AVTOVAZ GROUP ANNUAL REPORT

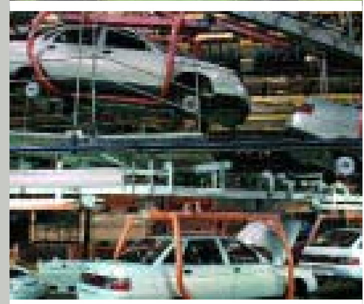
2000

Contents

The AVTOVAZ Group mentioned hereinafter is the parent company (AO AVTOVAZ) and all of its subsidiaries and associated companies.
The references "we", "us", "AVTOVAZ", etc. may be applied to both the AVTOVAZ Group and AO AVTOVAZ depending on the context.
All the figures used in reference to AO AVTOVAZ (or "the Company") are shown in accordance with Russian statutory legislation.
All the figures used in reference to the AVTOVAZ Group are shown in accordance with International Accounting Standards (IAS).

The Group's Operating
Highlights for 2000






Indicators	2000	1999	Change
Vehicle unit sales	**000's units**	**000's units**	**%**
Domestic market	600	618	(2.9)
Export market	106	48	122.2
Total	**706**	**666**	**6.0**
	RR million	**RR million**	**%**
Net sales	83,186	75,767	9.8
Operating income	138	30	360.0

Year ended 31 December

Consolidated Statement of Operations	RR million	RR million	%
Net sales	83,186	75,767	9.8
Cost of sales	(69,596)	(62,919)	10.6
Gross profit	13,590	12,848	5.8
Financing expense	(3,178)	(8,715)	(63.5)
Net income for the year	2,751	1,021	169.4

At 31 December

Consolidated Balance Sheet	RR million	RR million	%
Cash and cash equivalents	2,772	3,215	(13.8)
Other current assets	22,542	22,889	(1.5)
Non-current assets	74,183	75,849	(2.2)
Total liabilities	60,664	66,239	(8.4)
Minority interest	6,457	6,207	4.0
Total shareholders' equity	32,376	29,507	9.7

In charge of production: Dmitri Bourgomistrenko

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AVTOVAZ GROUP ANNUAL REPORT

2000

WE WORK FOR
THE WELFARE OF RUSSIANS
AND FOR THE PRIDE OF RUSSIA!

1.

Address of the Chairman of the Board of Directors of AO AVTOVAZ

V.V. Kadannikov
Chairman of the Board of Directors of AO AVTOVAZ

We have the potential to meet the ever increasing requirements of the Russian car market and sustain our leadership of the automotive industry in our home market: we have identified a clear vision and strategy for this decade, and we are confident we will achieve it.

In 2000, we celebrated the thirtieth anniversary of the production of our first vehicle. Over these years, AVTOVAZ has produced almost 20 million vehicles, never suffered a major stoppage, has had one of the highest rates of utilisation of capacity of any vehicle producer in the world today. Furthermore, production last year was one of the highest on record. AVTOVAZ therefore has many reasons to be proud of its achievements.

The recent decade was perhaps the most difficult for us and many other manufacturing companies in Russia. Nevertheless, AVTOVAZ has survived the painful transition from a command economy to a market economy and during each of the past ten years has successfully achieved its planned volumes of production. Thanks to AVTOVAZ's consistently high levels of purchases of components, the Russian automotive components industry has also survived, contributing to the country's prestige, its technological advancement, and safeguarding hundreds of thousands of jobs.

Management made significant progress in improving the financial condition of the Company during 2000. We continued with restructuring of Vnesheconombank debt, tax debts and pension fund liabilities. During 2001 we intend to complete this restructuring and remove the mortgage of shares to the government. In addition, the Company will increase its influence on the financial performance of its subsidiaries and associated companies.

We are open to co-operation in developing and implementing new investment projects.

In recognition of the modern trends of globalisation, AO AVTOVAZ and AO Izhmash-Avto have developed a programme "Russian light cars." A draft of this programme has been discussed and approved at a special meeting in the government of the Russian Federation.

Our key suggestions to the government included in the programme are:

- obtain profits tax deduction for research and development costs;
- restructure deferred taxes into investment credits;
- extend the period for repatriation of foreign currency earnings from export sales from 90 days up to one year; and
- abolish the security issue tax.

We believe that the recent agreement with General Motors Corp. (GM) to establish a joint venture for the production of the Chevy-Niva model reflects great credit on our efforts over the past number of years.

However, this is only the first step. One cannot expect significant changes in the financial situation at AVTOVAZ as a result of establishing a joint venture producing 75 thousand vehicles a year. The value of this agreement is not only in its economic sense. General Motors have recognised the ability of our company to produce vehicles that meet all modern technological and environmental requirements. The proximity of the joint venture to AVTOVAZ will enable the transfer to AVTOVAZ of western expertise in the organisation of production, management and quality control. This is a significant step towards integration into the global automotive industry.

We are open to co-operation in developing and implementing further such investment projects.

Though the country's economic difficulties have led to a desperate scarcity of finance for development, AVTOVAZ has been able to continue the development of new models.

However, we have had to be extremely careful with changes in the mix of mass-produced models because we understood the limits of purchasing power of the Russian population. We have focused on the disposable incomes of the Russian people in line with our mission: *Provide quality cars to the Russian people at prices they can afford.* The increase in disposable incomes of the Russian people is the main prerequisite for improving the consumer features of LADA cars. Assembly of the Niva and VAZ-2107 models in Ecuador and the construction of an assembly plant in Brazil provide the best evidence of a well balanced policy pursued by AVTOVAZ of extending the model range of mass-produced vehicles. These countries are similar to Russia as their populations earn comparable personal incomes.

We believe the annual demand for light vehicles in Russia will grow by some 40% from the current level of 1.1 million units to reach 1.5 million units by 2005. This gives AVTOVAZ a great opportunity for growth, at a time when most major automotive manufacturers in the world are faced with excess capacity and slow growth.

Our success in maintaining stable production, and surviving financially, during the past five volatile years, and the current improved economic environment give us confidence to believe that 2001 will be the start of a new period of prosperity for AVTOVAZ.

V.V. Kadannikov

2.

Message of the President-General Director of AO AVTOVAZ

A.V. Nikolaev
President–General Director of AO AVTOVAZ

We pay considerable attention to the quality of our products, and are seeing the results of the quality improvement initiatives that we have taken previously.

Our history...

The construction of the Volga Automobile Works in the late 1960s solved the problem of providing the population of the Former Soviet Union with affordable personal transport. We started with the production of one of the best contemporary vehicles in the world, the Fiat 124, adapted to Russian conditions.

From its initial days, AVTOVAZ has maintained a steady and uninterrupted pace of production. In 2000, it was the eighth largest company in Russia measured by turnover.

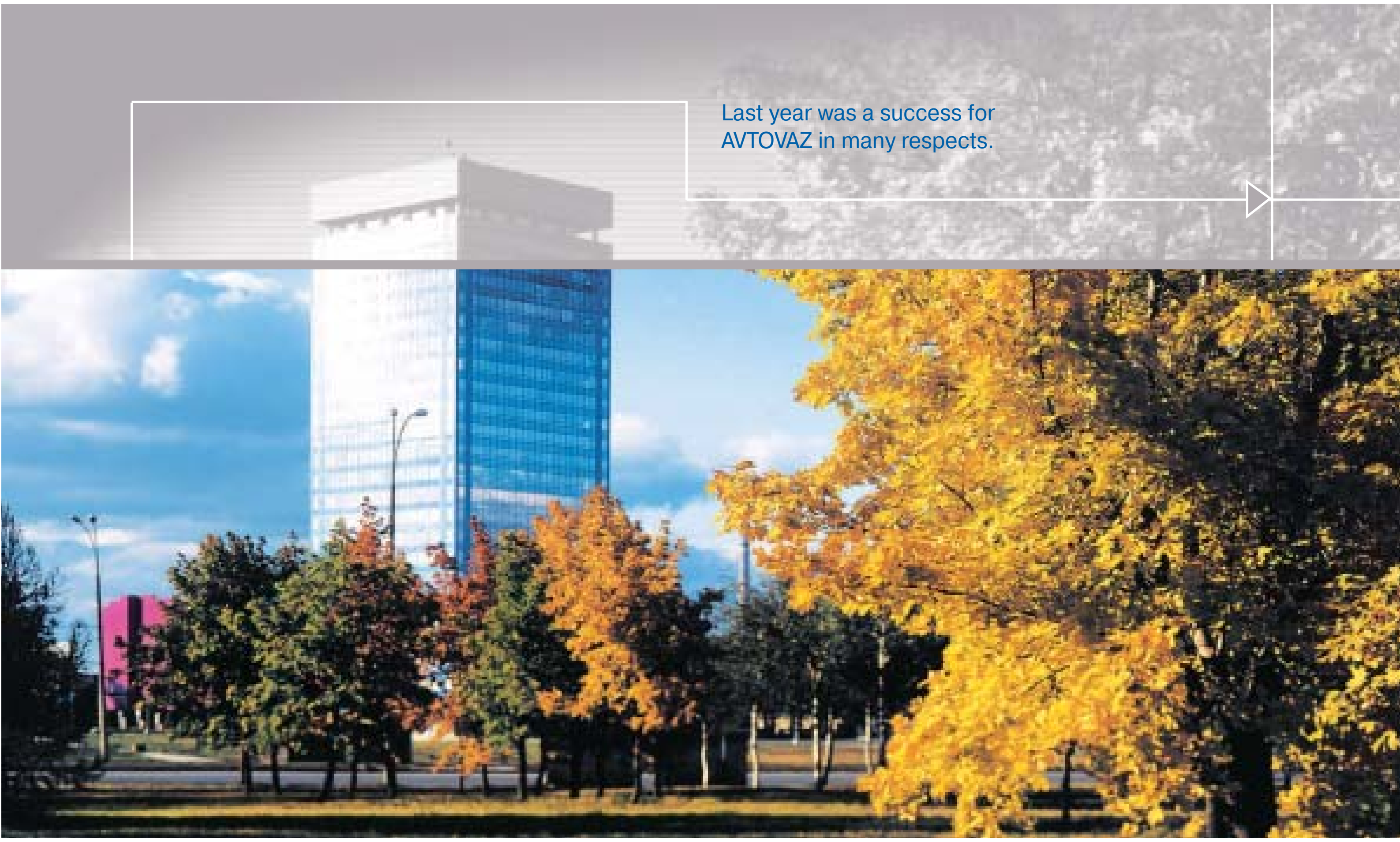
AVTOVAZ makes 55% of total vehicle sales in Russia (foreign imports included), and 70% of the total number of sales of vehicles made in Russia.

As well as increasing production, AO AVTOVAZ in 2000 paid a total of RR 21,300 million to various budgets and funds.

We have rigorously kept to schedule in repaying our restructured debts.

In 2000, we paid a total of RR 577 million in debt repayments.

We will continue to ensure timely settlement of both restructured debts and current taxes to honour our existing agreements with the Government.



Our future…

We foresee a great opportunity for strong growth in demand over the foreseeable future in the Russian car market, combined with a significant threat of increasing penetration by foreign car imports, mainly second hand vehicles.

The Government's support for the national car industry was demonstrated at a meeting on 7 June 2001 between the President of the Russian Federation, Vladimir Putin, and representatives of the Russian industry. It is to be hoped that the Government of the Russian Federation will take a number of measures to reduce the tax burden, grant automotive companies the right to import equipment under a special customs regime (whereby VAT will not be payable until equipment is put into operation), and abolish customs duties in relation to equipment that is not produced in Russia.

We made these and other suggestions to governmental departments and legislatures and we believe most of them will be resolved favourably for the Group.

In recognition of the modern trends of globalisation, AVTOVAZ has presented a number of initiatives aimed at developing the national car industry on the basis of production, technological and research potential of AO AVTOVAZ.

The Ministry of industry, science and technology of the Russian Federation together with AO AVTOVAZ and AO Izhmash-Avto have developed a sub-programme «Russian light cars» which was incorporated into the federal special-purpose programme «Development of the automotive industry of Russia until 2005».

The programme presented by us includes several stages :

- **Stage 1**

  2001-2005. Launch of the Kalina family of vehicles at AO AVTOVAZ. This vehicle is designed using new and modernised power-trains and components. Transfer of production of classic models to AO Izhmash-Avto.

- **Stage 2**

  2005-2010. Creation of capacity for another 700,000 power-trains per year.

  Integration of production of AO AVTOVAZ and AO Izhmash-Avto and other automotive producers to develop further and improve the competitive strength of the national automotive industry in Russia and create additional jobs.

Stage 3

2010-2015. Launch of new families of vehicles, VAZ-21XX and VAZ-11YY using the power-trains that were launched during the previous stage. In parallel with this, suppliers will begin production of new materials and components. This will enable the utilisation of a large number of enterprises including those of the former defence industry.

We have also revised our approach to increasing production output. We are planning to increase production output by establishing assembly plants in other regions of Russia, CIS countries and overseas.

Turning to the results of the year and immediate prospects…

Last year was a success for us in many respects.

In 2000 we sold 706 thousand vehicles. AVTOVAZ has in 2000 continued to break even at an operating level, despite strong cost pressures.

Sales prices per unit exceeded the annual rate of inflation, which is evidence that we were right to shift production to newer higher margin vehicles.

A profit before tax of RR 12,473 million was earned. These positive trends are anticipated to continue in the future.

Restructuring gains continue from prior years and have substantially reduced the real burden of debt to AVTOVAZ. The reduction in the debt burden enables AO AVTOVAZ to attract additional debt financing for the development of the aforementioned new models.

In 2000 there was strong growth in the cost of components, and especially metal, which rose in price by 60% over the period.

Before 2000 in order to restrict the increase in end prices of our goods to 80% of the rate of inflation AVTOVAZ had to absorb part of this increase itself.

We accepted this with a clear understanding that any possible increase in our end prices is tightly constrained by the purchasing power of the Russian people.

As a result, we could not invest in our development as much as we wanted.

We pay considerable attention to the quality of our products, and are seeing the results of the quality improvement initiatives that we have taken previously.

A number of AO AVTOVAZ's divisions (Final Assembly, Sub-Assembly, Foundry and Plastic Production Division) have obtained confirmation of compliance of their quality systems with ISO 9002.

Currently we are working together with UTAC to ensure that production facilities of our Russian suppliers comply with international quality standards ISO 9000 and ISO 9002.

We consider it a priority that all suppliers of AVTOVAZ obtain certification of compliance with these standards.

Another factor contributing to our steady growth is a good stable partnership between management and employees at AO AVTOVAZ. Social support for the work force has remained undiminished despite the economic difficulties of recent years.

Practically all mutual obligations under the Collective Agreement were fulfilled.

Each quarter during 2000 we indexed wages and salaries in response to increasing consumer prices and within the proportion of labour expenses to turnover.

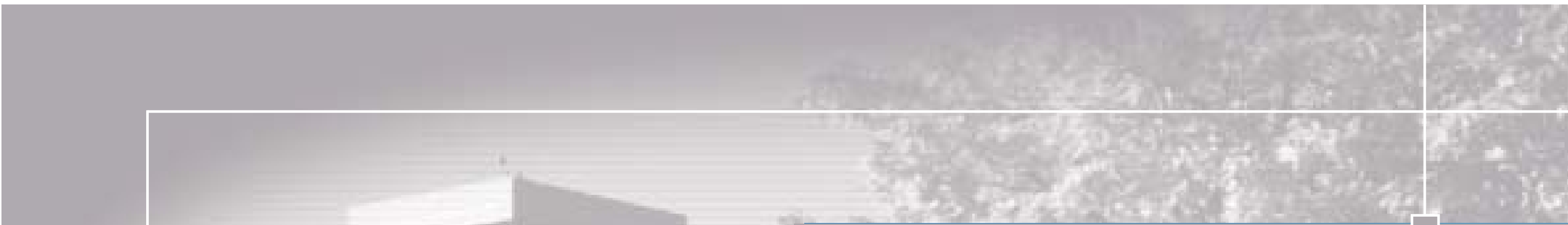
All commitments in relation to social benefits and worker security were honoured.

We continue to fund specialised health-care facilities, recreation homes, dispensaries, and dormitories. Particular attention is paid to promoting large-scale sports events.

The past year has again demonstrated strong demand for our products.

In 2001 we plan to assemble 752 thousand vehicles, of which 130 thousand will be exported.

We also expect to reach full capacity for the VAZ-2110 family of vehicles in 2001 achieving our target of 220 thousand units a year.



We will start pre-production preparation of the VAZ-1119 «Kalina» range that will gradually replace the outdated «classic» models.

The global automotive industry has seen a great deal of mergers, acquisitions and alliances between car makers and component suppliers over the past years.

Because Russia is entering the world's economy, these developments have an impact on AO AVTOVAZ.

The planned joint venture with GM, the largest automotive producer in the world, will evolve in several stages.

The first stage will see the creation of production capacities for 75 thousand vehicles.

Further stages will include an increase in production volume, launch of a jointly developed vehicle, and the creation of production capacities for power-train and components for this vehicle.

Currently we are preparing for the first stage of the project.

It is important to point out that AVTOVAZ, having survived ten years in an extremely testing environment, has for the first time reached a financially stable, break-even position and now has a realistic prospect of increasing the profitability of its business in the years to come.

This new period of growth will set us new challenges. We are confident we can meet and overcome these challenges and deliver the success for which all our people have worked these past years with such dedication.

A.V. Nikolaev

N.V. Lyachenkov
First Vice-President, First Deputy
General Director, AO AVTOVAZ

3.

AO AVTOVAZ - The leader of the Russian machine-building industry

AO AVTOVAZ is the largest producer of light passenger vehicles in Russia and Eastern Europe. AO AVTOVAZ's share in the gross domestic product was equal to 0.92% in 2000. AO AVTOVAZ's contribution to the total Russian budget amounted to 1.30%.

Impact of AO AVTOVAZ on the Russian economy

Apart from the parent company (AO AVTOVAZ), the AVTOVAZ Group consists of 31 subsidiaries where the company has a 100% holding and 137 subsidiaries and associates where AO AVTOVAZ has an equity holding of less than 100%.

In 2000 AO AVTOVAZ surpassed 1999 production levels by more than 4%, including a larger share of new higher-margin vehicles. In 2000 AO AVTOVAZ paid a total of RR 21,300 million to various budgets and funds, and these payments have increased by 30% compared to RR 16,300 million in 1999.

The major reasons for this increase in taxes in 2000 are increased production volumes and increased cost of materials and components.

In particular, in 2000 AVTOVAZ paid RR 4,700 million in current taxes to the federal budget, and another RR 377 million to the federal road fund. Amounts paid to the region's and city's budgets totalled RR 1,400 million and RR 1,200 million, respectively. In 2000 personal income tax was equal to RR 848 million.

In 2000 AVTOVAZ completely fulfilled its current obligations to the pension fund paying RR 2,047 million. Payments to the medical insurance fund were RR 237 million, employment fund contributions were equal to RR 118 million, and social insurance contributions amounted to RR 272 million.

In 2000 AO AVTOVAZ continued to pay restructured taxes. These debts were paid in strict compliance with the schedule agreed with the tax authorities.

As a result, payments of these debts to the federal budget amounted to RR 461 million together with interest. In 2000 payments of debts to the pension fund and employment fund totalled RR 110 million and RR 6 million, respectively.

In 2000 AVTOVAZ paid a total of RR 577 million in debt repayments.

VAT paid to other regional budgets in 2000 amounted to RR 7,200 million.

In the past year AVTOVAZ paid RR 1,302 million in customs duties and VAT due to the customs.

In 2000 we made significant progress in achieving our mission and strategic tasks.

AO AVTOVAZ is a key company for Togliatti and its 750,000 population. In addition, AO AVTOVAZ buys components from more than 700 domestic suppliers. The existence of some of these companies fully depends on orders from AO AVTOVAZ. In many ways, we estimate that 15 million Russian people are associated with goods produced by AO AVTOVAZ.

The automotive industry, and its leading company AO AVTOVAZ, play a key role in the economy of the Samara Region by providing approximately 40% of value of total production of the machine-building industry in the region. Companies from the Samara Region currently supply over 40% of components and materials to the AVTOVAZ assembly lines. o

Management system reform

Whilst we recognise our great responsibility as the leader of the national automotive industry, we cannot stand back from the changes that take place both in the national and global automobile industry.

It is for this reason that we have to continually modernise our business. After analysing our environment, we have undertaken an in-depth and co-ordinated reform of our operations. Establishing business units in the production support area in 2000 was our first step in the transition to a flexible business structure and achieving a clear distinction of production support costs from vehicle manufacturing costs.

Establishment of business units in the production sector, planned for 2001 and 2002, will further assist in the identification of priorities for individual parts of the production sector and appropriate allocation of resources. Overall business objectives are to be met without dividing AO AVTOVAZ into separate legal entities.

The main goals of creating business units in the automobile production sector are to control effectively costs at all stages of the production process and increase the responsibility of divisional managers for financial performance.

In 2001 we have set ourselves the task of establishing a system of financial management of business units, involving:

- Creating systems of centralised ordering at the corporate centre;
- Establishing a system of planning and controlling the activities of business units;
- Developing a logistics system within AO AVTOVAZ to support centralised order; and
- Establishing internal accounting for business units.

In 1999 we formulated our mission and strategic tasks that provide guidance for our actions. In 2000 we made great achievements towards their implementation.

Our mission is to consolidate AVTOVAZ Group's position as market leader in the Russian automotive industry for the long term, providing quality cars to Russian people at prices they can afford

Strategic tasks

Establish within the AVTOVAZ Group a Corporate Centre which will develop a uniform strategy and provide strategic management.

Establish an efficient system for the management of the Group's property by establishing business units.

Ensure that changing consumer preferences are addressed in a timely manner in the development of new models, and reduce the time required to replace and modernise the model range.

Actively look for opportunities to form strategic alliances with large investors in a variety of areas of our activity.

Strengthen the competitive position of the AVTOVAZ Group by rigorously pursuing improvements in the quality of our products.

Ensure that our products comply with the latest requirements of environmental safety.

Improve the financial condition of the Company and reduce costs while maintaining full employment.

Restructure our dealership network in order to achieve the highest possible customer satisfaction.

Revive our export market.

4.

Five year financial review of the AVTOVAZ Group

V.A. Vilchik
First Vice-President,
Strategy and Corporate Governance,
AO AVTOVAZ

AVTOVAZ is proud to be one of a very small number of major Russian companies that has already established a five year history of IAS financial statements. We believe this analysis gives a valuable insight into the Group's financial performance over the last five years.

During the past five years the Russian economy has experienced high and fluctuating rates of inflation. Cumulative inflation since 1 January 1996 has been in excess of 400%.

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

Consequently, the statutory financial statements prepared annually by AO 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, the AVTOVAZ Group has for the past five years additionally prepared financial statements in accordance with International Accounting Standards (IAS).

