JSC “ZAVOLZHSKIY MOTOR WORKS”

Financial Statements

31 December 2002

Contents

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the shareholders JSC "Zavolzhskiy Motor Works":

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

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

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

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

PricewaterhouseCoopers

Moscow, Russia
15 September 2003

(in millions of Russian roubles, Note 2)

	Note	RR million At 31 December 2002	2001	2000	Unaudited US$ thousand At 31 December 2002	2001
ASSETS						
Current assets:						
Cash and cash equivalents	5	155	202	10	4,877	6,356
Available-for-sale investments	9	98	25	30	3,084	787
Accounts receivable and prepayments	6	631	799	1,023	19,855	25,142
Inventories	7	1,080	853	920	33,984	26,841
Total current assets		**1,964**	**1,879**	**1,983**	**61,800**	**59,126**
Non-current assets:						
Property, plant and equipment	8	3,758	3,521	3,468	118,249	110,793
Available-for-sale investments	9	14	7	7	441	220
Other assets		19	20	34	598	629
Total non-current assets		**3,791**	**3,548**	**3,509**	**119,288**	**111,642**
Total assets		**5,755**	**5,427**	**5,492**	**181,088**	**170,768**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Accounts payable		317	355	884	9,975	11,171
Taxes payable	13	132	168	448	4,154	5,286
Provision for warranties	12	78	81	99	2,454	2,549
Short-term borrowings	11	187	700	307	5,884	22,026
Advances received and accrued expenses	10	345	350	747	10,856	11,013
Total current liabilities		**1,059**	**1,654**	**2,485**	**33,323**	**52,045**
Non-current liabilities:						
Long-term borrowings	11	198	-	35	6,230	-
Long-term taxes payable	13	110	115	-	3,461	3,619
Other non-current liabilities		-	90	1	-	2,832
Deferred tax liability	22	567	502	572	17,841	15,796
Total non-current liabilities		**875**	**707**	**608**	**27,532**	**22,247**
Total liabilities		**1,934**	**2,361**	**3,093**	**60,855**	**74,292**
Shareholders' equity:	15					
Share capital		1,217	1,217	1,217	38,295	38,295
Treasury shares		-	-	(137)	-	-
Retained earnings		2,604	1,849	1,319	81,938	58,181
Total shareholders' equity		**3,821**	**3,066**	**2,399**	**120,233**	**96,476**
Total liabilities and shareholders' equity		**5,755**	**5,427**	**5,492**	**181,088**	**170,768**

V. Klochai
General Director

G. Kovalyova
Chief Accountant

15 September 2003

The accompanying notes are an integral part of the financial statements.

(in millions of Russian roubles, Note 2)

		RR million		Unaudited US$ thousand	
		Year ended 31 December		Year ended 31 December	
	Note	**2002**	**2001**	**2002**	**2001**
Sales	16	7,286	6,452	229,264	203,021
Cost of sales	17	(5,242)	(4,997)	(164,947)	(157,237)
Gross profit		**2,044**	**1,455**	**64,317**	**45,784**
Distribution costs	18	(105)	(74)	(3,304)	(2,329)
General and administrative expenses	19	(691)	(642)	(21,743)	(20,201)
Research and development expenses		(11)	(33)	(346)	(1,038)
Other operating expenses	20	(34)	(55)	(1,070)	(1,731)
Operating income		**1,203**	**651**	**37,854**	**20,485**
Interest expense, net		(86)	(238)	(2,706)	(7,489)
Net foreign exchange gain/(loss)		9	(2)	283	(63)
Monetary gain	2	57	83	1,794	2,612
Gains on restructuring of tax debts and other payables	14	-	312	-	9,817
Gain from change of fair value of available-for-sale investments		7	3	220	94
Income before taxation		**1,190**	**809**	**37,445**	**25,456**
Income tax expense	22	(406)	(246)	(12,775)	(7,741)
Net income		**784**	**563**	**24,670**	**17,715**
Weighted average number of shares outstanding during the year (thousands)	15	150,312	136,409	150,312	136,409
Earnings per share (in RR and US$)	23	5.22	4.13	0.16	0.13

(in millions of Russian roubles, Note 2)

