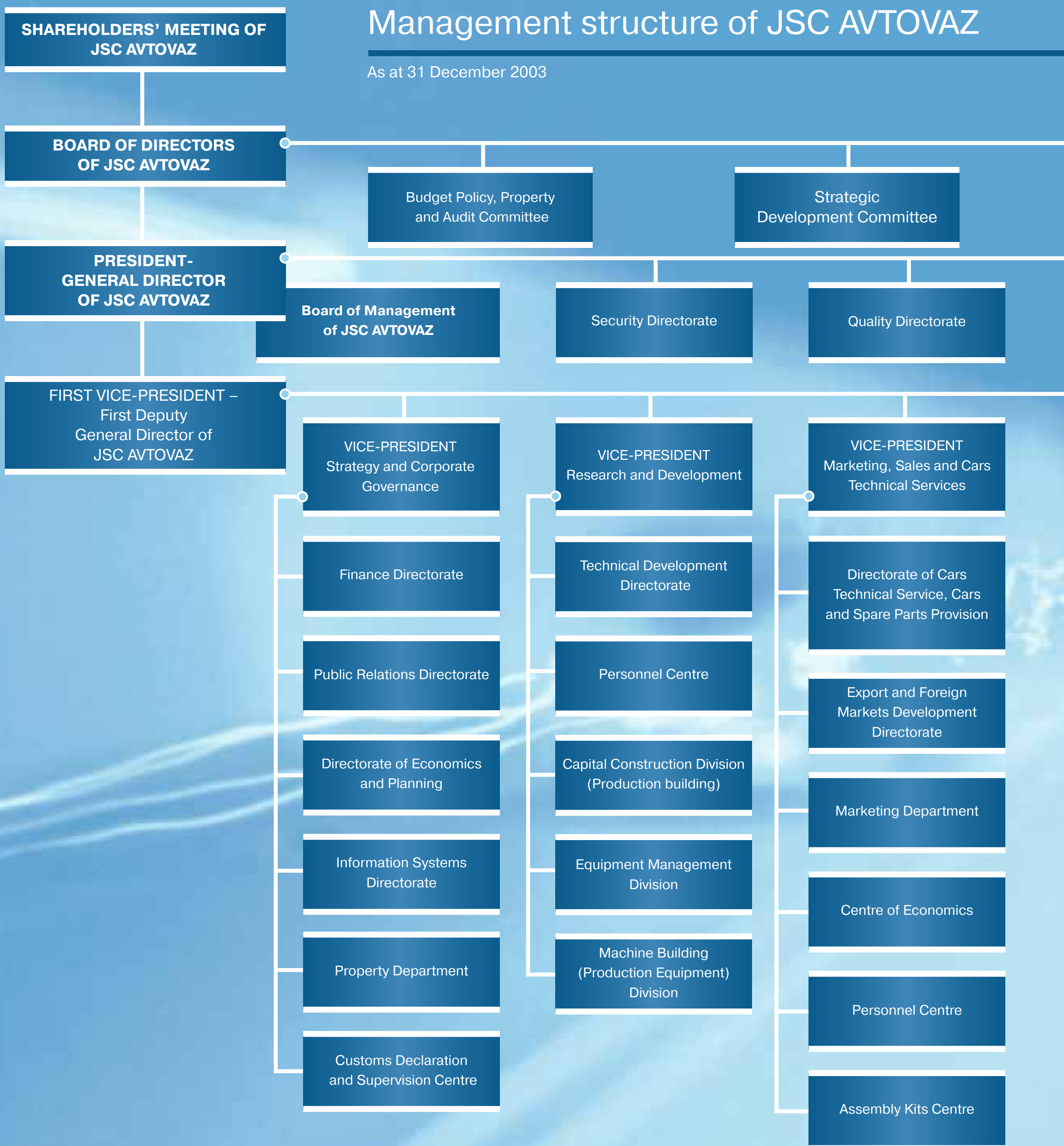
A.S. Cheryomukhin
Director, Spare Parts Production and Sales – Director of Main Spare Parts Centre, JSC AVTOVAZ

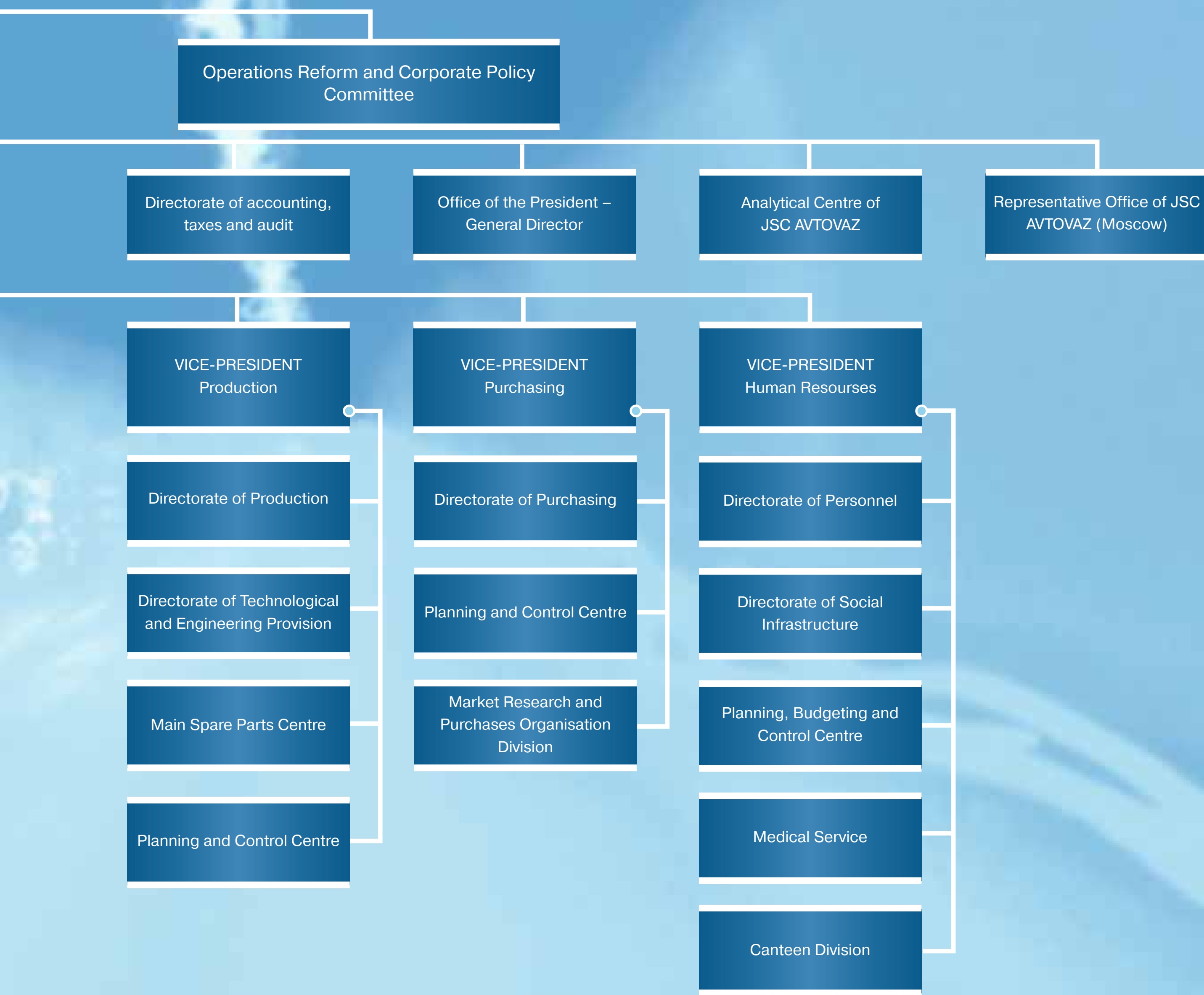
V.V. Sharaev
Director, Export Sales and Markets, JSC AVTOVAZ

V.G. Shendyapin
Director, Final Assembly Division, JSC AVTOVAZ

Management structure of JSC AVTOVAZ

As at 31 December 2003




Operations Reform and Corporate Policy Committee
Directorate of accounting, taxes and audit
Office of the President – General Director
Analytical Centre of JSC AVTOVAZ
Representative Office of JSC AVTOVAZ (Moscow)
VICE-PRESIDENT Production
VICE-PRESIDENT Purchasing
VICE-PRESIDENT Human Resourses
Directorate of Production
Directorate of Technological and Engineering Provision
Main Spare Parts Centre
Planning and Control Centre
Directorate of Purchasing
Planning and Control Centre
Market Research and Purchases Organisation Division
Directorate of Personnel
Directorate of Social Infrastructure
Planning, Budgeting and Control Centre
Medical Service
Canteen Division

Yuri B. Stepanov

First Vice-President – First Deputy General Director,
JSC AVTOVAZ

After the financial crisis in 1998 the AVTOVAZ Group has seen its financial position steadily improve over the past five years, demonstrating healthy profitability and complying with the terms of the restructuring of overdue taxes and tax interest accumulated in the past.

FIVE-YEAR FINANCIAL REVIEW OF THE AVTOVAZ GROUP

This financial review is intended to give an insight into the Group's financial performance over the last five years.

During 1999-2002 the Russian economy experienced high rates of inflation, with cumulative inflation more than 100%. However, the rate reduced gradually over this period, and the economic situation in Russia in 2003 provided evidence that hyperinflation had ceased.

Russian accounting standards require JSC AVTOVAZ to prepare annual financial statements in historical roubles with no adjustment for inflation.

Consequently, the statutory financial statements for the period between 1999 and 2002 prepared annually by JSC AVTOVAZ in accordance with Russian legislation do not lend themselves to comparison from year to year in any meaningful way, or allow the reader to form any clear idea of trends in the business.

Recognising this fact, AVTOVAZ has during the last nine years prepared consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

1999-2002 IFRS consolidated financial statements have been adjusted for the effects of inflation, and therefore enable the results of operations from year to year to be presented on a comparable basis, and reveal more clearly the underlying trends in the business.

The following analysis has been drawn from the consolidated IFRS financial statements.

All figures in 1999-2002 financial statements are expressed in terms of the measuring unit current at 31 December 2002.

IFRS financial statements for the past five years (1999-2002) have been restated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian State Committee on Statistics as follows:

1998	1999	2000	2001	2002
2.24	**1.64**	**1.37**	**1.15**	**1.00**

2* Зак. 10025. Годовой отчет ОАО «АВТОВАЗ» на англ. яз.

CONSOLIDATED IFRS BALANCE SHEETS
at 31 December

(In millions of Russian Roubles)

	2003	2002	2001	2000	1999	1998
ASSETS						
Current assets:						
Cash and cash equivalents	6,767	2,751	4,569	3,792	4,398	5,009
Trade receivables, net	7,202	8,247	9,116	9,390	10,380	15,533
Financial assets through profit and loss	4,359	1,154	-	-	-	-
Other current assets	6,499	5,508	6,837	6,986	6,461	6,700
Inventories	19,009	18,484	14,661	14,459	14,468	16,327
Total current assets	**43,836**	**36,144**	**35,183**	**34,627**	**35,707**	**43 569**
Property, plant and equipment	104,350	100,383	97,455	99,568	101,353	101,983
Investments	675	466	305	1,538	1,905	1,607
Investments in associates	866	754	478	-	-	-
Development costs	1,699	714	-	-	-	-
Other assets	638	519	419	368	492	184
Total long-term assets	**108,228**	**102,836**	**98,657**	**101,474**	**103,750**	**103,774**
Total assets	**152,064**	**138,980**	**133,840**	**136,101**	**139,457**	**147,343**
LIABILITIES & SHAREHOLDERS' EQUITY						
Current liabilities:						
Trade payables current	17,495	17,444	16,628	18,591	15,647	14,450
Other payables and accrued expenses	5,743	9,991	7,160	5,613	7,286	11,110
Taxes payable-current other than income tax	4,289	2,927	3,859	7,782	11,127	20,835
Provisions	1,732	2,189	4,367	5,823	5,522	3,506
Short-term debt	11,852	9,296	4,947	5,599	6,310	6,971
Advances from customers	5,635	1,061	4,230	4,807	2,468	4,002
Total current liabilities	**46,746**	**42,908**	**41,191**	**48,215**	**48,360**	**60,874**
Long-term debt	10,587	4,005	3,292	8,213	18,629	23,377
Long-term taxes payable	4,405	4,491	5,483	12,149	16,323	11,716
Deferred tax liability	10,824	10,762	7,711	14,405	7,292	4,169
Total long-term liabilities	**25,816**	**19,258**	**16,486**	**34,767**	**42,244**	**39,262**
Total liabilities	**72,562**	**62,166**	**57,677**	**82,982**	**90,604**	**100,136**
Minority interest*	**-**	**-**	**12,284**	**8,832**	**8,491**	**8,294**
Equity:						
Share capital	28,890	28,890	30,193	30,211	30,284	29,902
Currency translation adjustment	1,289	1,119	961	822	1,111	1,153
Retained earnings	48,033	45,218	32,725	13,254	8,967	7,858
Total shareholders' equity	**78,212**	**75,227**	**63,879**	**44,287**	**40,362**	**38,913**
Minority interest*	**1,290**	**1,587**	**-**	**-**	**-**	**-**
Total equity	**79,502**	**76,814**	**63,879**	**44,287**	**40,362**	**38,913**
Total liabilities and shareholders' equity	**152,064**	**138,980**	**133,840**	**136,101**	**139,457**	**147,343**

*** Changes in accounting policy**

The Group has early adopted IAS 27R "Consolidated Financial statements and accounting for investments in subsidiaries" and accordingly changed the policy for accounting for minority interest. In prior years minority interest was presented separately from liabilities and equity. From 1 January 2002 minority interest is presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

The Group also changed its policy with respect to the method of calculating minority interest. The Group no longer attributes minority interest relating to cross shareholdings.

CONSOLIDATED IFRS STATEMENTS OF INCOME
for the years ended 31 December

(In millions of Russian Roubles)

	1999–2003*	2003	2002	2001	2000	1999
Net sales	597,537	130,772	119,432	129,905	113,790	103,638
Cost of sales	(495,989)	(110,003)	(99,331)	(105,391)	(95,200)	(86,064)
Gross profit	**101,548**	**20,769**	**20,101**	**24,514**	**18,590**	**17,574**
Selling, general and administrative expenses	(59,755)	(12,804)	(11,993)	(10,119)	(14,544)	(10,295)
Research and development expenses	(8,236)	(628)	(1,425)	(2,873)	(1,583)	(1,727)
Other operating expenses	(13,847)	(1,854)	(935)	(3,272)	(2,275)	(5,511)
Negative goodwill	458	458	-	-	-	-
Gain/(loss) from change of fair value of financial assets at fair value through profit and loss and available-for-sale investments, net	73	-	(157)	230	-	-
Operating income (loss)	**20,241**	**5,941**	**5,591**	**8,480**	**188**	**41**
Interest expense	(26,396)	(3,416)	(3,077)	(3,635)	(4,347)	(11,921)
Foreign exchange (loss) gain	(9,569)	(617)	(1,266)	(83)	(412)	(7,191)
Monetary gain	36,690	-	4,187	6,421	8,582	17,500
Gains on extinguishment and forgiveness of tax debts and other borrowings	32,193	325	601	9,786	13,050	8,431
Income from associates and joint ventures	357	333	24	-	-	-
Profit (loss) before taxation	**53,516**	**2,566**	**6,060**	**20,969**	**17,061**	**6,860**
Current income tax credit/(expense)	(15,774)	447	(1,880)	(6,905)	(5,395)	(2,041)
Deferred income tax (expense) benefit	(8,358)	(62)	(3,052)	4,992	(7,112)	(3,124)
Net profit (loss)	**29,384**	**2,951**	**1,128**	**19,056**	**4,554**	**1,695**
Minority interest	(4,152)	83	(4)	(3,138)	(792)	(301)
Net income (loss) attributable to shareholders of AVTOVAZ Group	**25,232**	**3,034**	**1,124**	**15,918**	**3,762**	**1,394**
Weighted average number of ordinary shares outstanding during the year (000's)	**14,958**	**14,445**	**14,980**	**15,101**	**15,123**	**15,142**
Earnings per share (in RR)	**1,686.86**	**210**	**75**	**1,054**	**249**	**92**

* - this column represents cumulative numbers for the period from 1999 to 2003 inclusive.

CONSOLIDATED IFRS STATEMENTS OF CASH FLOWS

for the years ended 31 December

(In millions of Russian Roubles)

	1999–2003*	2003	2002	2001	2000	1999
Cash flows from operating activities:						
Operating cash flows before working capital changes	**66,391**	**12,746**	**12,300**	**17,847**	**11,222**	**12,276**
Cash provided from operations	**54,311**	**12,644**	**6,142**	**14,769**	**9,257**	**11,499**
Income taxes paid	(10,669)	(1,671)	(2,531)	(4,341)	(711)	(1,415)
Interest paid	(11,437)	(3,660)	(1,050)	(1,563)	(1,875)	(3,289)
Net cash provided from operating activities	**32,205**	**7,313**	**2,561**	**8,865**	**6,671**	**6,795**
Cash flows from investing activities:						
Net cash used in investing activities:	(37,109)	(9,730)	(7,852)	(6,693)	(6,303)	(6,531)
Cash flows from financing activities:						
Net cash (used in) provided from financing activities	**7,773**	**6,446**	**3,627**	**(1,197)**	**(691)**	**(412)**
Effect of inflation on cash	(2,428)	-	(234)	(307)	(412)	(1,475)
Effect of exchange rate changes	1,317	(13)	80	109	129	1,012
Net (decrease) increase in cash and cash equivalents	**3,758**	**4,016**	**(1,818)**	**777**	**(606)**	**(611)**
Cash and cash equivalents at the beginning of the period	**5,009**	**2,751**	**4,569**	**3,792**	**4,398**	**5,009**
Cash and cash equivalents at the end of the period (Note 9)	**6,767**	**6,767**	**2,751**	**4,569**	**3,792**	**4,398**

During the past five years AVTOVAZ has generated substantial operating net cash flow from operations of RR 32,205 million. This, together with restructuring of tax and debt obligations, has enabled the Group to reduce its net current liability position from RR 17,305 million in 1998 to RR 2,910 million in 2003.

In 1999-2001 AVTOVAZ was unable to raise significant external finance and, consequently, had to utilise the majority of these net operating cash flows to invest in property, plant and equipment. The situation began to change in 2002 when the Group received RR 3,627 million from financing activities and in 2003 RR 6,446 million, including loans from Deutsche Bank and Alfa Bank.

* - this column represents cumulative numbers for the period from 1999 to 2003 inclusive.

Production mix

AVTOVAZ recognises the need to improve quality of its vehicles in anticipation of the Russian Federation's entering into the World Trade Organisation and consequent increase in competition from western automotive companies. AVTOVAZ is continuously working to improve on quality and consumer features of its products.

During the period under review AVTOVAZ changed its product mix, removing the majority of its older rear-wheel drive models from main production lines. AVTOVAZ launched the new LADA 110 family in 1997 and reached full production capacity for this range in 2001. AVTOVAZ has upgraded its LADA SAMARA range.

In September 2002 the joint venture of AVTOVAZ and GM successfully launched the Chevrolet-Niva model. In 2003 the joint venture produced 25 thousand vehicles which generated revenues of RR 4,768 million and a net income of RR 635 million.

In 2004 the joint venture is planning to start production of a new model based on the Opel Astra T-3000.

Further, in order to meet the strict requirements of European quality and toxic emissions standards, e.g. Euro 3, AVTOVAZ has been both upgrading its own production equipment and ensuring that purchased components are produced in compliance with these standards.

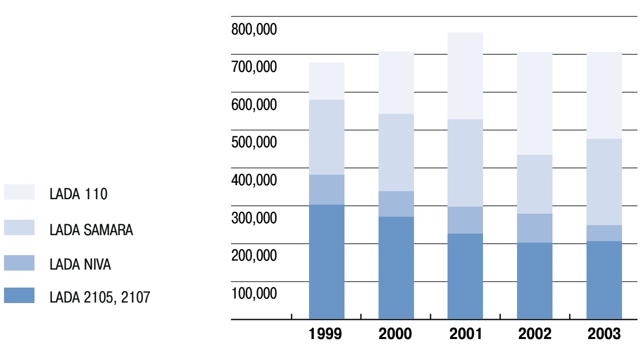
Capacity utilisation

The Company has managed to maintain consistently high levels of capacity utilisation over the past five years despite challenging macro economic factors, among which were high inflation and rising energy and raw materials costs.

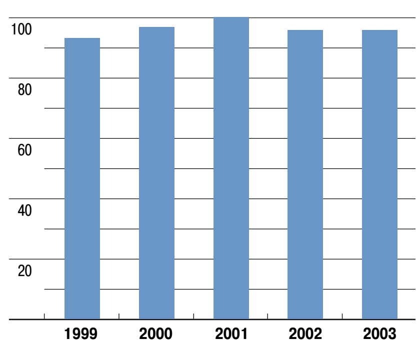
Maintaining high utilisation enables the Company to maximise economies of scale, and keep its vehicles affordable.

The fall in utilisation in 1999 was due to the effects of the 1998 rouble crisis. In 2002 utilisation fell because of a temporary excess of sales of imported second hand vehicles. Overall utilisation has been kept at consistently high levels.