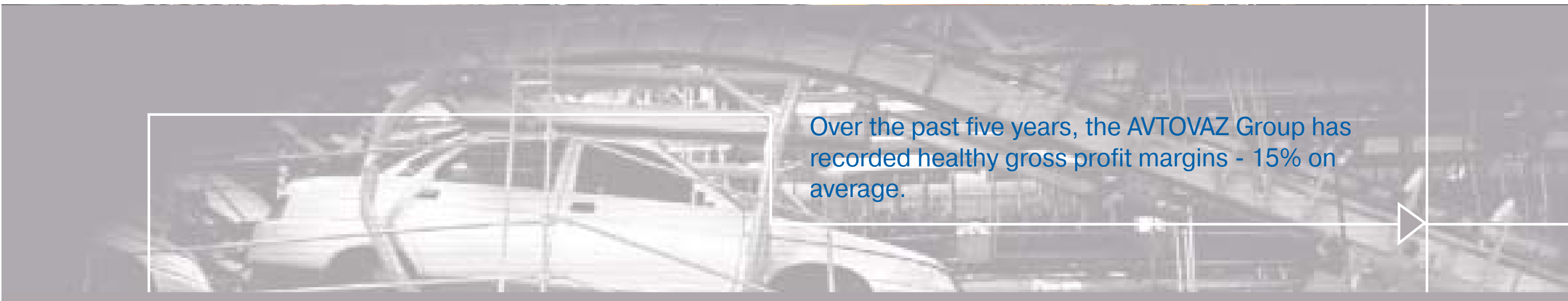
These IAS consolidated financial statements have been adjusted for the effects of inflation, and therefore enable the results of operations of the Group from year to year to be presented on a comparable basis, and reveal more clearly the underlying trends in the business.

The following analysis has been drawn from the Group's IAS financial statements.

All figures are expressed in terms of the measuring unit current at the period end, 31 December 2000.

The IAS financial statements for the past five years have been restated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian State Committee on Statistics as follows:

1995	1996	1997	1998	1999	2000
4.088	3.356	3.024	1.640	1.2013	1



Summary IAS Group financial information

Consolidated IAS Balance Sheets at 31 December

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000)

	2000	1999	1998	1997	1996	1995
ASSETS						
Cash and cash equivalents	2,772	3,215	3,662	2,270	3,197	2,987
Trade receivables, net	6,864	7,588	11,346	12,524	13,676	19,500
Prepaid expenses, advances and other receivables	5,108	4,724	4,895	7,645	10,540	10,899
Inventories	10,570	10,577	11,928	14,592	14,061	14,756
Total current assets	**25,314**	**26,104**	**31,831**	**37,031**	**41,474**	**48,142**
Property, plant and equipment	72,789	74,096	74,509	83,018	86,559	84,945
Investments	1,125	1,393	1,174	423	348	937
Deferred tax assets	-	-	-	2,913	-	-
Other assets	269	360	135	318	237	97
Total long-term assets	**74,183**	**75,849**	**75,818**	**86,672**	**87,144**	**85,979**
Total assets	**99,497**	**101,953**	**107,649**	**123,703**	**128,618**	**134,121**
LIABILITIES & SHAREHOLDERS' EQUITY						
Trade payables current	13,591	11,439	10,557	15,435	11,167	15,010
Other payables and accrued expenses	5,304	7,852	8,118	8,127	24,512	17,428
Taxes payable-current	7,989	8,135	15,222	37,071	37,039	18,286
Warranties	756	1,271	2,561	2,588	3,153	3,143
Short-term debt	4,093	4,613	5,093	2,158	12,510	13,974
Advances from customers	3,515	2,045	2,924	215	779	819
Total current liabilities	**35,248**	**35,355**	**44,475**	**65,594**	**89,160**	**68,660**
Long-term debt	6,004	13,619	17,079	11,304	2,149	4,739
Long-term taxes payable	8,881	11,934	8,560	5,144	-	-
Deferred tax liability	10,531	5,331	3,046	-	1,151	1,675
Total long-term liabilities	**25,416**	**30,884**	**28,685**	**16,448**	**3,300**	**6,414**
Total liabilities	**60,664**	**66,239**	**73,160**	**82,042**	**92,460**	**75,074**
Minority interest	**6,457**	**6,207**	**6,060**	**5,641**	**6,054**	**6,128**
Share capital	22,086	22,140	21,846	12,023	11,952	11,952
Currency translation adjustment	601	812	842	289	290	295
Retained earnings	9,689	6,555	5,741	23,708	17,862	40,672
Total shareholders' equity	**32,376**	**29,507**	**28,429**	**36,020**	**30,104**	**52,919**
Total liabilities and shareholders' equity	**99,497**	**101,953**	**107,649**	**123,703**	**128,618**	**134,121**

Consolidated IAS Statements of Operations for the years ended 31 December

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000)

	1996-2000*	2000	1999	1998	1997	1996
Net sales	406,344	83,186	75,767	75,610	91,654	80,127
Cost of sales	(344,508)	(69,596)	(62,919)	(69,545)	(74,876)	(67,572)
Gross profit	**61,836**	**13,590**	**12,848**	**6,065**	**16,778**	**12,555**
Selling, general and administrative expenses	(56,323)	(10,632)	(7,527)	(11,408)	(13,950)	(12,806)
Provision for impairment of property, plant and equipment to estimated recoverable value	(7,847)	-	-	(3,872)	(3,975)	-
Research and development expenses	(7,394)	(1,157)	(1,262)	(1,395)	(1,526)	(2,054)
Other operating expenses	(12,887)	(1,663)	(4,029)	(3,390)	(2,462)	(1,343)
Operating income (loss)	**(22,615)**	**138**	**30**	**(14,000)**	**(5,135)**	**(3,648)**
Financing expense	(62,509)	(3,178)	(8,715)	(7,119)	(15,068)	(28,429)
Foreign exchange (loss) gain	(18,322)	(301)	(5,257)	(15,180)	348	2,068
Monetary gain	64,674	6,274	12,794	31,389	6,181	8,036
Gains on extinguishment and forgiveness of tax debts and other borrowings	40,332	9,540	6,164	6,273	18,355	-
Profit (loss) before taxation	**1,560**	**12,473**	**5,016**	**1,363**	**4,681**	**(21,973)**
Current income tax expense	(12,271)	(3,944)	(1,492)	(3,142)	(2,700)	(993)
Deferred income tax (expense) benefit	(9,371)	(5,199)	(2,283)	(5,959)	4,070	-
Net profit (loss)	**(20,082)**	**3,330**	**1,241**	**(7,738)**	**6,051**	**(22,966)**
Minority interest	(1,515)	(579)	(220)	(417)	(302)	3
Net income (loss) attributable to shareholders of AVTOVAZ Group	**(21,597)**	**2,751**	**1,021**	**(8,155)**	**5,749**	**(22,963)**

* - here and below this column represents cumulative numbers for the period from 1996 to 2000 inclusive.

Consolidated IAS Statements of Changes in Shareholders' Equity for the years ended 31 December

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000)

	Share capital	Treasury shares	Currency translation adjustment	Retained earnings	Total Shareholders' Equity
Balances as of 31 December 1996	**25,824**	**(13,872)**	**295**	**40,672**	**52,919**
Sale of treasury shares	-	651	-	(253)	398
Purchase of treasury shares	-	(441)	-	440	(1)
Currency translation adjustment	-	-	306	-	306
Profit/Loss for the period	-	-	-	(21,595)	(21,595)
Reserves of subsidiaries acquired/disposed of	-	-	-	349	349
Capitalisation of reserves **	21,148	(11,224)	-	(9,924)	-
Balances as of 31 December 2000	**46,972**	**(24,886)**	**601**	**9,689**	**32,376**

** - During 1998 AO AVTOVAZ increased the par value of its shares from RR 1 to RR 500. This was transacted through a transfer from the statutory revaluation reserve.

Consolidated IAS Statements of Cash Flows
for the years ended 31 December

(In millions of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000)

	1996-2000	2000	1999	1998	1997	1996
Cash flows from operating activities:						
Profit before taxation	1,560	12,473	5,016	1,363	4,681	(21,973)
Adjustments for:						
Depreciation	20,643	4,481	4,330	4,579	3,494	3,759
Provision for bad debts	3,983	477	(356)	1,408	1,771	683
Write-down of assets to recoverable value	7,848	-	-	3,872	3,976	-
Loss on disposal of property, plant and equipment	5,932	683	659	1,487	1,893	1,210
Gains on extinguishment and forgiveness of tax debts and other borrowings	(40,332)	(9,540)	(6,164)	(6,273)	(18,355)	-
Finance expense	62,509	3,178	8,715	7,119	15,068	28,429
Provision for impairment of investments	824	(35)	30	372	-	457
Warranties' reserves	(2,409)	(515)	(1,292)	(27)	(583)	8
Unrealised foreign exchange effect on non-operating balances	25,662	359	5,640	19,342	321	-
Monetary effect on non-operating balances	(25,501)	(3,356)	(7,603)	(10,314)	(1,457)	(2,771)
Operating cash flows before working capital changes	**60,719**	**8,205**	**8,975**	**22,928**	**10,809**	**9,802**
Decrease (increase) in gross trade receivables	9,139	(329)	4,123	2,187	(1,982)	5,140
Decrease in prepaid expenses, advances and other receivables	3,740	35	56	333	2,957	359
Decrease in inventories	4,281	7	1,359	2,669	(448)	694
Increase (decrease) in trade payables and other payables and accrued expenses	(12,413)	(1,794)	(343)	(5,476)	(682)	(4,118)
Increase (decrease) in other taxes payable	(12,734)	(1,067)	(4,641)	(9,935)	(2,120)	5,029
Increase (decrease) in advances from customers	2,689	1,710	(1,121)	2,708	(569)	(39)
Cash provided from operations	**55,421**	**6,767**	**8,408**	**15,414**	**7,965**	**16,867**
Income taxes paid	(14,896)	(520)	(1,034)	(8,753)	(2,554)	(2,035)
Interest paid	(10,112)	(1,370)	(2,405)	(790)	(1,108)	(4,439)
Net cash provided from operating activities	**30,413**	**4,877**	**4,969**	**5,871**	**4,303**	**10,393**
Cash flows from investing activities:						
Purchase of property, plant and equipment	(27,339)	(4,650)	(5,473)	(3,071)	(4,487)	(9,658)
Proceeds from the sale of property, plant and equipment	4,838	30	946	1,250	615	1,997
Proceeds from the sale of investments	613	13	-	13	285	302
Purchase of investments	(2,134)	-	(248)	(1,136)	(438)	(312)
Net cash used in investing activities:	**(24,022)**	**(4,607)**	**(4,775)**	**(2,944)**	**(4,025)**	**(7,671)**
Cash flows from financing activities:						
Proceeds from borrowings	10,841	2,333	1,210	1,326	2,213	3,759
Reduction of loans and long-term taxes payable	(44,612)	(6,284)	(10,195)	(15,133)	(3,958)	(9,042)
Net proceeds from the sale (purchase) of treasury shares	(1)	-	-	(1)	-	-
Inflation effect on financing activities	30,327	3,446	8,683	14,197	695	3,306
Net cash (used in) provided from financing activities	**(3,445)**	**(505)**	**(302)**	**389**	**(1,050)**	**(1,977)**
Effect of inflation on cash	(6,149)	(302)	(1,079)	(3,881)	(228)	(659)
Effect of exchange rate changes	2,988	94	740	1,957	73	124
Net (decrease) increase in cash and cash equivalents	**(215)**	**(443)**	**(447)**	**1,392**	**(927)**	**210**
Cash and cash equivalents at the beginning of the period	**2,987**	**3,215**	**3,662**	**2,270**	**3,197**	**2,987**
Cash and cash equivalents at the end of the period	**2,772**	**2,772**	**3,215**	**3,662**	**2,270**	**3,197**

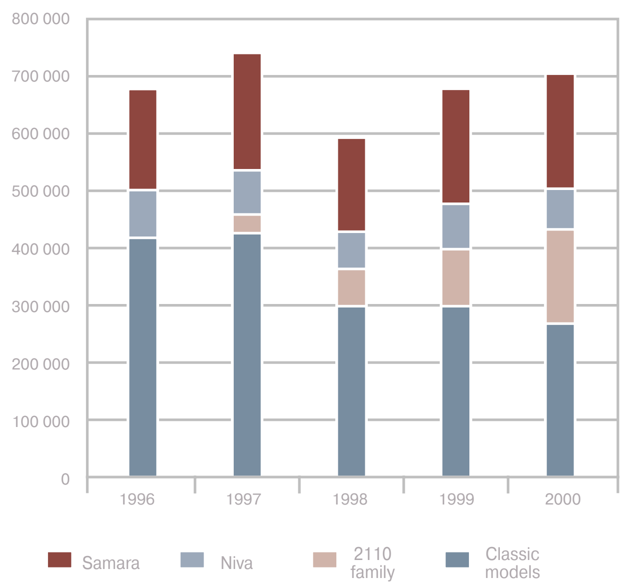
Improving the quality of cars …

Improving the quality of cars produced and their consumer features has been the primary focus of AVTOVAZ management over the past years.

The neighbouring chart demonstrates how older rear wheel drive models are being removed from the main assembly lines at the plant in Togliatti and replaced by new front wheel drive models (Samara and 2110 families).

Further, in order to meet the strict requirements of European quality and toxic emissions standards (ISO 9000 and Euro 3), the Group has been both upgrading its own production equipment and requiring that component suppliers ensure compliance of their products with these standards.

Change in production mix, units



… at prices people can afford

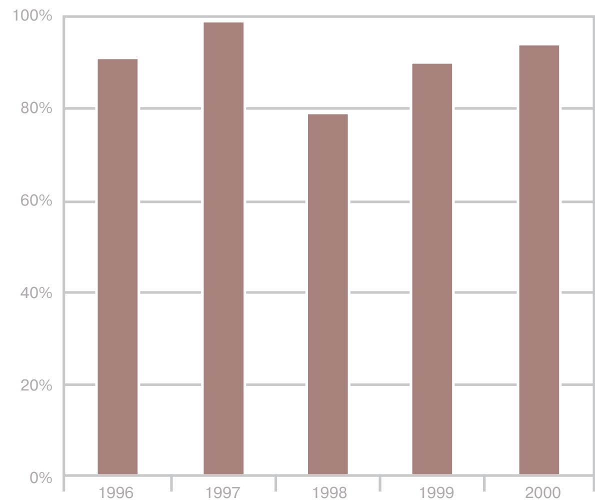
The Group has managed to maintain consistently high levels of capacity utilisation over the past five years. In 1997 a record level of production was achieved when some 740,000 vehicles were assembled.

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

As can be seen from the utilisation graph, the Group has maintained high levels of production from year to year despite numerous macro-economic shocks, most notably the devaluation of the rouble in 1998.

The following graph compares how our car prices have risen over the past five years with the rate of inflation and the rise in people's purchasing power (GDP per capita).

Capacity utilisation,%

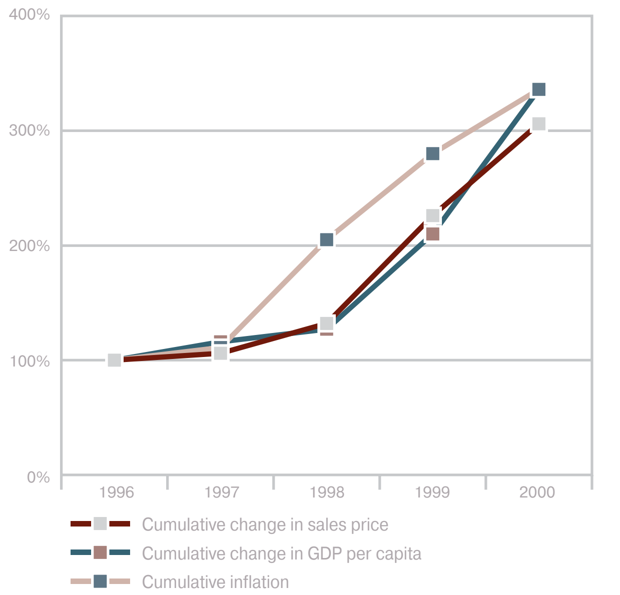


The graph shows clearly how our price rises have been kept below the rate of inflation and in line with people's ability to pay. As discussed below under «Operating performance», this has led to lower gross profit margins for the Group.

From 1996 to present, the Group has had to strike a balance between inflation and people's purchasing power.

This has resulted in the Group's both absorbing some of the effects of inflation and passing some efficiency savings on to its customers. This is illustrated by the fact that the average vehicle selling price in 2000 of RR 89,000 equates to the average vehicle selling price in 1996 (restated to 2000 prices). This is despite the fact that the average quality of cars produced has increased significantly over this period, as we have produced a larger quantity of modern vehicles.

Increase in sales price vs inflation and GDP, %



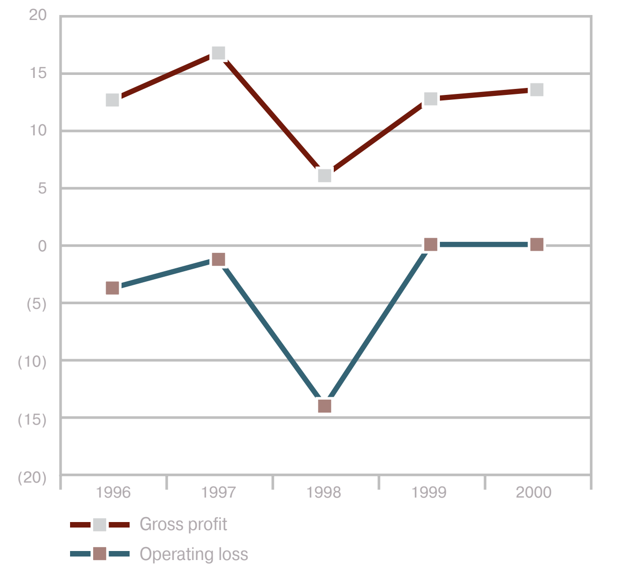
Operating performance

Over the past five years, AVTOVAZ has recorded healthy gross profit margins - 15% on average. As can be seen from the neighbouring chart, gross margins were adversely affected by the 1998 crisis. In 1998 the gross profit margin dropped to 8% because AVTOVAZ did not increase car prices despite inflationary pressures (as discussed above). However, by 2000 AVTOVAZ had managed to restore the gross profit margin almost to pre-crisis levels.

The devaluation of the Russian rouble in 1998, however, greatly benefited export sales. AVTOVAZ was not able to take full advantage of this recovery in 1999 as AVTOVAZ had deliberately reduced export sales during the years leading up to 1998. This was a consequence of the poor exchange rate caused by the «rouble corridor» that had made export sales unprofitable. It took AVTOVAZ one year to build up sales in new markets, primarily CIS countries. During 2000 AVTOVAZ exported over 100,000 units.

Group management have focused their efforts successfully over the past five years on gross profit from car production.

Analysis of performance, RR billions



Unfortunately, this healthy gross profit from main activity of RR 61,836 million was entirely consumed and turned into significant operating losses as a result of events which were not fully under control of management. The following table demonstrates the major factors leading to the operating losses of the past five years:

4. Five year financial review of the AVTOVAZ Group

Improvement in performance, RR billions	Years including crisis	Past two successful years	1996 - 2000
Sales	**247.3**	**159.0**	**406.3**
Gross profit before social costs	**42.0**	**29.6**	**71.6**
Social costs	(6.6)	(3.2)	(9.8)
Gross profit after social costs	**35.4**	**26.4**	**61.8**
Gross profit as a percentage of sales	14%	17%	15%
Distribution and administration expenses	(22.5)	(10.5)	(33.0)
Bad debt expense	(3.9)	(0.1)	(4.0)
Claims and similar charges	(1.9)	(3.9)	(5.8)
Research and development expenses	(5.0)	(2.4)	(7.4)
Housing, property and road users taxes	(11.8)	(7.5)	(19.3)
Impairment provision and loss on disposal of fixed assets	(12.4)	(1.3)	(13.7)
Other	(0.7)	(0.5)	(1.2)
Cumulative operating income / (loss)	**(22.8)**	**0.2**	**(22.6)**

- Significant social costs reflect the Group's responsibility to the town and the region where the Group's production facilities are located. Even during the crisis the Group did not lay off staff. Financial support to the social infrastructure will be continued in the future - management consider their duty to the families of their workers, their town and their region as one of their prime responsibilities.

- Significant research and development costs. Most of this expenditure was devoted to bringing the new 2110 to production. A further significant portion of these was devoted to developing the new Niva. This has laid the foundation for the joint venture recently signed with General Motors.

- During the period the Group wrote off RR 4,000 million relating to bad debts, the majority of which were incurred prior to privatisation. The expense related to revaluing old hard currency bad debts, and did not represent new debts going bad. In recent years the Group has established stricter controls over collections thus preventing incidence of significant new bad debts.

- The major portion of claims and similar charges is represented by claims for late repatriation of foreign currency earnings. However, the Group is actively defending its position in court and is negotiating to extend the period of repatriation of foreign currency earnings.

- The 1998 impairment provision arose because the Group's cost of capital increased significantly as a result of the August crisis to a point where the estimated discounted cash flows from future operations were lower than the related assets' carrying value. This relatively high cost of capital has continued to impact the Group. However, no additional provision was considered necessary in 2000 as the economic situation has improved along with the prospects of the Group. In addition, during the five-year period the Group disposed RR 5,900 million worth of old, frozen and non-profitable equipment.

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

- During 1999 and 2000 the Group continued to replace foreign suppliers with Russian ones. The share of imported components at AVTOVAZ has decreased from 20-25% to 3-5%.

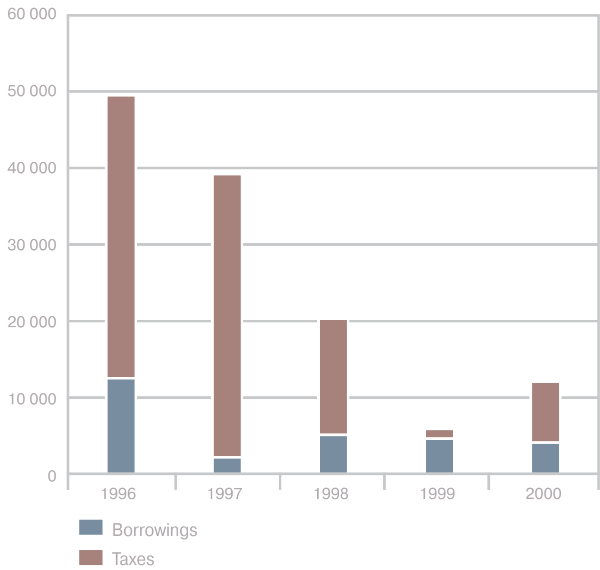
- The purchasing system was re-organised. The Group monitored purchase costs more closely and negotiated better quality and prices for materials and components.

- The Group 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.