	Note	RR million Year ended 31 December 2002	RR million Year ended 31 December 2001	Unaudited US$ thousand Year ended 31 December 2002	Unaudited US$ thousand Year ended 31 December 2001
Cash flows from operating activities					
Income before taxation		**1,190**	**809**	**37,445**	**25,456**
Adjustments for:					
Depreciation	8	121	115	3,807	3,619
Provision for impairment of receivables		3	12	94	378
Gains on restructuring of tax debts and other payables	14	-	(312)	-	(9,817)
Interest expense		86	238	2,706	7,489
Provisions for warranties	12	2	(17)	63	(535)
Inflation effect on non-operating items		(62)	(72)	(1,950)	(2,267)
Operating cash flows before working capital changes		**1,340**	**773**	**42,165**	**24,323**
Decrease in accounts receivable and prepayments		148	185	4,657	5,821
Decrease (increase) in inventories		(227)	67	(7,143)	2,108
Decrease (increase) in available-for-sale investments		(68)	6	(2,140)	189
Decrease in accounts payable, advances received and accrued expenses		(63)	(431)	(1,982)	(13,562)
Increase (decrease) in taxes payable, other than income		18	(310)	566	(9,755)
Cash provided from operations		**1,148**	**290**	**36,123**	**9,124**
Income taxes paid		(401)	(286)	(12,618)	(8,999)
Interest paid		(67)	(90)	(2,108)	(2,832)
Net cash provided from/(used in) operating activities		**680**	**(86)**	**21,397**	**(2,707)**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(325)	(139)	(10,226)	(4,374)
Proceeds from the sale of property, plant and equipment		1	-	31	-
Proceeds from the sale of available-for-sale investments		1	17	31	535
Net cash used in investing activities:		**(323)**	**(122)**	**(10,164)**	**(3,839)**
Cash flows from financing activities:					
Proceeds from borrowings		1,553	1,368	48,867	43,046
Repayment of borrowings and long-term taxes payable		(1,966)	(1,140)	(61,863)	(35,872)
Net proceeds from the sale of treasury shares		-	115	-	3,619
Effect of inflation on financing activities		65	84	2,046	2,643
Dividends paid		(29)	(11)	(913)	(346)
Net cash provided from/(used in) financing activities		**(377)**	**416**	**(11,863)**	**13,090**
Effect of inflation on cash		(27)	(16)	(849)	(503)
Net increase/(decrease) in cash and cash equivalents		**(47)**	**192**	**(1,479)**	**6,041**
Cash and cash equivalents at the beginning of the period		**202**	**10**	**6,356**	**315**
Cash and cash equivalents at the end of the period	5	**155**	**202**	**4,877**	**6,356**

(in millions of Russian roubles, Note 2)

	Share capital	Treasury shares (Note 15)	Retained earnings	Total shareholders' equity
Balance at 31 December 2000	**1,217**	**(137)**	**1,319**	**2,399**
Sale of treasury shares	-	137	(22)	115
Dividends	-	-	(11)	(11)
Net income for the year	-	-	563	563
Balance at 31 December 2001	**1,217**	**-**	**1,849**	**3,066**
Dividends	-	-	(29)	(29)
Net income for the year	-	-	784	784
Balance at 31 December 2002	**1,217**	-	**2,604**	**3,821**

	Share capital	Treasury shares (Note 15)	Retained earnings	Total shareholders' equity
Unaudited US$ thousand				
Balance at 31 December 2001	**38,295**	-	**58,181**	**96,476**
Balance at 31 December 2002	**38,295**	-	**81,938**	**120,233**

1 JSC "Zavolzhskiy Motor Works" and its operations

JSC "Zavolzhskiy Motor Works" (the "Company") principal activities include the manufacture and sale of engines for passenger automobiles, light trucks and minibuses. The Company's manufacturing facilities are primarily based in the Nizhny Novgorod Region of Russia.

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

The Company was incorporated as an open joint stock company in the Russian Federation on 29 October 1992. On that date the majority of assets and liabilities previously managed by the state conglomerate "Zavolzhskiy Motor Works" were transferred to the Company. At 31 December 2002 the Company employed 17,451 employees (31 December 2001: 17,781 employees). JSC "Zavolzhskiy Motor Works" is registered at ul. Sovetskaya, 1a, Zavolzhye, Nizhny Novgorod Region, 606522, Russian Federation.