Change in production mix, units



Capacity utilisation, %



Sales price

The graph shows clearly how **price rises have been kept below the rate of inflation and in line with people's ability to pay.**

In addition, during the period under review the sales mix has steadily changed towards more modern vehicles. This did not lead to additional increases in sales price due to cost saving initiatives.

Operating performance

Over the past five years, AVTOVAZ has recorded substantial gross profit margins - 15% on average.

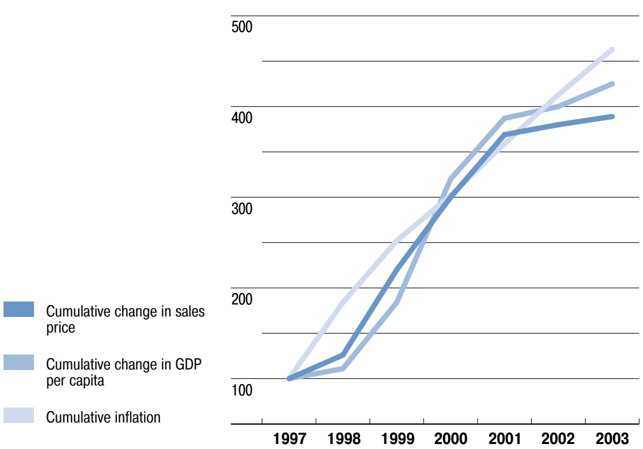
As can be seen from the chart, gross margins were adversely affected by the 1998 crisis, when vehicle prices were not increased despite inflationary pressures (as discussed above). The devaluation of the Russian rouble in 1998, however, greatly benefited export sales.The majority of export sales are made in CIS markets.

Management recognises the constant need to reduce costs to be competitive in the market and, apart from the measures discussed above, has taken the following steps:

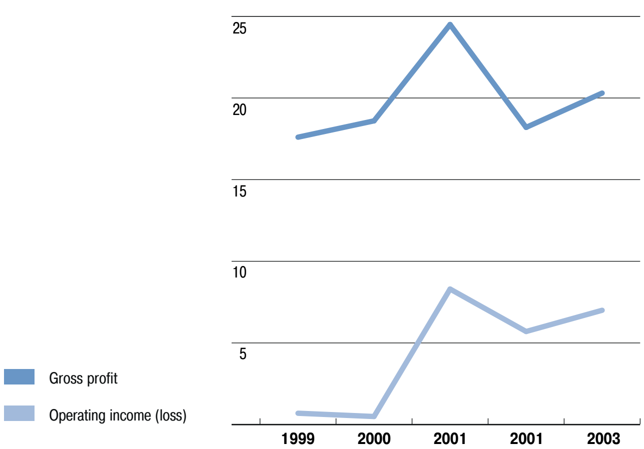
- In 1999 AVTOVAZ took the decision to eliminate barter transactions completely – suppliers had inflated prices under barter arrangements to compensate for the delay in receiving cash settlement.
- During 1999 and 2000 AVTOVAZ replaced the majority of foreign suppliers with Russian products. The share of cost of imported components at AVTOVAZ has decreased from 20-25% to 3-5%.
- The purchasing system was re-organised. AVTOVAZ monitored purchase costs more closely and negotiated better quality and prices for materials and components.
- AVTOVAZ transferred production of some components to third-party suppliers. This was done primarily to free up premises for installation of new equipment and production of components for new models. This policy has also resulted in a decrease in storage costs and an improvement in inventory turnover.
- During 2001-2003, JSC AVTOVAZ reorganised its budgeting system by establishing budgets for separate divisions and monitoring performance according to set budgets.

As a result of the above management actions AVTOVAZ has improved results from break even at an operational level in 1999 and 2000 to substantial operating income in 2001, 2002 and 2003.

Increase in sales price vs inflation and GDP, %



Analysis of performance, RR bn



Non-operating performance

Upon privatisation the Group inherited significant debt denominated in foreign currencies. Following the overall decline of the Russian economy the Group was not able to extinguish this debt in 1993–1998, resulting in significant foreign exchange losses and interest expenses. However, since 1998 the Group has been carrying out extinguishment and restructuring of this debt, which was completed by the end of 2003.

The general economic difficulties during 1993–1998 caused the Group to accumulate significant tax penalties, fines and punitive interest, and penalties for failing to repay loans when due.

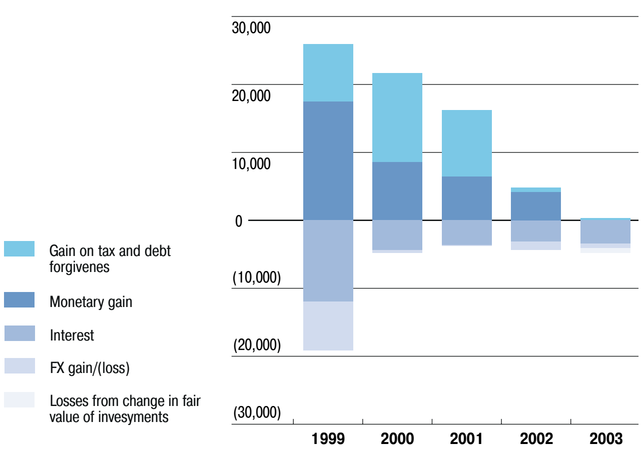
However, starting from the end of 1998 AVTOVAZ management was successful in applying favourable changes in tax legislation and obtaining forgiveness and restructuring of tax liabilities from the Russian government.

These deferrals of tax and debt payments resulted in real economic benefits to AVTOVAZ as reflected in the graph.

This reduction of currency denominated debt liability had some additional positive effects, such as a significant reduction in interest expense and foreign exchange losses.

The effect of the decline in the purchasing power of the rouble creates a monetary gain or loss. By holding net monetary liabilities (mainly amounts owed to suppliers and the government), AVTOVAZ gained purchasing power. Due to the continuous reduction in AVTOVAZ's net monetary liability position and the reduction in the rate of inflation, monetary gain also fell steadily between 1999 and 2002.

Non-operating income/(expenses), RR m

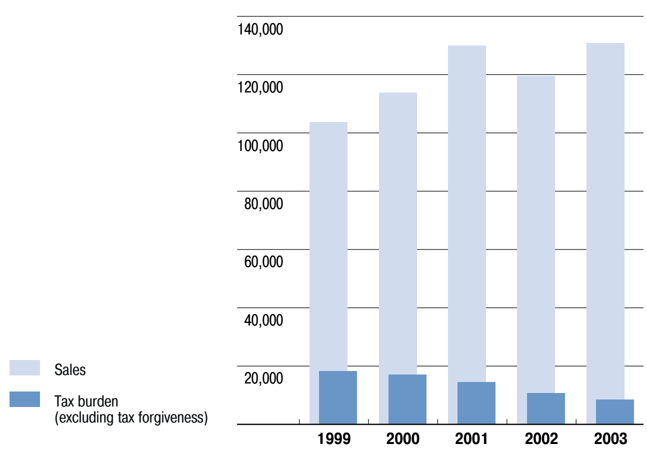


Taxation

The chart shows a decrease in the effective tax burden over the past five years: from 17% in 1999 to 6% in 2003. This is in large part due to favourable changes in tax legislation starting from 1999.

Starting from 1998, JSC AVTOVAZ has made timely payments of its current and restructured taxes.

Tax burden vs sales, RR m



Liquidity

Over the past five years AVTOVAZ has experienced continued difficulties with liquidity. The graph shows that AVTOVAZ's working capital has improved recently. However, it needs to be improved further to achieve positive levels.

By reorganising its sales network, the Group has significantly improved collections from customers. This was achieved by locating sales units closer to their markets.

AVTOVAZ has improved its net current liability position over the period by:

- Continued strong gross margins on vehicle sales;
- Reduction in operating costs;
- Restructuring of certain current (and long-term) obligations;
- Improvements in cash collections through the restructuring of the sales and distribution system.

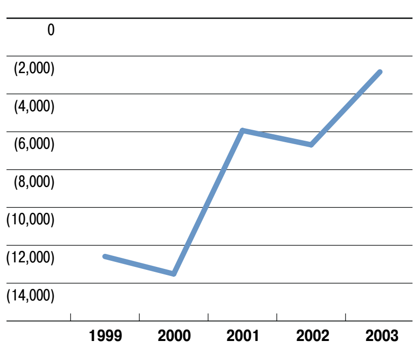
However, the need to invest in the launch of the new LADA KALINA range in 2004 represented a significant drain on the Group's cash flows.

As the graph demonstrates, the above initiatives have resulted in a reduction of debtors' days from 39 in 1998 to 20 in 2003.

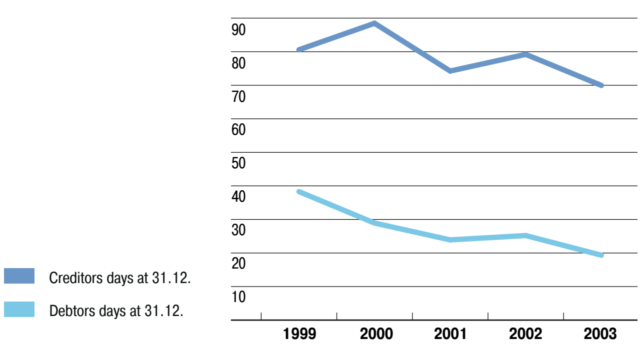
The majority of domestic sales in 2001-2003 was made on a prepayment basis. However, the above measures were not sufficient to finance current operations of AVTOVAZ. As a result, AVTOVAZ had to delay payment to suppliers in order to obtain additional financing. The gap between supplier terms and debtors' terms shown above has been the primary source of finance for AVTOVAZ in 1999–2003.

Management have recognised these liquidly problems and, apart from the steps mentioned above, have sought alternative sources of funds to finance the Group's operations. In 2003 AVTOVAZ managed to obtain medium term financing from Deutsche Bank amounting to USD 240 million, and RR 1,500 million in loans from Sberbank and Alfa Bank. In early 2003, another RR 1,000 million was obtained through a domestic bond issue; this bond was redeemed in 2004.

Working capital, RR m



Creditors days vs debtors days



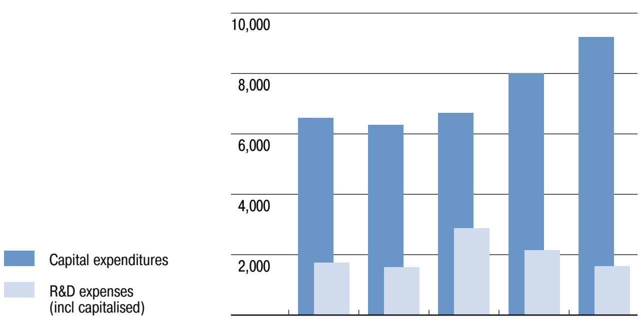
Investing in the future

Management continues to invest in the business to remain competitive.

On average, the Group has spent 1.7% of revenue on R&D and 6.0% of revenue on capital expenditures – in line with spending patterns of major international automotive manufacturers. These levels of investment expenditures have enabled the Group to:

- Successfully launch the LADA 110 range;
- Successfully launch the Chevrolet-Niva model together with GM;
- Invest in the LADA KALINA, with production planned in late 2004; and
- Continue working on new products.

Investment expenditures, RR m



Corporate **governance**

Mikhail V. Moskalev

Vice-President, Strategy and Corporate Governance, JSC AVTOVAZ

The growth in market price of ordinary shares and preference shares of JSC AVTOVAZ in 2003 was 12.44% and 24.6% respectively. The annual shareholders' meeting voted for the payment of dividends of RR 6 per ordinary share (2002: RR 5) and RR 95 per preference share (2002: RR 17) in respect of the results for the year 2003.

MISSION AND STRATEGIC TASKS

MISSION

Satisfaction of mass consumer demand for quality vehicles at acceptable prices.

STRATEGIC OBJECTIVE

Consolidate our undisputed position as the market leader in the Russian automotive industry for the long term, providing quality vehicles to Russian people at prices they can afford and, subsequently, to be recognised as one of the global automotive elite.

STRATEGIC TASKS

- Actively seek opportunities to form strategic alliances with large investors in a variety of areas of our activity.
- Rigorously pursue improvements in the quality of our products to improve our competitive position.
- Ensure that our products comply with the latest requirements of environmental safety.
- **Introduce new base models no less often than every five years.**
- **Revamp the model mix by 2008.**
- Improve the financial condition of JSC AVTOVAZ and reduce costs.
- Restructure our dealership network to be able to meet fully the expectations of LADA buyers.

SHARE CAPITAL

As at 31 December 2003, the statutory value of the Company's share capital is equal to RR 16,062, 482 thousand. It is divided among 32,124,964 shares of equal nominal value, and consists of:

- 27,194,624 ordinary shares; and
- 4,930,340 Type A preference shares.

The nominal value of each of these shares is RR 500.

Share Issue Information

	Issue and year of issue	Number of state registration	Quantity and category of shares	Status of issue
1.	First issue – 1993	42-1п-0164	5,354,161 Preference Type A 6,424,993 Preference Type B 9,637,489 Ordinary	Cancelled as a result of conversion
2.	Second issue – 1993	МФ 42-1-0283	10,708,321 Ordinary	Cancelled as a result of conversion
3.	Second issue – 1998	2-02-00002-A	4,930,340 Preference Type A	Placed
4.	Third issue – 1998	1-03-00002-A	27,194,624 Ordinary	Placed
5.	Fourth issue – 1999	1-04-00002-A	32,124,965 Ordinary for the restructuring of the debt to the budget	Deemed non-existent, cancelled
6.	Fifth issue – 2000	1-05-00002-A	32,124,965 Ordinary for the restructuring of the debt to the budget	Deemed non-existent, cancelled
7.	Sixth issue – 2001	1-06-00002-A	32,124,965 Ordinary for the restructuring of the debt to the budget	Deemed non-existent, on 16 January 2002, cancelled

Bond Issue Information

	Issue and year of issue	Number of state registration	Quantity and category of shares	Status of issue
1.	First issue – 1993	МФ-42-2-0213	42,755 Certified bearer bonds	Redeemed
2.	Second issue – 2002	4-01-00002-A	1,000,000 Certified bearer bonds	Redeemed
3.	Third issue – 2003	4-02-00002-A	3,000,000 Certified bearer bonds	Placed

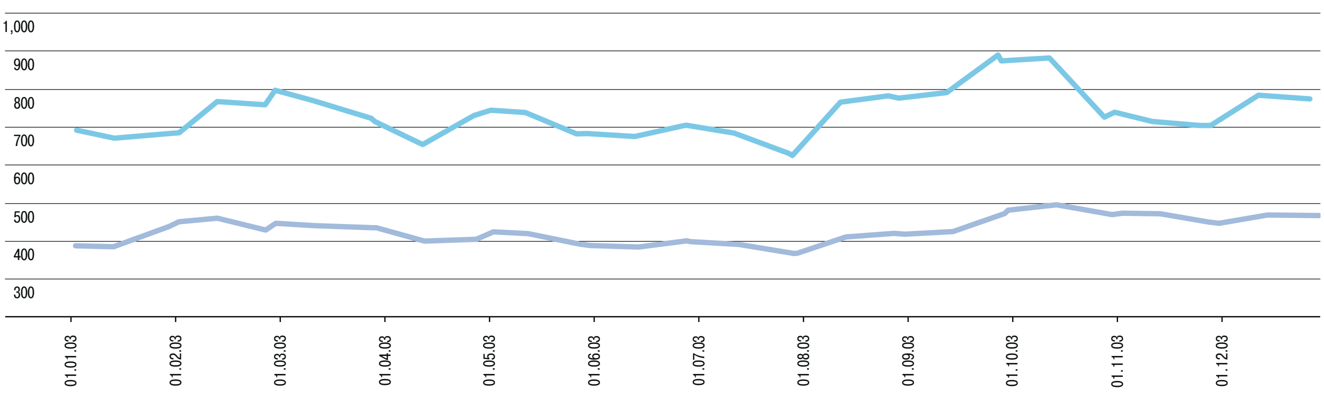
Share transactions

In 2003 the shares of JSC AVTOVAZ continued to strengthen their position on the stock market, demonstrated by regular trading and growing interest by qualified market players. On 28 February 2003 the shares of JSC AVTOVAZ were included in the “A1” listing of the MICEX.

By the close of 2003 the market price of the Company’s ordinary shares increased by 12.44% on 2002 while the market price of the Company’s preference shares increased by 24.6% on 2002.

The growth of JSC AVTOVAZ share prices was mainly caused by a trend on the Russian stock market that is characterised by a smooth movement away from investments in “blue chips” to a stronger interest in the shares of dynamically developing companies which have entered the market only in recent years. When looking at the 2003 results, it is noteworthy that JSC AVTOVAZ shares enjoy a stable demand from professional players of the Russian stock market.

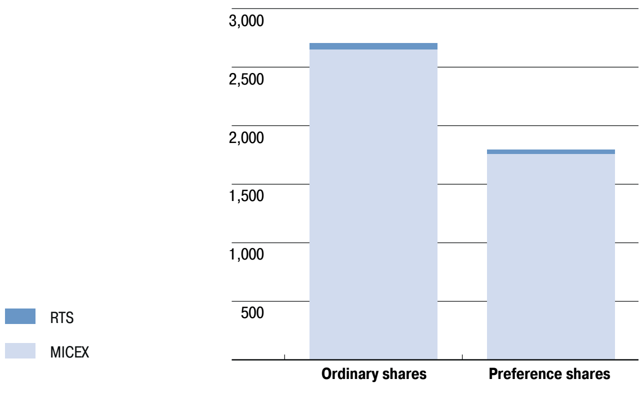
Change in price per one share of JSC AVTOVAZ in 2003, RR



In 2003, the total trading volume of shares of JSC AVTOVAZ at the RTS and MICEX was 2,704 thousand ordinary shares and 1,794 thousand preference shares. 98% of the trading was effected at the MICEX exchange.

There was more trading activity in the second half of the year, when the shares of JSC AVTOVAZ demonstrated stable growth of price.

Total trading volume of shares of JSC AVTOVAZ in 2003,
number of shares



Global Depository Receipts

The shares that were converted into global depository receipts (GDR) and are in circulation at the Frankfurt and Berlin stock exchanges account for approximately 1% of the Company's share capital.

In 2003 the GDRs of JSC AVTOVAZ strengthened their position at the Berlin Stock Exchange. Prices of the GDR of JSC AVTOVAZ went up by 5.77% during 2003.

Also, in April 2003 the GDRs of JSC AVTOVAZ were included in the listing of the Frankfurt Stock Exchange; prices increased by 7.14% by the year end.

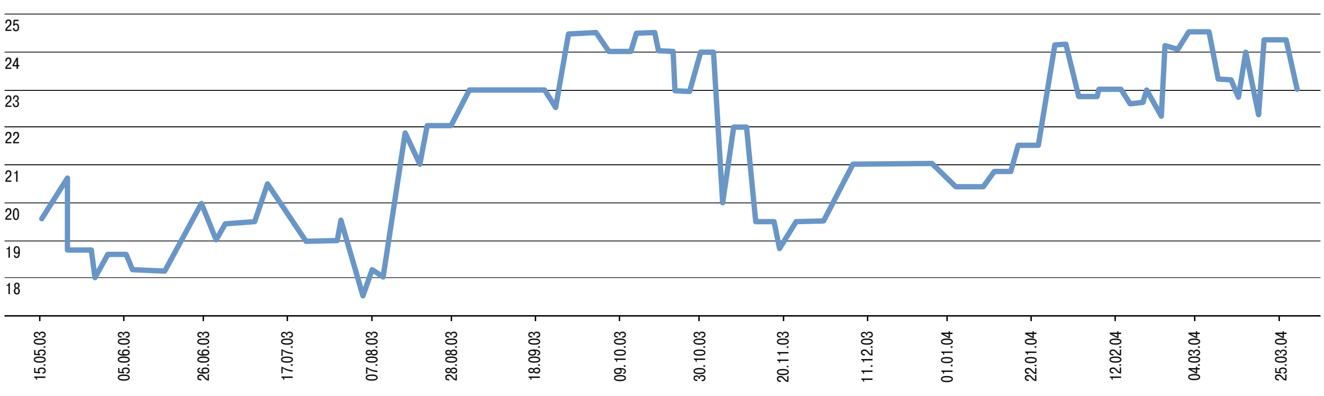
Report on accrual and payment of dividends

The Annual General Shareholders' Meeting held on 31 May 2003 took a decision to pay dividends of RR 219.8 million for the year 2002.