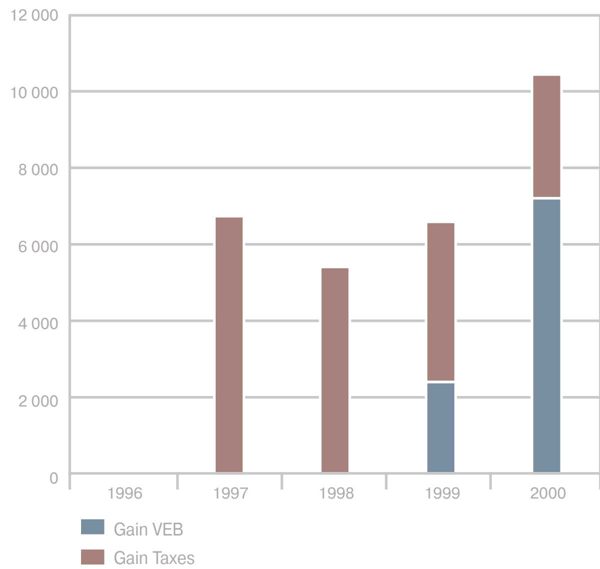
- The level of production overheads has steadily decreased (from RR 19,000 per car in 1996 to RR 13,000 in 2000) as a result of optimisation of production processes and better allocation of resources. However, this significant decrease in production overheads has been off-set by an increase in purchase prices of variable costs (components and materials) which have been growing often in excess of the rate of inflation. Therefore gross profit has not changed significantly.

Non-operating performance

Current liabilities, RR million



Gain on taxes and borrowings, RR million



As a result of various factors, by 1996 the Group had accumulated a significant amount of current liabilities including a substantial portion of overdue amounts which were subject to interest. As can be seen from the above left-hand graph, **over the past five years the Group's management had considerable success in obtaining forgiveness of, or restructuring, these liabilities:**

- Since 1998 AVTOVAZ has had taxes of RR 12,400 million forgiven.
- Furthermore, AVTOVAZ has restructured and deferred payment for taxes and debts to Vnesheconombank (VEB).

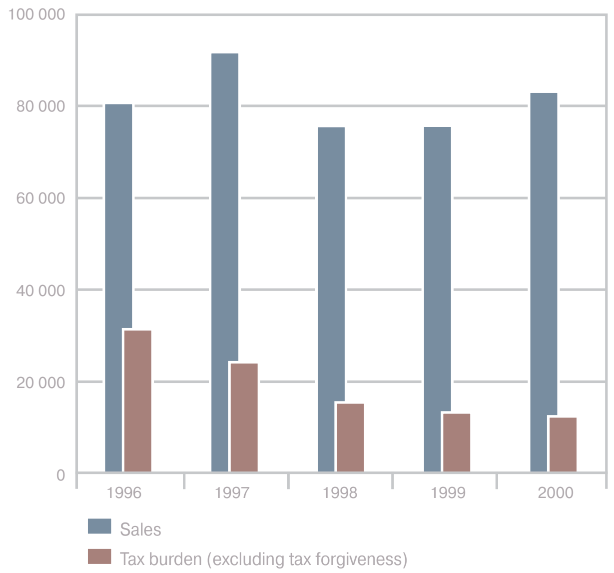
These efforts resulted in real economic gains to AVTOVAZ - as shown in the above right-hand graph.

AVTOVAZ's debt burden has reduced significantly in both nominal and real terms.

However, there still remains significant non-operating costs - primarily foreign exchange losses on VEB debt denominated in US$. This has been largely outside of management's control.

Taxation

Tax burden vs sales, RR million



Taxation represents a major expense for the Group.

The need to pay large tax payments prevents the Group accumulating the cash needed for investment in the development and launch of new models. Moreover, no deductions are available in relation to a significant portion of expenses on new models that were already incurred by the Group.

The chart shows a decrease in tax burden over time: from 39% in 1996 to 15% in 2000. However, the tax burden is still significant, and consists of housing and dwelling taxes, road users' tax, social taxes, property tax, income tax, and fines and interest.

In 1999 AO AVTOVAZ concluded agreements which restructured its overdue tax debts over 10 years in accordance with Resolutions 254 and 1316.

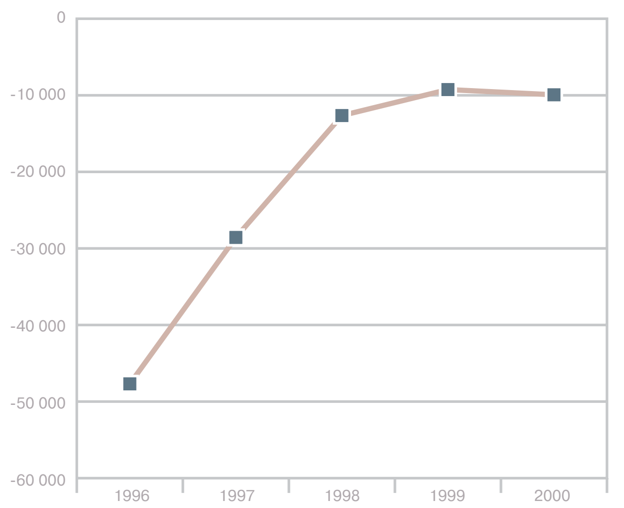
Under these agreements, each year AO AVTOVAZ issues additional ordinary shares representing 50% plus one vote at the General Shareholders' Meeting. These shares are pledged as collateral of timely settlements of tax debts under the restructuring agreement in favour of the Russian Federal Property Fund («RFPF»).

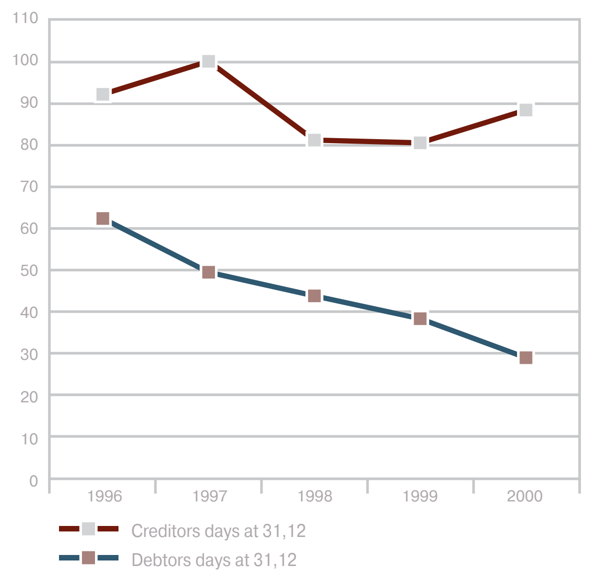
These shares would be auctioned by the RFPF in the event that AO AVTOVAZ makes no payment on these restructured taxes within two months after the due date or if AO AVTOVAZ has more than two late payments within a period of 12 months.

As we have complied with payment terms, a portion of restructured interest was forgiven. In addition, a further portion of restructured interest was forgiven in accordance with new legislation which was passed as part of the liberalisation of the tax regime undertaken by the government.

Owing to improved compliance and control over timely settlement of current tax liabilities, interest and fines have significantly reduced.

Liquidity matters





The Group has experienced chronic difficulties with liquidity. The above left-hand graph demonstrates that the Group's working capital is not sufficient to maintain operations of the Group let alone provide necessary finance for development of new models.

As a result of restructuring the sales and distribution system, the Group achieved significant improvements in cash collections by putting its products closer to its customers. In addition, in light of the strict requirements of hard currency control authorities, the Group has significantly reduced the period of repatriation of foreign currency earnings.

As the above right-hand graph demonstrates, this has resulted in a reduction of debtors days from 62 in 1996 to 29 in 2000. However, these measures were not sufficient to finance current operations of the Group. As a result, the Group 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 over the past five years.

However, this was only to the short-term benefit of the Group. Suppliers in response have increased their prices to compensate for late payment.

Management have recognised these problems and, in addition to those already discussed, developed a number of initiatives to address them:

- In the past years, the Group has been actively negotiating to restructure of its tax debts and loans. This enabled them to postpone settlement of these liabilities to future periods. This in turn reduced the fair value of these debts and the outflow of cash to service these debts;
- The Group has vigorously defended itself in courts against tax claims, and has a high rate of cases won: currently about 70%; and
- Recent successful negotiations with GM and an improved image have allowed the Group to act more effectively to attract new loans to finance its needs.

Investing in the future

Management understand the fundamental need to make investments to remain competitive.

Even in light of the deficit of working capital discussed above, significant investments in R&D of RR 7,394 million and new equipment of RR 84,422 million (as shown in the table below) were made over the past five years.

Net Book Value, RR millions	Buildings	Plant and equipment	Other	Assets under construction	Total
Balance at 31 December 1995	25,398	15,566	2,360	41,621	84,945
Additions / Transfers in	18,629	33,693	3,739	28,361	84,422
Disposals / Transfers out	(6,270)	(2,641)	(2,858)	(56,318)	(68,087)
Depreciation expense	(6,307)	(13,383)	(953)	-	(20,643)
Provision for impairment of fixed assets	(2,495)	-	(826)	(4,527)	(7,848)
Balance at 31 December 2000	**28,955**	**33,235**	**1,462**	**9,137**	**72,789**

The bulk of investments were aimed at launching the VAZ-2110 range in 1997. Since the launch AVTOVAZ have produced over 350,000 vehicles of this range which includes a sedan, a station wagon and a hatchback.

AO AVTOVAZ plans to produce 222,100 units of the «10» series in 2001, which is the maximum capacity for its assembly line.

The next medium-term goal of the Group is the mass-production of the VAZ-1119 Kalina range at the end of 2004.

Significant investments have been already made in this model. A new conveyor with a high level of automation will be built.

However, this requires further substantial investment - in the region of US$ 800 million.

Group management have achieved significant progress in negotiations with the government and financial institutions to raise the required finance.

There is another promising investment project. This is one of the biggest ever investment projects in the Russian manufacturing industry.

This project will be implemented in the form of a joint venture with GM and the European Bank for Reconstruction and Development. This joint venture will produce a new four-wheel drive sports utility vehicle (on the basis of VAZ-2123).

The project will involve the construction of new production capacity in Togliatti to assemble a five-door version of the VAZ jeep starting in late 2002. The new plant is expected to reach full capacity within two or three years after the start of production and will produce 75,000 vehicles a year.

A significant portion of the new Nivas will be exported to Europe and Latin America.

These measures will assist the Group to meet the anticipated increasing demand on the Russian market - forecasts suggest demand will reach 1.5 million vehicles a year by 2005.

For these reasons AVTOVAZ confidently looks forward to retaining its leadership role in the Russian automotive industry for the foreseeable future.

5.

Overview of the year

M.V. Moskalyov
Vice-President,
Finance, AO AVTOVAZ

In 2000 the Government of the Russian Federation followed a well co-ordinated policy of supporting national manufacturing industry. We hope this approach will continue in the future. In its turn, the AVTOVAZ Group will do everything in its power to support the Government's initiatives.

Macroeconomic situation in Russia in 2000 and its impact on the machine-building industry

Positive trends...

Year 2000 was a successful year for the Russian economy by comparison with most of the past decade.

The main achievements were:

- the highest GDP growth of the decade;
- a significant growth of industrial output and investments in working capital;
- a significant trade surplus;
- the stabilisation of the Rouble exchange rate and its relative strengthening in relation to the US dollar;
- record growth of the Central Bank's reserves; and
- the significant increase in real disposable incomes of the population.

Real GDP in 2000 was 7.6% higher than in 1999.* The chief reason for this growth was the positive trend of external and domestic demand. Thanks to a favourable foreign trade environment Russian exporters were able to increase production. The raw materials industry remains a major contributor to this growth. In addition, increased demand from the general public and enterprises, thanks to growing disposable incomes and improvements in financial performance, encouraged a rise in production levels for domestic consumption.

* - In this overview we use data prepared by the State Committee on Statistics (Goscomstat), Ministry of Economic Development and Trade, State Customs Committee and Ministry of Finance of the Russian Federation.

New LADA vehicles claimed 70% of new vehicle sales in Russia in 2000.

…but some real threats to Russia's machine-building industry

However, growth slowed in 2001 - a sign of unstable economic growth.

In our opinion, the main factors that restrict growth rates are limits in demand and the lack of modern technology.

The major constraint for domestic manufacturing industries is the accumulating obsolescence of fixed assets. Inadequate investments in the economy over the past decade prevent local producers, with their existing assets, from increasing production output and achieving the quality required.

In order to be able to increase the output of competitive products significant investments are required for the modernisation of production assets.

The significant increase in imports which we saw in 2000 was in many ways related to the excess of cash in the economy (an increase of 63% over 1999) which was more than enough to absorb the supply of domestically produced goods. The fact that this increase in domestic demand benefited imports more than domestic production indicates a structural crisis in the economy.

In this environment imports do not oust local production but rather fill gradually the vacant market niches that come into being thanks to the increase in demand.

Although there was a 54% increase in investment in foreign equipment in US dollar terms over 1999, contractual prices for imported equipment reduced while physical quantities have significantly increased.

This implies that cheaper, lower-quality equipment is being imported. The main reason for this is the lack of access to necessary finance suffered by Russian enterprises.

Moreover, whilst investment demand increases, Russian companies cannot afford the necessary modern equipment since the Rouble exchange rate remains very low.

We hope that the Government will establish investment incentives for companies that are capable of investing their own earnings or allow accelerated depreciation.

This will, in turn, help the Government to establish and maintain a favourable investment environment in Russia.

5. Overview of the year

V.N. Kuchai
Vice-President,
Marketing, Sales and
Cars Technical Service, AO AVTOVAZ

AVTOVAZ Group's position in the automobile market

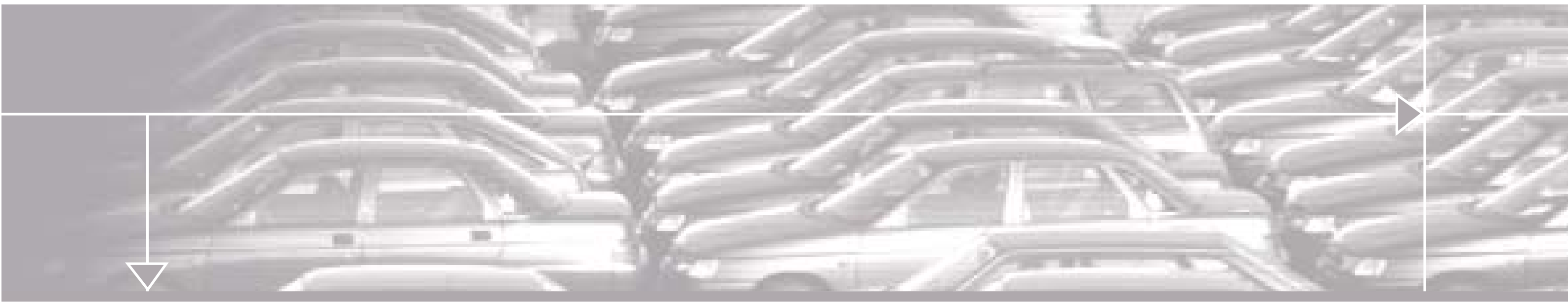
In the Russian auto market, motor vehicles made in Russia including LADA currently face competition from second hand foreign and Russian cars whose sales volumes are comparable with the number of new vehicles sold.

Our own market research indicates that the most popular vehicles are those priced up to US$ 10 thousand (about 97% of total market).

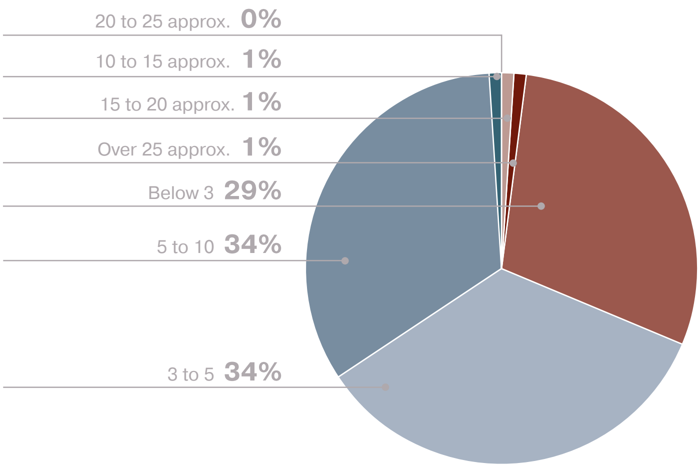
In 2000 the leaders were:

- Sector C, which includes all LADA vehicles (except for Niva), at 64% of the market;
- Sector E (Volga, foreign vehicles), at 14%; and
- Sector SUV (Niva, UAZ, foreign vehicles), at 12%.

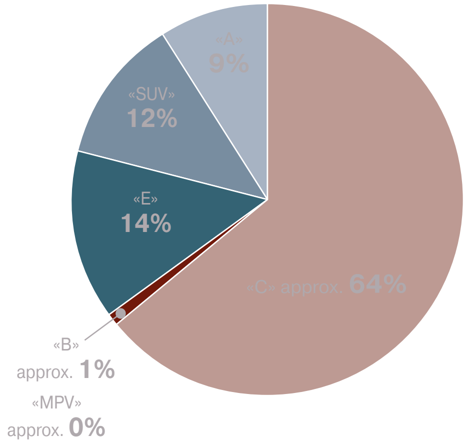
1,161 thousand vehicles were sold in the domestic market in 2000 of which 75% were brand new vehicles made in Russia. The remaining 25% of the market is claimed by brand new and second hand foreign vehicles.



Car sales in Russia in 2000 by price segment, US$ thousand

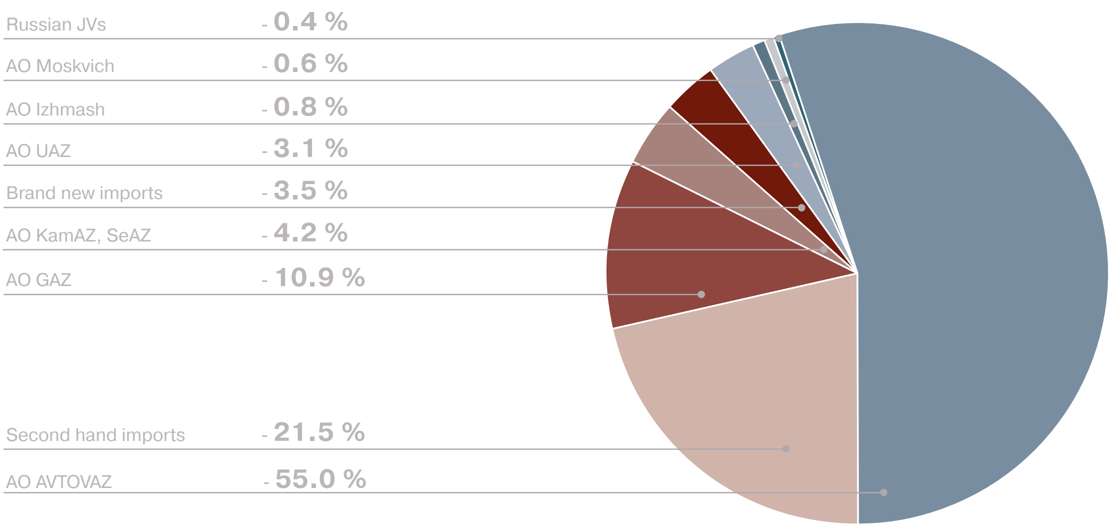


Car sales in Russia in 2000 by class



In 2000 vehicle unit sales in Russia reduced by 9% compared with 1999.

Passenger vehicle sales in Russia in 2000



55% of total vehicle sales or 70% of new vehicle sales are produced by AVTOVAZ.

5. Overview of the year
AVTOVAZ Group's position in the automobile market

In 2000 AVTOVAZ's model mix consisted of vehicles of three generations as follows:

- «classic» vehicles represented by models 2106, 2104, 2105, and 2107, and the off-road VAZ-21213 Niva model which were designed and put to production in the early 1970s;
- the front-wheel family represented by models 2108, 2109, and 21099 which were designed and put to production in the early 1980s. They are currently being replaced with the Samara-2 family which includes models 2115, 2113, and 2114; and
- the front-wheel family of VAZ-2110 (which also includes models 2111 and 2112) which were designed and put to production during the 1990s.

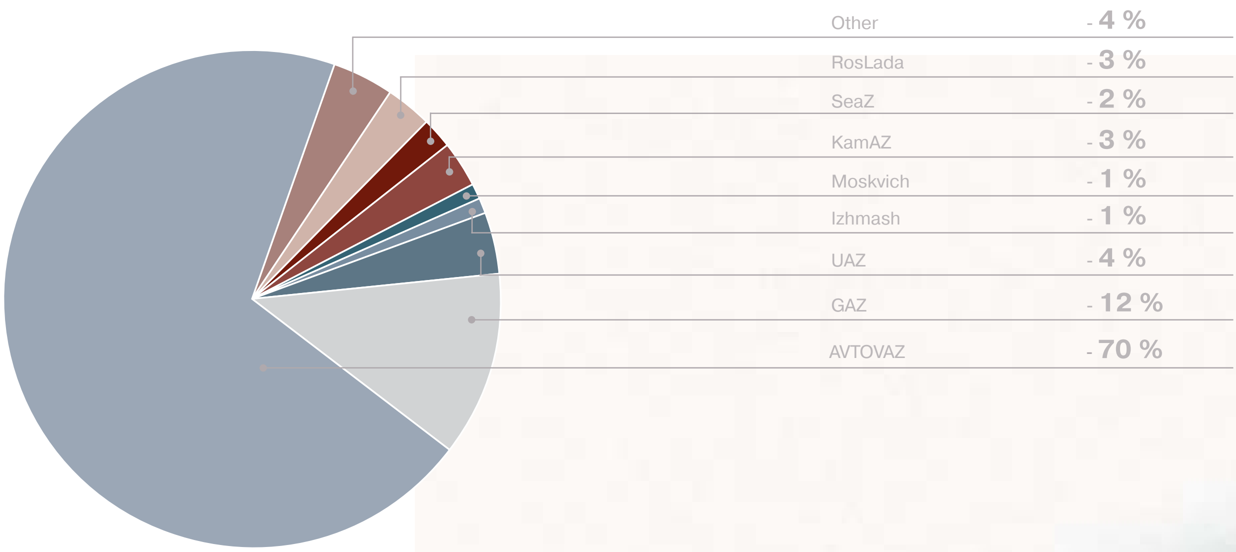
Marketing

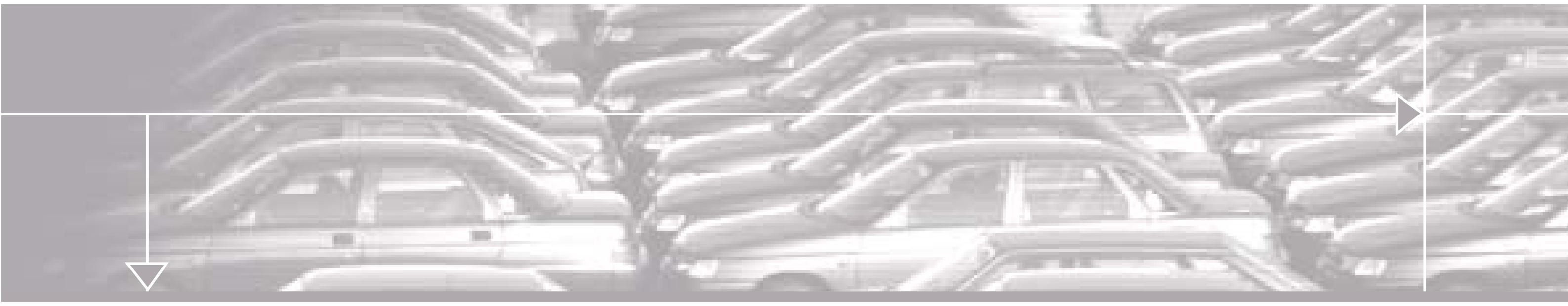
Stable demand for LADA vehicles is built on the quality and reliability of our products, and our ability to sell vehicles via our own wide-spread dealer network at affordable prices.