2 Basis of presentation of the financial statements

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

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

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

First time application of IFRS

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

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

Accounting for the effect of inflation

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

(in millions of Russian roubles, Note 2)

2 Basis of presentation of the financial statements (continued)

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

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

The main guidelines followed in restating the financial statements are:

- All amounts, including corresponding figures, are stated in terms of the measuring unit current at 31 December 2002;

- Monetary assets and liabilities held at 31 December 2002 are not restated because they are already expressed in terms of the monetary unit current at 31 December 2002;

- Non-monetary assets and liabilities (those balance sheet items that are not expressed in terms of the monetary unit current at 31 December 2002) and components of shareholders' equity are restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to the balance sheet date;

- All items in the statement of operations and cash flows are restated by applying the change in the general price index from the dates when the items were initially transacted to the balance sheet date; and

- Gains or losses that arise as a result of holding monetary assets and liabilities for the period are included in the statement of operations as a monetary gain or loss.

U.S. Dollar Translation

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

3 Summary of significant accounting policies

3.1 Investments

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

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

(in millions of Russian roubles, Note 2)

3 Summary of significant accounting policies (continued)

3.2 Cash and cash equivalents

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

3.3 Trade receivables

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

3.4 Value added tax

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

3.5 Inventories

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

3.6 Property, plant and equipment

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

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

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

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

3 Summary of significant accounting policies (continued)

3.6 Property, plant and equipment (continued)

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

3.7 Borrowings and restructured taxes

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

3.8 Deferred income taxes

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

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

3.9 Foreign currency transactions

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

At 31 December 2002, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (US$) 1=RR 31.78 (31 December 2001 US$1= 30.14). Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

3.10 Provisions

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

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

3 Summary of significant accounting policies (continued)

3.11 Shareholders' equity

Share capital

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

Treasury shares

Where the Company purchases its equity share capital, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity. Treasury shares are stated at weighted average cost.

Dividends

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

3.12 Revenue recognition

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

Sales are shown net of VAT and discounts.

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

3.13 Employee benefits

Social costs

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

Pension costs

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

3.14 Earnings per share

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

(in millions of Russian roubles, Note 2)

3 Summary of significant accounting policies (continued)

3.15 Non-cash settlements

Non-cash settlements include 'veksels' or 'bills of exchange', which are negotiable debt obligations. Non-cash transactions have been excluded from the cash flow statement, so investing activities, financing activities and the total of operating activities represent actual cash transactions.

The Company also accepts bills of exchange from its customers (both issued by customers and third parties) as settlements of receivables. Bills of exchange issued by customers are recognised as accounts receivable originated by the Company, bills of exchange issued by the third parties are recognised as available-for-sale investments. Bills of exchange recognised as receivables originated by the Company are carried at the fair value of the consideration given which is determined using the prevailing market rate of interest for a similar instrument. In subsequent periods, such bills of exchange are stated at amortised cost using the effective yield method. A provision for impairment of such bills of exchange is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the bills of exchange.

4 Balances and transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

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

4.1 Balances with related parties:

Balance sheet caption	Relationship	**2002**	**2001**	2000
Trade receivables, gross:	Severstal Group companies	27	24	43
Borrowings issued:	Severstal Group companies	24	-	-
Borrowings received:	Severstal Group companies	-	122	-
Trade payables current:	Severstal Group companies	6	7	-
Trade receivables current:	Severstal-auto Group companies	86	9	15

4.2 Transactions with related parties:

Statement of operations caption	Relationship	**2002**	**2001**
Sales:	Severstal Group companies	12	95
Purchases:	Severstal Group companies	85	67
Sales:	Severstal-auto Group companies	825	661

4.3 Directors' compensation:

Compensation paid to directors for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results.

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

Total directors' compensation included in general and administrative expenses in the statement of operations amounted to RR 6 for the year ended 31 December 2002 (2001: RR 3).

(in millions of Russian roubles, Note 2)

5 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2002	2001	2000
RR denominated cash on hand and balances with banks	18	7	7
Foreign currency denominated balances with banks	132	2	3
Short-term bank bills of exchange	5	193	-
	155	**202**	10

Foreign currency denominated balances with bank consist of the following:

Currency	2002	2001	2000
Euro	101	2	3
US$	31	-	-
	132	**2**	3

6 Accounts receivable and prepayments

	2002	2001	2000
Trade receivables (net of provision for impairment of RR 5, RR 6 and RR 8 as at 31 December 2002, 2001 and 2000, respectively)	275	341	523
VAT recoverable	72	78	142
Other receivables (net of provision for impairment of RR 3, RR 2 and RR 6 as at 31 December 2002, 2001 and 2000, respectively)	154	259	253
Advances to suppliers	130	121	105
	631	**799**	1,023

RR 66 and RR 47 of net trade receivables are denominated in foreign currency, mainly in US$, at 31 December 2002 and 2001, respectively.