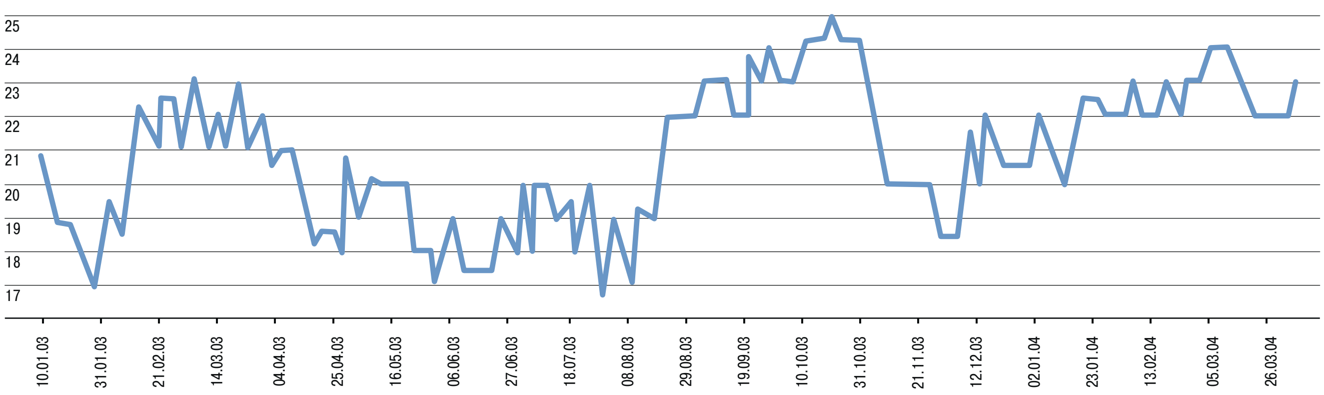
As at 1 April 2004 a total of RR 206 million of dividends was paid. Dividends were paid to all shareholders who had provided their details to the registrar.

The General Shareholders' Meeting ratified the motion to allocate RR 631 million, or 13.5% of net profits generated in the 2003 financial year, for payment of dividends on all shares in the Company.

Change in price per GDR of JSC AVTOVAZ at the Frankfurt Stock Exchange (Deutsche Borse Group), EUR



Change in price per GDR of JSC AVTOVAZ at the Berlin Stock Exchange (Berliner Borse), EUR



Code of corporate conduct

The Code of Corporate Conduct of JSC AVTOVAZ was approved by the Company's Board of Directors on 30 January 2003. The Code was developed based on recommendations put forth by the Federal Commission of the Securities Market of the Russian Federation, with due regard to best practices of major Russian companies and suggestions by shareholders of JSC AVTOVAZ.

During 2003 JSC AVTOVAZ worked to ensure the compliance with the corporate governance principles set out in the Code of Corporate Conduct.

To ensure the shareholders' rights as regards JSC AVTOVAZ, we have made every effort possible to identify and prevent any corporate conflicts. Appropriate steps have been undertaken and answers have been given in response to any appeal or application of our shareholders.

To ensure the shareholders' rights to obtain, on a regular and timely basis, information concerning the Company's activities to an extent sufficient for them to take reasonable and well-informed decisions regarding their shares, we have met statutory information-disclosure requirements. Amongst other things, JSC AVTOVAZ published quarterly statutory reports on our business activities, disclosed information about significant facts and provided relevant information in news bulletins of press agencies in a prompt manner.

Our information policy was based on the principle of free and easy access to information about JSC AVTOVAZ as well as neutrality, which rules out any preferential approach to certain groups of information users at the expense of others.

In 2003 we met the requirement regarding protection of information constituting a commercial or an official secret; proper control was exercised over the use of insider information.

During 2003 the Board of Directors functioned with a focus on ensuring an optimal process of taking executive decisions in the best interests of both JSC AVTOVAZ and its shareholders.

To properly exercise the functions of the Company's Board of Directors, the committees under the Board of Directors gave preliminary consideration to most significant issues within the remit of the Board of Directors as well as prepared recommendations for taking decisions on such issues.

Subsidiaries and associated companies

As at 31 December 2003 JSC AVTOVAZ owned shares in 229 entities where the Company exercised corporate management and control. These include:

- 54 foreign entities
  (of which 41 entities are located in the CIS and Georgia), including:
  – 25 entities in which JSC AVTOVAZ owns over 50% of capital.

- 175 entities located in the Russian Federation, including:
  – 25 entities where JSC AVTOVAZ has a 100% holding;
  – 110 entities in which JSC AVTOVAZ owns over 50% of capital;
  – 23 associated companies (between 20% and 50% of capital);
  – 17 entities where JSC AVTOVAZ has a holding (less than 20% of capital).

To improve the quality of our products and develop business partnership with manufacturers, JSC AVTOVAZ acquired stakes in the following entities in 2003:

- *ZAO "LADA Image";*
- *Non-Commercial Partnership "Objedinenie Avtoproizviditeley Rossii" (Association of Russia's Vehicle Manufacturers);*
- *Independent Non-Commercial Organisation "Institut Kachestva" (Institute of Quality).*

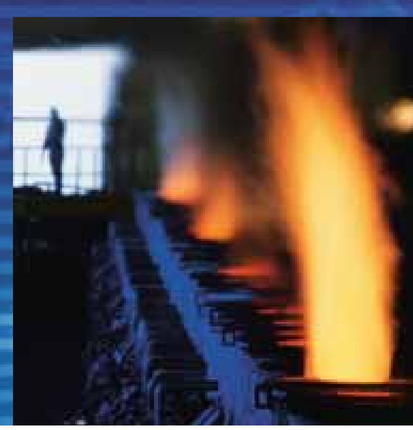
3* Зак. 10025. Годовой отчет ОАО «АВТОВАЗ» на англ. яз.

Business **review**

Pavel N. Skrinsky

Vice-President, Production, JSC AVTOVAZ

In 2003 we produced 699,889 LADA vehicles, and capacity utilisation was 96.7%. We continued working together with our suppliers on improving the quality of components, metals and raw materials. By the end of 2003, there were 147 certified suppliers or 87.7 % of the total supply volume in terms of value. We made significant progress in preparing to obtain certification of our environmental management system in accordance with ISO 14001 in 2003.



PRODUCTION

Of the total number of vehicles produced 170 thousand units were in compliance with Euro-2 and 15 thousand units were in compliance with Euro-3 toxic emissions norms.

We produced 222,094 LADA 110 vehicles, which exceeds the planned amount (221,215 units) by 0.4% and is by 2.1% greater than in 2002.

Vehicle production at JSC AVTOVAZ

Indicators	1999	2000	2001	2002	2003
LADA 2105, 2107	284,114	262,227	231,508	201,187	208,477
LADA SAMARA	206,056	207,821	227,466	208,497	220,400
LADA 110	116,876	161,913	225,679	217,453	222,094
LADA NIVA and others	70,641	73,549	82,654	75,901	48,918

While the 2003 vehicle export plan target was 91,000 vehicles, as at 31 December 2003 we shipped 91,576 vehicles to foreign customers, which is 0.6% over plan and is less by 5.3% than in 2002 (2002: 96,707 vehicles were shipped overseas).

The average hourly rate of assembly at the main lines was 165.04 vehicles per hour in 2003.

We produced 178,160 complete automotive assembly kits, of which 97,565 units are complete LADA automotive assembly kits sold to the assembly plants at RosLADA, Izhmash and others.

Structure of automotive assembly kits production

Indicators	1999	2000	2001	2002	2003
Number of complete automotive assembly kits produced, kits	25,947	108,257	171,767	185,258	178,160
Including complete automotive assembly kits, kits	25,947	36,565	55,696	100,639	97,565
Including complete LADA automotive assembly kits, kits	25,947	36,565	55,696	100,639	97,565
Including complete automotive assembly kits of other brands, kits		71,692	116,071	84,619	80,595

The joint venture, ZAO GM – AVTOVAZ, produced and delivered 25 thousand parts and assembly units necessary for the production of 25 thousand Chevrolet NIVA's.

Production capacity utilization

The annual vehicle production capacity was 730 thousand vehicles in 2003 and has remained unchanged from 2002.

The rate of utilisation of vehicle production capacity was 96.7%, slightly in excess of the previous year's level (2002: 96.6%).

Logistic support

Key indicators of our purchasing activity in 2003:

- Monthly purchases were equal to RR 6.33 billion on average;
- We dealt with 712 suppliers;
- Over 30 thousand individual line items of materials and components.

During the year we continued to identify and engage alternative suppliers in order to resist price monopolies.

Alongside with minimising costs as a result of finding alternative sources, we worked on reducing import purchase expenses. Upon the whole, we further reduced by 0.4% the portion of imported components per one vehicle.

Prices for raw materials and components increased by 9.11 %, including:

- For components – by 7.59 %;
- For materials – by 12.62 %.

We continued to improve the logistics system at JSC AVTOVAZ: implementing a multi-tier system of supplies, optimising supply flows and decreasing expenses. We created favourable conditions in order to attract new strategic partners from among components manufacturers. We organised tenders to award purchasing contracts and held electronic auctions.

The Company further improved its inventory purchasing practices as part of which the following initiatives were implemented during 2003:

- Budgeting with business units, which allowed us to adopt a new purchasing system;
- Electronic preparation of agreements, specifications and competitive position sheets within a unified information system;
- A system of supplier relation management by means of computerised accounting and monitoring of the delivery of materials; and
- Centralisation of the purchasing function (delegation of the instrument acquisition functions etc.).

We continued to expand cooperation with companies based in the Samara region. During 2003 the number of suppliers was 327 (46 %), which was up 8% on 2002.

We continued working together with our suppliers on improving the quality of components, metals and raw materials. By the end of 2003, there were 147 certified suppliers or 87.7 % of the total supply volume in terms of value. We devoted significant attention to auditing suppliers; our employees took part in 25 audits during 2003.

A supplier certification campaign is planned for 2004, whereby ISO 9000:2000 certifications should be completed by 1 April 2004 and ISO/TS (version 2002) certifications, by 1 November 2004.

ENVIRONMENTAL PROTECTION

In view of Russia's forthcoming adoption of the law on environmental safety of vehicles, the Company carried out a number of preparatory activities to ensure that 100% of vehicles produced comply with Euro-2 and Euro-3.

In order to improve comfort, safety, reliability and durability of LADA models, the Company increases the application of polymeric and composite materials, as well as zinc-galvanized steel and high-strength steels. The above materials are used much broader in the Lada 110 and the LADA KALINA compared to earlier models. The application of electric galvanized steels and hot-dip galvanized steels for the manufacturing of bodies of certain types of LADAs is shown opposite.

The modern understanding of a car over its full life-cycle requires no less attention to the final stage of utilization and recycling of old vehicles than to production processes. Ecological safety over the entire life cycle is one of the key indicators of quality and competitiveness of a car on modern international markets.

LADA cars contain less ecologically hazardous plastic materials, with preference given to plastics easily utilised, such as polypropene, polythene, polyamide. To a great extend, taking into consideration the current and prospective international standards, rules and regulations, JSC AVTOVAZ initiated and performed numerous research projects, designing, final adjustments and implementation of new advanced materials and technologies. This made it possible to ensure a modern level of ecological safety of LADA models. Focused efforts over several years resulted in the complete avoidance of certain harmful substances being used in vehicles. For example, we do not use asbestos and cadmium any more. Our focus now is on reductions in the use of lead, hexavalent chrome and chlorofluorocarbons not only in materials and components of vehicles, but also in the the process of manufacturing of components.

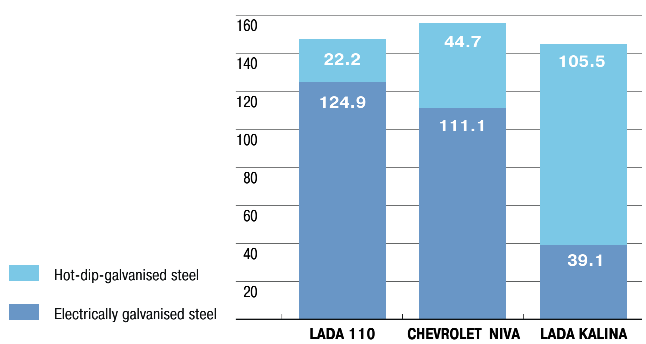
In order to reduce the weight of vehicles, the Company is seeking efficient design and technological solutions, use of the materials of low density being at the same time highly durable (polymers, composite materials, aluminium alloys). Efforts to replace certain polymers with more environment-friendly ones are being made. In designing new models, recyclable materials are preferred. For instance, most of polymer materials used in the new cars' design belong to environmentally friendly and recyclable polypropene and polypropene compounds. In the Lada Samara range, such materials accounted for approximately 11%; in the Lada 110, 38 %; in the Lada Kalina, more than 55% of total plastic materials used.

As a result of the analysis of Lada models, the following conclusions were made: all the cars have a recycling ratio in excess of 75% and a utilization ratio in excess of 80% of weight.

In general, JSC AVTOVAZ is reducing the use of ecologically hazardous materials and substances which might have an adverse environmental effect in the course of recycling overage cars and burial of non-recyclable waste.

AVTOVAZ follows international trends of environmental protection, development of low-waste technologies, use of ecologically-friendly and recyclable materials and components. Plastic parts of Lada cars are marked in line with international standards. To facilitate disassembling and recycling of overage cars, the Company developed specialized catalogues of parts which are marked in compliance with European standards. New vehicles are designed so that eventual disassembly should be easy, technical fluids can be taken away in full and parts can be sorted by material types.

Application of zinc-coated steel in LADA vehicles, kg per vehicle



Implementation of environmental management system

Implementation of an environmental management system is a complex process, which entails changes in organization and workforce-management relations. Success of this process depends on the interest of the Company's management and motivation of the employees involved.

In July 2002, the President-General Director of JSC AVTOVAZ signed an Order on the development and certification of AVTOVAZ's environmental management system, which specified the Company's Policy in the sphere of environmental protection. The Environmental Policy is an integral component of the environmental management system, and it was communicated to all staff and made public.

In 2003, in the context of preparing for ISO-14001 certification of the environmental management system, the following activities were performed:

- The Company's President-General Director has approved the Programme of environmental management of JSC AVTOVAZ for the period through 2010. In 2003, the Programme's implementation in 2002 was reviewed and the Programme was amended;
- An internal environmental audit of JSC AVTOVAZ was performed. Based on the audit's results, reports were prepared, conclusions were made, plans to rectify inconsistencies with ISO 14001 were developed. The results of the internal audit were brought to the attention of the Company's President-General Director;
- The Company's environmental management system was reviewed. Based on the results of the review, an information memorandum analyzing the environmental management system of JSC AVTOVAZ was issued. The memorandum provides open business information regarding environmental protection;
- Based on Order No. 1103 of 23.08.2002 "On ISO 14001 training of the Company's personnel", training of the Company's managers, experts and employees was arranged. All staff whose activities are related to environmental protection, as well as the managers of all levels undergo training in the Training Centre of JSC AVTOVAZ.

There were 6,707 such trainees in 2003.

All the Company's divisions maintain Environmental Certificates in line with GOST 17.0.0.06-2000.

JSC AVTOVAZ makes considerable efforts to inform its employees about environmental activities; information is provided by means of the mass media as well as other corporate initiatives:

- An environmental column is arranged in the Company's newspaper, articles are published in the Zelenyi Mir (Green World) newspaper;
- **The Collective Agreement of JSC AVTOVAZ contains a section on ecology;**
- Environmental contests are arranged in the Company's divisions every year.

In 2003 we completed certification of the main divisions and departments of the Company for compliance with ISO 9001 and ISO 9002-2000

Alexander V. Vasilchuk

Director, Quality, JSC AVTOVAZ

QUALITY

10 rules of the JSC AVTOVAZ Corporate Quality System

- ***We are responsible for our vehicles throughout production and provision of technical services by our corporate network.***
- ***Our supplier shares responsibility for components we use in production. Otherwise we do not deal with this supplier.***
- ***Each employee is always expected to: keep their workplace organised and tidy; maintain technology and manufacturing culture as well as personal culture; and maintain manufacturing discipline and self-discipline.***
- ***When impossible to accomplish your work with required quality stop your work on your own initiative. Follow the "three nots" principle: defects not accepted, not created and not passed.***
- ***Continuous training, workplace communication and competition, visual aids.***
- ***Best control is self-control. Employees who understand their role in the overall context of the Company's goals are key to ensure the quality of products.***
- ***If defects are identified they should be corrected at origin. Quality is achieved through processes, not quality assurance of finished goods.***
- ***Every year, each workplace should have five improvements.***
- ***The Company's employees should be consistently proactive in correcting the first ten defects.***
- ***Achieve consistent improvements in each new model of vehicles.***

Quality Management System of JSC AVTOVAZ

Key to our success now is the quality of services and products provided to the end customer.

The quality management system (QMS) implemented at JSC AVTOVAZ is enhanced on an ongoing basis. This system is in compliance with ISO.

In the previous year we organised and carried out the certification of the main production units, directorates and JSC AVTOVAZ regarding their conformance to ISO 9001 and ISO 9002-2000 requirements.

Our current priority is to further improve the QMS of JSC AVTOVAZ adopting a process-based approach according to ISO 9001 and ISO 9002-2000 requirements, as well as prepare all divisions of the Company for the certification process in order to comply with ISO / TS 16949.

In connection with the above JSC AVTOVAZ has undertaken the following initiatives.

- Improvements are being made to corporate business processes of JSC AVTOVAZ in accordance with the recommendations from UTAC, an independent certifying organisation (France).
- We continue implementation of the plant's quality information systems quality improvement requests (QIR), comments on the delivery of components for automotive assembly (CDCAA), following the internal examination of the technological processes (IETP) etc.
- Improving the methods of statistical control over the production processes.
- Purchasing and implementing contemporary automated measuring systems, including the high-speed surface optical digitization complex.
- Conducting standing weekly conferences in the production teams in connection with the output quality.
- Enhancing the JSC AVTOVAZ organisation structure applying the process based approach.

The experience of working with the GM-AVTOVAZ joint venture has been utilised during the LADA KALINA project and modern production organisation methods are developed.

- We continue to improve relations with suppliers of products for JSC AVTOVAZ by means of implementing the international product parts approval procedures (PPAP- Product Part Approval Process).
- We finally adopted design and vehicle production organisation on the basis of mathematical modelling.

Quality of vehicles

During 2003 JSC AVTOVAZ implemented a number of expensive initiatives focused at further enhancement of the quality and consumer properties of LADA vehicles:

- Implemented a double component cataphoresis priming coat on the LADA 110 and LADA SAMARA bodywork, which enables to enhance the vehicles' corrosion resistance (by twofold);
- Implemented the wheel hub collar with an enhanced life for the LADA 110 and LADA SAMARA vehicles;
- Implemented a heater of a new design for the LADA 110 vehicles;
- Assembled the LADA 110 and LADA SAMARA preproduction series with a new generation control unit, which was developed jointly with Bosch (Germany) with the aim to improving the engine ignition during winter;
- Implemented (by 50%) the impermeable connectors and wiring harness inner brake pads of the new generation on the LADA 110 and LADA SAMARA's, preparing for their 100% production during 2004.

Implementation of the QIR information system enabled us to identify around 550 of the most expensive and frequently repetitive defects of vehicles encountered during their use, develop and implement upgrading programmes within tight deadlines and by means of appointing individuals responsible for implementation.

During 2003 we eliminated more than 190 defects when the Company's functions were implementing the QIR information system.

During 2003 all industrial personnel was involved in the work focused at eliminating the specific nonconformities in vehicles and this work had positive results:

- pre-sales preparation expenses decreased by 22%;
- the defect level in after-sales servicing decreased by 10.

2004 quality targets

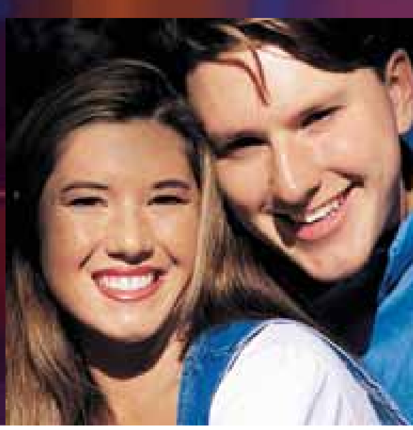
- Implementing the QMS based on the process approach;
- Continue to prepare the Company's functions for the QMS certification in order to comply with ISO/TS 16949;
- Implementation of the procedures for the approval of vehicle components production at the suppliers' (PPAP - Production Part Approval Process);
- Information systems development (QIR, CDCAA, IETP), etc.;
- Implementation of updated methods of organising the LADA KALINA, PROJECT 2170 production preparation, as well as subsequent models using the process based approach, practical implementation of the FMEA (Potential Failure Mode and Effect Analysis) international procedures, APQP (Advanced Product Quality Planning and Control Plan) processes etc.;
- Implementation of modern diagnostic tools, as well as control and measuring tools with a view to taking a statistical approach to factory management;
- 100% involvement of the manufacturing personnel into the quality problem solving procedures according to the "three nots" principle (defects not accepted, not created and not passed);
- Decrease the level of defects in vehicles by 50% by late 2005.

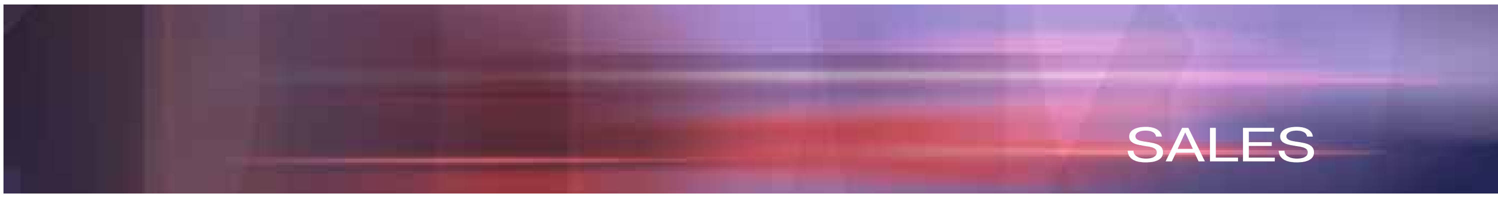
Vladimir N. Kuchai

Vice-President, Marketing, Sales and Cars Technical Services, JSC AVTOVAZ

During the year, the Company's share of the market increased to 42.6% against 41.6% in 2002.