In order to maintain affordable prices AVTOVAZ is gradually reducing the proportion of purchases of foreign-made components in the total cost of the vehicle. Production of these components is being set up in Russia.

In order to retain its domination of the domestic market and industry AVTOVAZ continues to create and expand its competitive advantages in product sales, new product development, production organisation and management.

Passenger vehicle production in Russia in 2000





Key competitive advantages of AVTOVAZ for the medium term are:

- quality products in various consumer and pricing segments of the market;
- a well-established network of dealers and modern service capabilities;
- development of new models is supported by research of customer preferences and modern trends in the global automotive industry;
- advanced technology in design, testing and production of passenger motor vehicles;
- high concentration of resources required for the manufacturing of vehicles; and
- flexible pricing policies which take into account requirements of potential customers combined with a focus on production profitability.

Sales

With a unit sales volume of 706 thousand vehicles in 2000, AVTOVAZ holds the 16th place among the 25 key players on the global auto market.

In its domestic market, AO AVTOVAZ is the indisputable leader in terms of production and sales of passenger cars.

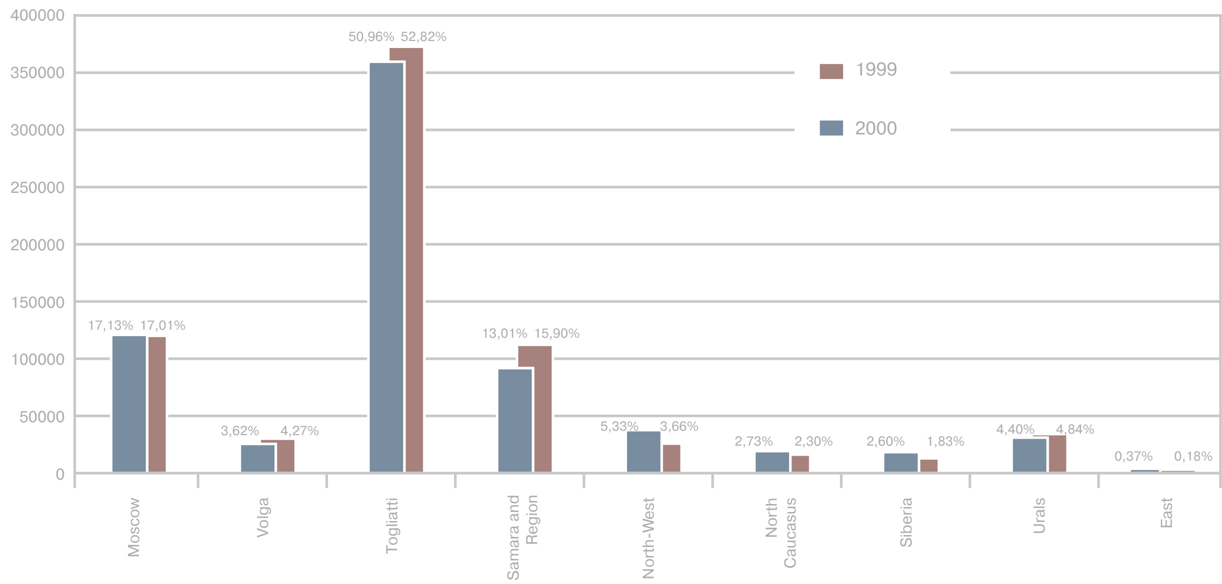
In 2000 LADA vehicles claimed over 70% of the Russian market for new cars. It is worth noting that this share of the market has been maintained since 1994.

We have continued to improve our domestic distribution network:

- we have established 50 regional sales branches in major Russian cities;
- during the year we have prepared all documents required to conclude 42 distribution agreements, 134 direct dealer agreements and 157 dealer agreements;
- we are implementing production and delivery of vehicles in accordance with orders from regional sales branches and dealers; and
- since December 2000 we have begun to dispatch vehicles painted in colours as specified by consignees no matter the number of cars delivered.

In 2001 we will continue to restructure our dealer network in order to put our products yet closer to consumers.

Shipment of vehicles to Russia's regions in 2000 and 1999, units and percentage of total sales



Deliveries to regions in 2000 generally corresponded to the allocation of the population's purchasing power on the domestic market.

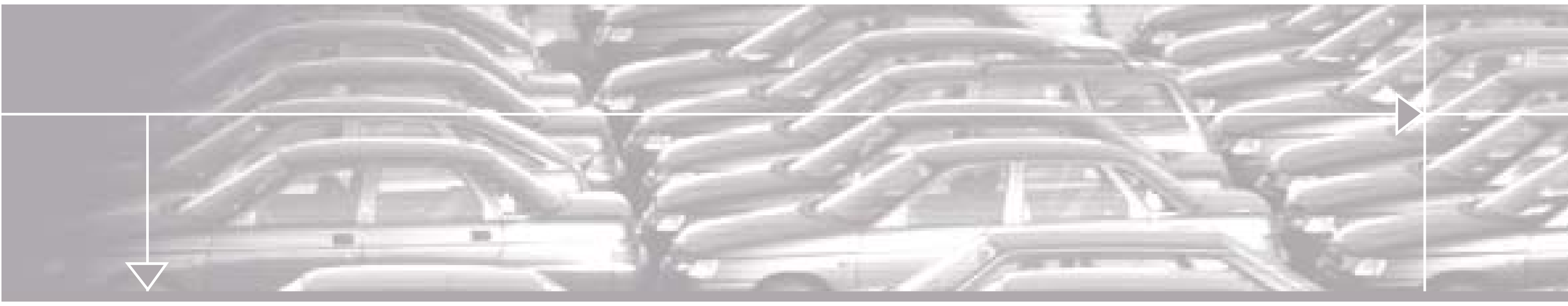
They also corresponded to the location of 50 regional sales units and over 300 companies from AO AVTOVAZ's dealer network.

We see a gradual reduction in the number of vehicles which are dispatched to dealers from Togliatti and Samara for further sale. As a result, dispatches to the Volga Region reduced to 68% (1999: 70%).

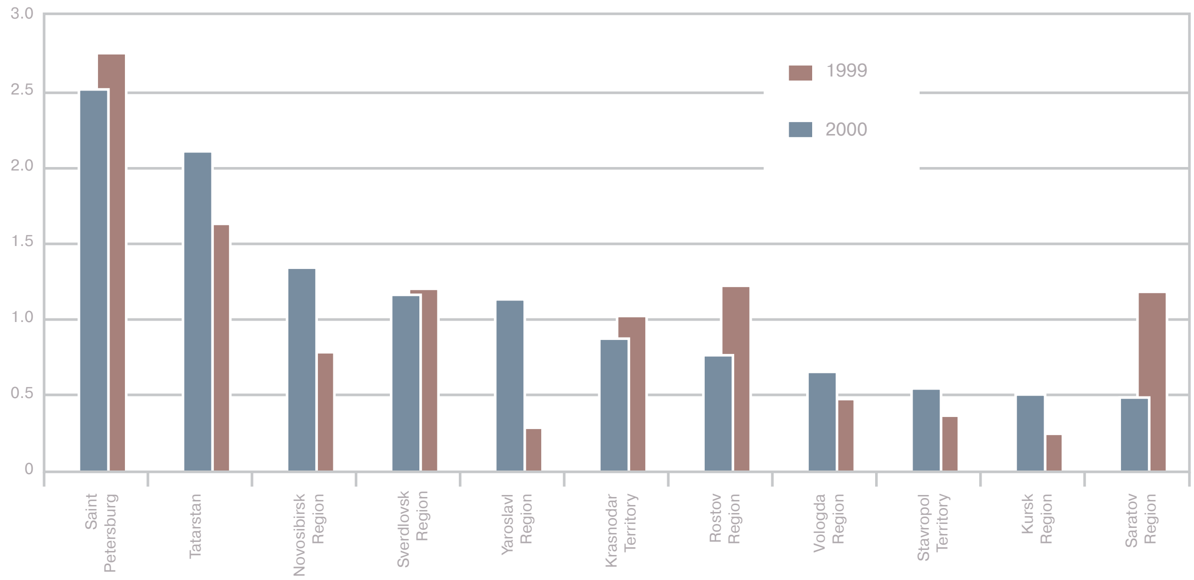
In 2000 deliveries for sale via regional sales units accounted for 39% of all deliveries, an almost 45% increase on 1999.

Our distribution companies are implementing new methods of sales:

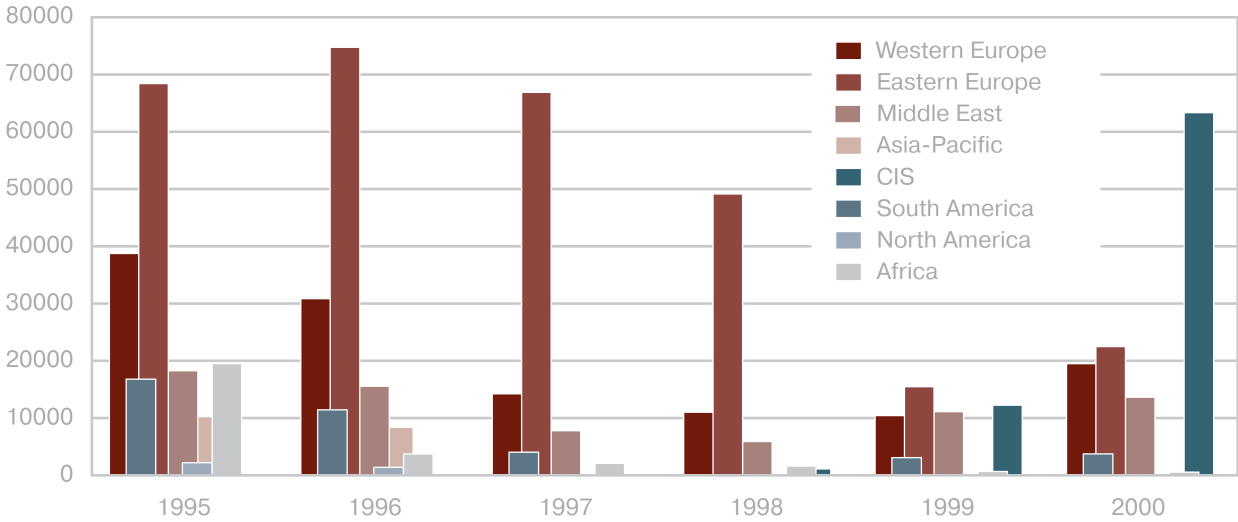
- leasing sales;
- trade-in sales; and
- credit sales. This method was tested in 16 regions of Russia. In 2000 over 3,000 LADA vehicles were sold on credit.



Shipment of vehicles to a selection of regions of Russia in 2000 and 1999, as a percentage of total sales



Export shipments of LADA vehicles in 1995-2000 by region, units



In 2000 AO AVTOVAZ increased the number of counties to which automotive assembly kits were shipped.

We began the assembly of the VAZ-21214 model in Quito (Ecuador) and the VAZ-21093 model in Lutsk (Ukraine). The Lutsk Automobile Plant has already produced the first thousand units of the VAZ-21093 model.

In 2000 we exported vehicles to 33 foreign countries and five CIS countries. The actual level of export shipments in 2000 of 106,432 units surpassed the planned level of 98,500 units. This represents an increase of 122% over 1999.

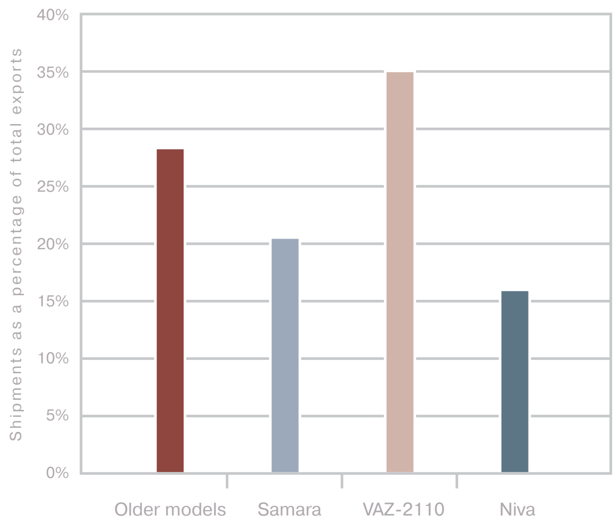
We shipped significant levels of units to the following countries: 13,780 units to Turkey; 3,870 units to Uruguay; 2,610 to Greece; 2,340 units to Finland; 2,132 units to France; 2,020 units to Austria; 22,910 units to Kazakhstan; 32,684 units to Ukraine; and 2,300 units to Azerbaijan.

Shipments to CIS countries were 2.9 times that of 1999, accounting for 60% of the total number of vehicles exported.

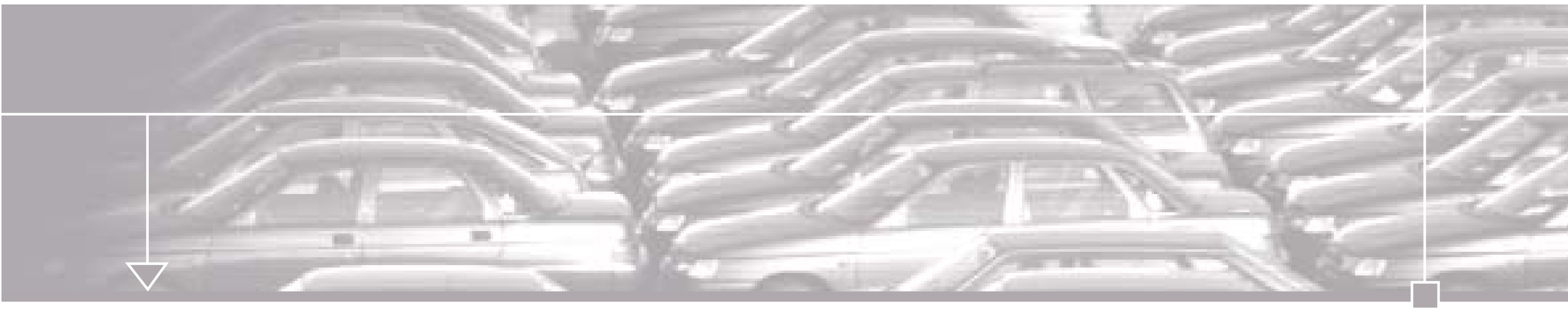
In 2000 we resumed direct deliveries of vehicles to the Netherlands, Syria, Macedonia, Bulgaria, Slovenia and Algeria.

In 2001 we expect to export over 100,000 vehicles. In the coming year we are determined to retain and expand our export markets and the existing services and sales network owned by AO AVTOVAZ abroad.

Structure of exports in 2000 by model



Whilst we make every effort to secure a stable position on the global automotive market, we understand that Russia will remain our key market for the foreseeable future.



Customer services

One of the most important components of the marketing strategy of the AVTOVAZ Group is the establishment of a wide-spread and high-quality network of technical service centres. These are vital for the retention of our customers.

Good affordable service is one of the greatest competitive advantages of AVTOVAZ.

Knowledge of flaws from providing customer service allows us to make more precise and better co-ordinated improvements in our quality control systems thus continually improving the quality of both new and old models manufactured.

In 2000 the Group's network of customer services in Russia consisted of

96 specialised technical service subsidiaries and 675 technical service stations

(excluding branches and subsidiaries of AO AVTOVAZ) and base automobile centres with 3,972 service outlets, located in 71 regions of the Russian Federation. The total number of employees amounted to 14,000.

In 2000 revenue from technical services and repairs of vehicles, excluding spare parts, amounted to RR 434 million. The total revenue, including spare parts, was RR 704 million. This represents a 37% increase on 1999.

We have observed an increase in spare parts sales. For example, in 2000 distribution outlets sold spare parts for a total of RR 323 million compared with sales of customer service companies that sold spare parts for a total of RR 270 million.

We have developed manuals for the repair and maintenance of engines fitted on VAZ-2123 vehicles, and diagnostics of fuel-injection systems.

Recognising the great impact the provision of after-sales services has on customer preferences, AVTOVAZ will continue to pay particular attention to providing its customers with quality, prompt and affordable technical services.

5. Overview of the year

Technological development

The model mix of AVTOVAZ vehicles is developed in accordance with requirements and preferences of various target groups of customers, and is in line with common trends in the global automotive industry.

K.G. Sakharov
Vice-President,
Research & Development,
AO AVTOVAZ

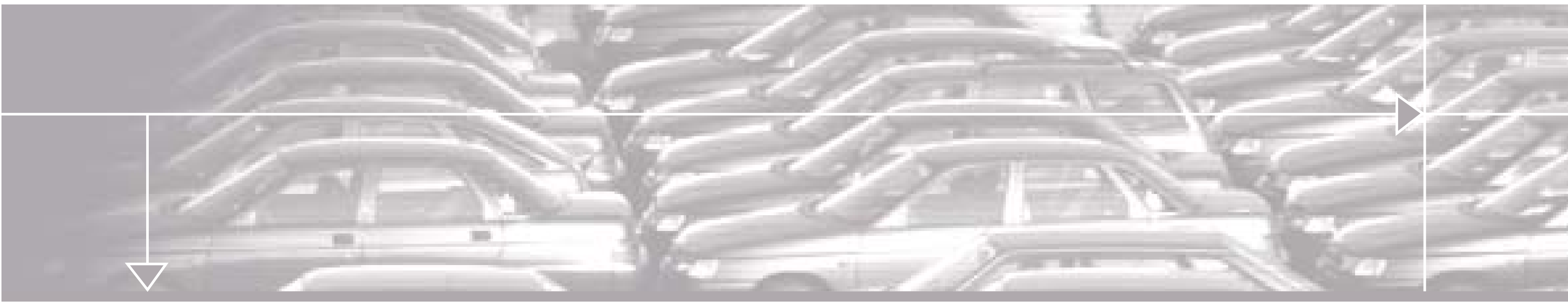
Developing new competitive products will help ensure that LADA vehicles are represented in all major sectors and price segments in the near future, including: small urban vehicles represented by family hatchbacks, sedans and station wagons; one-body multi-purpose vehicles; off-road vehicles; commercial vehicles; and sports cars for the younger generation.

During 2000 we developed a Strategy of technological development which outlines long-term plans for the production of AO AVTOVAZ. We have achieved key goals in developing a system of business appraisals of our major projects (1119, 2115, 2123, Diesel).

Models development is guided by the following principles:

- models are developed first and foremost for the domestic market;
- production of vehicles where advanced technologies are not required is removed from the main assembly line - this production is outsourced to other companies, freeing up floor space for the new high technology production;
- rationalisation of base platforms with a wide range of body designs; and
- increasing the quality of products to the highest possible standard.

We additionally develop the potential of domestic component suppliers and help them introduce production of new high technology components.



Reducing the number of base platforms, rationalising the number of components and more efficient use of production space are vital to minimise costs of production of new LADA models.

The unification of models platforms in particular will be achieved by adoption of the following three types of base platforms:

- especially small vehicles (Platform I):
  - market segment A: VAZ-11YY; and
  - market segment B: VAZ-1119 «Kalina» family.
- family vehicles (Platform II):
  - market segment C: VAZ-2110 family; and
  - market segment D: VAZ-21XX.
- light off-road vehicles (Platform III):
  - market segment SUV: VAZ-2123 family; and
  - market segment MPV 4x4: VAZ-2120.

AVTOVAZ pays great attention to the ecological cleanliness of existing production. In developing new vehicles, we adhere to the following requirements:

- all production processes and materials are evaluated for their impact on the environment. Utilisation of hazardous materials and substances is excluded;
- polymer parts of vehicles have a special marking making further recycling easier; and
- the design of vehicles enables convenient disassembly and full discharge of all liquids.

Capital construction

In order to implement our plans discussed above, in 2000 the Group's capital expenditures on construction for production amounted to RR 5,263 million (1999: RR 4,875 million). The levels of the Group's capital construction increased by 8%.

The total value of assets completed during the year and transferred to production was RR 8,799 million (1999: 8,468 million).

The bulk of this amount is represented by the final stage of the VAZ-2110 facility for 40 thousand units and the VAZ-2115 facility for 40 thousand vehicles.

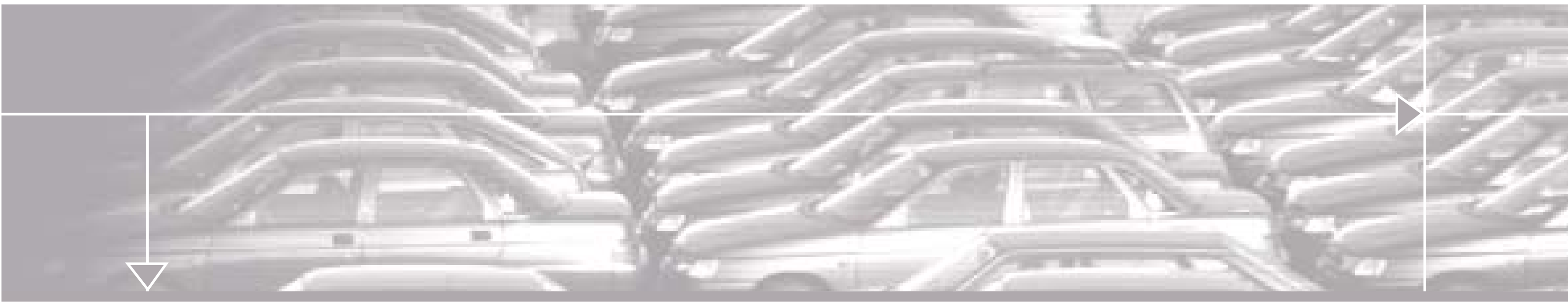
During 2000 assets under construction was reduced by RR 3,536 million and was RR 13,579 million at the end of the year.

New generation of vehicles ready for production

Reducing the time needed to replace the model range, while retaining the diversity of models and modifications, is our key to the competitive future.

In 2000 our development effort was focused on implementing the model mix development strategies of AO AVTOVAZ, guided by the following principles:

- developing the next generation of platforms. Our priority in this area is the development of a vehicle in Class D (Project 21XX);
- enhancing the technical level of the VAZ-2110 family (Project 2116); and
- developing a platform in the «mini» range.