Included within VAT recoverable is RR 46 of deferred VAT payable (2001: RR 63).

7 Inventories

Inventories consist of the following:

	2002	2001	2000
Raw materials	987	659	682
Work in progress	211	161	181
Finished products	61	99	95
Obsolescence provision	(179)	(66)	(38)
	1,080	**853**	920

Inventories of RR 396 (2001: RR 547) have been pledged as security for borrowings.

(in millions of Russian roubles, Note 2)

8 Property, plant and equipment

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

	Land and buildings	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 31 December 2000	1,816	1,477	80	95	3,468
Additions	-	-	-	169	169
Disposals	-	(4)	(2)	-	(6)
Transfers	43	127	-	(170)	-
Balance at 31 December 2001	**1,859**	**1,600**	**78**	**94**	**3,631**
Additions	-	-	-	360	360
Disposals	-	(5)	(2)	-	(7)
Transfers	62	250	5	(317)	-
Balance at 31 December 2002	**1,921**	**1,845**	**81**	**137**	**3,984**
Accumulated Depreciation					
Balance at 31 December 2000	-	-	-	-	-
Depreciation expense for 2001	(38)	(69)	(8)	-	(115)
Disposals	-	4	1	-	5
Balance at 31 December 2001	**(38)**	**(65)**	**(7)**	-	**(110)**
Depreciation expense for 2002	(40)	(71)	(10)	-	(121)
Disposals	-	4	1	-	5
Balance at 31 December 2002	**(78)**	**(132)**	**(16)**	-	**(226)**
Net Book Value					
Balance at 31 December 2000	1,816	1,477	80	95	3,468
Balance at 31 December 2001	**1,821**	**1,535**	**71**	**94**	**3,521**
Balance at 31 December 2002	**1,843**	**1,713**	**65**	**137**	**3,758**

Bank borrowings are secured on properties as at 31 December 2002 to the value of RR 632 (2001: nil); see Note 11.

The assets transferred to the Company upon privatisation did not include the land on which the Company's factories and buildings, comprising the Company's principal manufacturing facilities, are situated. In 2001 the Company exercised the option to purchase this land having filed an application to the Property Fund of the Nizhny Novgorod Region. At 31 December 2002 cost of the land amounts to RR 25.

(in millions of Russian roubles, Note 2)

9 Available-for-sale investments

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

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

	2002	2001
Balance at 1 January	**7**	**7**
Additions	-	1
Gain from change of fair value	7	3
Disposals	-	(4)
Balance at 31 December	**14**	**7**

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

10 Advances received and accrued expenses

	2002	2001	2000
Payables to "Rosreserve"	107	155	597
Vacation accrual	93	70	47
Salaries payable	87	90	69
Advances from customers	50	25	25
Dividends payable	4	5	5
Other	4	5	4
	345	**350**	747

Rosreserve

Between 1996 and 2000, due to cash shortages, the Company used metal owned by Privolzhskiy regional department of Russian Federal Reserve Agency ("Rosreserve"), which was kept at the Company's warehouse, without prior consent. During this period the Company recorded a liability equal to fair value of metal used. On 31 August 2001 the Company signed an agreement with "Rosreserve" to defer payments of RR 359 of principal liability and also has accepted fines and penalties at net present value of RR 32 due in monthly instalments up to 20 August 2003.

Maturity profile of the payable to "Rosreserve" is as follows:

	2002	2001	2000
Current	107	155	597
Long-term	-	90	-
	107	**245**	597

The difference between the recorded and net present value of the restructured liabilities was credited to the statement of operations in the corresponding period (see Note 14).

As at 31 December 2002 and 2001, carrying value of this liability approximates its fair value.

	2002	2001
Balance at 1 January	245	597
Paid in cash and metal returned	(172)	(277)
Gain on restructuring of accounts payable to "Rosreserve"	-	(96)
Interest and penalties expenses	34	20
Extra metal taken in 2001	-	1
Balance at 31 December	**107**	**245**

(in millions of Russian roubles, Note 2)

10 Advances received and accrued expenses (continued)

In the year ended 31 December 2002 approximately 27% (2001: 48%) of the Company's settlements of accounts payable and accrued charges were settled via non-cash settlements. Non-cash settlements represents mainly settlements with JSC "GAZ" for supplied components by means of veksels of TZK "GAZ".