A two-tier sales system has been adopted: AVTOVAZ – a regional distributor – dealers, or regional distribution centre – dealers.





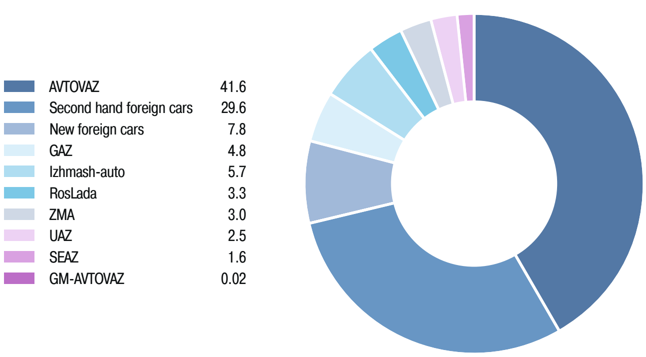
SALES

Domestic sales

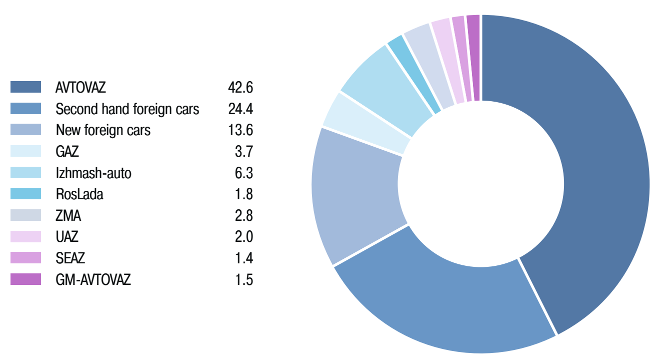
In 2003, the vehicle market was around 1.43 million vehicles, which exceeds last year's number by 1.1%

During the year, the Company's share of the market increased to 42.6% against 41.6% in 2002. AVTOVAZ manufactures and sells automotive assembly kits of the LADA brand to other automotive assembly plants. In 2003, the total share of LADA vehicles on the market was 47.5%. Further growth of the population's real incomes, the increase in customs duties on second hand foreign made cars and, as a consequence, the partial shift in demand from second hand to new foreign brand cars became the distinguishing characteristics of the year 2003. While a total of 111 thousand new foreign vehicles were sold during 2002, sales of new foreign cars reached 216 thousand (taking into account the Chevrolet-NIVA vehicle) in 2003. During 2003, foreign cars accounted for 15.1% of the overall market volume, against 7.8% in 2002.

New Foreign Cars Sales in Russia during 2002, %



New Foreign Cars Sales in Russia during 2003, %



Vehicle sales in Russia by segments during 2000 – 2003 (thousand vehicles)

Segment	2000	2001	2002	2003	Movement 2002/2003, %	2002 %	2003 %
1. New Russian-produced vehicle	864	922	886	867	-2.1	62.5	60.5
– LADA* model	638	729	690	680	-1.4	48.7	47.5
(including assembled at JSC AVTOVAZ)	590	659	590	610	3.4	41.6	42.6
– other domestic vehicles	226	193	196	187	-4.6	13.8	13.0
2. New foreign vehicles	46	79	111	216	94.6	7.8	15.1
3. Second hand foreign vehicles **	224	360	420	350	-16.7	29.6	24.4
TOTAL	**1,134**	**1,361**	**1,417**	**1,433**	**1.1**	**100**	**100**

* including LADA vehicles assembled at Izhmash-Auto and RosLADA.
** estimate.

The second hand foreign vehicle segment tends to decrease in volume. In 2003, this segment accounted for 24.4% of the market, as opposed to 29.6% in 2002.

The other domestic auto producers' share decreased somewhat. In 2003, they accounted for 13.0% of the market, against 13.8% in 2002.

The Class "C" vehicles comprise the main bulk of new vehicles sold in Russia. Their portion of the total vehicle market volume was around 71% in 2003. The LADA cars - manufactured by JSC AVTOVAZ, Izhmash-Avto and RosLADA – account for most of these vehicles.

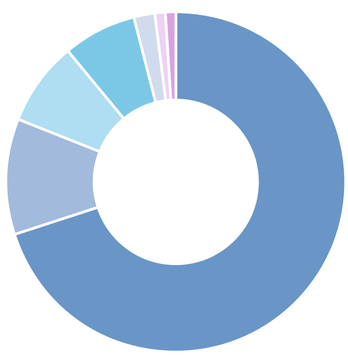
The Oka vehicles produced by SeAZ and ZMA comprise over 90% of new Class "A" vehicles. To date Class "B" has been represented only by foreign manufactured vehicles. As OAO Moskvich stopped to manufacture Class "D" cars, they are now represented only by foreign made vehicles and small numbers produced by JSC AVTOVAZ.

The majority of Class "E" cars is represented by the Volga model produced by GAZ (78% of the Class "E" segment in 2003); the remainder is taken up foreign-made cars.

Prior to 2003, Class "SUV" included mainly LADA NIVA vehicles manufactured by JSC AVTOVAZ and UAZ cars produced by JSC UAZ. During 2003, the Chevrolet NIVA model produced by JV ZAO GM – AVTOVAZ comprised 40% of the Class "SUV" cars. Class **"MPV"** is represented by the LADA 2120 and foreign-made cars. Classes **"F", "G/H", "LCA"** are represented only by foreign-made cars.

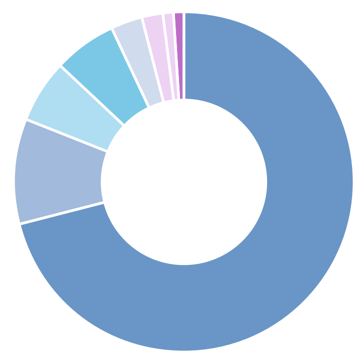
Sale of new cars in Russia by their Class, 2002, %

C	70
SUV	11
E	8
A	7
D	2
B	1
MPV	1
Other (F, G/H, LCA)	0



Sale of new cars in Russia by their Class, 2003, %

C	71
SUV	10
E	6
A	6
D	3
B	2
MPV	1
Other (F, G/H, LCA)	1

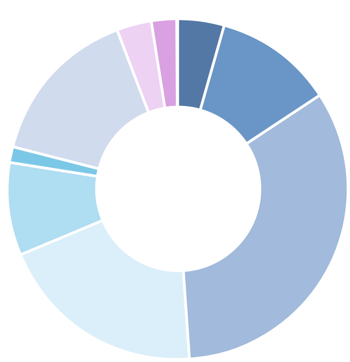


Official dealers managed to sell 216 thousand new foreign cars during 2003, which was almost twice as more than in 2002. Almost one quarter of all sold foreign-made cars were manufactured in Russia. All of the car classes grew in absolute numbers.

Class "SUV" experienced the most significant growth (thanks to the Chevrolet NIVA's manufactured by JV ZAO GM – AVTOVAZ), by 9.7%. Class "C" also demonstrated significant growth (essentially, also thanks to the Ford Focus, Hyundai Accent, Kia Rio, Renault Symbol vehicles made in Russia), by 1.8%.

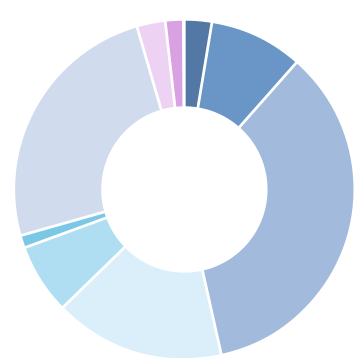
Volume of sales of new foreign brand cars by authorised dealers in Russia by classes in 2002, %

A	4.4
B	11.3
C	33.2
D	19.8
E	8.8
F	1.5
SUV	15.2
MPV	3.3
LCA	2.4
G/H	0.1



Volume of sales of new foreign brand cars by authorised dealers in Russia by classes in 2003, %

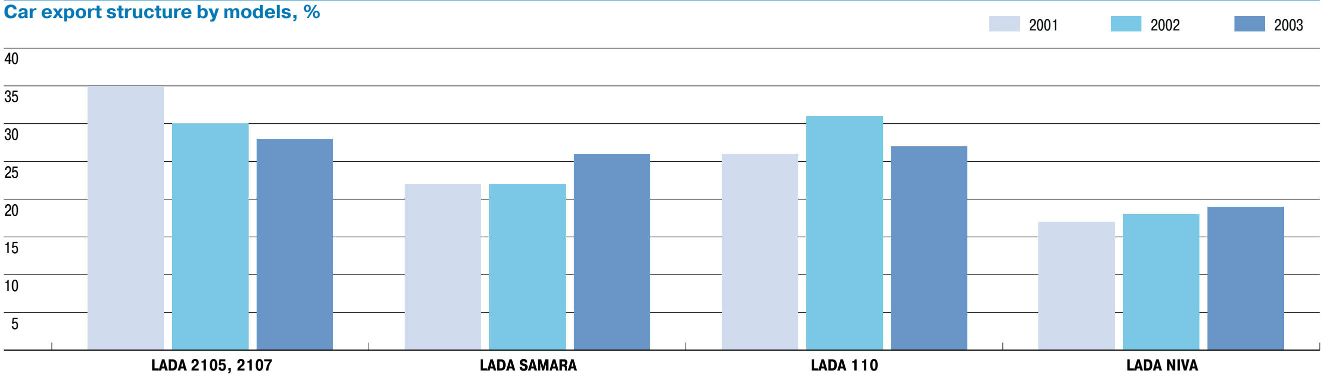
A	2.6
B	8.9
C	35.0
D	16.2
E	6.7
F	1.2
SUV	24.9
MPV	2.7
LCA	1.7
G/H	0.1



Export sales

91,745 vehicles were exported during 2003. LADA vehicles were exported to 27 foreign countries and eight CIS countries. Exports to foreign and CIS countries account for 53.3% and 46.7%, respectively.

Car export structure by models, %



LADA vehicles' share of the Ukrainian car market was 27% during 2003. The LADA 2107 – 11,581 vehicles assembled at LuAZ (Lutsk), Anto-Rus (Kherson) and KRASZ (Kremenchug) – was the leader of sales. LADA SAMARA vehicles come second in terms of sales, 5,808 vehicles. LADA 110 vehicles come third, with 5,313 vehicles sold.

During 2003, Bipek-Auto sold 17,071 LADA cars in Kazakhstan, up 13.3% on 2002. LADA 2107 vehicles are the leader of sales, with 3,659 vehicles sold. LADA 2106 cars come second, 2,631 vehicles, and the LADA SAMARA comes third, 2,209 vehicles.

LADA: export delivery statistics for the last five years

REGIONS	1999	2000	2001	2002	2003
Europe	10,585	19,646	24,499	17,347	22,304
Eastern Europe	15,510	22,410	17,550	10,650	5,920
Middle East	11,300	14,180	7,780	3,520	5,090
South America	3,230	3,870	1,696	22,170	12,170
North America	0	0	0	0	2,550
CIS	11,656	38,103	32,923	42,800	42,831
Africa	770	600	1,710	260	880
TOTAL	**53,051**	**98,809**	**86,158**	**96,747**	**91,745**

A total of 20,981 assembly kits were delivered to foreign assembly plants during 2003, as follows:

- shipments to assembly plants in Ukraine: 16,277 vehicles (LADA 21043, LADA 2105, LADA 2107, LADA 21093, LADA SAMARA, LADA NIVA);
- shipments to the assembly plant in Kazakhstan: 2,832 vehicles (LADA NIVA);
- shipments to the assembly plant in Egypt: 1,680 vehicles (LADA 2107);
- shipments to the assembly plant in Uruguay: 192 vehicles (LADA NIVA).

AVTOVAZ's foreign service/sales network is developed according to the following principles:

- strengthen the position on the existing CIS and Eastern European markets. To this effect, manufacturing is upgraded so that vehicle performance would comply with environmental and safety regulations;
- strengthen and develop the dealers network in CIS countries;
- return to the former sales markets.

4* Зак. 10025. Годовой отчет ОАО «АВТОВАЗ» на англ. яз.

CUSTOMER SERVICE

A two-tier sales system has been adopted: AVTOVAZ – a regional distributor – dealers, or regional distribution centre – dealers.

The Company's sales and customer service network is a structure encompassing 486 entities:

- 59 distributors responsible for all Russian regions;
- 127 direct dealers;
- 300 regional dealers.

In 2003, the Company took on the costs associated with the delivery of vehicles to the regions. Also, JSC AVTOVAZ introduced new requirements to sales and customer service enterprises, which are in line with the requirements of the leading global automotive companies. We have identified the entities failing to comply with the approved requirements and agreed with them plans and schedules for ensuring compliance with the corporate requirements before 2005. When renewing dealership agreements, JSC AVTOVAZ consider the possibility of aligning companies with the established requirements. The requirements were approved for three categories of dealers. Depending upon target retail sales, there are requirements regulating the floor space of the salesroom, premises for customers, repair and maintenance facilities, vehicle storage ground with hard pavement, the list of equipment, types of services, etc.

JSC AVTOVAZ developed recommendations on staff structure, training, location of dealership outlets, design of a dealership centre building.

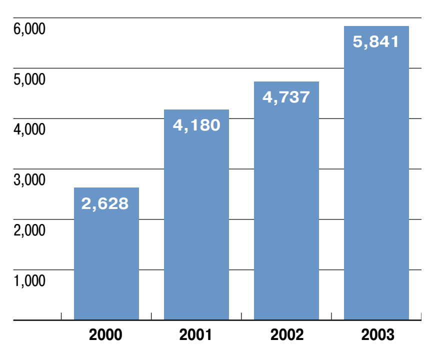
In 2003, sales and customer service enterprises began bringing trade and production facilities in compliance with the standards issued by JSC AVTOVAZ. Currently there are 18 dealership centres located in various regions of the Russian Federation that are in full compliance with the Company's requirements.

The steps taken in 2003 enabled to increase vehicle deliveries to the regions significantly, thus, bringing products closer to customers. Introduction of uniform selling prices for sales and customer service enterprises in various regions enabled to increase vehicle sales and cash inflows. The vehicle inventory level at the regional distribution centres grounds declined from 39,000 vehicles as at the beginning of 2003 to 19,000 vehicles as at the end 2003.

The volume of domestic vehicle sales in 2003 was almost the same as in 2002; there was a slight increase of 0.11%. The most prominent features of 2003 were reduced deliveries to the Volga Region and increased deliveries to all the other regions.

One of the tasks currently faced by JSC AVTOVAZ is to develop the sales and customer service network and increase sales in the Far East of Russia. Currently, there are five regional distribution centres operating there already.

Growth of Repair and Maintenance Facilities of the Sales and Customer Service Network in 2000–2003, number of outlets



Implementing the sales and customer service network development programme in 2003 called for our attention to vehicle warranty service. In 2003, LADA vehicles were sold with a two-year warranty.

In 2003, 127 maintenance enterprises provided warranty services to owners of vehicles manufactured by JSC AVTOVAZ. The number of maintenance outlets almost doubled as compared to 2000 and equalled 5,800.

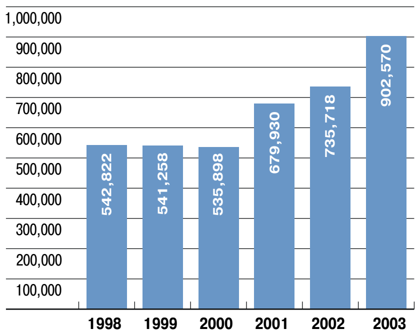
The network of maintenance enterprises providing warranty repair services covers all regional centres and major cities of the Russian Federation, as well as urban areas with populations exceeding 100,000 people.

Along with the restructuring of the sales and customer service network, JSC AVTOVAZ successfully deals with the task of increasing domestic sales of original spare parts. In 2003, spare parts sales exceeded RR 3.2 billion, which represents a 13.5% increase in comparison with 2002. The plan for 2004 is even more ambitious: sales are to be increased by 26%.

In vehicle sales, JSC AVTOVAZ increasingly uses new schemes. For example, when vehicles are sold to dealers, JSC AVTOVAZ actively uses such forms of settlements as letters of credit and factoring, and retail buyers actively use loans to purchase LADA vehicles. According to independent expert assessments (the Russian Marketing Association of Moscow, the International Market Institute, etc.) credit sales of LADA vehicles accounted in 2003 for 20% of total sales. During 2003, a total of approximately USD 500 million was granted in loans for the purchase of LADA vehicles in Russia.

In 2003, approximately 350 AVTOVAZ dealers across Russia offered loans. During the two previous years consumer loans have become more accessible for customers, and credit sales have increased significantly each month. Among the leaders are Chelyabinsk Region, Bashkortostan and Tatarstan, where credit sales account for up to 50% of total sales of LADA vehicles.

Volume of Automobile Maintenance Services Provided by Subsidiaries of JSC AVTOVAZ Sales and Customer Service Network in 1998–2003
(in comparable prices as of 31.12.2003), in thousand rubles



In 2003, JSC AVTOVAZ implemented a joint lending programme in cooperation one bank. Several other banks are expected to join this program in 2004, enabling customers to purchase LADA vehicles on credit virtually across Russia.

The sales and customer service network reorganization programme enabled to increase significantly, by 2004, the number of AVTOVAZ's sales and customer service subsidiaries making profit. In 2003, 95% of subsidiaries were profitable.

In 2003, the volume of vehicle maintenance services provided by subsidiaries of the Company's sales and customer service network increased by 22.68%.

4*

Konstantin G. Sakharov

Vice-President, Research and Development,
JSC AVTOVAZ

In 2003 we implemented integrated solutions, including cutting-edge computer-aided design tools (CAD), computer-aided management systems (CAM), computer-aided engineering tools (CAE) and project documentation management solutions (PDM).

RESEARCH AND DEVELOPMENT

Research and development work for existing production

In 2003, the technical development work guaranteed further improvements in vehicle quality and strengthening of the Company's competitive position.
We have implemented a range of design and process improvement initiatives that had a noticeable positive impact on the quality of the vehicles produced by the Company, including:

- research and development in the area of new materials for coating and corrosion protection of car bodies;
- research and development of new structural polymeric materials;
- research, development and adaptation of new metals;
- evaluation of vibro-acoustic characteristics of new noise insulation and vibration damping materials.

CAD/CAM/CAE

To improve the Company's competitive position, which requires accelerated development of new high quality models, we have been widely implementing new IT technologies for designing and preparation for the production of new LADA models. Wide-scale use of computer aided design practices was begun at the Company when we worked on the LADA 110 family. We are currently in the process of implementing an integrated automation system for the design and process services/functions of the Company to ensure that the process of designing new models using computer-based technologies is sustainable. For this purpose we use integrated solutions, including cutting-edge computer-aided design tools (CAD), computer-aided management systems (CAM), computer-aided engineering tools (CAE) and project documentation management solutions (PDM).

Development of these functions is in line with the current trends in the global automotive industry as well as the guidelines of the Concept of the Russian automotive industry development, approved by Resolution of the Government of the Russian Federation No. 978-r dated 16 July 2002. In this concept, one of the mid-term research and development priorities is described as "mastering and implementing new technologies ensuring support for the produced vehicles throughout the full product life cycle". Sustainable functioning of the complex solution provides for:

- improvement of the mechanism and efficiency of interaction between the functions involved in the vehicle development and production preparation process across the Company;
- creating conditions for parallel work on a project of specialists representing various disciplines;
- improving the quality and culture of design and development work;
- accumulation of knowledge and experience in the area of product design;
- maintaining integrity and consistency of information on a product throughout its life cycle; management and support of the business processes pertaining to the generation, distribution and use of such information.

In the course of our work on most recent projects (Chevy NIVA, LADA KALINA, Project 2170 and the like) computer-designed models of body end engine parts created with CAD, have been used for:

- designing of fittings and preparation of software for computer-controlled machinery;
- modelling manufacturing processes (die stamping, moulding of metals and plastics);
- engineering analysis of constructions (robustness, dynamics, kinematics, aerodynamics, convenience of assembling, hydro- and gaseous dynamic processes of the engine, etc.);
- modelling vehicle behaviour to test for conformity with safety requirements;
- modelling robotic complexes.

It is planned to further enhance the use of modern information technologies in the course of designing and production preparation of new vehicle models.

Projects carried out in the area of technical development

The Board of Directors of JSC AVTOVAZ has approved a strategic production plan for the LADA family of vehicles. As a strategy to replace the existing models, the Company has decided to develop and promote the LADA KALINA (planned production capacity of 220,000 units per year), Project 2170, which is expected to replace the 2110 family, as well as development of a vehicle on a new "C" Class platform.

LADA KALINA range

The LADA KALINA range has a relatively good competitive standing compared to peer group cars.