Project VAZ-2123

We have practically completed the development and improvement work on the base model of the VAZ-2123 family.

We are producing a pilot batch of these vehicles which are given to technical service centres of AO AVTOVAZ and suppliers for full-scale operational testing.

Pick-up and station wagon versions of the VAZ-2123 model are undergoing improvement testing.

The VAZ-2123 Niva was chosen for production at the joint venture between GM and AVTOVAZ.

Project VAZ-21XX

We have made some progress with the VAZ-21XX project. We have prepared a draft of the «Requirement for the development of the VAZ- 21XX family», «Technological requirements to the project and design of VAZ-21XX» and the «Requirements to the manufacturing process of VAZ-21XX».

In 2001 we expect to develop a production concept of the VAZ-21XX family and determine the level of capital expenditures required by AO AVTOVAZ for the manufacturing of this vehicle, and perform other project improvement works.

Project VAZ-1119 «Kalina»

During 2000 we continued to develop and performance-test the Kalina family.

The first vehicle expected to be launched will be the VAZ-1118 followed by the VAZ-1119 and the VAZ-1117.

In the fourth quarter of 2000 design documentation for the VAZ-1118 project was prepared to enable the ordering of fittings and full-scale preparation for production.

The progress of the development of VAZ-1119 and VAZ-1117 was sufficient to produce prototypes and conduct improvement testing.

We have made progress in the shock-absorption testing of sample vehicles for compliance with European safety requirements. These tests revealed the need to change 10% of the vehicle body's parts.

Our equipment suppliers have already begun to work on equipment items which require a significant lead time to be produced such as equipment for welding and body painting. The design of dies for main parts of the VAZ-1118 body (shape and carcass) has also begun.

We are completing a draft plan of technological modernisation of AO AVTOVAZ in the context of the VAZ-1118 project. The mass-production of commercial vehicles of this model is expected to begin in 2004. The level of investment to enable full-scale production is approximately US$ 800 million.

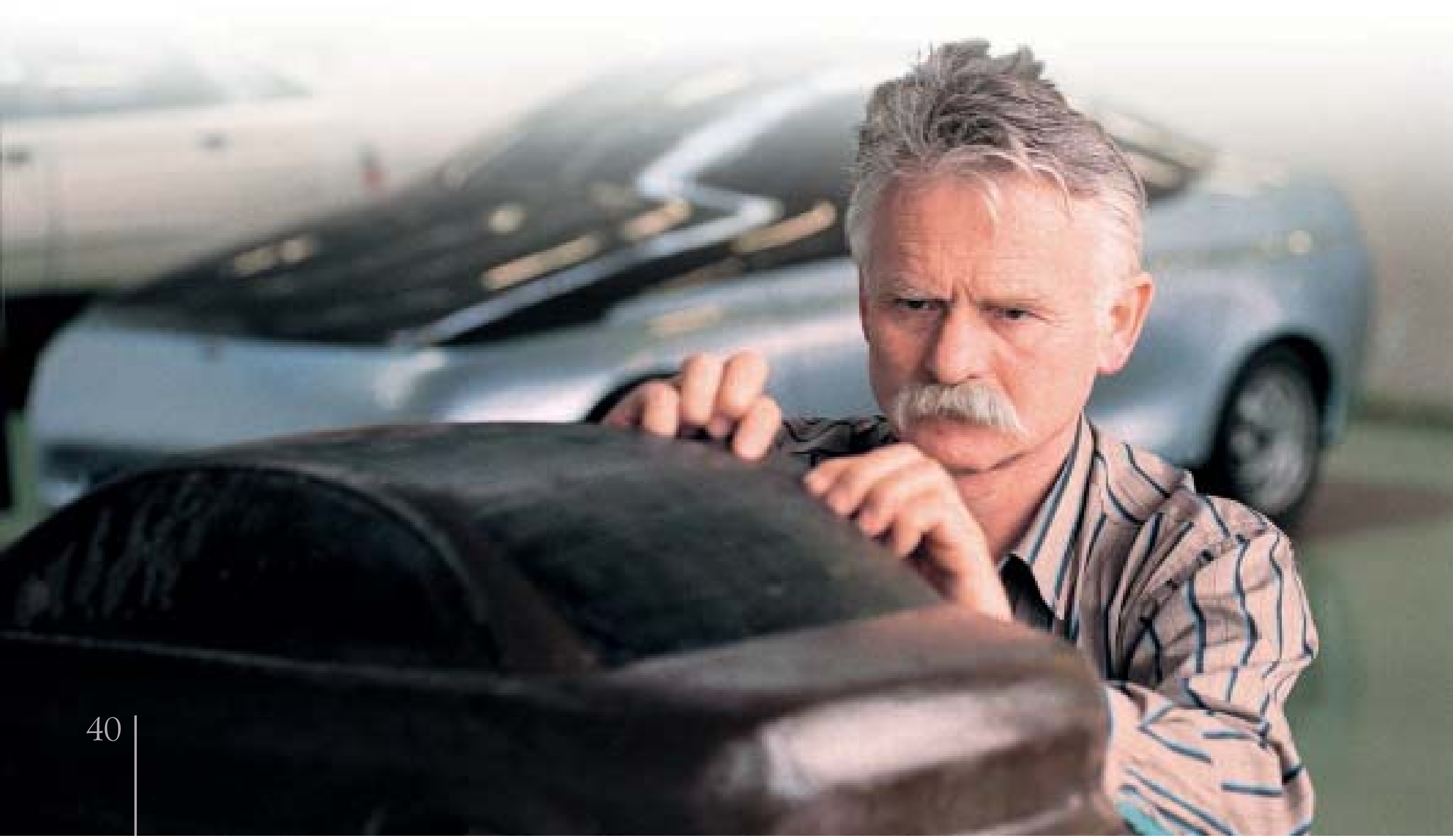
A blueprint for the allocation of floor space at AO AVTOVAZ for VAZ-1119 «Kalina» production has been approved.

Project Samara-2

During 2000 we completed versions of the Samara-2 family: a three-door vehicle (VAZ-2113) and a five-door hatchback (VAZ-2114).

We have completed preparation for production and created capacity for 40,000 units of VAZ-2115. We are preparing for production of VAZ-2114 and VAZ-2113 which are expected to achieve the project capacity of 220,000 units of the Samara-2 family by 2004.

We have already identified the level of capital expenditures and the timetable of their financing.



Project VAZ-2110

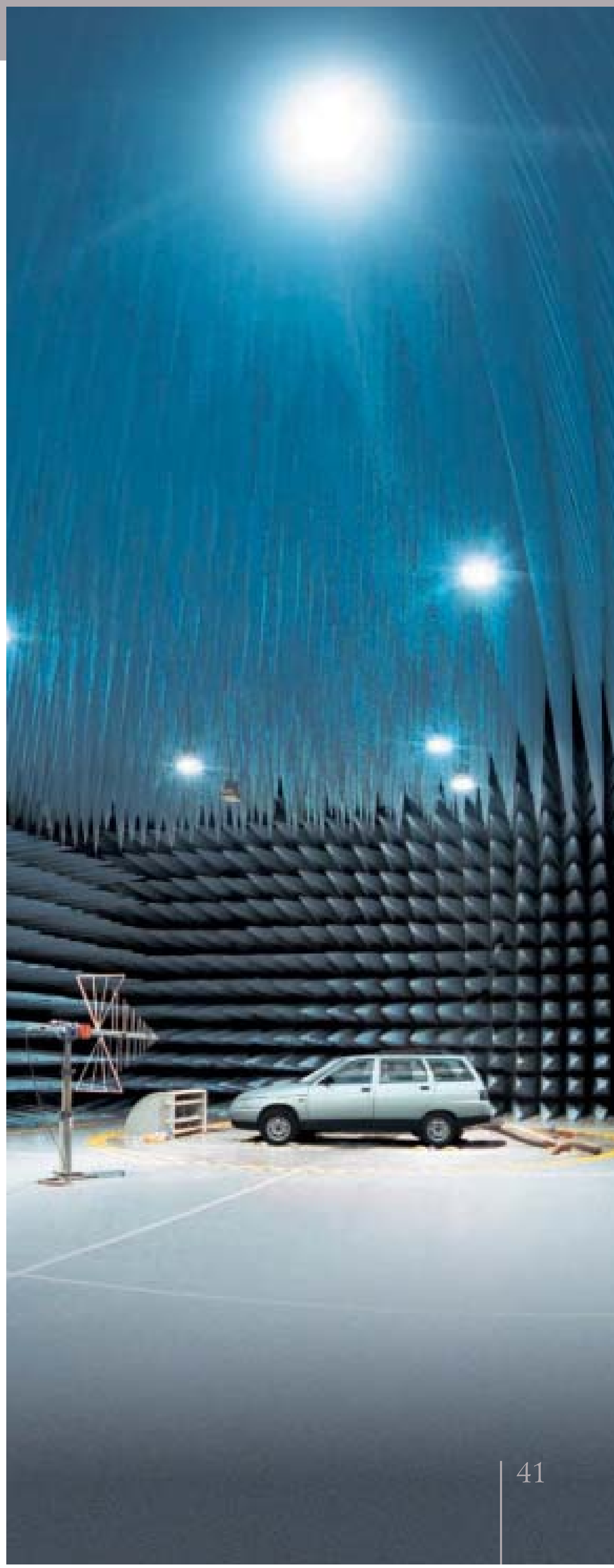
The launch of the mass-production of the VAZ-2110 family was completed in 2000 when the VAZ-2112 model (hatchback) was assembled at the main production line.

Currently our development work on this family is aimed at meeting the following requirements:

- improvement of the quality of cars produced; and
- compliance with newly enacted safety and environment protection requirements in export destinations (toxic emissions levels established by Euro-3, safety requirements for lateral shock and frontal displaced collision, seating requirements, etc.).

As part of a dedicated programme, we continue to modernise this family of vehicles. Our effort is aimed primarily at improving consumer features of VAZ-2110 vehicles.

In 2001 we expect to produce 222,100 units of this family.



5. Overview of the year

N.M. Dobyndo
Vice-President, Production,
AO AVTOVAZ

Production and dispatch of finished goods

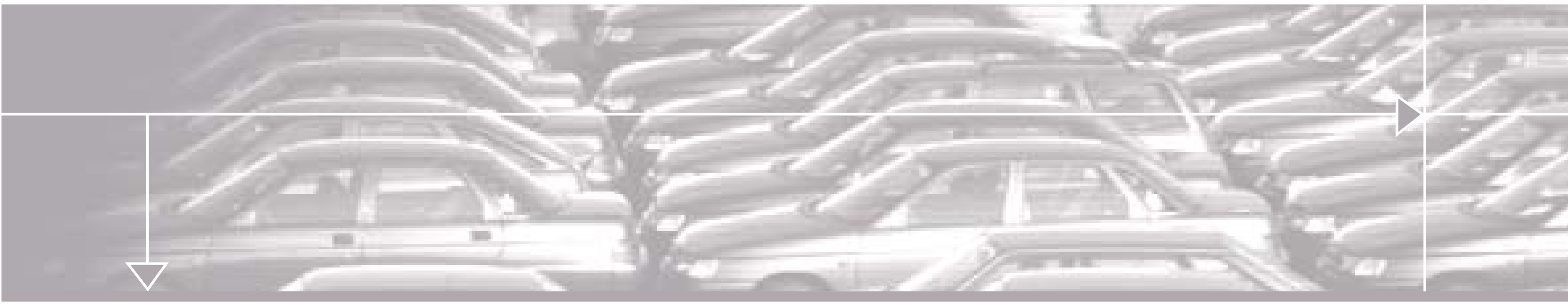
Adoption of the production to order system in 2000 is yet another major step towards achieving our revised approach to doing business. The most important tenet of this approach is meeting our customer's requirements.

In 2000 we dispatched 706,377 vehicles, which is by 6.0% more than in 1999. Of this number, 694,924 units were produced on the main assembly lines of AO AVTOVAZ, 40 units were assembled in the special rotor-and-piston engines bureau of the Research and Development Department and 11,413 units were manufactured in the Pilot Production Division of the Research and Development Department.

The number of vehicles of the VAZ-2110 family produced was 160,126 units, which represents a 48.6% increase on 1999.

We exported 106,432 vehicles as compared with the planned level of 98,500 units. This is a 122% increase on 1999.

The average rate of production at main assembly lines was 168.34 vehicles per hour in 2000 as compared with 166.35 units per hour in 1999.



Assembly of vehicles at main assembly lines

	Plan (units)	Actual (units)	Variance (%)
Total vehicles	675,340	708,373	4.9
Including: vehicles with electronic engine control system	240,200	227,667	-5.2
VAZ-2110 family	160,126	164,594	2.8
VAZ-2115 family	25,069	18,178	-27.5

There were 39,138 instances where vehicles were initially assembled with some missing parts. This represents a reduction in the number of such cases by 49,917 as compared to 1999.

Downtime of main assembly lines of 306.2 hours was reduced by 217.8 hours in comparison with 1999. The expected downtime was budgeted at 207.8 hours.

In 2000 we produced RR 2,820 million (1999: RR 1,780 million) worth of spare parts. This is 1% over plan and 58.4% over 1999.

Sales of vehicles for the year produced at main assembly lines by model

Model	Domestic market (units)	Export (units)	Total (units)
VAZ-2104	49,663	5,885	55,548
VAZ-2105	33,753	2,564	36,317
VAZ-2106	53,866	10,958	64,824
VAZ-2107	98,093	10,394	108,487
VAZ-2108	13,604	1,417	15,021
VAZ-2109	60,061	8,708	68,769
VAZ-21099	92,541	11,135	103,676
VAZ-2110	90,324	21,598	111,922
VAZ-2111	22,082	14,877	36,959
VAZ-2112	11,527	1,882	13,409
VAZ-2115	12,562	625	13,187
VAZ-2121	50,416	16,389	66,805
TOTAL	**588,492**	**106,432**	**694,924**

Improving production efficiency

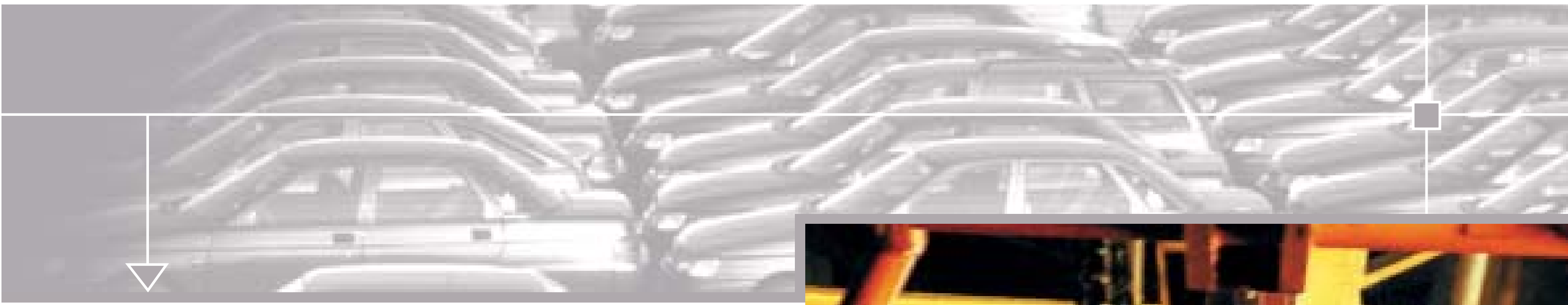
Since February 2000 we have planned production in terms of the model mix and body paint in accordance with orders received from dealers. Since 1 December 2000 we have begun to dispatch vehicles painted in colours as specified by consignees no matter the number of cars delivered.

In addition to market demand, we also considered production capability and profitability of each model before changing selling prices, the model mix to be produced, the number of units of specific body paint and the number of model variants.

In 2000 the mix of vehicles produced changed as follows:

Model	Percentage of total deliveries in 1999, %	Percentage of total deliveries in 2000, %	Change (+/-)
VAZ-2104	8.0	8.3	0.3
VAZ-2105	8.8	5.5	-3.3
VAZ-2106	12.6	9.0	-3.6
VAZ-2107	14.2	16.4	2.2
VAZ-2108	2.9	2.2	-0.7
VAZ-2109	13.3	10.3	-3.0
VAZ-21099	14.8	15.8	1.0
VAZ-2110	13.7	15.4	1.7
VAZ-2111	2.2	3.9	1.7
VAZ-2112	0.0	2.2	2.2
VAZ-2115	0.0	2.6	2.6
VAZ-21213	9.4	8.4	-1.0

After optimising its production programme, AVTOVAZ has increased significantly the number of automotive assembly kits produced. We began to ship them for the assembly of the VAZ-21214 model in Quito (Ecuador) and the VAZ-21093 model in Lutsk (Ukraine).



Production capacity utilisation

Annual vehicle production capacity in 2000 was 730,000 units and remained unchanged from 1999.

This is a result of the commissioning of VAZ-2110 capacity for 40 thousand units carried out in parallel with the disposal of VAZ-2106 capacity for the same number of units, and the commissioning of VAZ-2115 capacity for 40 thousand units carried out in parallel with the disposal of VAZ-21099 capacity for the same number of units.

In 2000 the rate of utilisation of automobile production capacity increased to 97% (1999: 93%).

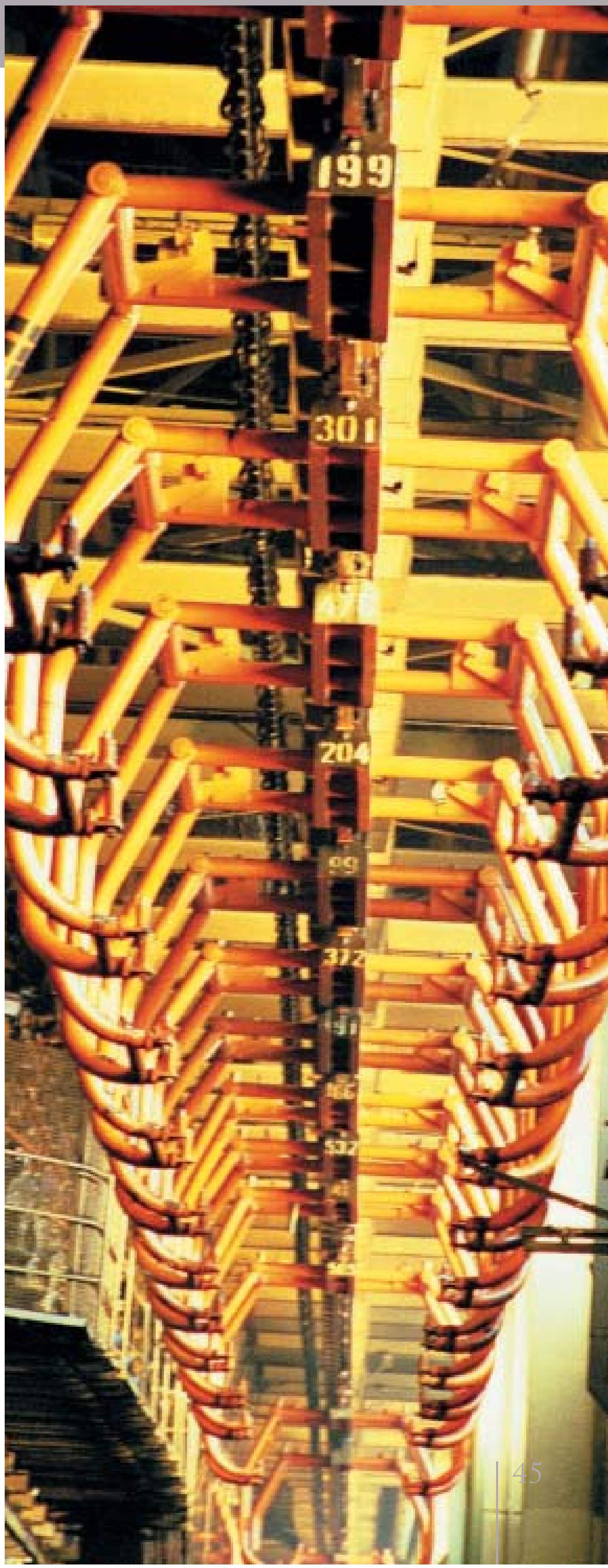
This ratio is not only one of the highest in the automotive industry in Russia and Eastern Europe but also one of the highest for the global industry. We believe this has contributed significantly to increased profit margins of LADA vehicles.

In 2000 the rate of capacity utilisation for metal machining equipment and production fittings decreased to 82% (1999: 92%). Special production equipment utilisation increased to 71% (1999: 60%).

Production equipment utilisation of main production divisions was equal to 1.66 shifts (1999: 1.64 shifts).

Equipment employed in the production of tools and fittings was utilised during 1.30 shifts (1999: 1.34 shifts).

Equipment used in the production of equipment was utilised during 1.18 shifts (1999: 1.18 shifts).



5. Overview of the year

Sourcing of supplies

AVTOVAZ sees its suppliers as key strategic partners, crucial to our competitive position. They work with us to improve quality, contain costs and provide innovative design solutions. It is on this basis that AVTOVAZ sets high targets for its suppliers and tries to assist them in any way possible.

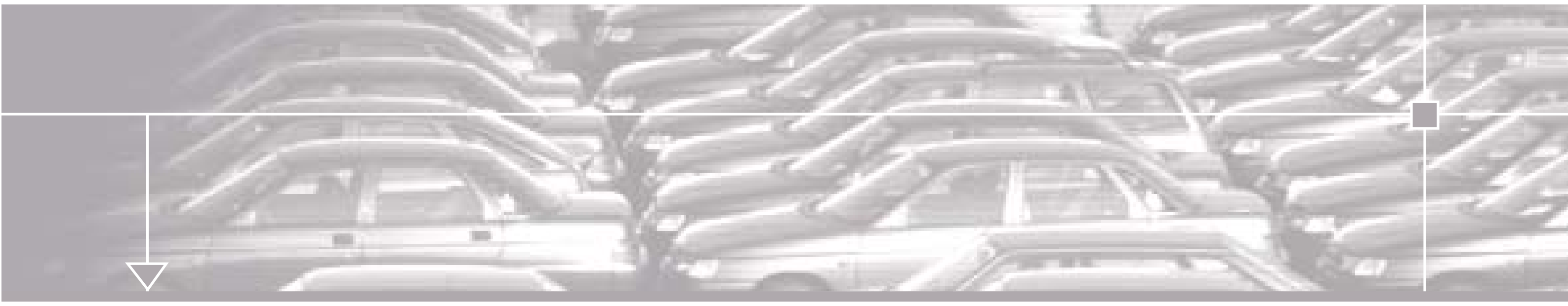
P.N. Skrinsky
Vice-President - Director,
Purchasing, AO AVTOVAZ

In 2000 AVTOVAZ produced over 708,000 vehicles, which is approximately 30,000 units over plan. This is largely thanks to our suppliers who produced enough components of proper quality.

In comparison with 1999, the number of suppliers who obtained ISO 9000 certification more than doubled.