11 Borrowings

Short-term borrowings

Short-term borrowings may be analysed as follows:

	2002	**2001**	2000
Short-term borrowings (including current portion of long-term borrowings)	**187**	**700**	307

Short-term debt comprises a total of rouble-denominated loans at fixed interest rates of 16.0% and 21.0% on average for the years ended 31 December 2002 and 2001, respectively.

As at 31 December 2002 and 2001 loans for RR 356 and RR 298, respectively, inclusive of long-term borrowings, are guaranteed by collateral of inventories and equipment.

Long-term borrowings

At the end of 2001 the Company approved a five-year investment programme. In May 2002 the Company signed an agreement for long-term borrowings with Sberbank in order to finance the increase in production facilities for petrol engines. In accordance with the terms of the agreement, the Company obtained a rouble-denominated credit line of RR 510 at a floating interest rate, which is 13.0% on average. This credit line matures in May 2007. The Company has pledged property, plant and equipment in the amount of RR 632 as security for this loan.

As at 31 December 2002, fair value of this long-term debt was estimated to be RR 190 using a current market interest rate of 17.5%. As at 31 December 2001, carrying value of these liabilities approximates their fair value.

12 Provision for warranties

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

	Warranty
Balance at 31 December 2000	99
Additional provision	81
Utilised in the year	(99)
Balance at 31 December 2001	**81**
Additional provision	78
Utilised in the year	(81)
Balance at 31 December 2002	**78**

The Company gives one-year warranty on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RR 78 (2001: RR 81) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and replacements.

(in millions of Russian roubles, Note 2)

13 Taxes payable

Current taxes payable

Current taxes payable are comprised of the following:

	2002	**2001**	2000
Value-added tax	55	37	249
Payments to the Pension Fund and other social taxes	26	26	32
Current portion of taxes restructured to long-term	22	25	-
Property tax	10	8	8
Road users' tax	9	5	96
Income tax	-	54	25
Tax penalties and interest	-	-	3
Other taxes	10	13	35
Total	**132**	**168**	448

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

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 various Government Resolutions including No.410 dated 23 May 2001 "On making changes and amendments to the Russian Government Resolution No. 1002 dated 3 September 1999 "Terms of the restructuring of payables to the Federal Budget"", and No.1002 dated 3 September 1999. The maturity profile is as follows:

	2002			**2001**		
	Federal	**Regional taxes and other state funds**	**Total**	**Federal**	**Regional taxes and other state funds**	**Total**
Current	14	8	22	16	9	25
1 to 2 years	12	7	19	13	7	20
2 to 3 years	11	4	15	11	6	17
3 to 4 years	9	-	9	9	4	13
4 to 5 years	9	-	9	8	3	11
Thereafter	56	2	58	53	1	54
Total restructured	111	21	132	110	30	140
Less: current portion of taxes payable	(14)	(8)	(22)	(16)	(9)	(25)
Long-term portion of restructured taxes	**97**	**13**	**110**	**94**	**21**	**115**

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

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

As at 31 December 2002, fair value of these liabilities was estimated to be RR 124 (2001: RR 115) using a discount rate of 16.0% (2001: 19.0%).

(in millions of Russian roubles, Note 2)

14 Gains on restructuring of tax debts and other payables

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

	2002	2001
Gain on restructuring of tax debts	-	216
Gain on restructuring of accounts payables to “Rosreserve”	-	96
	-	**312**

Gain on restructuring of tax debts
The gain on restructuring of tax debt arises from the application of Resolution of the Russian Government No. 1002 dated 3 September 1999 and certain restructuring agreements which restructure current tax debts by deferring payment of liabilities to the federal and regional tax authorities and the pension and road funds to between 1 and 10 years at zero or preferential interest rates. This restructuring constituted a substantial modification in terms of the difference between the recorded value of the tax liabilities prior to restructuring and fair value of the future cash flows of the restructured liabilities. The difference between the recorded and fair value of the restructured tax liabilities, using a discount rate of 19.0%, is accounted for as a gain on restructuring of tax debt and, accordingly, a gain of RR 216 was included in the net gain on restructuring of tax debts in 2001.