In the approved basic configuration the LADA KALINA sedan, which is expected to be launched in 2004, will be equipped with a 8 valve 1,6 litre engine produced by AVTOVAZ, satisfying the environmental safety standard Euro-3.

In 2003, the Company commenced several initiatives aimed at speeding up the process of preparation for production and commencement of production of the LADA KALINA sedan, significantly reducing the start-up period. Technical solutions used in the production of this vehicle, developed jointly with some of the leading producers and vendors of equipment, such as Eisenmann (Germany), KUKA (Germany) and others, prove that integration of engineering solutions is at the cornerstone and basis for enhancement of the competitive standing of cars produced by the Company.

Many new technologies that have been used as part of the LADA KALINA project result in quality improvements of new cars. These techniques will be rolled out to other projects. New technologies include:

- Welding of the hot dipped galvanized steel used in building bodies of LADA KALINA cars.
- New robotic complex of the body welding line, ensuring high quality of welding and car body geometry parameters.
- New painting line and new paints/polishes and sealing mastic resins.
- New assembly line for the manufacture of the LADA KALINA cars is based upon two transportation systems – floor and suspended.

For the convenience of assembly and improvement of the quality of all operations on the body the side doors are removed and assembled in a separate line, at the end of which 100% of the electrical and mechanical units are tested. After that, doors are transported to the car bodies assembly line to be fitted on cars.

In the area immediately adjacent to the assembly line there is a shop for assembling large car modules (dashboards, doors, suspension towers) and mechanical units. This support shop ensures the timeliness of installation of the required options. Upon assembly, all units and modules are checked for quality, eliminating the potential of installation of defective units and improving the overall quality of cars.

LADA KALINA – a four-door sedan, a model of the new car range; production is about to start at JSC AVTOVAZ.

Dashing and elegant lines of the new car body, and an original and effective lighting technology give a distinguished and modern look to this car. Interior design has been significantly updated.

Roomy interior space of the salon, its modern and original design, new finish materials – all contribute to maximum comfort for both the driver and passengers. Maximum speed of the car is 170 km per hour.

The car fully meets all the modern driving and environmental safety requirements.

The base version of the car may be fitted with the following options:

- air conditioning system with either manual or automatic controls;
- electric heating of the upholstery of front seats;
- remotely controlled of electric blocking of door locks;
- airbags;
- preload safety belts;
- electric power steering.

Planned commencement of production 18 November 2004.

LADA KALINA – a five-door hatchback. Compared to the LADA KALINA sedan, this hatchback model has a slightly shorter body, lower weight when fully loaded, and lower volume of the baggage compartment. Maximum speed of this model is 180 km per hour.

The engine of this vehicle is equipped with an electronic fuel injection system and electronic ignition which meets the strictest environmental safety requirements, maintaining high dynamics of the car with minimum fuel consumption.

Preparation for the production of this model goes on in parallel with the LADA KALINA sedan.

LADA KALINA – a universal/station wagon. Compared to the LADA KALINA sedan, this model has the same dimensions, but an increased volume of the baggage compartment.

Spacious interior of the car gives enough room for five persons. Back seats can be folded flat, thus significantly increasing the volume available for loading and transportation of cargo. Maximum speed of the LADA KALINA station wagon model is 160 km per hour.

Project 2170

The 2170 project was initiated in 2003; the car was designed and pilot samples were manufactured. One of the prototypes was presented at the 2003 International Moscow Motor Show and attracted significant interest of the audience.

The new car range meets the criteria of Class C under European classification. It is going to be a higher quality car than all previous production of JSC AVTOVAZ.

Project 2170 boasts a more modern design of car body and a higher quality interior finish than the LADA 110, which will, no doubt, improve its consumer properties and customer appeal. The car will have a new hood and front fenders with wider wheelarchs. The radiator plate has been re-designed and new head light optics will be installed in the car body. The rear part of the vehicle has also been completely redesigned.

A feasibility study has been prepared, including appraisal of the technical level and competitive positioning of the new car. It demonstrates that this new range will be highly competitive in their class. In 2003, principal technical solutions for production and supporting processes were worked out, budget of capital costs was approved as required for design and purchasing of production machinery and equipment, design of manufacturing equipment was started.

CHEVROLET-NIVA project

The Chevy-Niva project – carried out in cooperation with Joint Venture ZAO GM-AVTOVAZ – represents the first step that we made towards more extensive use of cutting-edge technologies of vehicle design based on computer-aided mathematical models, testing some of the engineering and technological solutions on prototypes and pilot series.

For this project, 2003 was the year of reaching the originally planned full design capacity in terms of production volumes and quality.

Preparation of the car body welding shop line has been virtually finished. As a result, daily production of cars reached 230, which means virtually the full design capacity of the assembly line of ZAO GM-AVTOVAZ – 60,000 vehicles per year. Some of the complaints about the quality of unpainted car bodies have been addressed (quality of welding, primer coating for painting and body geometry were improved).

The automotive assembly kits supplied to ZAO GM-AVTOVAZ now include engines with upper location of the generator, hydro power steering mechanism heat exchanges, new design and higher fidelity gearboxes; new procedures were introduced to improve robustness of the front drive axles. All the necessary certification tests of the car have been completed. Three-year approval of the vehicle type for the Russian market has been received.

In 2003, preparatory work has been started to manufacture an export version of the car, the 21236 model.

A package of engineering documentation has been prepared and handed over to ZAO GM-AVTOVAZ. Principal changes in the car configuration are related to the installation of the FAM-1 engine, AISIN gearbox, new transfer case assembly and some other changes. Safety parameters of the car have been improved: the body of the car was strengthened and airbags were adapted. These initiatives earned the Chevy-Niva the 4-star category according to the EuroNCAP classification, which means this vehicle is one of the best in this class of European vehicles. When production of the export version of the car starts in 2004, new car bodies will be installed on the base configuration of the vehicle produced for the local market as well.

Adjustment of key systems and assembly units has been done and relevant tests completed. Most of the examination and testing required for this car have been completed at AVTOVAZ.

Project OKA-2

The OKA-2 is a new car, larger in overall dimensions than the predecessor and having a more spacious interior, easily allowing for comfortable accommodation of four people.

The OKA-2 will have the following new properties and features, significantly improving its consumer value:

- new, modern design (both exterior and interior);
- higher level of comfort for both the driver and passengers;
- three variants of configuration available to buyers;
- competitive pricing for options at this level.

Cars will be fitted with engines produced by JSC AVTOVAZ and Melitopol Engine Plant:

- 750 cm^3, 2 cylinders – the configuration for the physically impaired;
- 1100 cm^3, 4 cylinders – the basic configuration;
- 1500 cm^3, 4 cylinders – the deluxe configuration.

Optional equipment will include an airbag for the driver, velour seat upholstery and 14-inch wheels. Key assembly units will be the same as those used for the LADA SAMARA range, including seat frames. The base configuration of this car will have 13-inch wheels.

In 2003, the Company manufactured a prototype for testing and exhibition purposes, preliminary aerodynamic, ergonomic, speed and fuel consumption tests have been completed. Key performance characteristics of the OKA-2 correspond to those of the LADA KALINA range.

We prepared for the production of the first prototypes for full-scale testing purposes. The first car body has been welded in accordance with engineering documentation.

In 2004, it is planned to run crash tests on the new car body, climatic and resource tests, and an overall evaluation of the new car from the standpoint of certification requirements.

Project ANTEL

The Company continues to work on the new generation of vehicles running on fuel elements/cells. Fuel cells have a high efficiency of transformation of chemical energy of fuel into electrical energy, boasting an efficiency rate of 55-65%. This permits to halve the consumption of equivalent fuel. These cells are environmentally safe, the end product of energy transformation is water, there is no associated friction in operation of engine parts, therefore these engines have no noise emission and are very durable.

In 2003, the Company manufactured, on the basis of the LADA 111, the second car operating on air-hydrogen fuel cells, Antel 2. The car has been presented at the Sixth Moscow and the Seventy-fourth Geneva International Motor Shows.

The car runs on hydrogen that comes from light but durable hydrogen cylinders, where it is stored under pressure of 400 atm. A full tank is enough for the car to run up to 350 km.

Instead of pure oxygen, as was the case with Antel-1, this car uses compressed air that gets blown into the electrochemical generator by an air compressor and the system of air filtration from carbon dioxide.

The vehicle is driven by an AC electrical engine of 60 kW. Compared to Antel-1, in Antel-2 the entire energy generator is located under the hood and under the floor, leaving all useful space of the car interior or the baggage compartment free.

Success of this program will be another step towards creating in the near future of a car that in terms of torque and mileage will be competing head-to-head with ordinary (petrol) vehicles.

Project LADA REVOLUTION

Autosport and the automotive industry complement each other, the sport serving as one of the progress drivers for the industry. This co-existence is quite logical and easy to explain: designing new cars for racing takes continuous research and original engineering solutions, new materials and concepts. That is the design of race cars anticipates innovative solutions that may find their way to the mass production many years from now.

Improvements in the areas of aerodynamics, better engine power output, construction of tyres and handling quality improvement mechanisms found their way to the mass production very quickly. During races, it is not only the car as a whole that goes through comprehensive testing, but also its separate parts and systems. Results of such testing prove an invaluable source of information for engineers for the purposes of designing new mass production models.

JSC AVTOVAZ is the general sponsor of the National Racing Series LADA, under the framework of which for the first time ever a championship will be organized in the class of LADA REVOLUTION in 2004. Sports prototypes of the base model, designed and manufactured in 2003, will particiate in the LADA REVOLUTION championship.

This car was first exhibited at the 2003 Moscow International Motor Show in August of 2003, and later, in September 2003, the car was displayed at the Frankfurt International Motor Show.

After a series of tests in the autumn of 2003 at the race tracks at Nurburgring (Germany) and Myachikovo – Moscow Ring (Moscow), extensive testing at the NAMI practice ground, in laboratories and in aerodynamic tunnel a series of changes have been made to the car after which a limited series production of the car has been started.

New research

In 2003, the Company started design work on a new Class "C" car that is going to be produced five years from now on the basis of a new platform.

This new Class "C" project will meet all the current and anticipated legislative requirements applicable to European and Russian markets up to the year 2012. Design of the body will ensure compliance with the following perspective safety requirements:

- front collision (Rule R94 EEC UN) and side impact (R95)[1];
- pedestrians safety requirements (Draft Directive 2003/0033, effective from 2005)[2];
- requirements of the EuroNCAP[3] programme (anticipated adoption – 2012);
- requirements of insurance companies in respect to the cost of restoration repair work after collision at a low speed;
- requirements of energy absorbtion to be met by interior design parts during crash tests.


Research & Development Centre, JSC AVTOVAZ

[1] After having joined the Geneva Agreement, Russia has committed to test cars in accordance with the EEC UN Rules. Starting from 2003, for certification of new models front and side collision in accordance with Rules 94 and 95 have become mandatory.

[2] Primary requirement of the standard is that a pedestrian, when hit by a car moving at 40 km per hour, must stay alive and not seriously injured.

[3] The programme of testing passive protection systems of new cars – EuroNCAP (New Car Assessment Programme) - has been launched in 1997. The programme has been designed jointly by the governments of Sweden, Germany, UK, the Netherlands and France, in conjunction with the European Commission and reputable motorists' clubs from Europe. From inception to date, the EuroNCAP programme in terms of many parameters remains the strictest programme for vehicle testing. For example, the speed of the front crash test with the 40% lap (64 kph) for this test is 8 khp higher than the requirement set for car certification in Europe. Besides, this testing includes imitation of two side collisions – with a flat barrier and with a lamp post and collision with a pedestrian. The latter is performed to establish the level of danger that a car presents to the life of a pedestrian. For the purpose of determining the pressures applied to a human body at collision, special design crash test dummies are used which have multiple meters implanted.

JSC AVTOVAZ has traditionally held its people in high esteem and recognised their contribution to the commercial success of the Company. The corporate management system encompasses a broad range of HR management tools and techniques, including a well-proven and thought-out social policy, various social benefits and guarantees, and social protection and employee assistance programmes. Compared to 2002, the rise in wages was 25.2% in 2003, 9.1 percentage points higher than the increase in the consumer prices index.

Vladimir P. Peresypkinsky

Vice-President, Human Resources, JSC AVTOVAZ

EMPLOYEE AND SOCIAL PROTECTION

Salaries and wages

In 2003, salaries and wages were indexed in line with the growth of prices for consumer goods and services. While the price index went up by 16.1%, salaries increased by 25.2%. The average salary rose from RR 6,818 up to RR 8,536.

Hire and dismissal

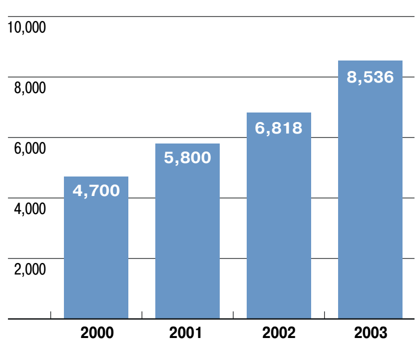
In 2003, the Company hired 7,997 people, including: 7,434 as workers; and 563 as managers, engineers and technicians. The newcomers included 280 graduates of higher educational institutions, 347 graduates of colleges, 835 graduates of secondary and technical schools and 1,108 former servicemen discharged from the Russian Armed Forces.

The mean age of engineers and technicians was 42.1 years, the mean age of workers is 39.7 years (in 2002: 42.1 years and 39.4 years, respectively).

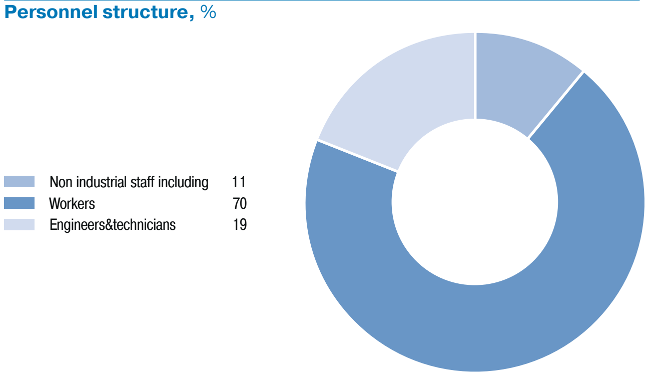
66% of the newly hired workers is represented by those under 25 years old.

During 2003, 12,119 people left the Company, the staff turnover factor was 6.9%. The workforce reduced by 2.6%.

Dynamics of average salary, RR



Personnel structure, %



Labour and health protection

In 2003, more than 65,000 tests of sanitary, physiological and bacteriological factors of the working space in all the Company's divisions were performed. Commissioning of the new production equipment and 100% control of the introduction of new materials into the production process significantly improved sanitary features of process materials.

The above activities resulted in the improvement of working conditions for many employees.

Health care at JSC AVTOVAZ is characterized by a combination of all types of medical rehabilitation into a single package, which includes sanatorium-resort therapy. That made it possible to arrange for a complete cycle of continuous rehabilitation for each employee.

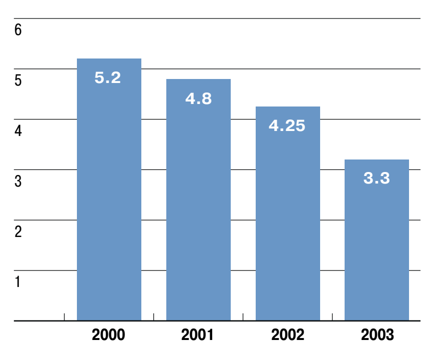
In 2003, 1,536 people underwent treatment in health resorts; 11,452 people were treated in health-protection homes, and 3,426 people spent their vacations in rest houses. In total, 12,988 employees and 1,904 children received treatment.

The workforce protection management system and improvements in preventive measures made it possible to decrease:

- the general level of industrial injuries by 15% (the frequency ratio was 3.3 compared to 4.2 in 2002);
- the number of fatalities by 80% (1 fatality compared to 5 in 2002).

The Company spent RR 45 million on labour protection activities, as specified in the Collective Agreement, and RR 63.5 million was spent on improvements in working conditions (lighting, ventilation, etc.).

Number of industrial injuries per 100 employees, frequency ratio



Professional training

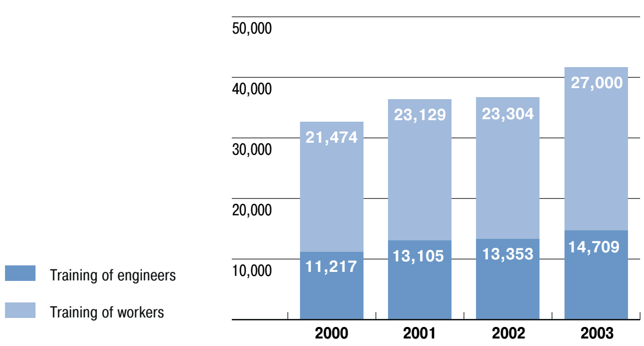
Training of the technical skills most required at JSC AVTOVAZ is provided to our employees in the Company's educational institutions, specifically in Togliatti mechanical-engineering technical school, Togliatti technical college, Professional technical schools Nos. 36, 47, 51, 45 etc. Annually, the above training institutions prepare 1,200 technicians of 12 vocations in the sphere of car manufacturing, their training period is 2.5–3 years. In the course of industrial training and practical training, students are selected for their subsequent employment in the Company.

Engineers and technicians for JSC AVTOVAZ are trained in higher education establishments of Togliatti, Samara, St Petersburg, etc. JSC AVTOVAZ continued to cooperate with Samara State Aerospace University in the sphere of contractual training of engineers in the Machinery Building Faculty of the University, located in Togliatti. Experts of six specialist areas were trained based on the Company's requests.

In 2003, the Company continued professional development of its personnel. 3,860 employees were retrained and trained allied trade, 23,502 employees improved their qualification, 14,709 employees were trained in the Training centre of JSC AVTOVAZ and other training establishments.

In 2003, under the terms of the Collective Agreement, the Company's employees were involved in a number of social programmes.

Personnel Training



Recreation, physical fitness and sport activities

To ensure recreation, health enhancement, physical treatment and sport activities of the Company employees and their families, in 2003, JSC AVTOVAZ operated 11 recreation camps, four children's health-improving camps, one community centre, the Olymp sports complex, the Volgar sports complex, the Torpedo athletic field, the Sputnik sports complex, one ski complex and one water sports complex. More than 7,500 children were involved in the sports activities in six sports schools and seven sports centres.

On average, 200,000 to 220,000 people attended sports activities and performances arranged in social support facilities every month.

In 2003, in accordance with the Collective Agreement, a broad range of social programmes were implemented for the Company's employees.

Housing programme

Implementation of the housing programme resulted in the construction and commissioning of five apartment buildings with the overall living space of 65,280 square metres. In 2003, living conditions of 1,192 families of the Company's employees were improved. The living conditions of the Company's employees were improved, first of all, at the expense of employees.

Starting from June 2003, JSC AVTOVAZ initiated joint activities with Togliattinskoe Ipotechnoye Agentstvo (Togliatti Mortgage Agency) and Federalnoye Agentstvo po ipotechnomu creditovaniyu (Federal Agency for Mortgage Lending). In 2003, 102 families of the Company's employees purchased apartments using real-estate loans in the amount of RR 24.8 million.

Loan-saving plan

The loan-saving plan offered to the Company's employees made it possible to purchase real estate, goods and services paying for them by instalments, including with the use of consumption loans, such as housing, hospital treatment fund and urgent consumer needs. As at the end of 2003, the plan involved more than 47,000 employees of the Company.

Voluntary medical insurance plan

Voluntary medical insurance plans, which are primarily financed by the employees, received further impetus.

In 2003, 34,811 employees were insured under all existing voluntary medical insurance plans.

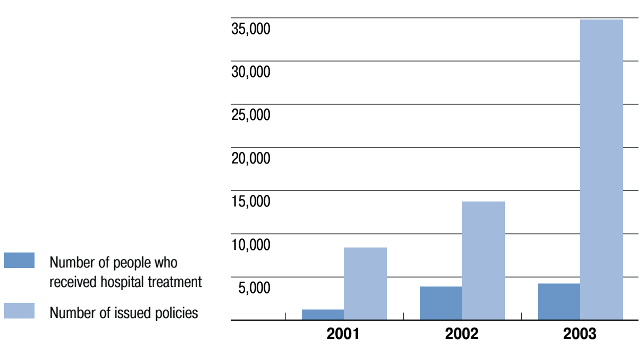
Charity programme

In 2003, charitable assistance was provided to 22,704 pensioners who are former employees of JSC AVTOVAZ; large families, minor children of invalids belonging to I & II disability groups, including nonworking pensioners belonging to I, II & III disability groups; 5,524 people; 763 childless families of nonworking pensioners, 326 families of invalids belonging to I & II disability groups, which have minor children; and 106 large families of the Company's employees.

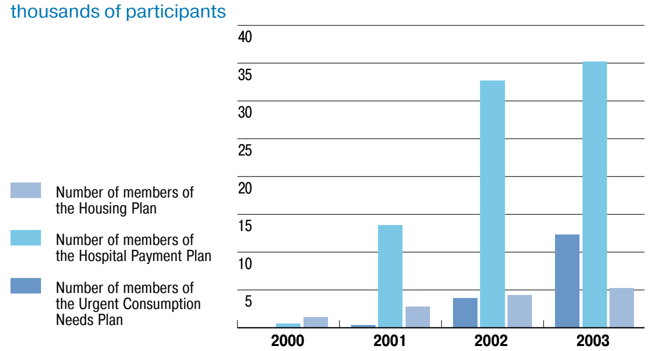
Urgent assistance (financial and in-kind) was rendered to 9,873 people. 12,600 charitable meals were arranged.