Production output of our partners in the Samara Region saw an increase of approximately 25%.

We have developed and implemented a system of grading components and materials by quality.



In the past year 12 suppliers were awarded diplomas as «Best Supplier» and another 23 companies supplying to AVTOVAZ were sent letters of appreciation. For the remaining companies this provides a basis for comparing their grades with those of their partners and developing improvement initiatives to achieve better results.

In 2000 the level of missing components was reduced by two and a half times from that of 1999 and was equal to 24,967 items (1999: 61,412 items).

There were 716 suppliers working with the Purchasing Directorate in 2000, together with alternative suppliers.

We continued to reduce our reliance on purchased imports as compared with 1999.

In 2000 we saw a decrease in purchases of components for foreign currency by the Purchasing Directorate to US$ 99 million compared with US$ 126 million in 1999.

In 2000 we fought to contain a massive increase in prices for materials and components supplied to AVTOVAZ.

In 2000 the increase in prices for raw materials and components was 19.45%, which did not exceed selling prices for vehicles.

The increase was primarily contributed by a 60% increase in prices for metal. The lowest increase in prices was in electronics and electric equipment, 10%. Concurrent with this, we saw a decrease in prices for some inventories supplied thanks to our day-to-day work with suppliers.

5. Overview of the year

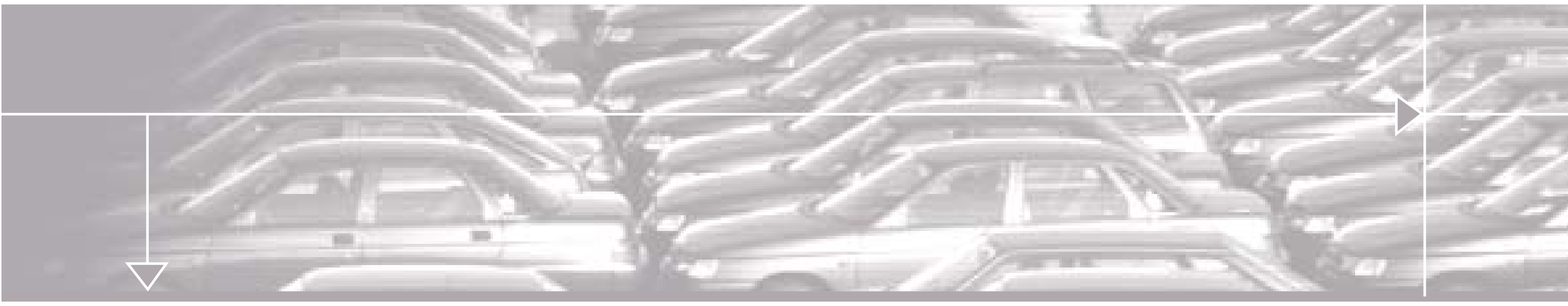
Quality control

The quality control system is a living, permanently developing organism, and we should always remember it if we want to be on a par with the leading automotive producers.

V.Y. Kokotov
Director, Quality,
AO AVTOVAZ

Ensuring quality of our vehicles is one of the strategic goals of the AVTOVAZ Group. This cannot be achieved without a systematic approach to managing quality at all levels of the organisation and all stages of the product lifecycle. AO AVTOVAZ is establishing a quality system which complies with ISO international quality standards and is currently preparing this system for certification.

A number of key AO AVTOVAZ divisions (Final Assembly, Sub-Assembly, Foundry and Plastic Production Division) have obtained from UTAC confirmation of compliance of their quality systems with ISO-9002. This is evidence that our focus on quality improvement was appropriate, and that our production facilities and vehicles meet international requirements.



Around three quarters of quality complaints per vehicle are related to components. As a result, we continued to treat our quality improvement work with suppliers as a matter of priority.

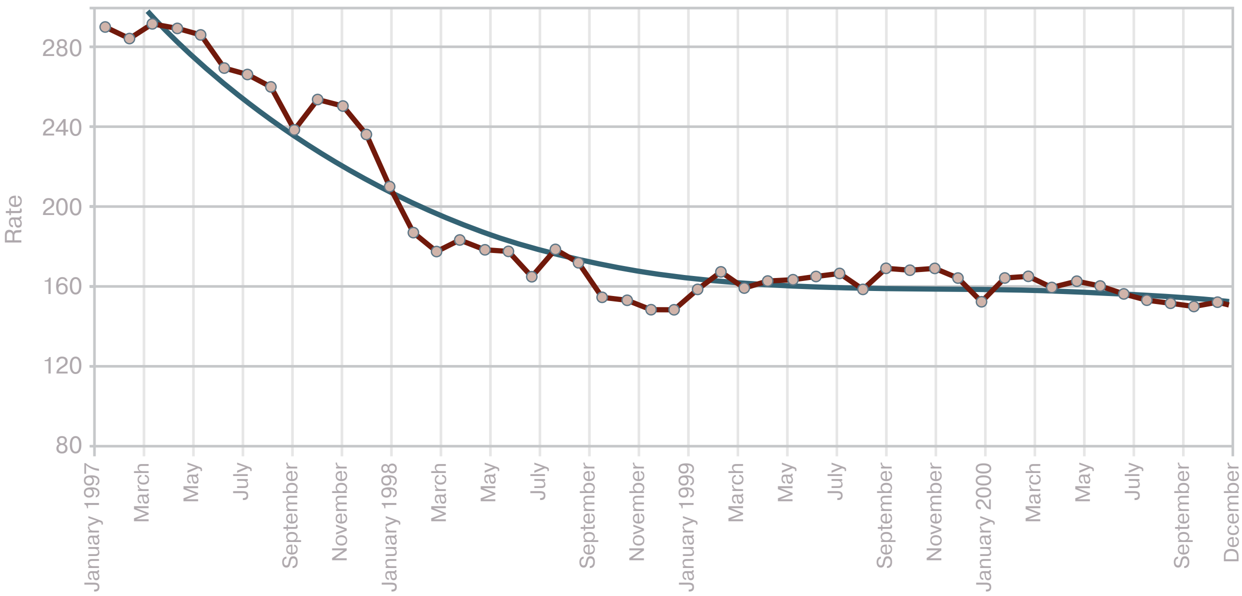
In this area we take a rather strict stand. In 2000 reimbursements from our suppliers for warrantees amounted to RR 44 million, or 88% of the defects claimed from AO AVTOVAZ.

In this context, in 2000 our suppliers were contractually required to:

- obtain certification of quality systems for compliance with ISO 9000. Our target is that 80% of the volume of supplies should come from certified companies by 2002;
- revise the rate of rejects per million units down to 200-500 instead of 1,500-2,500 in 1997-1998, and further reduce this rate; and
- provide a 100% refund of costs incurred as a result of warranty repairs because of component failures.

Thanks to our efforts, we have seen the share of defective components reduce between five and eight times from that of 1997 (depending on individual items). Accordingly, the number of defects in a new vehicle existing the production lines was reduced between four and a half to five times. This has brought positive results, which can be seen on the chart showing the change in the defect rate of a finished VAZ-2110 vehicle.

Defect rate of a VAZ-2110 finished vehicle
(cumulative defects divided by cumulative production)



The evaluation of suppliers in 2000 showed a continued positive trend in the allocation by quality categories. As in 1999, there were no companies in the «poor» grouping. We saw a significant decrease in the «not reliable» category and a respective increase in the «excellent» and «reliable» groups (see the chart opposite).

Unfortunately, no progress can be observed in the quality of metal materials. The share of defective metal supplies was constantly equal to 3%.

The Group has set a clear task of continued steady improvement in the quality of production. These measures are planned with particular emphasis on new models. As a result, the quality of a mass-produced VAZ-2110 has doubled since it was first produced.

In 2001 we plan for the Technological Development Directorate to obtain certification of their quality system. This will be the final stage of the audit of the quality system at AO AVTOVAZ in its entirety. This is a great challenge and as a result we prepare for this stage with particular thoroughness.

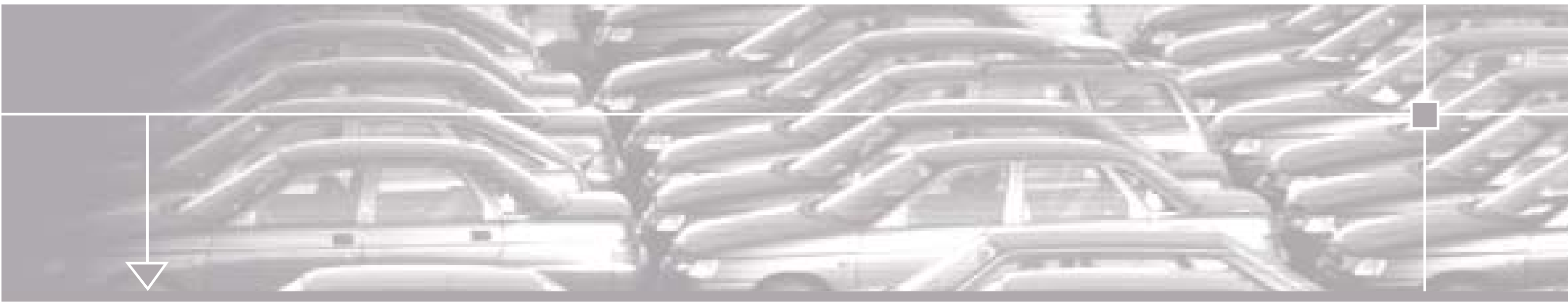
We have to improve our quality system in accordance with the latest set of ISO standards which set higher requirements especially in terms of production preparation, product identification and tracking.

Our future work with GM will require further improvement of the quality system to the level of the QS standard. These are yet higher requirements of US automobile producers to quality systems of external and internal suppliers of modules, sub-assemblies, components and materials.

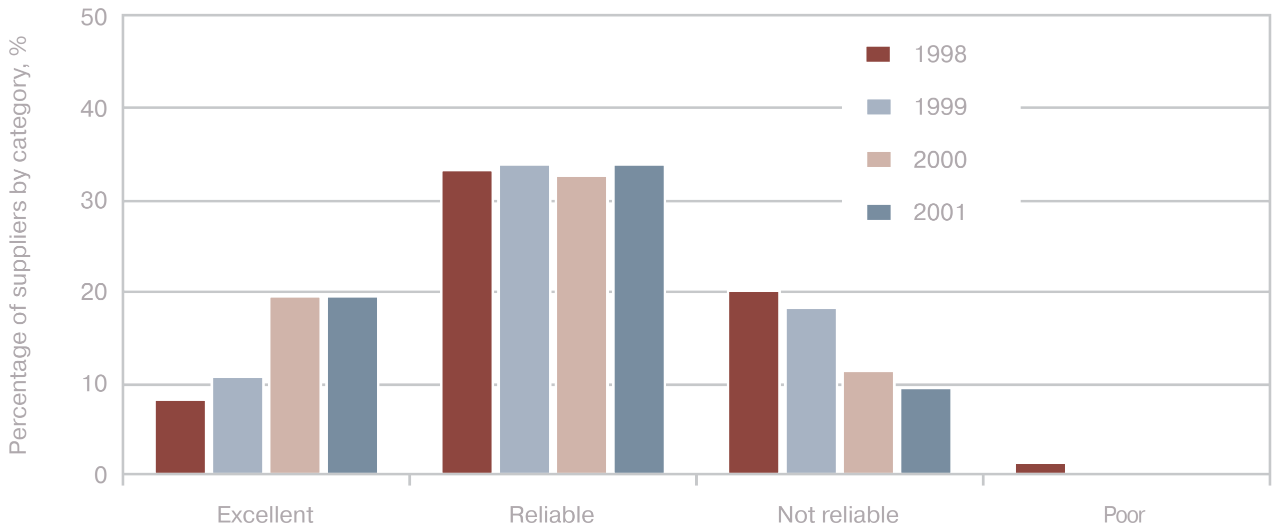
Actual cost of providing warranty services in 2000 (in the domestic market) have been reduced by 8.1% compared with 1999. Accordingly, costs for one failed vehicle have been reduced by 5.2%.

One of our key achievements is that we made both the plant's divisions and all suppliers think about quality.

We expect that much work should be done by both ourselves and our suppliers.



Quality level of AVTOVAZ's suppliers by category



5. Overview of the year

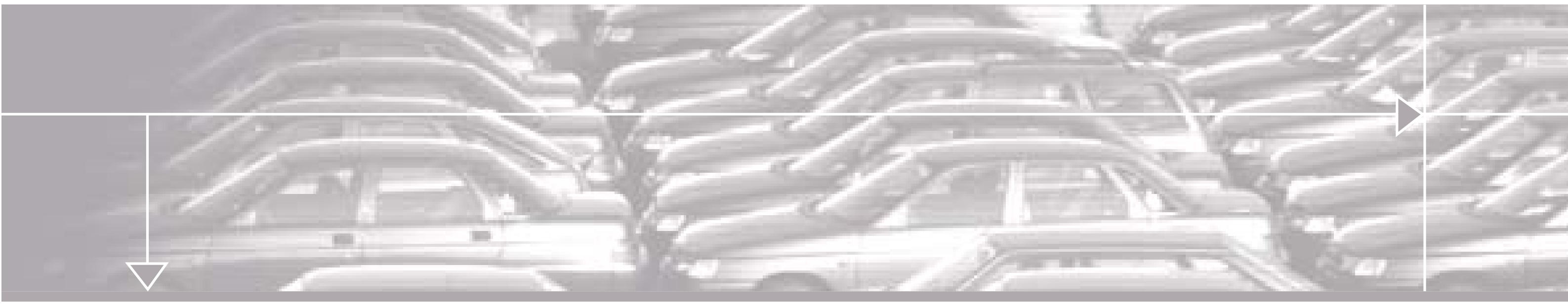
Social and personnel policy

AVTOVAZ is committed to a system of social guarantees which satisfies the personal needs of employees and ensures timely and smooth replacement of employees and management.

Y.B. Stepanov
Vice-President,
Personnel, AO AVTOVAZ

The AVTOVAZ Group is pursuing a co-ordinated policy in the area of remuneration and social protection of its employees. AO AVTOVAZ has a uniform minimum wage rate, minimum social benefits and guarantees. Moreover, depending on resources available and given the existing level of wages and benefits, each subsidiary adopts additional agreements which are recorded in the subsidiaries' collective agreements with their workers.

Each quarter during 2000 we indexed employees' wages. We took into account not only the increase in prices for goods and services but also the percentage of wages in turnover. While the price index grew by 20.1% during 2000, wages and salaries increased by 17.3%. By generating higher revenues we will be able to index employee compensation by a greater amount.



In 2000 we arranged for 22 additional shifts of vehicle assembly work. As a result of this, another 30,033 units were produced.

The total number of jobs has not changed significantly. The reduction in the number of employees was caused by natural attrition of the Company's employees.

Currently, AO AVTOVAZ employs over 110,000 people, and the Group employs a total of approximately 150,000 people.

In 2000 we hired 8,238 persons, 7,359 of which were workers. This number includes 398 young specialists, 410 graduates of technical colleges, 1,157 graduates of schools and basic lyceums. The Company welcomed back 921 persons from the Russian Armed Forces.

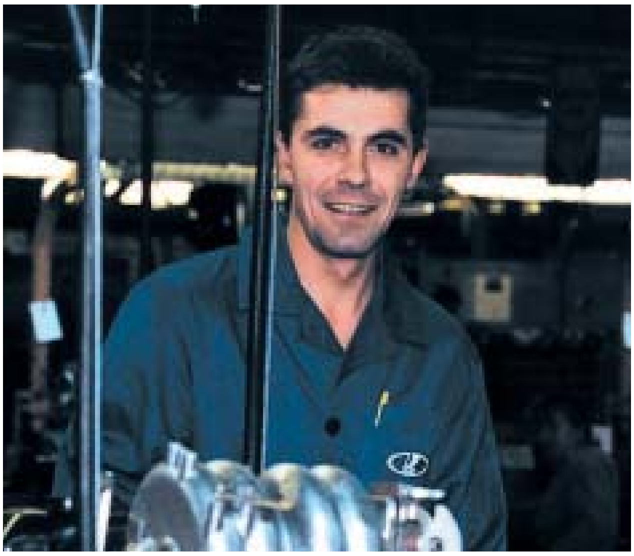
Productivity improved by 6.9% compared with 1999, with average increase in compensation of 17.3%.

In December 2000 average employee compensation was RR 4,608.

We pursued a policy of strengthening the motivating role of the salary component, increasing the dependence of the salary level on productivity, quality and ultimate results of the enterprise.

In 2000 employees' compensation, which is made up of payroll, social benefits and payments, included a 96.4% salary component.

We have fulfilled our social programme for 2000.



Turnover of worker personnel was 3.0% and turnover of managers and salaried personnel was 1.4%.

The Group pays great attention to improving professional skills and the knowledge of economics of our people.

Training courses or skill-conversion programmes in the Training Centre and other education institutions were attended by 22,660 workers, 6,720 professionals and 4,497 managers.

In accordance with the Collective Agreement with employees AO AVTOVAZ provided social benefits and guarantees as follows:

- we paid RR 126 million in holiday allowance;
- during 2000 in accordance with our regulations we paid RR 31 million in monthly allowances to women who are on leave caring for their children under three years of age;
- women working at AO AVTOVAZ enjoy a paid ten-week pre-maternity leave in addition to the pre-maternity leave established by legislation. These payments were in the region of RR 7 million;
- we made pension payments to the Company's workers who retire because of age or disability (Degree 1 or 2). For this we paid RR 34 million. 1,032 employees who reached the pension age retired in 2000; and
- our charity payments to former employees of the Company totalled RR 14 million.

We have continued to pay special attention to the provision of health-care services to the Company's employees in our medical and rehabilitation facilities.

In order to provide additional medical services to employees AO AVTOVAZ spent RR 29 million.

In 2000 the Company paid RR 19 million in housing subsidies.

As part of our housing programme, seven dwelling houses were built and commissioned in 2000 with a floor space of 71 thousand square metres. Part of these expenses were paid by employees. Those employees who participate in the expense sharing scheme receive compensation from AO AVTOVAZ of the cost of plumbing and connection to Samaraenergo power supply.

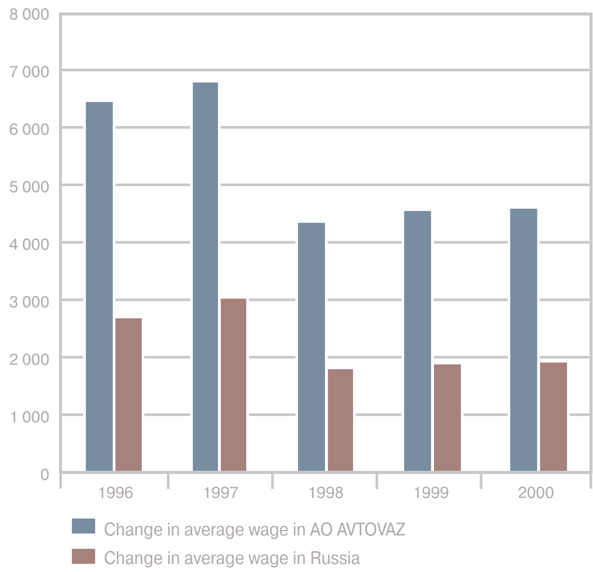
Secondary housing of 15 thousand square metres, previously owned by AO AVTOVAZ, was sold and transferred to employees.

1,038 families of our employees obtained their home during the year.

We are responsible for the up-keep of 60 pre-school facilities that take care of 10,580 children of the Company's employees.

Our expenditure on child care units amounted to RR 51 million.

Change in average wage in AO AVTOVAZ vs Russia in 1996-2000 in real terms*, RR



* - for CIP indices, see page 12.

1966

Viktor Nikolaevich Polyakov
(b. 3 March 1915)

Viktor N. Polyakov (General Director in 1966 - 1975) was appointed General Director of the Volzhsky Automobile Works on 8 September 1966. Mr. Polyakov oversaw the development of the blueprint and construction of the industrial complex of the automobile works and launch of the first «Zhigulis».
The workforce of AO AVTOVAZ whose core was formed by Viktor N. Polyakov successfully achieved production targets having assembled over 20 million of LADA vehicles.

Anatoli Anatolievich Zhitkov
(10 April 1913 - 8 November 1997)

Anatoli A. Zhitkov (General Director in 1975 - 1982) oversaw the development and production launch of the new VAZ-2105, 06, 07, and VAZ-2121 Niva models.
The plant's equipment was significantly upgraded during his term.
Great attention was paid to the social programme, specifically the construction of dwelling houses for employees, children's summer camps and dispensaries.

1975

1982

1988

Vladimir Vasilyevich Kadannikov
(b. 3 September 1941)

Vladimir V. Kadannikov (General Director in 1988 - 1996) was the first general director of VAZ to be elected by the plant's employees.
Mr. Kadannikov oversaw the privatisation of AVTOVAZ, and he became the first General Director and Chairman of the Board of Directors of Joint Stock Company AVTOVAZ.
Mr. Kadannikov was directly involved in managing the development and pre-production preparation of the VAZ-2110 family of vehicles.
During his term, the construction of the Research and Development Centre was completed.

Valentin Ivanovich Isakov
(9 June 1928 - 7 January 1997)

Valentin I. Isakov (General Director in 1982 - 1988) actively oversaw the development and production launch of the Samara family of front-wheel vehicles and the Oka compact car.
During his term the company saw the construction and commissioning of the Small Press Shop, and design and construction of the Research and Development Centre. In addition, two industry-specific colleges were opened.

Aleksei Vasilyevich Nikolaev
(b. 31 January 1935)

Aleksei V. Nikolaev (General Director from 1996 to present) oversaw the pre-production preparation of the VAZ-2110 family and development of the VAZ-2123 project.
During his term, in 1997 AVTOVAZ made a record number of vehicles in its entire history, 740,500 units.
The process of reforming business operations of the AVTOVAZ Group monitored by him resulted in a revised business philosophy.
A robust function of marketing and market research was established, and prompt feedback from dealers to production was initiated.

1996

6.

The Company's management

The Company's shareholders and issues of shares

Our mission is to consolidate the AVTOVAZ Group's position as market leader in the Russian automotive industry for the long term, providing quality cars to Russian people at prices they can afford.

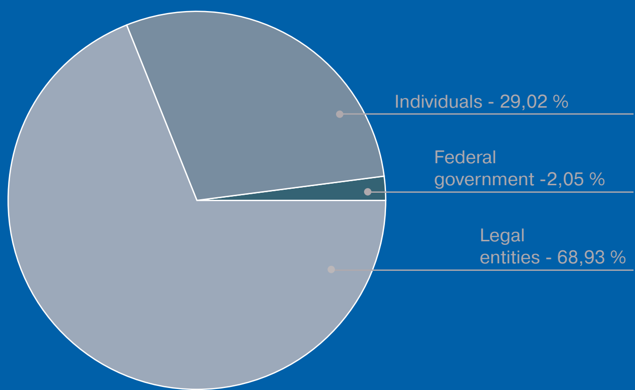
As at 31 March 2001 the statutory value of the Company's share capital is equal to RR 16,062,482 thousand.
It is divided among 32,124,964 shares of equal nominal value, and consists of :
- 27,194,624 ordinary shares; and
- 4,930,340 Type A preference shares.