Gain on restructuring of accounts payable to “Rosreserve”
As discussed in Note 10, during 2001 management negotiated the restructuring of the liability to “Rosreserve” up to August 2003. 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, using a discount rate of 19.0%. The difference between the recorded value and net present value of the restructured liability is accounted for as a gain on restructuring of accounts payable to “Rosreserve” and, accordingly, a gain of RR 96 was recognised in the Company’s statement of operations.

15 Shareholders’ equity

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

	Number of outstanding shares		Number of treasury shares	Share capital, RR	Treasury shares, RR
	Preference shares	Ordinary shares			
At 31 December 2000	37,578,123	112,734,490	(21,735,414)	1,217	(137)
Sale of treasury shares	-	-	21,735,414	-	137
At 31 December 2001	37,578,123	112,734,490	-	1,217	-
At 31 December 2002	37,578,123	112,734,490	-	1,217	-

The authorised number of ordinary and preference shares is 450,000,000 (2001: 450,000,000) and 150,000,000 (2001: 150,000,000) respectively, both with a nominal value per share of RR 1.

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

(in millions of Russian roubles, Note 2)

15 Shareholders' equity (continued)

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

In June 2000 the Company, limited partnership "Tovarishchestvo na vere "Aksioma and Company", Moscow", and "International trade unions group of industrial workers, UK", London, have established the limited partnership "OAO "Zavolzhskiy Motor Works" and Company". During 2000 the Company invested 20,511,479 of its own ordinary shares in the amount of RR 109 and its own veksels in the amount of RR 460 as a payment for a 51% shareholding in the new partnership. However, in early 2001 a new management team took over at the Company after a number Severstal group related companies purchased a significant stake in JSC "Zavolzhskiy Motor Works". The new management has challenged in court the legal basis of establishing the limited partnership and won the case. As per the Gorodetskiy regional court award dated 21 August 2001, 20,511,479 shares of JSC "Zavolzhskiy Motor Works" and veksels should be returned to the Company and the establishment of the limited partnership "OAO "Zavolzhskiy Motor Works" and Company" was stated to be invalid. In these financial statements these shares are presented as treasury shares and decrease the Company's equity as at 1 January 2001.

The remaining balance of 1,223,935 treasury shares at 1 January 2001 in the amount of RR 28 represents shares of the Company repurchased from various legal entities and private individuals.

During 2001 all treasury shares were sold in the open market to unrelated parties.

A dividend was declared in 2002 in respect of 2001 to holders of preference shares of RR 0.769 per share (2001: RR 0.265 per preference share). No dividends on ordinary shares were paid in 2002 and 2001.

The statutory accounting reports of the Company are the basis for profit distribution. Russian legislation identifies the basis of distribution as the net profit. For 2002, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 804. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

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

	2002		**2000**
	Results of operations	**Shareholders' equity**	**Shareholders' equity**
Reported in Russian statutory financial statements	804	2,055	1,423
Adjustment to restate property, plant and equipment to fair value at the date of transition to IFRS	494	2,705	2,349
Provision for unrecorded tax liabilities	(1)	(183)	(378)
Provision for warranties	(3)	(78)	(99)
Gain on restructuring of tax debt and other borrowings	-	300	-
Provision for deferred income tax	(65)	(567)	(572)
Inventory obsolescence provision	(121)	(179)	-
Inflation of opening shareholders' equity	(403)	-	(645)
Other adjustments	79	(232)	321
Reported in IFRS financial statements	**784**	**3,821**	**2,399**

(in millions of Russian roubles, Note 2)

16 Sales

Sales were as follows:

	2002	2001
Engines	5,530	4,762
Automotive components	1,564	1,336
Other sales	192	354
	7,286	**6,452**

17 Cost of sales

The components of cost of sales were as follows:

	2002	2001
Materials and components used	3,780	3,603
Labour costs	1,056	913
Production overheads	317	368
Depreciation	101	97
Changes in finished goods and work in progress	(12)	16
	5,242	**4,997**

18 Distribution costs

Distribution costs comprise:

	2002	2001
Advertising	32	10
Labour costs	26	18
Transportation	22	13
Materials	10	17
Other	15	16
	105	**74**

19 General and administrative expenses

General and administrative expenses comprise:

	2002	2001
Labour costs	330	255
Taxes (property, road users)	158	200
Services provided by third parties	98	65
Materials	42	49
Depreciation	20	18
Transportation	12	7
Provision for impairment of receivables	3	12
Other	28	36
	691	**642**