The annual charitable action "New Year and Christmas Present" was organized. This was directed at the most financially constrained categories of the Company's neighbourhood: invalids, elderly and children.

Personnel involvement in the Insurance Plan



Personnel participation in consumption plans/funds, thousands of participants



Financial **report**

5* Зак. 10025. Годовой отчет ОАО «АВТОВАЗ» на англ. яз.

Nikolai P. Khatuntsov

Chief Accountant – Director of Accounting, Taxes and Audit, JSC AVTOVAZ

In accordance with the consolidated financial statements, net income totalled RR 2,951 million, two and a half times higher than in 2002 (161%). The Group's net sales increased by 9.5%, reaching RR 130,772 million. EBITDA was equal to RR 12,234 million, 7% up on 2002. Gross profit was RR 20,769 million. Operating cash flows trebled, reaching RR 7,313 million. These funds were used primarily to finance our capital expenditures related to the launch of the new KALINA range of vehicles.

MANAGEMENT'S DISCUSSION AND ANNLYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunction with the IFRS consolidated financial statements presented on pages 74 to 103 of this annual report.

Overview

Major factors affecting financial position and results of the Group in 2003:

- in 2003 the macro-economic development of Russia remained favourable for the growth of the automotive market as personal income continued to grow in line with overall growth of GDP. Russian consumers spent 18% more on cars in 2003 compared to 2002;
- the joint venture with GM continued to develop further, producing 25 thousand vehicles in 2003. This generated revenue of RR 4,768 million (2002: RR 58 million) and RR 635 million of net income (2002: a loss of RR 223 million);
- the Group continued to develop a new range of vehicles (the LADA KALINA and PROJECT 2170). The launch of the LADA KALINA is scheduled in November 2004. Related development costs of RR 985 million were capitalised in 2003;
- in 2003 the Group completed the extinguishment of its long-term liability to VEB and Ministry of Finance inherited upon privatisation in 1993 – a process begun in 1998; and
- in 2003 the Group succeeded in obtaining its first significant medium-term financing from a major western bank, a USD 240 million loan from Deutsche Bank.

Sales volume

In 2003 1,433 thousand vehicles were sold in the Russian Federation compared to 1,417 thousand vehicles in 2002. The total number of new cars sold by AVTOVAZ increased by 6%. The market share increased to 42.6% in 2003 from 41.6% in 2002.

Export sales decreased slightly from 98 thousand units in 2002 to 92 thousand units in 2003. The Group has made significant efforts to upgrade export models to satisfy the requirements of new legislation in the area of quality and toxic emissions which was introduced in Europe from 1 October 2003. Management believes that an upgrade of the LADA 110 range will allow the Group to retain its position in foreign markets in 2004.

		2003	2002
Vehicles sold in the domestic market	000's units	626	577
Vehicles sold in foreign markets	000's units	92	98
Total vehicles sold (manufactured by JSC AVTOVAZ)	**000's units**	**718**	**675**
Revenue from domestic vehicle sales	RR million	76,952	70,326
Revenue from foreign vehicle sales	RR million	9,190	8,842
Revenue from sales of other manufacturers' vehicles by subsidiaries of JSC AVTOVAZ	RR million	19,145	15,855
Total revenue from vehicle sales	**RR million**	**105,287**	**95,023**
Revenue from sales of automotive components and assembly kits	RR million	18,139	17,857
Other revenue	**RR million**	**7,346**	**6,552**

Gross profit

In 2003 AVTOVAZ's gross profit amounted to RR 20,769 million. Margins decreased slightly from 16.9% in 2002 to 15.9% in 2003, due to continued rises in energy and metal costs.

Administrative expenses

Administrative expenses of the Group declined during 2003 by 4% to RR 8,676 million due to:

- abolishment of the road user tax; and
- decrease in consultants' fees.

Distribution costs

Distribution costs of the Group increased during 2003 by 40% to RR 4,128 million. The Group has changed its distribution policy to take on the cost of railway tariffs of its dealers to equalise selling prices in different regions of the Russian Federation. This was the main factor affecting the rise in such costs.

Research and development expenses

The Group continued to invest significant funds in the development of new products and upgrades of existing products during 2003. Development costs of the LADA KALINA project of RR 985 million were capitalised in 2003. Management expects the successful launch of commercial production of the KALINA by the end of 2004.

Other operating expenses

Other operating expenses increased during 2003 by RR 919 million. This is mainly attributable to the increase of impairment losses related to available-for-sale investments made in prior years and recognised in 2003.

Negative goodwill

In 2003 the Group made a successful acquisition of a stake in a principal subsidiary from shareholders at favourable conditions, resulting in a negative goodwill of RR 458 million (see Note 7 to the consolidated financial statements).

Revenues

Revenues increased by 9.5% compared to 2002, largely due to an increase in sales volumes by 6%.

Interest expenses

In 2003 interest expenses increased by 11% to RR 3,416 million. This was primarily due to the increase in short-term loans denominated in RR from RR 6,437 million in 2002 to RR 11,805 million in 2003.

Foreign exchange differences

Repayment of liabilities denominated in euros amounting to RR 1,792 million resulted in a 51% decrease of foreign exchange losses.

Inflation and monetary gain

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 ("Financial Reporting in Hyperinflationary Economies"). As such, no monetary gain/loss has been recognised in the consolidated financial statements for the year ended 31 December 2003.

Gains on extinguishment and forgiveness of tax debts and other liabilities

Gain on extinguishment of other borrowings
During 2002, the Group successfully negotiated the restructuring of the liability to the Ministry of Finance amounting to Euro 53 million, resulting in a RR 601 million gain. The related liability was extinguished in 2003. The Group did not receive any gain on the extinguishment of borrowings in 2003.

Restructuring and forgiveness of tax debts
During 2003, a number of the Group's subsidiaries in Russia were granted forgiveness of interest on taxes due in accordance with the Tax Code. This resulted in the recognition of a RR 325 million gain in 2003.

Taxation

Current taxation
AVTOVAZ accrued RR 2 007 million of profit tax in 2003 (2002: RR 1,880 million). The current profit tax credit of RR 385 million is mainly attributable to a derecognition of the income tax liability in the amount of RR 2,454 million, created in 2000, following a successful defence against various claims raised by the tax authorities.

Deferred taxation
The basis of deferred tax is explained in Note 3.13 to the IFRS consolidated financial statements.

AVTOVAZ has a net deferred tax liability of RR 10,824 million at 31 December 2003. The deferred tax liability has arisen primarily because the carrying value of property, plant and equipment exceeds the tax base of these assets and as a result of fair value adjustments of debt.

Other matters

Joint venture with GM
The joint venture with GM was launched in September 2002 and produced about 400 Chevrolet Niva vehicles in 2002. In 2003 the joint venture produced 25 thousand vehicles, which generated revenues of RR 4,768 million and a net income of RR 635 million.

Substantial capital investments
In 2003 management continued to adhere to the investment plan for the launch of the LADA KALINA range in November 2004. Total capital expenditures were RR 9,210 million in 2003.

Rouble denominated bonds
On 18 February 2004, the Company completed the issue of RR 3,000 million Rouble denominated documentary coupon bearer bonds. The bonds are issued at par value and mature in 4.5 years. These bonds carry 9 half yearly coupons. The rate of the first coupon, which was determined at the auction, was 11.78% per annum, the second coupon's rate is 11.28%, the rate of the third coupon is 10.78%. The rates of other coupons are determined by the issuer.

Dividends
The annual shareholders' meeting in May 2004 voted for the payment of dividends of RR 6 per ordinary share (2002: RR 5) and RR 95 per preference share (2002: RR 17).

RISK EXPOSURE

Industry risks

- a growth in people's income resulting in both greater demand and changes in the pattern of demand:

a) a growth of people's income leading to a preference for buying more expensive foreign-made vehicles (the Company's response: development of the model range, improvement of both quality and package of services supporting vehicle manufacturing);

b) a decline in people's income resulting in a decrease of sales volumes (the Company's response: adjust vehicle prices in line with the demand);

- regulation of import duties:

a) in the event of a reduction in import duties, a sector of the vehicle purchasing market may go over to a foreign manufacturer (the Company's response: improvement of the model range, improvement of both quality and package of services supporting vehicle manufacturing);

- a change in consumers' taste that reveals itself in both their aspiration to savings (the growth of savings outpaces that of expenses) and preference for vehicles of higher quality with better consumer properties (the Company's response: improvement of the model range, improvement of both quality and package of services supporting vehicle manufacturing).

Country and regional risks

The Samara Region is one of the most prosperous and dynamically developing regions in Russia; in the general context of economic situation in the regions its economy moves, most consistently and briskly, to market relations while accommodating itself to global production, financial and economic requirements. Its exports are characterised by predominance of oil products, fertilizers, unprocessed aluminium, synthetic rubber and vehicles.

The Samara Region sits within the group of regions designated 2B (medium potential – moderate risk). Over the years of producing that rating, 17 regions at different times ranked within Top Ten in terms of their investment potential, and the Samara Region has always been within the Top Ten.

According to the Expert Magazine, the level of investment risk for the Samara Region in the rating of Russian regions for 2002, went down by 10 points, which points to a better investment climate in the region.

International credit rating given to the Samara Region by Standard & Poor's is "B+" ("positive" forecast), by Moody's – Ba3 ("steady" forecast). Among the subjects of the Russian Federation, a higher rating was given to Moscow and St Petersburg.

JSC AVTOVAZ is a backbone entity of the region as a whole and Togliatti in particular. Any drastic changes on the regional scale (environmental, political, demographic or social) are unlikely to take place, however, if such changes do occur, they would definitely affect the Company's activities. Due to its standing, JSC AVTOVAZ is able to influence the regional situation: in the event of force-majeure it will undertake emergency measures (for instance, accident relief / clean-up activities); it also undertakes timely preventive measures, like environmental actions, implementation of HR policies and development of social infrastructure.

According to the rating agency's data for 2001 and 2002, investment potential of the Samara Region is assessed in the following way.

Type of potential	Rating
Production	6
Financial	6
Institutional	6
Innovation	8
Labour	6
Consumer	4
Infrastructure	22

Financial risks

Since the Company conducts trading operations both on the domestic and external market, it is exposed to a certain currency exchange risk. To reduce any risks arising in connection with fluctuations of exchange rates, AVTOVAZ applies a variety of approaches to foreign currencies used in its settlements. These schemes enable the Company to avoid adverse effects of significant fluctuations in exchange rates upon its activities. Settlements with the suppliers and customers are mainly effected in Russian Roubles, which significantly mitigates the currency exchange risk.

Risk of the Company's default on its obligations under securities issued.

A possible risk of the Company's default on obligations to the holders of its securities may be caused by the following potential factors:

- fluctuations of prices on electricity or electricity tariffs. Raw materials, electricity and transport costs account for the greater portion of the Company's production cost. Their considerable growth, which is possible, may entail a material growth in costs and, accordingly, bring down the Company's margins and impair its ability to settle liabilities as they come due;
- changes in interest rates. Changes in Russia's monetary policy may result in higher inflation, growth of interest rates on borrowings raised by the Company and, accordingly, cost escalation. Similar effects on interest rates that are charged by the suppliers of inventory used by the Company may result in a price increase with a commensurate rise in costs of purchase thereof or reduction of purchase and production volumes.
- negative changes in Russia's tax policies. A possible increase of rates on taxes paid by the Company in the course of its business activities may entail a cost escalation and reduction of cash retained by the Company to finance ongoing operations and settlement of liabilities, including those under bonds issued by the Company.
- exacerbation of both country and political risks, which may result in erosion of the Company's client base.

Description of inflationary effects

Inflation growth has an ambivalent influence on the Company's financial results. It may entail a cost escalation (due to higher prices of energy, raw materials and components) and, hence, a decline in the Company's profits and, accordingly, margins. On the other hand, higher inflation rates result in an increase of consumer prices on products, which makes it possible to shift part of the burden onto the consumer; higher inflation rates also entail depreciation of actual cost of rouble-denominated liabilities.

Analysis of the inflation in the Russian Federation indicates that its rate is declining. In 2000 inflation rate was 20.2% per year, in 2001 – 18.6%, in 2002 - 15.1% and in 2003 – 14%. To alleviate any adverse inflationary effects, the Company performs indexation of its sale prices on an intermittent basis.

Legal risks

A possible increase of rates of taxes paid by JSC AVTOVAZ in the course of its business activities may entail a cost escalation and reduction of cash retained by the Company to finance ongoing operations and settlement of liabilities.

Financial **statements**

6* Зак. 10025. Годовой отчет ОАО «АВТОВАЗ» на англ. яз.

AVTOVAZ GROUP
Consolidated Financial Statements and Auditor's Report
31 December 2003

Prepared in accordance with International Financial Reporting Standards

PRICEWATERHOUSECOOPERS

AUDITOR'S REPORT

ZAO
PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (095) 967 6000
Facsimile +7 (095) 967 6001

To the Shareholders of 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 2003 and the related consolidated statements of income, of cash flows and of changes in equity for the year then ended. These financial statements (as set out on pages 1 to 28) are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except as disclosed in the following paragraph, 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. We were unable to perform sufficient audit procedures regarding the financial information of one of the Group's principal subsidiaries, ZAO CB Avtomobilny Bankirsky Dom, which was audited by another auditor. The total assets and total liabilities of this subsidiary as at 31 December 2003, and the net profit for the year then ended, included in these consolidated financial statements are RR million 3,972, 1,364 and 266 respectively, representing 3%, 2% and 9% of respective Group balances.

4. As discussed in note 15, as at 31 December 2002 development costs relating to a new range of vehicles amounting to RR 714 million were capitalized. In our opinion, the recognition criteria in IAS 38, "Intangible assets", were not met as at 31 December 2002, and therefore, assets and retained earnings have been overstated by RR 714 million as at and for the years ended 31 December 2002 and 2003 and expenses were understated by RR 714 million for the year ended 31 December 2002.

5. In our opinion, except for the effects of adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter referred to in paragraph 3, and except for the effect on the consolidated financial statements of the matter referred to in paragraph 4, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

6. Without further qualifying our audit report, we draw attention to Note 2. US Dollar (US$) amounts presented in the consolidated financial statements are translated from RR as a matter of arithmetic computation only, at the official rates of the Central Bank of the Russian Federation at the relevant dates. The US$ 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
21 July 2004

AVTOVAZ GROUP
Consolidated Balance Sheet
at 31 December 2003

(In millions of Russian Roubles)
(Amounts translated into US dollars for convenience purposes, Note 2)

	RR million 31 December 2003	RR million (restated) 31 December 2002	Supplementary (Note 2.2) US$ million Unaudited 31 December 2003
ASSETS			
Current assets:			
Cash and cash equivalents (Note 9)	6,767	2,751	230
Trade receivables, net (Notes 8 and 10)	7,202	8,247	244
Financial assets at fair value through profit and loss (Note 11)	4,359	1,154	148
Other current assets (Note 12)	6,499	5,508	221
Inventories (Note 13)	19,009	18,484	645
Total current assets	**43,836**	**36,144**	**1,488**
Non-current assets:			
Property, plant and equipment (Note 14)	104,350	100,383	2,543
Available-for-sale financial assets (Note 16)	675	466	23
Investments in associates and joint ventures (Note 17)	866	754	29
Development costs (Note 15)	1,699	714	58
Other assets	638	519	22
Total assets	**152,064**	**138,980**	**5,163**
LIABILITIES & EQUITY			
Current liabilities:			
Trade payables current (Note 8 and 18)	17,495	17,444	594
Other payables and accrued expenses (Note 19)	5,743	9,991	195
Current taxes payable other than income tax (Note 22)	4,289	2,927	146
Provisions (Note 20)	1,732	2,189	59
Short-term debt (Note 21)	11,852	9,296	402
Advances from customers	5,635	1,061	191
Total current liabilities	**46,746**	**42,908**	**1,587**
Non-current liabilities:			
Long-term debt (Note 21)	10,587	4,005	359
Long-term taxes payable (Note 22)	4,405	4,491	149
Deferred tax liability (Note 31)	10,824	10,762	368
Total liabilities	**72,562**	**62,166**	**2,463**
Equity			
Share capital (Note 23)	28,890	28,890	981
Currency translation adjustment	1,289	1,119	44
Retained earnings	48,033	45,218	1,631
Total shareholders' equity	**78,212**	**75,227**	**2,656**
Minority interest (Note 2.3)	**1,290**	**1,587**	**44**
Total equity	**79,502**	**76,814**	**2,700**
Total liabilities and equity	**152,064**	**138,980**	**5,163**

V. Vilchik
President-General Director
21 July 2004

N. Khatuntsov
Chief Accountant

The accompanying notes 1 to 37 are an integral part of the consolidated financial statements.

AVTOVAZ GROUP
Consolidated Statement of Income for the year ended 31 December 2003

(In millions of Russian Roubles, except for earnings per share)
(Amounts translated into US dollars for convenience purposes, Note 2)

	RR million 31 December 2003	RR million (restated) 31 December 2002	Supplementary (Note 2.2) US$ million Unaudited 31 December 2003
Net sales (Note 24)	130,772	119,432	4,261
Cost of sales (Notes 25 and 29)	(110,003)	(99,331)	(3,584)
Gross profit	**20,769**	**20,101**	**677**
Administrative expenses (Notes 26 and 29)	(8,676)	(9,046)	(283)
Distribution costs (Note 29)	(4,128)	(2,947)	(135)
Research and development expenses (Notes 27 and 29)	(628)	(1,425)	(20)
Other operating expenses (Note 28)	(1,854)	(935)	(60)
Loss from change of fair value of financial assets at fair value through profit and loss and available-for-sale financial assets, net	-	(157)	-
Negative goodwill (Note 7)	458	-	15
Operating income	**5,941**	**5,591**	**194**
Finance costs – net (Note 30)	(3,708)	445	(121)
Income from associates and joint ventures	333	24	11
Profit before taxation	**2,566**	**6,060**	**84**
Income tax credit/(expense) (Note 31)	385	(4,932)	12
Net profit	**2,951**	**1,128**	**96**
Attributable to:			
Equity holders of the Company	3,034	1,124	99
Minority interest (Note 2.3)	(83)	4	(3)
	2,951	1,128	96
Weighted average number of shares outstanding during the period (000's)	14,445	14,980	14,445
Earnings per share (basic/diluted) (in RR and US $) (Note 32)	**210**	**75**	**7**

The accompanying notes 1 to 37 are an integral part of the consolidated financial statements.

AVTOVAZ GROUP
Consolidated Statement of Cash Flows for the year ended 31 December 2003

(In millions of Russian Roubles)
(Amounts translated into US dollars for convenience purposes, Note 2)

	RR million 31 December 2003	RR million (restated) 31 December 2002	Supplementary (Note 2.2) US$ million Unaudited 31 December 2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before taxation	2,566	6,060	84
ADJUSTMENTS FOR:			
Depreciation	6,293	5,869	205
Provision for impairment of receivables	110	(55)	4
Provisions	121	347	4
Interest expense	3,416	3,077	111
Gains on forgiveness of tax debt and restructuring of other debt	(325)	(601)	(11)
Loss on disposal of property, plant and equipment	510	229	17
Loss from change of fair value of financial assets at fair value through profit and loss, net (Note 16)	-	57	-
Income from associates and joint ventures	(333)	(24)	(11)
Reversal of impairment loss on property, plant and equipment (Note 14)	(501)	(1,902)	(16)
Impairment loss on available-for-sale financial assets (Note 16)	584	-	19
Negative goodwill (Note 7)	(458)	-	(15)
Loss on disposal of investments	256	156	8
Unrealised foreign exchange effect on non-operating balances	507	1,226	16
Monetary effect on non-operating balances	-	(2,239)	-
Operating cash flows before working capital changes	**12,746**	**12,300**	**415**
(Increase)/decrease in gross trade receivables	(519)	868	(17)
(Increase)/decrease in prepaid expenses, advances and other receivables	(4,342)	67	(141)
Increase in inventories	(525)	(4,036)	(17)
(Decrease)/increase in trade payables and other payables and accrued expenses	(1,342)	609	(44)
Increase/(decrease) in other taxes payable	2,051	(497)	67
Increase/(decrease) in advances from customers	4,575	(3,169)	149
Cash provided from operations	**12,644**	**6,142**	**412**
Income tax paid	(1,671)	(2,531)	(54)
Interest paid	(3,660)	(1,050)	(120)
Net cash provided from operating activities	**7,313**	**2,561**	**238**
Cash flows from investing activities:			
Purchase of property, plant and equipment	(9,210)	(7,994)	(300)
Proceeds from the sale of property, plant and equipment	225	358	7
Proceeds from the sale of investments	49	80	2
Purchase of investments	(726)	(296)	(24)
Business combination (Note 7)	(68)	-	(2)
Net cash used in investing activities:	**(9,730)**	**(7,852)**	**(317)**
Cash flows from financing activities:			
Proceeds from borrowings	19,570	12,932	638
Repayment of loans and long-term taxes payable	(12,905)	(8,741)	(421)
Purchase of treasury shares	-	(400)	-
Dividends paid	(219)	(164)	(7)
Net cash provided from financing activities	**6,446**	**3,627**	**210**
Effect of inflation on cash and cash equivalents	-	(234)	-
Effect of exchange rate changes	(13)	80	-
Effect of translation	-	-	12
Net increase in cash and cash equivalents	**4,016**	**(1,818)**	**143**
Cash and cash equivalents at the beginning of the period	**2,751**	**4,569**	**87**
Cash and cash equivalents at the end of the period (Note 9)	**6,767**	**2,751**	**230**

The accompanying notes 1 to 37 are an integral part of the consolidated financial statements.