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

In 2000 the volume of trading in shares of AO AVTOVAZ increased in comparison with 1999.

The total value of trading was US$ 550,000 at the RTS Stock Exchange and US$ 110,000 at the Moscow Inter-bank Currency Exchange.

Composition of share capital of AO AVTOVAZ in accordance with the shareholders' register of the Company at 31 March 2001



In 2000 the total number of shareholders increased from 200,310 to 215,551 as a result of the exchange of share depository certificates of OAO All-Russia Automobile Alliance (AVVA) for shares of AO AVTOVAZ.

The percentage of individuals in the share capital of the Company has decreased from 29.19% to 29.02% as a result of shareholders selling their shares.

Issues of shares of AO AVTOVAZ

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 - 1994**	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	outstanding because shares of AO AVTOVAZ are subject to obligations under the contract for the restructuring of the debt to the federal budget in favour of the Russian Fund of Federal Property.

Shareholdings

The Company owns shares of 250 subsidiaries and dependent companies where AO AVTOVAZ exercises corporate management and control, including:

- 16 companies located abroad in eight of which AO AVTOVAZ owns more than 50% of shares;
- 46 companies located in CIS countries, Baltic states and Georgia.
  Out of this number, in 20 companies AO AVTOVAZ owns controlling blocks of shares (50% plus one share);
- companies located in the Russian Federation:
  - 31 companies which are 100% owned by AO AVTOVAZ;
  - 114 companies where AO AVTOVAZ owns controlling blocks of shares (50% plus one share);
  - 23 dependent companies (20% and above);
  - 20 companies with minor shareholding of AO AVTOVAZ (below 20%).

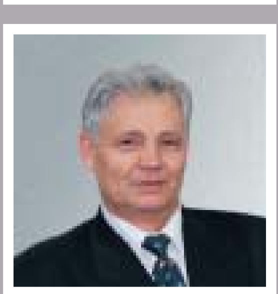
In 2000 AO AVTOVAZ obtained registration of ownership rights to 272 properties and all necessary certificates were received.

6. The Company's management

Board of Directors of AO AVTOVAZ

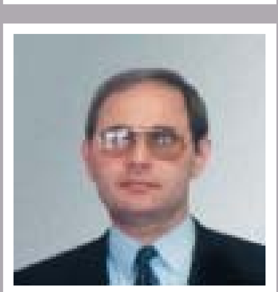
(elected at the Annual General Shareholders' Meeting on 27 May 2000)

Chairman of the Board of Directors
Vladimir Vasilyevich KADANNIKOV

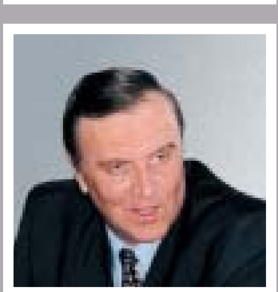


Board Members:

President of the Labour Council, AO AVTOVAZ
Ivan Antonovich BARYSHNIKOV



General Director, OAO IK RUSS-INVEST
Aleksandr Petrovich BYCHKOV



First Vice-President, Strategy and Corporate Governance, AO AVTOVAZ
Vitali Andreevich VILCHIK

First Deputy Chairman, Vnesheconombank
Nikolai Nikolaevich KOSOV

First Deputy Governor, Samara Region
Yuri Mikhailovich LOGOIDO

First Vice-President, First Deputy General Director,
AO AVTOVAZ
Nikolai Vasilyevich LYACHENKOV

President - General Director, AO AVTOVAZ
Aleksei Vasilyevich NIKOLAEV

Head of Personnel Department of Sub-Assembly Division,
AO AVTOVAZ
Aleksandr Alekseevich PUGACH

Vice-President, Research and Development,
AO AVTOVAZ
Konstantin Grigoryevich SAKHAROV

Vice-President, Personnel, AO AVTOVAZ
Yuri Borisovich STEPANOV

General Director, ZAO Central Branch of Automobile
Finance Corporation
Roman Lvovich SHEININ

We fulfil the ambition of Russian comfortable and high quality

Our vehicles

embody the company's manufacturing culture and the professional excellence of our employees.

Our commercial interests

span the entire world. We understand what needs to be done to secure a stable position on the global market.

Our main asset

is our people. The Group is a community of workers, salaried employees and managers working for the common goal - efficient and profitable business.

Our judges

are our shareholders and investors. They trust us with their capital and measure the efficiency of our performance.

Our suppliers

are part of our team. We endeavour to establish and strengthen long-term business relationships with suppliers on the basis of co-operation, respect, justice and mutual benefit.

Our future

depends on the good image of our LADA brand. We strive to ensure growing respect of our brand by both existing and potential customers.

Our key partners

are our dealers. They represent and protect the reputation of the LADA brand in their communities.

Our customers

pay our wages. Our progress depends on them.

people to have affordable, means of personal transportation.

Our competitors

require our special attention. The Group is ready to compete. Moreover, it is ready to co-operate with automotive producers that work for the benefit of Russians and Russia.

The Group recognises

the need to take care of both the physical and spiritual well-being of its people and the wider community.

The Group maintains

comfortable and safe working conditions, provides social guarantees that give employees confidence in their future.

The Group respects the environment

Improving the environmental cleanliness of our vehicles is a major priority.

The Group is open to dialogue

We welcome all mass media that present impartial information about the AVTOVAZ Group and the current state and further development of the national automotive industry.

AVTOVAZ is for Russia

We welcome governmental programmes whose goal is the welfare of Russians and enhancing the reputation of Russia. We will do anything possible to ensure their successful implementation.

We believe in the colossal and boundless innovative and technological potential of our people. We believe that Russia will become a strong automotive power.

Individual executive body

President - General Director of AO AVTOVAZ
Aleksei Vasilyevich NIKOLAEV

Collective executive body

BOARD OF MANAGEMENT OF AO AVTOVAZ

Chairman of the Board of Management of AO AVTOVAZ

Aleksei Vasilyevich NIKOLAEV
President - General Director of AO AVTOVAZ

Members of the Board of Management:

Vladimir Mikhailovich ALSHIN
Director, Power Supply, AO AVTOVAZ

Vladimir Ivanovich BELYAKOV
General Director, AO AvtoVAZtrans

Anatoli Nikolaevich BOGDANOV
Director, Dealer Network Organisation, AO AVTOVAZ

Vitali Andreevich VILCHIK
First Vice-President, Strategy and Corporate Governance, AO AVTOVAZ

Nikolai Aleksandrovich GUINTS
Director, Car Technical Services, AO AVTOVAZ

Nikolai Maksimovich GOLOVKO
Director, Development, AO AVTOVAZ

Viktor Nuriyevich GOLBERG
Director, Production Recycling, AO AVTOVAZ

Aleksandr Ivanovich GRECHUKHIN
Director, Manufacturing Logistics - Chief Engineer, AO AVTOVAZ

Viktor Alekseevich DAVYDOV
Director, Machine Production, AO AVTOVAZ

Mikhail Nikolaevich DOBYNDO
Vice-President, Production, AO AVTOVAZ

Yevgeni Alekseevich DOKUTOVICH
Director, Production, AO AVTOVAZ

Nikolai Petrovich DYBIN
First Deputy Commercial Director, AO AVTOVAZ

Yuri Petrovich YEDUNOV
Director, Sales Operations, AO AVTOVAZ

Valeri Petrovich YELISEYEV
Director, Plastic Production, AO AVTOVAZ

Konstantin Petrovich YEROSLAYEV
Director, Small Press Shop, AO AVTOVAZ

Anatoli Aleksandrovich ZHURAVLYOV
General Director, AO TZTO

Yuri Samoilovich ZEKTSER
General Director, AO AVVA

Galina Ivanovna KAZAKOVA
Finance Director – Head of Treasury, AO AVTOVAZ

Vladimir Vasilyevich KARMAZIN
Director, GlavAVTO, AO AVTOVAZ

Valeri Yakovlevich KOKOTOV
Director, Quality, AO AVTOVAZ

Vladimir Kuzmich KOTENEV
Director, Sub-Assembly, AO AVTOVAZ

Igor Aleksandrovich KROPACHEV
Director, AO SeAZ

Boris Antonovich KRUPENKOV
Director, Economics, AO AVTOVAZ

Nikolai Aleksandrovich KUZNETSOV
Director, Property Department, AO AVTOVAZ

Vladimir Nikolaevich KUCHAI
Vice-President, Marketing, Sales and Cars Technical Service, AO AVTOVAZ

Nikolai Vasilyevich LYACHENKOV
First Vice-President,
First Deputy General Director, AO AVTOVAZ

Aleksandr Konstantinovich MAMONTOV
Director, AO SAAZ

Dmitri Vladimirovich MARKUSHEV
Director, Final Assembly, AO AVTOVAZ

Yuri Ivanovich MERZLYAKOV
Director, Precision Tooling, AO AVTOVAZ

Mikhail Valeriyevich MOSKALYOV
Vice-President, Finance, AO AVTOVAZ

Pyotr Abramovich NAKHMANOVICH
Director, Corporate Governance, AO AVTOVAZ

Vladimir Aleksandrovich NESTEROV
Director, Security, AO AVTOVAZ

Valeri Ivanovich OVCHARENKO
Director, Foundry, AO AVTOVAZ

Vladimir Petrovich PERESYPKINSKY
Chief Manufacturing Engineer,
AO AVTOVAZ

Victor Pavlovich POTEMKIN
General Director, AO DAAZ

Pyotr Mikhailovich PRUSOV
Chief Designer, AO AVTOVAZ

Anatoli Nikolaevich PUSHKOV
Director, Large Press Shop, AO AVTOVAZ

Aleksandr Petrovich SARYCHEV
Director, Personnel, AO AVTOVAZ

Konstantin Grigoryevich SAKHAROV
Vice-President, R&D, AO AVTOVAZ

Pyotr Romanovich SENKOV
Director, Project “VAZ-1118 family”, AO AVTOVAZ

Pavel Nikolaevich SKRINSKY
Vice-President - Director, Purchasing,
AO AVTOVAZ

Yuri Borisovich STEPANOV
Vice-President, Personnel, AO AVTOVAZ

Sergei Aleksandrovich SYCHYOV
Director, OAO AvtoVAZagregat

Vladimir Ivanovich TIKHONOV
Director, Information Systems, AO AVTOVAZ

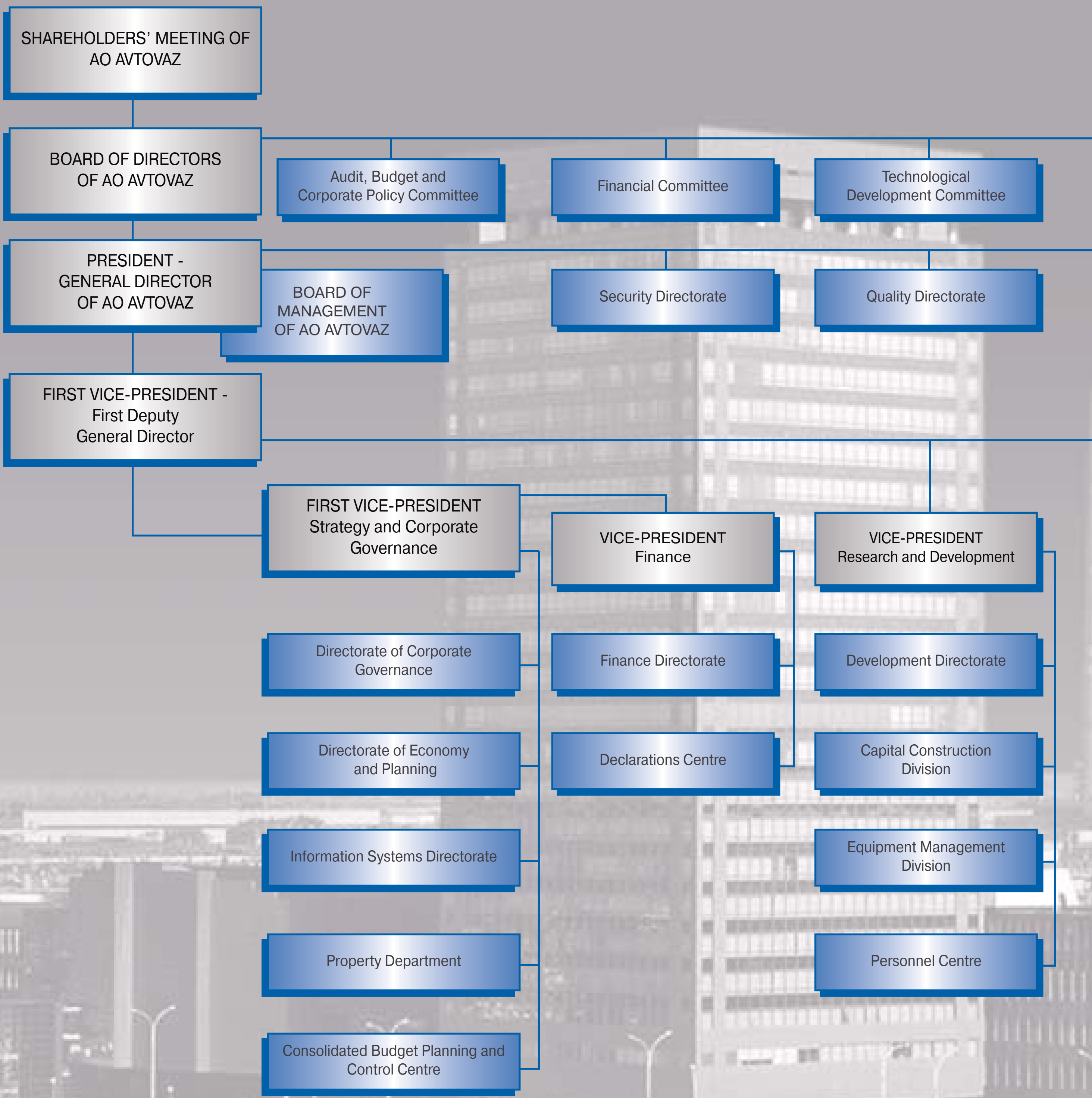
Nikolai Petrovich KHATUNTSOV
Chief Accountant – Director of Accounting,
Taxes and Audit, AO AVTOVAZ

Anatoli Semyonovich CHERYOMUKHIN
Director, Spare Parts Production and Sales - Director of Main Spare Parts Centre, AO AVTOVAZ

Viktor Borisovich ENS
Director, Social Infrastructure, AO AVTOVAZ

6. The Company's Management

Management structure of AO AVTOVAZ



- Management System Reform Committee
- Marketing Committee
- Social and Personnel Policy Committee
- Production Committee

- Directorate of accounting, tax and audit
- Office of the President
- Moscow Representative Office
- Moscow Analytical Centre

VICE-PRESIDENT Purchasing
- Purchasing Directorate
- Market Research and Purchases Organisation Division
- Planning and Control Centre

VICE-PRESIDENT Marketing, Sales and Cars Technical Service
- Directorate of Sales Organisation
- Directorate of Dealer Network Organisation
- Directorate of Cars Technical Service and Spare Parts Provision
- Directorate of Spare Parts and Assembly Kits Deliveries
- Marketing Department
- Centre of Economics
- Personnel Centre

VICE-PRESIDENT Personnel
- Directorate of Personnel
- Directorate of Social Issues
- Press Centre
- Broadcasting and Publishing Company
- Canteen Combine
- Budget Planning and Control Centre

VICE-PRESIDENT Production
- Directorate of Production
- Directorate of Technological and Engineering Provision
- Planning and Control Centre

7.

Management's discussion and analysis of the financial condition and results of operations

N.P. Khatuntsov
Chief Accountant - Director of Accounting, Taxes and Audit, AO AVTOVAZ

2000 was a successful year again for the Group. The positive growth in earnings both at operating and net levels continued.

The following management's discussion and analysis of the financial condition and results of operations (MD&A) should be read in conjunction with the IAS consolidated financial statements presented on pages 75 to 93 of this annual report.

Overview

Our key achievement in the progress towards the management's strategy aimed at improving the Group's financial position is a steady growth in earnings. This is a result of increased production levels driven by the demand for new LADA vehicles. The Group has continued its cost reduction programme despite facing pressure for increased prices for materials and supplies. In 2000 management focused on both increasing production levels and increasing the percentage of higher margin vehicles within this production. This has resulted in inflation adjusted real sales growth and the continued improvement in operating earnings.

The Group's management has been successfully negotiating with both its principal lenders and the tax authorities, resulting in a substantial reduction in financing expense of RR 5,537 million.

Income tax expense has increased significantly since 1999, of which accounting for deferred tax in accordance with IAS 12 Revised is the greater part. See Note 20 to the IAS consolidated financial statements for an analysis of this expense.

Total revenue from vehicle sales in 2000 was RR 70,043 million.

Results of operations and effect on the financial position of the AVTOVAZ Group

For 2000, the Group's consolidated net income amounted to RR 2,751 million (RR 1,021 million in 1999). Profits and reserves available for distribution to shareholders are only those as stated in the Russian statutory financial statements prepared in accordance with rules of the Russian Federation, which are not included herewith. As at 31 December 2000, the Company had no profits or reserves available for distribution to shareholders.
The main factors that contributed to the growth of net income were:

- A 6% increase of sales volume over that of 1999;
- Realisation of significant gains on further restructuring of tax liabilities and other long-term debt, as discussed further in "Gains on extinguishment and forgiveness of tax debts and other liabilities";
- Increase in the sale of the higher margin vehicles of the VAZ 2110 family; and
- Forgiveness of liabilities to the budget in accordance with resolutions of the Russian government.

Increase in sales volume
The demand of vehicles within the Russian Federation remains strong. The Group has in terms of units approximately 55% of this market.
The major competitor to the Group in the Russian market continues to be foreign second hand imports.

As a result, the increase in production of newer, more attractive models is one of the strategies that management is employing to maintain and enhance its position within the Russian market.
The result of this strategy may be observed by the real increase (in excess of inflation) in vehicle sales prices (of approximately 4%).

This has resulted in the Group regaining some of the ground it lost subsequent to the 1998 Russian financial crisis.

As part of its strategy to produce new and higher-margin vehicles, the Group has begun to remove production of older models from the main assembly lines, as a result of which a greater number of automotive assembly kits were sold.

Exports have dramatically increased during 2000 (from 48 thousand units in 1999 to 106 thousand units in 2000). The Russian rouble has stabilised over the past year and has enabled the Group to export competitively again.

The reorganisation of the foreign sales network enabled the Group to increase its export volume, exploiting increased competitiveness following the 1998 rouble devaluation.

Such foreign markets are an important source of hard currency. Therefore it is necessary to understand developments in the international automotive markets.

	2000	1999
Vehicles sold domestically, thousand units	600	618
Vehicles sold to foreign markets, thousand units	106	48
Total vehicles sold, thousand units	**706**	**666**
Revenue from domestic vehicle sales, RR million	52,506	51,569
Revenue from foreign vehicle sales, RR million	9,338	4,439
Revenue from sales of other manufacturers' vehicles by subsidiaries of AO AVTOVAZ, RR million	8,199	7,412
Total revenue from vehicle sales, RR million	**70,043**	**63,420**
Revenue from sales of spare parts and assembly kits, RR million	**10,098**	**9,478**
Other revenue, RR million	**3,045**	**2,869**

Gross profit

For 2000, the Group's gross profit amounted to RR 13,589 million. This is by 6% more than in 1999. There was a slight reduction of margins from 17% to 16% as a result of competition in the Russian marketplace in 2000. The key factor resulting in the reduction in gross profit margin as compared with the prior year is represented by prices of materials and components going up faster than prices of finished goods. To illustrate this, in 2000 prices of cars increased by 25.17% whilst the average cost of sales grew by 25.36%. The highest increase, of over 60%, was in prices of metals. The Group has increased its sale of higher margin vehicles, principally the 2110 family. Sales of the 2110 family have increased to 162 thousand (1999: 109 thousand), representing 23% of the volume of total vehicle sales (1999: 16%).

Selling, general and administrative expenses

Selling, general and administrative expenses of the AVTOVAZ Group have increased from 1999 levels by 41%. The following major factors contributed to the increase in these expenses:

- Turnover taxes have increased as the overall sales volumes have increased; and

- Property tax has increased as a result of the statutory revaluation of the Group's property, plant and equipment.

In addition, the increased production levels and competition led to growth of the majority of remaining expenses. Additionally, anticipating for changes in tax legislation in 2001, the Group wrote off for tax optimisation purposes a number of trade receivables that were not collectable. These amounts written off exceeded the provision the Group had previously recorded in respect of these trade receivables by RR 477 million.

Other operating expenses

Other operating expenses in 1999 included an expense of RR 2,916 million for customs claims in respect of the non-timely repatriation of foreign currency of export sales.

Russian currency regulations stipulate that proceeds from the export of goods need to be repatriated to the Russian Federation within 90 days of the despatch of goods. The Group's licence allowing an extension of this requirement expired in 1999. Funds from export sales were often received after more than 90 days. In 1999 the Group recorded a provision for the probable result of future customs claims. Part of this provision has been utilised in 2000, and a remaining provision of RR 999 million is reflected within the balance sheet as at 31 December 2000. The Group is actively discussing with the Government of the Russian Federation how to prevent these claims arising in the future. These discussions include the obtaining of a new licence and the abolition of the repatriation of currency legislation.

Operating income (loss)
The effects outlined above have resulted in a second year of operating income (2000: RR 138 million, 1999: RR 30 million), following significant operating losses incurred in prior years.

Finance expenses
Finance expenses have decreased significantly during 2000, a reduction of RR 5,537 million. This has primarily been due to the reduction in US dollar denominated debt following the Group's restructuring agreements in late 1999 and early 2000 with its major lenders. The restructuring of US dollar denominated debt is further discussed in the "Gains on extinguishment and forgiveness of tax debts and other liabilities" section below.

Additionally, tax interest charged by the tax authorities has decreased also as a result of the Group's improvement in the timely payment of taxes.

Foreign exchange differences
The restructuring of US dollar denominated debt for Russian rouble debt has reduced the Group's exposure to devaluations of the Russian rouble against the US dollar. Additionally, the relative stability of the Russian rouble against the US dollar has reduced this expense.

Inflation and Monetary gain
As discussed in Note 3 to the consolidated financial statements, in an inflationary environment the general purchasing power of money declines as the general level of prices of goods and services rises.

The effect of the decline in the purchasing power will create a monetary gain or loss. In a period of inflation, an enterprise holding net monetary assets loses purchasing power, and an enterprise holding net monetary liabilities gains purchasing power.

International Accounting Standards (IAS) require that the financial statements of an enterprise that reports in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date.

The Group's monetary gain as reported in the IAS consolidated accounts decreased from RR 12,794 million in 1999 to RR 6,274 million in 2000 principally as a consequence of the reduction in the general inflation rate (2000: 20.13%, 1999: 36.59%).