(in millions of Russian roubles, Note 2)

20 Other operating (income)/expenses

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

	2002	**2001**
Social expenses	33	32
Charity	26	39
Provisions and settlements of claims and similar charges	2	(18)
Sales of materials	(22)	(3)
Other	(5)	5
	34	**55**

21 Labour expenses

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

	2002	**2001**
Cost of sales	1,056	913
Administrative expenses	330	255
Distribution costs	26	18
	1,412	**1,186**

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

22 Income tax expense

	2002	**2001**
Income tax expense – current	341	316
Deferred tax expense – origination and reversal of temporary differences	65	161
Deferred tax expense/(income) – effect of reduction in tax rate	-	(231)
Income tax expense	**406**	**246**

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

	2002	**2001**
Income before taxation	1,190	809
Theoretical tax charge at the statutory rate of 24% (2001: 35%)	286	283
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax fines, penalties and interest	47	217
Non-temporary elements of monetary gain	112	113
Gain on restructuring of tax debts	-	(52)
Other	27	6
Inflation effect on deferred tax balance at beginning of the year	(66)	(90)
Effect of reduction in tax rate	-	(231)
Income tax expense	**406**	**246**

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

(in millions of Russian roubles, Note 2)

22 Income tax expense (continued)

	31 December 2000	Movement in the year	Change in tax rate	31 December 2001	Movement in the year	31 December 2002
Tax effects of deductible temporary differences:						
Accounts receivable	31	(56)	8	(17)	41	24
Inventories	29	5	(11)	23	(8)	15
Accounts payable	187	(116)	(22)	49	-	49
Other long-term liabilities	-	63	(20)	43	(8)	35
	247	**(104)**	**(45)**	**98**	**25**	**123**
Tax effects of taxable temporary differences:						
Property, plant and equipment	(821)	(56)	276	(601)	(85)	(686)
Investments	(1)	(1)	1	(1)	(2)	(3)
Other non-current assets	3	-	(1)	2	(3)	(1)
	(819)	**(57)**	**276**	**(600)**	**(90)**	**(690)**
Total net deferred tax (liability)/assets	**(572)**	**(161)**	**231**	**(502)**	**(65)**	**(567)**

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

23 Earnings per share

Earnings per share is calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary and preference shares in issue during the period, excluding the average number of ordinary shares purchased by the Company and held as treasury shares (see Note 15).

	2002	2001
Weighted average number of ordinary shares outstanding (thousands)	112,734	112,734
Weighted average number of preference shares outstanding (thousands)	37,578	37,578
Less weighted average number of treasury shares (thousands)	-	(13,903)
Weighted average number of ordinary and preference shares outstanding (thousands)	**150,312**	**136,409**
Net income	**784**	**563**
Basic/diluted earnings per share (in RR)	**5.22**	**4.13**

24 Contingencies, commitments and operating risks

24.1 Contractual commitments and guarantees

As at 31 December 2002 the Company had contractual commitments for the purchase of property, plant and equipment from third parties for RR 246 (2001: RR 48).

24.2 Taxation

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

24 Contingencies, commitments and operating risks (continued)

24.3 Insurance policies

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

24.4 Environmental matters

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

24.5 Legal proceedings

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

24.6 Operating environment of the Company

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

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

25 Financial risks

25.1 Credit risk

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

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

25.2 Interest rate risk

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

25 Financial risks (continued)

25.3 Fair values

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

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

26 Post balance sheet events

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

In March 2003 the Company signed an agreement with OOO "Severstal-auto" regarding the transfer to this company of executive management authority and provision of management services by this company. In accordance with the agreement, OOO "Severstal-auto" will receive compensation for management services in the amount of US$ 330 thousand per quarter.

In January 2003 the Company and JSC "Agava-Invest" (one of Severstal Group companies) registered in Zavolzhye OOO "ZMZ-Podshipniki Skolzheniya". The Company and JSC "Agava-Invest" own 85% and 15% in the share capital of OOO "ZMZ-Podshipniki Skolzheniya", respectively. OOO "ZMZ-Podshipniki Skolzheniya" leases the Company's production facility to produce slide bearings. Management believes that the establishment of OOO "ZMZ-Podshipniki Skolzheniya" involves no potential obligations not disclosed in these financial statements and brings no adverse effect on the result of operations or financial position of the Company.