AVTOVAZ GROUP
Consolidated Statement of Changes in Equity for the year ended 31 December 2003

(In millions of Russian Roubles)
(Amounts translated into US dollars for convenience purposes, Note 2)

	Share capital	Treasury shares (Notes 7.1 and 23)	Currency translation adjustment	Retained earnings	Attributable to equity holders of the Company	Minority interest (Note 2.3)	Total equity
Balances as of 31 December 2001(as reported)	**64,251**	**(34,058)**	**961**	**32,725**	**63,879**	**12,284**	**76,163**
Effect of changes in accounting policy (Note 2.3)	-	-	-	10,701	10,701	(10,701)	-
Balances as of 31 December 2001(as restated)	**64,251**	**(34,058)**	**961**	**43,426**	**74,580**	**1,583**	**76,163**
Sale of treasury shares (ordinary)	-	428	-	(428)	-	-	-
Purchase of treasury shares (ordinary)	-	(1,731)	-	1,331	(400)	-	(400)
Currency translation adjustment	-	-	158	-	158	-	158
Dividends	-	-	-	(235)	(235)	-	(235)
Profit for the year	-	-	-	1,124	1,124	4	1,128
Balances as of 31 December 2002 (as restated)	**64,251**	**(35,361)**	**1,119**	**45,218**	**75,227**	**1,587**	**76,814**
Currency translation adjustment	-	-	170	-	170	-	170
Dividends	-	-	-	(219)	(219)	-	(219)
Purchase of additional shares in subsidiary	-	-	-	-	-	(526)	(526)
Purchase of subsidiaries	-	-	-	-	-	312	312
Profit for the year	-	-	-	3,034	3,034	(83)	2,951
Balances as of 31 December 2003	**64,251**	**(35,361)**	**1,289**	**48,033**	**78,212**	**1,290**	**79,502**

Supplementary (Note 2.2) (Unaudited) In US$ million	Share capital	Treasury shares (Notes 7.1 and 23)	Currency translation adjustment	Retained earnings	Attributable to equity holders of the Company	Minority interest (Note 2.3)	Total equity
Balances as of 31 December 2003	**2,182**	**(1,201)**	**44**	**1,631**	**2,656**	**44**	**2,700**

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 2003, the current net statutory profit for the Company as reported in its statutory reporting forms was RR 4,655 (the year ended 31 December 2002: RR 700). 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 consolidated financial statements.

OAO AVVA, an 86 % owned subsidiary of JSC AVTOVAZ (Note 7.1), exchanged 213,812 own ordinary shares into 213,812 ordinary shares of JSC AVTOVAZ valued at RR 428 in 2002. The exchange had no material effect on minority interest.

The accompanying notes 1 to 37 are an integral part of the consolidated financial statements.

AVTOVAZ GROUP

Notes to the Consolidated Financial Statements at 31 December 2003

(In millions of Russian Roubles)

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 2003 the Group employed 161,228 employees (31 December 2002: 161,148). JSC AVTOVAZ is registered at Yuzhnoye Shosse, 36, Togliatti, 445633, Russian Federation.

These consolidated financial statements have been approved for issue by the President-General Director on 21 July 2004.

2. 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 subsidiaries resident in the Russian Federation, 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 financial assets 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 impairment of receivables. Actual results could differ from these estimates.

2.1 Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included 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. 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. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

Corresponding figures, for the year ended 31 December 2002, were restated for the changes in the general purchasing power of the RR at 31 December 2002. 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 corresponding figures, based on 1988 prices (1988 = 100) for the five years ended 31 December 2002, and the respective conversion factors, are:

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

2. Basis of presentation of the consolidated financial statements (continued)

2.1 Accounting for the effect of inflation (continued)

The main guidelines followed in restating the corresponding figures were:

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

2.2 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 arithmetical computation only, at the official rate of the Central Bank of the Russian Federation at 31 December 2003 of RR 29.45 = US$1 (at 31 December 2002 of RR 31.78 =US$1). The consolidated statement of income and the consolidated statement of cash flows have been translated at the average exchange rates during the year. The difference was recognized in equity. The US$ amounts are presented solely for the convenience of the reader as supplementary information, 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 Group in accordance with IFRS.

2.3 Changes in accounting policy

The Group has early adopted IAS 27 "Consolidated and Separate Financial Statements" (revised in 2003) and accordingly changed the policy for accounting for minority interest. In prior years minority interest was presented separately from liabilities and equity. From 1 January 2002 minority interest is presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

In addition, the Group changed its policy with respect to the method of calculating minority interest. The Group no longer attributes minority interest relating to cross shareholdings (Note 7.1).

The Group adopted IFRS 3 "Business combinations" and accordingly changed the policy for accounting for goodwill from 1 January 2003. In prior years goodwill both positive and negative was included in intangible assets and amortised over its useful life. From 1 January 2003 negative goodwill is written off to the consolidated statement of income immediately as incurred and positive goodwill is initially recognised at cost and subsequently carried at cost less any accumulated impairment losses (Note 3.12).

(In millions of Russian Roubles)

3. Summary of significant accounting policies

3.1 Early adoption of standards

In 2003 the Group early adopted the IFRS below, which are relevant to its operations. The 2002 accounts have been amended as required, in accordance with the relevant requirements.

IAS 1	(revised 2003)	"Presentation of Financial Statements"
IAS 2	(revised 2003)	"Inventories"
IAS 8	(revised 2003)	"Accounting Policies, Changes in Accounting Estimates and Errors"
IAS 10	(revised 2003)	"Events after the Balance Sheet Date"
IAS 16	(revised 2003)	"Property, Plant and Equipment"
IAS 17	(revised 2003)	"Leases"
IAS 21	(revised 2003)	"The Effects of Changes in Foreign Exchange Rates"
IAS 24	(revised 2003)	"Related Party Disclosures"
IAS 27	(revised 2003)	"Consolidated and Separate Financial Statements"
IAS 28	(revised 2003)	"Investments in Associates"
IAS 31	(revised 2003)	"Interests in Joint Ventures"
IAS 32	(revised 2003)	"Financial Instruments: Disclosure and Presentation"
IAS 33	(revised 2003)	"Earnings per Share"
IAS 39	(revised 2003)	"Financial Instruments: Recognition and Measurement"
IFRS 2	(issued 2004)	"Share-based Payments"
IFRS 3	(issued 2004)	"Business Combinations"
IFRS 5	(issued 2004)	"Non-current Assets Held for Sale and Discontinued Operations"
IAS 36	(revised 2004)	"Impairment of Assets"
IAS 38	(revised 2004)	"Intangible Assets".

The early adoption of IAS 1, 2, 8, 10, 16, 17, 21, 24, 28, 31, 32, 33 (all revised 2003) and 36 and 38 (both revised 2004) did not result in substantial changes to the Group's accounting policies.

IAS 1 and IAS 8 (all revised 2003) have affected disclosures of the Summary of significant accounting policies and other disclosures.

An effect of the early adoption of IAS 27 (revised 2003) and IFRS 3 has been discussed in Note 2.3.

IFRS 3 requires simultaneous adoption with IAS 36 and IAS 38.

The early adoption of IFRS 2 and IFRS 5 has not resulted in any changes in the consolidated financial statements.

The early adoption of IAS 39 has resulted in reclassification of all the current available for sale investments to financial assets at fair value through profit and loss and comprise RR 1,154 as at 31 December 2002 within current assets.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards.

3.2 Group reporting

Subsidiary undertakings

Subsidiary undertakings are those entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. 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 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 is presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

3.2 Group reporting (continued)

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisitions date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

Associated undertakings
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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.

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.

Joint ventures
The Group's interests in jointly controlled entities are accounted for using the equity method. The consolidated statement of income reflects the Group's share of the results of operations of the jointly controlled entity.

Equity accounting is discontinued when the Group ceases to have joint control over, or have significant influence in, a jointly controlled equity.

3.3 Investments

Financial assets at fair value through profit and loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Realised and unrealised gains and losses arising from changes in the fair value of these financial assets are included in the consolidated statement of income in the period in which they arise.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet. Loans and receivables are carried at amortized cost using the effective interest method.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the assets. Investments are initially recognised at fair value plus transactions costs for all financial assets not carried at fair value through profit and loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

3.3 Investments (continued)

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as availablefor-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the consolidated statement of income as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income.

3.4 Borrowings issued

Borrowings are recognised initially at cost which is the fair value of the proceeds received, net of transaction costs incurred. The fair value is determined using the prevailing market rate of interest at which debt is available to borrowers. Borrowings issued by the Group are recorded at amortised cost, which is the amount of the loan when it was originally recorded net of repayments of the principal debt plus any cumulative amortisation of any difference between the initial amount and redemption amount at maturity and less any losses for impairment.

The Group holds neither trading investments, nor held-to-maturity investments.

3.5 Revenue recognition

Revenues on domestic sales of automobiles, spare parts and miscellaneous production are recognised when goods 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, and after eliminating sales within the Group.

3.6 Seasonality

Demand for finished vehicles is not significantly influenced by seasons of the year. However, there is a slight increase in demand for vehicles prior to the summer months and a decrease in demand prior to the end of calendar year. The seasonality in the demand for vehicles does not significantly influence production, inventory levels are adjusted for these movements in demand. Seasonality does not impact the revenue or cost recognition policies of the Group.

3.7 Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables and include 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.

3.8 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.

3.9 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. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(In millions of Russian Roubles)

3.10 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 with original maturities of three months or less.

3.11 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost. Property, plant and equipment purchased before 31 December 2002 were recorded at purchase or construction cost restated to the equivalent purchasing power of the RR as 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 consolidated statement of income. 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.

3.12 Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Any excess of the Group's share of the net identifiable assets over the cost of an acquisition (negative goodwill) is recognised immediately in the consolidated statement of income.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Research and development costs
Research expenditure is recognised as an expense as incurred. Costs incurred for development projects related to a new range of vehicles 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. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the new vehicles on a straight-line basis over the period of their expected benefits, not exceeding three years.

3. Summary of significant accounting policies (continued)

3.13 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.

3.14 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 restructured liabilities.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.15 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 2003, 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 income.

Foreign subsidiary balance sheets and statements of income have been translated in RR at the exchange rate ruling at 31 December 2003 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.

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which entity operates ("the functional currency"). The consolidated financial statements arepresented in Russian Roubles, which is the Company's functional and presentation currency. U.S. dollar amounts have beenprovided as supplementary information only.

3.16 Product warranty costs

The Group recognises the estimated liability to repair or replace products sold still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

3.17 Employee benefits

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 statement of income.

Pension costs

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

3.18 Interest expense and interest income

Interest income and expenses are recognised on the accrual basis, as earned or incurred. Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

3.19 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 weighted average number of participating shares outstanding during the reporting period. Losses are allocated to preference shares in this calculation.

3.20 Use of veksels

Veksels (promissory notes) are debt securities. The Group makes extensive use of both third party promissory notes and Group originated veksels in its operations. Bank veksels received are included in the balance sheet within cash and cash equivalents. Veksels issued by the Group, are included within trade payables until they are settled for cash.

3.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

3.22 Shareholders' equity

Treasury shares

Treasury shares are stated at nominal value, restated to the equivalent purchasing power of the RR as 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 equity.

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 consolidated financial statements when they are proposed or declared for payment after the balance sheet date but before the consolidated financial statements are authorised for issue.

3.23 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.

4. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the EURO. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

(b) Credit risk
The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure toany financial institution.

(c) Liquidity risk
The Group manages its liquidity risk by maintaining sufficient cash and marketable securities and available funding through an adequate amount of committed credit facilities.

(d) Cash flow and fair value interest rate risk
The Group's interest-rate risk arises from borrowings. The majority of interest rates on debt are fixed. Existing interest rates can be changed subject to agreement by the third parties. Assets are generally non-interest bearing.

5. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

5.1 Critical accounting estimates and assumptions

5.1.1 Operating environment of the Group
The Russian Federation 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 tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

5.1.2 Taxes
The Group is subject to taxes. Significant judgement is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcomes of these matters is different from the amounts that were initially recorded, such differences will impact the provisions in the period in which such determination is made.

Were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Group would need to:
- increase in provision for taxes by RR 200, if unfavourable; or
- decrease in provision for taxes by RR 200, if favourable.

5.1.3 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The interest rates on rouble-denominated long-term borrowings range from 15.5% to 16%.

The Group has sufficient financial resources for settlement of its liabilities. Should interest rates change by 2-3%, then interest expense will change by the following:

- increase in interest expense by RR 340, if unfavourable; or
- decrease in interest expense by RR 340, if favourable.

5.1.4 Product warranty costs

The Group made a provision for warranties at the year end based on past experience of the level of repairs and returns. Were the actual outcome to differ by 10% from management's estimates, the Group would need to increase provision for warranties by RR 150, if unfavourable.

5.1.5 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 2003 and 2002, the fair value of certain financial liabilities was 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 is disclosed in the relevant notes to these consolidated financial statements.

5.2 Critical judgements in applying the accounting policies

5.2.1 Development costs

The Group has capitalised development costs amounting to RR 1,699 as of 31 December 2003. The Group believes that the related projects are technologically feasible and will be commercially successful. It is therefore appropriate to capitalise these development costs. The Group's net profit would be RR 1,966 in 2003 and RR 414 in 2002 if these development costs had been recognised as expenses in 2003 and 2002, respectively.

6. Segment reporting

The Group operates as one business segment – automobiles manufacturing – as its operations are subject to similar risks and returns.

Revenue from export of the Group's automobile production to western and eastern Europe is 9% (year ended 31 December 2002: 7%) of total revenue and the geographical segment is not identified as a reportable segment.

(In millions of Russian Roubles)

7. Principal subsidiaries, business combinations

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 2003 % share	31 December 2002 % 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
ZAO CB Avtomobilny Bankirsky Dom	Russia	Bank services	58.4	36
ZAO VAZinterService	Russia	Car components	64.8	12.6
OAO AVVA	Russia	Investments	86	85
Delta Motor Group Oy	Finland	Car distribution	100	70
ZAO CB AFC	Russia	Financial	58.5	58.5
ZAO IFC	Russia	Financial	51	51
OOO Eleks-Polyus	Russia	Car distribution	51	51
125 Technical Service Centres	Russia	Car service centres	50.1-100	50.1-100

All of the above subsidiaries have been consolidated.

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

Entity	Country of Incorporation	Activity	31 December 2003 % share	31 December 2002 % 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	19.9	27
ZAO ASOL	Russia	Insurance	34	34
OASO ASTRO VOLGA	Russia	Insurance	43	43

ZAO GM-AvtoVAZ is a joint venture between AvtoVAZ (47.6%), GM (47.6%) and EBRD 4.8% which began production in September 2002. In 2003 the joint venture produced 25 thousand vehicles, which generated revenues of RR 4,768 and a net profit of RR 635 of which the Group's share was RR 302 (Note 17).

On 12 March 2003 the Group purchased an additional number of ordinary shares of AO Delta Motor Group. The share of the Group in this entity's capital increased to 100% (at 31 December 2002: 69.83%). No goodwill arose on earlier purchases of ordinary shares of AO Delta Motor Group. AO Delta Motor Group contributed revenues of RR 9,465 and net profit of RR 25 to the Group for the period from 1 January 2003 to 31 December 2003.

Details of net assets acquired and excess of the acquired share in the net fair value of identifiable assets and liabilities are as follows:

	RR million
Purchase consideration	
- Cash paid	68
Total purchase consideration	68
Fair value of net assets acquired	(526)
Negative goodwill	(458)

The negative goodwill is attributable to the fact that the dissentient shareholder of AO Delta Motor Group decided to cease its participation in the group and accepted the bargain price RR 68.

7* Зак. 10025. Годовой отчет ОАО «АВТОВАЗ» на англ. яз.

(In millions of Russian Roubles)

7. Principal subsidiaries, business combinations (continued)

The identifiable assets and liabilities arising from the acquisition are as follows:

	Fair value RR million	Carrying amount RR million
Cash and cash equivalents	253	253
Inventory	1,524	1,524
Accounts receivable	473	473
Property, plant and equipment	1,074	1,074
Other assets	52	52
Payables	(1,417)	(1,417)
Borrowings	(216)	(216)
Net assets	**1,743**	**1,743**
Share of net assets acquired from minority shareholders	526	
Purchase consideration settled in cash		68

7.1 Cross shareholding

At 31 December 2003 OAO AVVA, an 86% 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% (2002: 64%) 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 consolidated financial statements.

8. Balances and transactions with related parties

8.1 Balances with related parties

Consolidated balance sheet caption	Relationship	31 December 2003	31 December 2002
Trade receivables, gross:	Associates	271	323
Provision for impairment of receivables:	Associates	(7)	(76)
Trade payables current:	Associates	349	295

8.2 Transactions with related parties

Consolidated statement of income caption	Relationship	Year ended 31 December 2003	Year ended 31 December 2002
Net sales:	Associates	5,477	1,364
Purchases:	Associates	2,911	3,369

8.3 Directors' and Key Management's compensation

Compensation of the Board of Directors and the Management Board is disclosed at Note 36.

9. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	31 December 2003	31 December 2002
RR denominated cash on hand and balances with banks	5,457	974
Foreign currency denominated balances with banks	1,310	1,777
	6,767	**2,751**

(In millions of Russian Roubles)

10. Trade receivables

	31 December 2003	31 December 2002
Trade receivables		
Rouble denominated	5,080	4,488
Foreign currency denominated	2,487	4,257
	7,567	**8,745**
Less Provision for impairment of receivables		
Rouble denominated	(285)	(361)
Foreign currency denominated	(80)	(137)
	(365)	**(498)**
Net receivable		
Rouble denominated	4,795	4,127
Foreign currency denominated	2,407	4,120
	7,202	**8,247**

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

Currency	31 December 2003	31 December 2002
Euro	968	986
US$	1,201	3,131
Other currencies	238	3
Total net trade receivables denominated in foreign currencies	**2,407**	**4,120**

11. Financial assets at fair value through profit and loss

	31 December 2003	31 December 2002
Short-term financial assets	4,359	1,154
	4,359	**1,154**

Short-term financial assets include RR 1,847 (2002: RR Nil) of commercial loans given by ZAO CB Avtomobilny Bankirsky Dom to its customers for periods less than 12 months after the balance sheet date and other current receivables of ZAO CB Avtomobilny Bankirsky Dom amounting to RR 648 (2002: RR Nil). ZAO CB Avtomobilny Bankirsky Dom was accounted for using the equity method in 2002 (Note 7). The rest of the short-term financial assets comprise principally customers' promissory notes payable within a three-month period.

As at 31 December 2003, the fair value of these assets was not materially different from the carrying value.

12. Other current assets

Other current assets consist of the following:

	31 December 2003	31 December 2002
Value-added tax	4,268	3,771
Prepaid expenses, advances and other receivables	2,231	1,737
	6,499	**5,508**

13. Inventories

Inventories consist of the following:

	31 December 2003	31 December 2002
Raw materials	11,425	9,355
Work in progress	3,518	3,064
Finished products	4,066	6,065
	19,009	**18,484**

Inventories are recorded net of obsolescence provision of RR 551 at 31 December 2003 (31 December 2002: RR 524).

AVTOVAZ GROUP

Notes to the Consolidated Financial Statements at 31 December 2003

(In millions of Russian Roubles)

14. 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 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
Additions	-	-	-	11,534	11,534
Disposals	(584)	(1,726)	(556)	(296)	(3,162)
Transfers	1,029	7,860	387	(9,276)	-
Balance at 31December 2003	**71,120**	**114,333**	**10,702**	**19,360**	**215,515**
Accumulated Depreciation					
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)
Depreciation expense for 2003	(1,736)	(4,334)	(223)	-	(6,293)
Disposals	136	1,015	236	-	1,387
Reversal of impairment loss	-	-	-	501	501
Balance at 31 December 2003	**(32,359)**	**(64,910)**	**(9,846)**	**(4,050)**	**(111,165)**
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
Balance at 31 December 2003	**38,761**	**49,423**	**856**	**15,310**	**104,350**

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. The balance of accumulated depreciation of AUC as at 31 December 2002 of RR 4,551 includes an impairment provision made in prior years against construction projects started but not expected to be completed as well as a provision against the construction of properties to be used by the local community.

At 31 December 2003, management estimates that the impairment loss related to AUC has decreased by RR 501. This relates to buildings previously taken out of use which are now being converted to production. This amount was recorded as a reversal of the impairment provision for AUC in the consolidated financial statements for the year ended 31 December 2003.

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. Until 11 December 2001 the land on which the Group’s manufacturing facilities are situated was provided to JSC AVTOVAZ by local authorities for unlimited use. As a result of changes in existing legislation, on 11 December 2001 rental agreements were made with local authorities in relation to this land for the period of 49 years. Lease payments for land related to Group’s production facilities are dependent on land tax rate and can be changed subject to agreement by the third parties. The future aggregate minimum lease payments under noncancellable operating leases of land are disclosed in note 34.1.

Included in Property, plant and equipment and AUC are properties used by the local community (such as rest houses, kindergartens, sports and medical facilities) at a gross carrying value of RR 4,106 and RR 4,075 as of 31 December 2003 and 31 December 2002, respectively. These properties are fully provided for.

At 31 December 2003 and 31 December 2002, the gross carrying value of fully depreciated property, plant and equipment was RR 47,856 and RR 46,630, respectively.

(In millions of Russian Roubles)

15. Development costs

	Development costs
Year ended 31 December 2002	
Opening net book amount	-
Additions	714
Closing net book amount	714
At 31 December 2002	
Cost	714
Accumulated amortisation and impairment	-
Net book amount	714
Year ended 31 December 2003	
Opening net book amount	714
Additions	985
Closing net book amount	1,699
At 31 December 2003	
Cost	1,699
Accumulated amortisation and impairment	-
Net book amount	1,699

Development costs relating to a new range of vehicles amounting to RR 985 (2002: RR 714) were capitalised in 2003.

16. Available-for-sale financial assets

	2003	2002
Beginning of the year	**466**	**305**
Additions	1,162	125
Impairment loss	(584)	-
Revaluation surplus	-	92
Disposals	(369)	(56)
End of the year	**675**	**466**

Available-for-sale financial assets are principally non-marketable equity securities, which are not publicly traded or listed on the Russian stock exchange and borrowings issued by the Group with maturity period of more than one year.

17. Investments in associates and joint ventures

	2003	2002
Beginning of the year	754	478
Additions	-	252
Share of income	333	24
Disposals	(221)	-
End of the year	**866**	**754**

Disposals relate to derecognition of ZAO CB Avtomobilny Bankirsky Dom as an associate and its consolidation as a subsidiary from January 2003 (Note 7).

(In millions of Russian Roubles)

The Group has a 47.6 % interest in a joint venture, ZAO GM-AvtoVAZ. The following amounts represent the assets and liabilities, and sales and results of the joint venture, which have been consolidated using the equity method:

	2003	2002
Assets:		
Non-current assets	6,402	4,727
Current assets	2,718	1,025
Liabilities		
Long-term liabilities	11	2
Current liabilities	2,876	152
Net assets	6,233	5,598
Income	4,768	58
Expenses	(4,133)	(286)
Profit after income tax	635	(228)

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

18. Trade payables current

	2003	2002
Trade payables	17,146	17,149
Payables to associated undertakings	349	295
	17,495	**17,444**

Trade payables include RR 611 (2002: RR nil) of customers' current and settlement accounts and short-term deposits in ZAO CB Avtomobilny Bankirsky Dom. ZAO CB Avtomobilny Bankirsky Dom was accounted for using equity method in 2002 (Note 7).

19. Other payables and accrued expenses

Other payables and accrued expenses includes the following:

	31 December 2003	31 December 2002
Bills of exchange payable	1,210	2,077
Vacation and salary accruals	1,154	1,302
Payable to customs authorities	332	117
Salaries payable	721	1,070
Accrued interest	300	1,536
Income tax liability	18	2,466
Other	2,008	1,423
Total	**5,743**	**9,991**

During 2003, interest payable of US$ 56 million on the loan from Vnesheconombank was restructured. For details of this restructuring, see Note 21.

Other payables include RR 533 (2002: RR nil) of individual customers' short-term deposits in ZAO CB Avtomobilny Bankirsky Dom. ZAO CB Avtomobilny Bankirsky Dom was accounted for using equity method in 2002 (Note 7).

In 2000 the Group accrued a liability of RR 2,454 in respect of claims raised by the tax authorities for profits taxes. After a series of court hearings, legal proceedings were decided in JSC AVTOVAZ's favour by June 2003. As a result, the liability was derecognised and related gain for the entire amount was recorded under the heading Income tax credit/(expense).

(In millions of Russian Roubles)

20. Provisions

During 2003 the following movements of provisions took place:

	Warranties	Legal and other claims	Retirement benefits provision	Total
Balance at 31 December 2002	1,549	290	350	2 189
Utilised	(1,278)	(297)	(186)	(1,761)
Released	-	(153)	(38)	(191)
Additional provisions	1,227	160	108	1,495
Balance at 31 December 2003	**1,498**	**-**	**234**	**1,732**

All provisions are made up for not more than 1 year.

Warranties
The Group undertakes to repair vehicles or replace certain components that fail to perform satisfactorily during two years after sale or until a mileage of 35,000 kilometres is reached. A provision of RR 1,498 (2002: RR 1,549) is made at the year end based on past experience of the level of repair and returns.

Legal and other claims
In 2002 the Group recorded a provision for a claim submitted by Vittorio-Martorelli (Italy) against the Company in the amount of RR 290 for the termination of the Agency agreement signed in 1999. In the year ended 31 December 2003 the Group recorded an additional provision for a claim submitted by Lada Bulgaria against the Company in the amount of RR 160 for violating exclusive vehicle distribution rights. Final court decisions for both cases were received before 31 December 2003 and the provisions were partly utilised with unutilised portion being released.

Retirement benefits provision
In 2002, the Group recorded a provision for retirement benefits amounting to RR 350. By undertaking to pay these benefits the Group encourages voluntary redundancy of employees who reach retirement age during 2003. During the year ended 31 December 2003 the Group utilised RR 186 of the provision for retirement benefits.

(In millions of Russian Roubles)

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

Short-term debt by currency of loan consists of the following:

Currency	Effective interest rate	31 December 2003	31 December 2002
RR	16%–18%	11,805	6,437
US$	12%	29	1,067
Euro	12%	18	1,792
Total loans from financial institutions		**11,852**	**9,296**

Short-term debt in RR comprises loans at fixed interest rates.

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

Currency	Effective interest rate	31 December 2003	31 December 2002
RR	15.5%–16%	2,986	968
Euro	12%	45	2,690
US$	7%	7,069	347
CHF	9%	487	-
Total loans from financial institutions		**10,587**	**4,005**

Long-term debt comprises loans denominated in USD of RR 7,069 at a 7 % fixed interest rate and RR denominated loans at fixed rates.

Long-term debt is repayable as follows:

	31 December 2003	31 December 2002
1 to 2 years	2,748	1,530
2 to 3 years	7,227	564
3 to 4 years	158	593
4 to 5 years	58	374
Over 5 years	396	944
	10,587	**4,005**

During 2003 management restructured and subsequently extinguished liabilities denominated in US$ and in Euro amounting to RR 5,852 (including liabilities to the Ministry of Finance restructured as of 31 December 2002) to Vnesheconombank and the Ministry of Finance of the Russian Federation.

As at 31 December 2003 and 31 December 2002 loans for RR 7,832 and RR 8,348, respectively, inclusive of short-term borrowings, are guaranteed by collateral of receivables, inventories and equipment.

As at 31 December 2003, the fair value of these liabilities was estimated to be RR 10,982 using current market interest rates ranging between 17% and 18%. As at 31 December 2002, the fair value of these liabilities was estimated to be RR 4,005.

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

(In millions of Russian Roubles)

22. Taxation

Current taxes payable other than income tax

Current taxes payable are comprised of the following:

	31 December 2003	31 December 2002
Current portion of taxes restructured to long-term	1,021	965
Property, road users, pensions and other taxes	986	802
Penalties and interest on property, pensions and other taxes of the Group	655	674
Value-added tax	1,226	185
Social taxes	401	301
	4,289	**2,927**

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 2003 was equal to an effective rate of 18% (2002: 26%). The principal tax liabilities (interest, penalties) past due at 31 December 2003 and 31 December 2002 were approximately RR 40 and RR 144 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 No. 1002 dated 3 September 1999 “Terms of the restructuring of payables to the Federal Budget” and No. 927 dated 29 December 2001 “On changes of terms of JSC AVTOVAZ’s tax liabilities and accrued fines and interest payable to the Federal Budget”, as discussed further.

The carrying value of this debt and its maturity profile is as follows:

	31 December 2003	31 December 2002
Current	1,021	965
1 to 2 years	708	809
2 to 3 years	1,320	566
3 to 4 years	272	1,034
4 to 5 years	215	212
Thereafter	1,890	1, 870
Total restructured	**5,426**	**5,456**
Less: portion of current taxes payable	(1,021)	(965)
Long-term portion of restructured taxes	**4,405**	**4,491**

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 21% and 30%.

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 2003, fair value of these liabilities was estimated to be RR 5,670 using current market interest rates ranging between 17% and 18%. As at 31 December 2002, fair value of these liabilities was estimated to be RR 5,970.

The Company is in compliance with the terms of restructuring the federal, regional and local tax debts at 31 December 2003.

(In millions of Russian Roubles)

23. Share capital

The carrying value of share capital and the legal share capital value subscribed, issued and fully paid up, consists of the following classes of shares:

	31 December 2003			31 December 2002		
	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)	(312,697)	(156)	(625)
Ordinary	(17,367,655)	(8,684)	(34,736)	(17,367,655)	(8,684)	(34,736)
Total treasury share capital	(17,680,352)	(8,840)	(35,361)	(17,680,352)	(8,840)	(35,361)
Total outstanding share capital	**14,444,612**	**7,222**	**28,890**	**14,444,612**	**7,222**	**28,890**

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.

Preference shareholders are equally entitled to dividends along with holders of ordinary shares on the basis of a resolution of the General Shareholders' Meeting. A resolution regarding the payment and the amount of dividends is taken by the General Shareholders' Meeting upon recommendations of the Board of Directors in view of financial results 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 2003, a dividend was declared and is being currently paid in respect of 2002 to holders of preference shares of RR 17 per preference share (2002: RR 47.58) and to holders of ordinary shares of RR 5 per ordinary share (2002: nil).

(In millions of Russian Roubles)

24. Net sales revenue

Net sales revenue comprises:

	2003	2002
Finished vehicles	105,287	95,023
Automotive components and assembly kits	18,139	17,857
Other sales	7,346	6,552
	130,772	**119,432**

25. Cost of sales

Cost of sales comprises:

	2003	2002
Materials and components used	81,147	76,403
Labour costs	13,831	14,010
Production overheads	6,956	6,953
Depreciation	6,293	5,869
Social expenditure	732	1,427
Reversal of impairment loss on property, plant and equipment (Note 14)	(501)	(1,902)
Changes in inventories of finished goods and work in progress	1,545	(3,429)
	110,003	**99,331**

26. Administrative expenses

Administrative expenses comprise:

	2003	2002
Labour costs	3,376	3,398
Transportation	569	581
Other local and regional taxes	1,645	1,982
Materials	597	353
Provision for impairment of receivables	110	(55)
Repair expenses	176	143
Consultants' fees	205	461
Bank services	244	203
Other	1,754	1,980
	8,676	**9,046**

27. Research and development expenses

Research and development expenses comprise:

	2003	2002
Labour costs	290	630
Materials	171	366
Other	167	429
	628	**1,425**

(In millions of Russian Roubles)

28. Other operating expenses

Other operating expenses comprise:

	2003	2002
Provisions and settlements of claims and similar charges	121	18
Write-off or loss on disposal of property, plant and equipment	510	229
Loss on disposal of investments	256	156
Charitable donations	68	355
Impairment loss on available-for-sale financial assets	584	-
Other	315	177
	1,854	**935**

29. Labour expenses

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

	2003	2002
Cost of sales	13,831	14,010
Administrative expenses	3,376	3,398
Distribution costs	321	146
Research and development expenses	290	630
	17,818	**18,184**

Labour expenses comprise wages, salaries, bonuses, payroll taxes, termination costs, vacation and salary accruals.

30. Finance costs –net

Finance costs charged to the consolidated statement of income comprise:

	2003	2002
Interest expense	(3,416)	(3,077)
Foreign exchange loss	(617)	(1,266)
Gains on forgiveness of tax interest	325	-
Monetary gain	-	4,187
Gains on restructuring of debt	-	601
	(3,708)	**445**

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 the fair value of the liability at the date of restructuring was accounted as a gain of RR 601 on restructuring in the Group's 2002 consolidated statement of income.

During 2003 a number of Group's subsidiaries in Russia were granted forgiveness of interest on taxes due in accordance with the Tax Code.

(In millions of Russian Roubles)

31. Income tax credit/(expense)

	2003	2002
Income tax expense – current	(2,007)	(1,880)
Gain on derecognition of income tax liability	2,454	-
Movement in deferred tax account	(62)	(3,052)
Income tax credit/(expense)	**385**	**(4,932)**

The tax charge of the Group is reconciled as follows:

	2003	2002
IFRS profit before taxation in the Group's consolidated financial statements	**2,566**	**6,060**
Theoretical tax charge at statutory rate of 24% (2002: 24%)	**(616)**	**(1,454)**

Tax effect of items which are not deductible or assessable for taxation purposes:

Tax penalties and interest	(394)	(329)
Non-temporary elements of monetary gains/losses	-	(2,714)
Non-deductible expenses, net	(730)	(755)
Gain on derecognition of income tax liability (Note 19)	2,454	-
Other	(329)	(693)
Inflation effect on deferred tax balance at the beginning of the year	-	1,013
Income tax expense/(credit)	**385**	**(4,932)**

In general during 2003 the Group was subject to tax rates of approximately 24% on taxable profits. Income 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 2003 (24% as at 31 December 2002).

Deferred tax liabilities

	31 December 2001	Movement in the year	31 December 2002	Movement in the year	31 December 2003
Tax effects of temporary differences:					
Provisions on trade receivables	42	125	167	(67)	100
General and overhead expenses allocation on inventories	39	20	59	(120)	(61)
Effect of property, plant and equipment impairment	1,285	(193)	1 092	(120)	972
Effect of inflation and different depreciation rates of property, plant and equipment	(7,870)	(2,921)	(10,791)	190	(10,601)
Fair value adjustment to investments	429	(331)	98	162	260
Accounts payable and provisions (vacation and annual leave accruals)	441	245	686	(110)	576
Discounting of long-term debt	(2,485)	169	(2,316)	167	(2,149)
Other temporary differences	409	(166)	243	(164)	79
Deferred tax liability	**(7,710)**	**(3,052)**	**(10,762)**	**(62)**	**(10,824)**

As at 31 December 2003 the Group has no subsidiaries which have deferred tax assets.

At 31 December 2003 the Company has available Russian tax losses amounting to RR 343. These will offset future taxable profits by 2013. The maximum offset in each year is limited to 30% of the total taxable profit of the year.

(In millions of Russian Roubles)

32. 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, excluding the average number of ordinary shares purchased by the Company and held as treasury shares (see Note 23).

	2003	2002
Weighted average number of preference shares outstanding (thousands)	4,930	4,930
Weighted average number of ordinary shares outstanding (thousands)	27,195	27,195
Adjusted for weighted average number of treasury shares (thousands)	(17,680)	(17,145)
Weighted average number of ordinary and preference shares outstanding (thousands)	14,445	14,980
Net income	**3,034**	**1,124**
Earnings per share, (basic/diluted) (in RR)	**210**	**75**

There are no dilution factors therefore basic earnings per share equal to diluted earnings per share.

33. Barter transactions

There were no non-cash transactions during the year ended 31 December 2003 (year ended 31 December 2002: RR 1,104).

34. Contingencies, commitments and guarantees

34.1 Contractual commitments and guarantees

As at 31 December 2003 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 959 (31 December 2002: RR 934).

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.

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

	2003	2002
Not later than 1 year	259	259
Later than 1 year and not later than 5 years	709	709
Later than 5 years	811	811
	1,779	**1,779**

34.2 Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2003 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

34.3 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.

34.4 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 changes in 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.

34.5 Legal proceedings

During 2003, 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 20.

35. Financial instruments and financial risk factors

35.1 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.

35.2 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 9% (year ended 31 December 2002: 7%) of total revenue, these sales are denominated in hard currency. Net foreign currency receivables amount to RR 2,407 (31 December 2002: RR 4,120). The Group has debt obligations of RR 7,648 (31 December 2002: RR 5,896) denominated in hard currency.

35.3 Interest rate risk

The majority of interest rates on debt are fixed, these are disclosed in Note 21. Existing interest rates can be changed subject to agreement by the parties. Assets are generally non-interest bearing.

36. Compensation of the Key Management - 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 2003 (2002: RR 35).

37. Post balance sheet events

On 18 February 2004, the Company completed the issue of RR 3,000 Rouble denominated documentary coupon bearer bonds of Series 02 (State Number 4-02-00002-A of 14 October 2003). The bonds are issued at par value and mature in 4.5 years. These bonds carry 9 half yearly coupons. The rate of the first coupon, which was determined at the auction, was 11.78% per annum, the second coupon's rate is 11.28%, the rate of the third coupon is 10.78%. The rates of other coupons are determined by the issuer.

The Annual Shareholders' Meeting in May 2004 voted for the payment of dividends of RR 6 per ordinary share and RR 95 per preference share in respect of 2003 financial results.

GENERAL INFORMATION

Location and mailing address of JSC "AVTOVAZ":	445633 Russian Federation, Samara Region,Togliatti, Yuzhnoye Shosse, 36 Website: www.vaz.ru
Date of the Company's state registration:	5 January 1993 Registration number – 2925
Contact details of Shareholder Relations:	Property Department of JSC AVTOVAZ Telephone: (8482) 73-80-97 Facsimile: (8482) 73-81-61 E-mail: epm@volga.ru
Keeper of the Shareholders' Register:	Open Joint Stock Company "Tsentralny Moskovskiy Depositariy" 107066 Moscow, ul. Olkhovskaya, 22 Telephone: (095) 263-81-53 Facsimile: (095) 263-80-69 Website: www.mcd.ru

Regional branches of OAO "Tsentralny Moskovskiy Depositariy" which receive documents for processing in the Shareholders' Register of JSC AVTOVAZ:

163061 **Arkhangelsk**,
ul. Voskresenskaya, 12
Telephone: (8182) 65 75 44

670031 **Ulan-Ude**,
ul.Tereshkovoi, 42, office 24
Telephone: (3012) 43 43 11

620026 **Yekaterinburg**,
ul. Soni Morozovoi, 180, office 320
Telephone: (3432) 24 05 09

357100 **Cherkessk**,
ul. Kavkazskaya, 19, office 308
Telephone: (87822) 5 47 06

167000 **Republic of Komi, Syktyvkar**,
ul. Kuratova, 85a, office 507
Telephone: (8212) 21 60 71

156000 **Kostroma**,
ul. Pyatnitskaya, 49
Telephone: (0942) 31 62 79

350020 **Krasnodar**,
ul. Krasnaya, 182
Telephone: (8612) 51 74 39

603006 **Nizhny Novgorod**,
ul. Izhorskaya, 4
Telephone: (8312) 19 92 54

644037 **Omsk,**
ul. Nekrasova, 1
Telephone: (3812) 23 01 55

440600 **Penza**,
ul. Volodarskogo, 47
Telephone: (8412) 56 28 16

614000 **Perm**,
ul. Lenina, 50, floor 5
Telephone: (3422) 19 68 87

683031 **Petropavlovsk-Kamchatsky**,
prospect Marksa, 35
Telephone: (41522) 6 24 70

390046 **Ryazan**,
ul. Mashinostroitelei, 4a
Telephone: (0912) 24 04 22

443100 **Samara**,
ul. Polevaya, 5, office 101-103
Telephone: (8462) 35 68 94

410005 **Saratov**,
ul. B.Sadovaya, 239, build. 42, office 201
Telephone: (8452) 45 96 55

193029 **Sankt Peterburg**,
Bolshoi Smolensky prospekt, 10, office 400
Telephone: (812) 380 34 64, 380 34 65

362040 **Republic of Northern Osetia-Alania**, **Vladikavkaz**, ul. Mira, 46
Telephone: (8672) 54 96 82

392002 **Tambov**,
ul. Sovetskaya, 34, office 507
Telephone: (0752) 75 94 10

170000 **Tver**,
ul. Semionovskaya, 30, office 55
Telephone: (0822) 34 44 93

445051 **Togliatti,**
ul. Frunze, 6a
Telephone: (8482) 34 52 59, 53 40 38

300000 **Tula**,
prospect Lenina, 77, office 619
Telephone: (0872) 31 60 64

625000 **Tyumen**,
ul. Nekrasova, 11, office 501
Telephone: (3452) 49 01 50

426057 **Republic of Udmurtia**,
Izhevsk, ul. 10-letiya Oktyabrya, 53
Telephone: (3412) 22 12 53

432067 **Ulyanovsk**,
prospekt Leninskogo Komsomola, 38
Telephone: (8422) 21 98 73

454084 **Chelyabinsk**,
prospekt Pobedy, 160, office 243
Telephone: (3512) 35 54 62

JSC AVTOVAZ
In charge of production: Alexei Buyanov
Design and typesetting: Studio MagART
The internet version of this annual report can be found at: http://ar2003.vaz.ru
Printed in the Printing House, Information Systems Directorate, JSC AVTOVAZ