Gains on extinguishment and forgiveness of tax debts and other liabilities

Restructuring and forgiveness of taxes
In the years subsequent to privatisation, the Group's main task was to be in a position to compete with foreign manufacturers that were increasingly showing interest in the Russian marketplace. To achieve this, significant financing was required to maintain its research and development expenditures or capital investments to modernise production processes and produce new models.

These expenditures resulted in the development of the new Niva and the bringing to production of the 2110 family. However, the Group was not able both to maintain these levels of expenditure and remain current with its payments to tax authorities.

Thus prior to 1998 an overdue balance of unpaid taxes of RR 8,000 million accrued. Interest was charged on these unpaid taxes at an average rate of 70% per annum, which resulted in interest accruing on the overdue balance of RR 16,400 million.

In order to compensate Russian companies for these excessive interest rates, the Government forgave 80% of interest accumulated on unpaid tax liabilities for all Russian companies. This amounted to a RR 10,000 million reduction of tax liabilities in 1997 and 1998.

Management initiated negotiations with the Russian government to restructure its remaining tax liabilities to be made over the subsequent 10 to 15 years at zero or preferential interest rates. Management's successful efforts resulted in the restructuring of taxes with various tax authorities during 1997-2000.

The total amount of taxes restructured during this period was RR 12,364 million (2000: RR 1,110 million, 1999: RR 6,733 million, 1998: 4,521 million).

The difference between the present value of these restructured tax obligations and the nominal amount was recorded as a gain in the IAS financial statements.

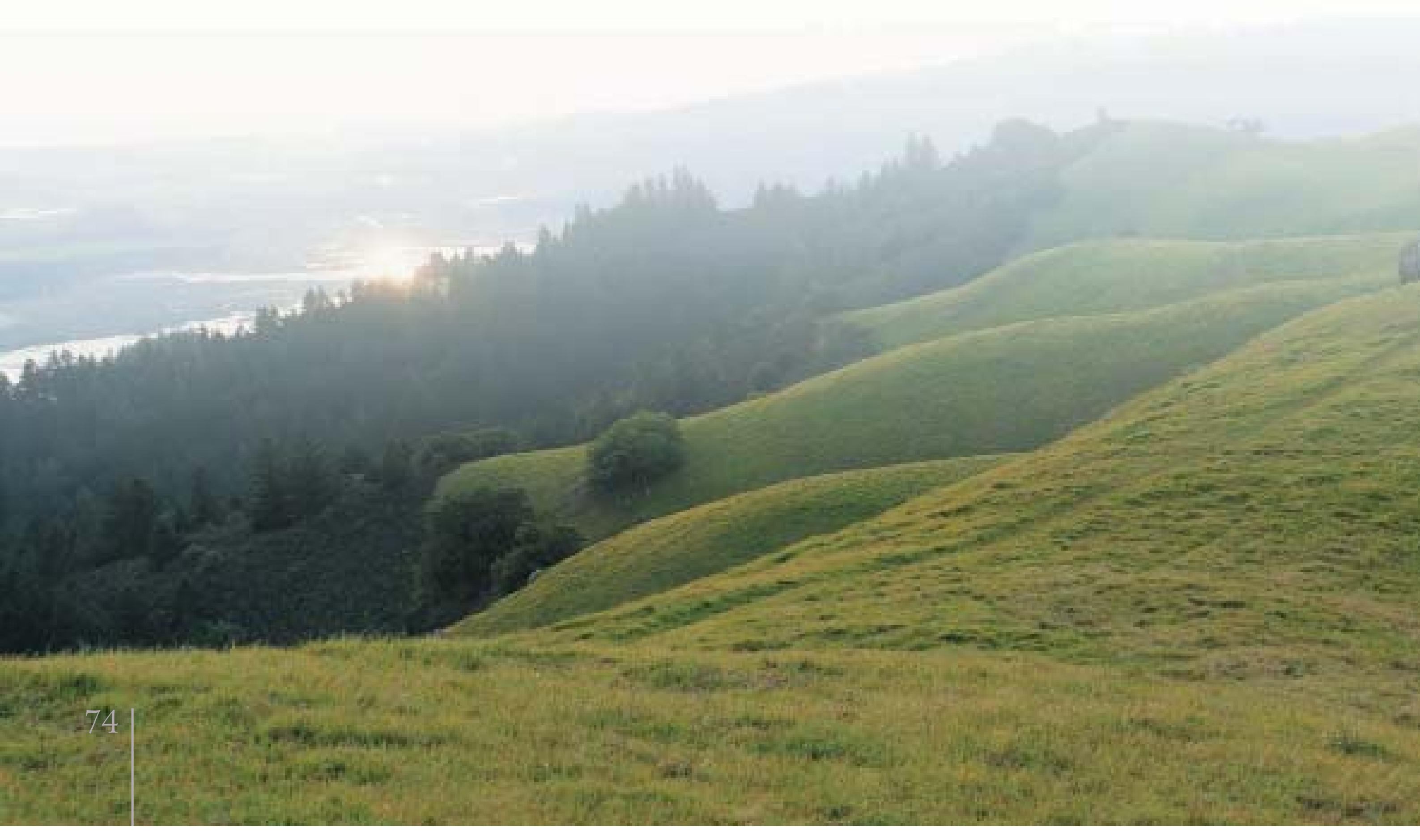
A discount rate of 16% was used to calculate the present value for the 2000 restructuring which, for long term Russian rouble liabilities, is a prudent estimate of the economic benefit received from this restructuring. The resulting gains recorded in 2000 and 1999 were RR 119 million and RR 2,542 million, respectively.

For a further understanding of the terms of this restructuring initiative, Note 12 to the IAS consolidated financial statements should be reviewed.

Tax interest in accordance with the Tax Code cannot be in excess of the principal debt. As the result of the enactment of this provision, and other agreements with the tax authorities, interest of RR 3,685 million and RR 1,174 million was forgiven in 2000 and 1999, respectively.

Other debt

The Group had loans of approximately US$ 630 million for past investments made by the Russian government which it inherited upon privatisation. Although the US dollar interest rate ranged from 3.8% to 8.6%, the severe devaluation of the Rouble following the crisis caused the Group to suffer significant exchange losses in 1998. Recognising the need to reduce the Group's foreign currency exposure, management over the past two years has extinguished US$ 378 million (2000: US$ 260 million, 1999: US$ 118 million) of current and long term debt through consideration of RR 2,270 million of cash, RR 590 million of non-interest bearing Rouble denominated bills of exchange payable within one year and RR 8,122 million of non-interest bearing Rouble denominated bills of exchange payable between 18 and 20 years.



The Group has fair valued these non-interest bearing Rouble denominated bills of exchange. The resulting gain of RR 5,735 million and RR 2,448 million has been recognised in the statement of operations as an extinguishment of debt for 2000 and 1999, respectively.

Subsequent to year end, management has settled another US$ 126 million through a similar combination of cash and non-interest bearing Rouble denominated bills of exchange. See Note 13 to the IAS consolidated financial statements for further explanation.

Taxation

Current taxation

The Group accrued RR 3,943 million of profit tax in 2000. Included within this tax expense is an expense of RR 2,300 million in relation to various claims raised by the tax authorities.

Management is vigorously defending itself against these claims.

Deferred taxation

This basis of deferred tax is explained in Note 4H to the IAS consolidated financial statements.

The Group has a net deferred tax liability of RR 10,531 million at 31 December 2000 which 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 as discussed in "Gains on extinguishment and forgiveness of tax debts and other liabilities." The increase in the deferred tax liability in 2000 of RR 5,200 million resulted from the significant fair value adjustment following the extinguishment of US$ 260 million of debt and the increase in the enacted tax rate from 30% to 35%. Inflation adjustments to the carrying value of property, plant and equipment were partially offset by a statutory revaluation of the tax base of a number of the Group’s assets.

PRICEWATERHOUSECOOPERS

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Kosmodamianskaya Nab. 52, Bld. 5
113054 Moscow
Russia
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Facsimile + 7 (095) 967 6001

AUDITORS' REPORT

To the shareholders AO AvtoVAZ:

1. We have audited the accompanying consolidated balance sheet of AO AvtoVAZ and its subsidiaries ("the Group") as of 31 December 2000 and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity for the year then ended, as expressed in the equivalent purchasing power of the Russian Rouble (RR) at 31 December 2000. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. In our opinion, the accompanying consolidated financial statements, expressed in the equivalent purchasing power of the Russian Rouble at 31 December 2000, present fairly, in all material respects, the financial position of the Group as of 31 December 2000, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

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

5. As explained in Note 3, US dollar (US$) amounts presented in the financial statements are translated from RR as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 31 December 2000 of RR 28.1 to US$ 1. The US$ amounts are presented solely for the convenience of the reader and should not be construed as a representation that the RR amounts have been or could have been converted to US$ at this rate, nor that the US$ amounts present fairly the financial position of the Group or its results of operations or cash flows in accordance with International Accounting Standards.

PricewaterhouseCoopers

Moscow, Russia
22 June 2001

AVTOVAZ GROUP
Consolidated Balance Sheet at 31 December 2000

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)
(Amounts translated into US dollars for convenience purposes, Note 3)

	RR thousand		US$ thousand
	At 31 December		Unaudited
	2000	1999	2000
ASSETS			
Current assets:			
Cash and cash equivalents (Note 6)	2,771,986	3,214,902	98,437
Trade receivables, net (Notes 5 and 7)	6,864,314	7,588,420	243,761
Prepaid expenses, advances and other receivables	5,107,953	4,723,773	181,390
Inventories (Note 8)	10,570,007	10,577,251	375,355
Total current assets	**25,314,260**	**26,104,346**	**898,943**
Property, plant and equipment (Note 9)	72,789,280	74,096,454	2,584,847
Investments	1,124,435	1,392,668	39,930
Other assets	268,806	359,940	9,546
Total assets	**99,496,781**	**101,953,408**	**3,533,266**
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables current (Note 5)	13,590,803	11,438,847	482,628
Other payables and accrued expenses (Note 10)	5,304,238	7,851,717	188,361
Taxes payable-current (Note 12)	7,989,052	8,134,954	283,702
Warranties	756,084	1,271,477	26,849
Short-term debt (Note 11)	4,093,378	4,613,256	145,360
Advances from customers	3,514,444	2,044,712	124,803
Total current liabilities	**35,247,999**	**35,354,963**	**1,251,703**
Long-term debt (Note 11)	6,003,784	13,619,121	213,203
Long-term taxes payable (Note 12)	8,881,264	11,933,653	315,386
Deferred tax liability (Note 20)	10,530,531	5,331,249	373,954
Total liabilities	**60,663,578**	**66,238,986**	**2,154,246**
Minority interest	**6,456,679**	**6,207,302**	**229,285**
Shareholders' equity:			
Share capital (Note 14)	22,086,027	22,139,743	784,305
Currency translation adjustment	601,010	812,104	21,343
Retained earnings	9,689,487	6,555,273	344,087
Total shareholders' equity	**32,376,524**	**29,507,120**	**1,149,735**
Total liabilities and shareholders' equity	**99,496,781**	**101,953,408**	**3,533,266**

Approved on behalf of Management, 22 June 2001.

A. Nikolaev
President-General Director

N. Khatuntsov
Chief Accountant

The accompanying notes 1 to 24 are an integral part of the financial statements.

AVTOVAZ GROUP

Consolidated Statement of Operations for the year ended 31 December 2000

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3, except for earnings per share)
(Amounts translated into US dollars for convenience purposes, Note 3)

	RR thousand		US$ thousand
	Year ended 31 December		
			Unaudited
	2000	1999	2000
Net sales (Note 15)	83,185,530	75,767,370	2,954,032
Cost of sales (Note 16)	(69,596,499)	(62,919,378)	(2,471,467)
Gross profit	**13,589,031**	**12,847,992**	**482,565**
Selling, general and administrative expenses (Note 17)	(10,632,013)	(7,526,609)	(377,557)
Research and development expenses (Note 18)	(1,157,063)	(1,262,011)	(41,089)
Other operating expenses (Note 19)	(1,661,764)	(4,029,689)	(59,012)
Operating income	**138,191**	**29,683**	**4,907**
Financing expense	(3,177,968)	(8,714,878)	(112,854)
Foreign exchange loss (Note 4I)	(300,971)	(5,256,591)	(10,688)
Monetary gain (Note 3A)	6,273,968	12,793,628	222,798
Gains on extinguishment and forgiveness of tax debts and other borrowings (Note 13)	9,539,544	6,164,187	338,762
Profit before taxation	**12,472,764**	**5,016,029**	**442,925**
Income tax expense (Note 20)	(9,142,467)	(3,775,009)	(324,662)
Net profit	**3,330,297**	**1,241,020**	**118,263**
Minority interest	(579,446)	(219,844)	(20,577)
Net income attributable to shareholders of AVTOVAZ Group	**2,750,851**	**1,021,176**	**97,686**
Weighted average number of ordinary shares outstanding during the year (000's)	15,123	15,142	15,123
Earnings per share (in RR and US $) (Note 4O)	**181.90**	**67.44**	**6.46**

The accompanying notes 1 to 24 are an integral part of the financial statements.

AVTOVAZ GROUP

Consolidated Statement of Cash Flows for the year ended 31 December 2000

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)
(Amounts translated into US dollars for convenience purposes, Note 3)

	RR thousand		US$ thousand
	Year ended 31 December		
			Unaudited
	2000	1999	2000
Cash flows from operating activities (Note 4F):			
Profit before taxation	12,472,764	5,016,029	442,925
Adjustments for:			
Depreciation	4,480,788	4,329,883	159,119
Provision for bad debts	476,983	(355,842)	16,938
Loss on disposal of property, plant and equipment	683,012	659,622	24,255
Gains on extinguishment and forgiveness of tax debts and other borrowings	(9,539,544)	(6,164,187)	(338,762)
Finance expense	3,177,968	8,714,878	112,854
Provision for impairment of investments	(34,695)	29,844	(1,232)
Warranties' reserves	(515,392)	(1,291,640)	(18,302)
Unrealised foreign exchange effect on non-operating balances	358,863	5,639,844	12,744
Monetary effect on non-operating balances	(3,355,640)	(7,603,018)	(119,164)
Operating cash flows before working capital changes	**8,205,107**	**8,975,413**	**291,375**
Decrease (increase) in gross trade receivables	(328,929)	4,123,200	(11,681)
Decrease (increase) in prepaid expenses, advances and other receivables	34,597	56,168	1,229
Decrease in inventories	7,244	1,358,989	257
Increase (decrease) in trade payables and other payables and accrued expenses	(1,793,966)	(343,414)	(63,706)
Increase (decrease) in other taxes payable	(1,066,668)	(4,641,418)	(37,879)
Increase (decrease) in advances from customers	1,709,992	(1,121,092)	60,724
Cash provided from operations	**6,767,377**	**8,407,846**	**240,319**
Income taxes paid	(519,712)	(1,034,407)	(18,456)
Interest paid	(1,371,000)	(2,404,310)	(48,686)
Net cash provided from operating activities	**4,876,665**	**4,969,129**	**173,177**
Cash flows from investing activities:			
Purchase of property, plant and equipment	(4,650,114)	(5,473,126)	(165,132)
Proceeds from the sale of property, plant and equipment	29,504	945,623	1,048
Proceeds from the sale of investments	13,223	-	470
Purchase of investments	-	(247,395)	-
Net cash used in investing activities:	**(4,607,387)**	**(4,774,898)**	**(163,614)**
Cash flows from financing activities:			
Proceeds from borrowings	2,333,499	1,210,121	82,866
Reduction of loans and long-term taxes payable	(6,284,134)	(10,194,640)	(223,158)
Net proceeds from the sale (purchase) of treasury shares	(422)	368	(15)
Inflation effect on financing activities	3,445,686	8,681,681	122,361
Net cash used in financing activities	**(505,371)**	**(302,470)**	**(17,946)**
Effect of inflation on cash	(301,140)	(1,078,664)	(10,694)
Effect of exchange rate changes	94,317	739,764	3,349
Net decrease in cash and cash equivalents	**(442,916)**	**(447,139)**	**(15,728)**
Cash and cash equivalents at the beginning of the period	**3,214,902**	**3,662,041**	**114,166**
Cash and cash equivalents at the end of the period (Note 6)	**2,771,986**	**3,214,902**	**98,438**

The accompanying notes 1 to 24 are an integral part of the financial statements.

AVTOVAZ GROUP
Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2000

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)
(Amounts translated into US dollars for convenience purposes, Note 3)

In RR thousand	Share capital	Treasury shares (Note 14)	Currency translation adjustment	Retained earnings	Total shareholders' equity
Balances as of 31 December 1998	46,972,047	(25,111,257)	842,968	5,744,916	28,448,674
Sale of treasury shares	-	278,953	-	(210,819)	68,134
Currency translation adjustment	-	-	(30,864)	-	(30,864)
Profit for the year	-	-	-	1,021,176	1,021,176
Balances as of 31 December 1999	46,972,047	(24,832,304)	812,104	6,555,273	29,507,120
Sale of treasury shares (ordinary)	-	371,801	-	(41,732)	330,069
Purchase of treasury shares (preference)	-	(425,517)	-	425,095	(422)
Currency translation adjustment	-	-	(211,094)	-	(211,094)
Profit for the year	-	-	-	2,750,851	2,750,851
	46,972,047	**(24,886,020)**	**601,010**	**9,689,487**	**32,376,524**

(Unaudited) In US$ thousand	Share capital	Treasury shares	Currency translation adjustment	Retained earnings	Total shareholders' equity
	1,668,042	**(883,737)**	**21,343**	**344,087**	**1,149,735**

Profits and reserves available for distribution to shareholders are only those as stated in the Russian statutory financial statements prepared in accordance with rules of the Russian Federation, which are not included herewith. As at 31 December 2000, the Company had no profits or reserves available for distribution to shareholders.

The accompanying notes 1 to 24 are an integral part of the financial statements.

1. The AvtoVAZ Group

AO AvtoVAZ and its subsidiaries ("the Group") principal activities include the manufacture, sales, and technical service 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 former Soviet Union and a number of other countries. The parent company, AO AvtoVAZ ("the Company" or "AvtoVAZ") was incorporated as an open joint stock company in the Russian Federation on 5 January 1993. On that date the majority of assets and liabilities previously managed by the state conglomerate Volga Automobile Associated Works ("VAZ") was transferred to the Company. The transfer of assets and liabilities was made in accordance with Decree No. 721 on the privatisation of state companies approved on 1 July 1992. The Order approving the privatisation plan was issued on 5 January 1993 ("the privatisation date"). The Company was given control of the majority of its subsidiaries under the privatisation decree referred to above. At 31 December 2000 the Group employed approximately 150,000 employees. The registered office of AO AvtoVAZ is Yuzhnoye Shosse, 36, Togliatti, 445633, Russian Federation.

2. Going concern and operating environment of the Company

A. Going concern

Although there have been considerable improvements in the financial position and results of operations from that of prior years, the Group's current liabilities exceeded its current assets as at 31 December 2000 by RR 9,933,739 (1999: RR 9,250,617). The Group's operating income for the current year is at a level of break-even at RR 138,191 (1999: RR 29,683). The Group continues to experience difficulty raising substantial amounts of new finance that is necessary to allow it to develop new models. These matters raise doubt over the ability of the Group to continue as a going concern. However, management believes that its strategy as outlined below will enable the Group to continue as a going concern for the foreseeable future. Therefore, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that would be necessary if the Group is unable to continue as a going concern.

Management's strategies to address these issues during the year ended 31 December 2000 and subsequently include:

- Further restructuring of current and long-term liabilities (See Note 13);
- Continued negotiations with strategic partners (See Note 24);
- Continued reorganisation of the sales and distribution system which will enhance sales and margins, and reduce the incidence of bad debts; and
- Continuing cost reduction programmes including obtaining improved conditions from suppliers of materials used in production.

B. Operating environment of the Company

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of :

- a currency that is not freely convertible outside of the country;
- extensive currency controls;
- a low level of liquidity in the public and private debt and equity markets; and
- 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.

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)

3. Basis of presentation of the financial statements

A. Rouble consolidated financial statements

Group companies maintain their books of accounts and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation or of the country in which the particular subsidiary is resident. In the case of companies resident in the Russian Federation, which account for approximately 95% of assets and liabilities of the Group, the financial statements are based on the statutory records, with adjustments and reclassifications recorded in the financial statements for the purpose of fair presentation in accordance with International Accounting Standards ("IAS"). Similarly, adjustments to conform with IAS, where necessary, are recorded in the financial statements of companies not resident in Russia.

The adjustments and reclassifications made to the statutory records for the purpose of IAS presentation include the restatement of balances and transactions for the changes in the general purchasing power of the Russian rouble ("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 1999, have also been restated for the changes in the general purchasing power of the RR at 31 December 2000.

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 2000, and the respective conversion factors, are:

Year	Indices	Conversion Factor
1996	594,110	3.4
1997	659,403	3.0
1998	1,216,400	1.6
1999	1,661,481	1.2
2000	1,995,937	1.0

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 2000;
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2000;
- Non-monetary assets and liabilities which are not expressed in terms of the monetary unit current at 31 December 2000 and components of shareholders' equity are restated by applying the relevant conversion factors;
- The effect of restating the balance sheet at the date of privatisation was credited to retained earnings;
- All items in the statement of operations and cash flows are restated by applying the relevant conversion factors;
- The effect of inflation on the Group's net monetary position for the period is included in the statement of operations as a monetary gain or loss.

B. 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 2000 of RR 28.1 = 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 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 IAS.

Since 1 January 2001 the devaluation of the RR against the US$ has continued. As of 30 April 2001, the official exchange rate was RR 28.8 = US$ 1 and the CPI 2,118,015 (1988 = 100), representing devaluation and inflation rates of approximately 2% and 6%, respectively, for this period.

4. Summary of significant accounting policies

A. Consolidation

Subsidiary undertakings, being those companies in which the Company, directly or indirectly, has the ability to exercise control over operations, have been consolidated. Separate disclosure is made of minority interests.

B. Investments

Investments, including immaterial subsidiaries and associates, are accounted for at restated cost. Provision is made where, in the opinion of the Group's management, there is a permanent decline in value.

C. Revenue recognition

Revenues on sales of automobiles, parts and miscellaneous production are recognised when they are dispatched to customers. Value-added and excise taxes are deducted to obtain the value of revenue.

D. Trade receivables and payables

Accounts receivable and payable are recorded at nominal value. Accounts receivable include value-added and excise taxes. Accounts receivable are written down to estimated realisable value by recording a provision for doubtful accounts as considered appropriate by management.

E. Inventories

Inventories are recorded at the lower of restated 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. Provision is made for potential losses on obsolete or slow-moving inventories taking into account their expected use and future realisable value.

F. Cash and cash equivalents

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

G. Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost restated to the equivalent purchasing power of the RR at 31 December 2000. However, when the amount the Company expects to recover from the future use of an asset declines below the carrying amount, the carrying amount is reduced to the recoverable amount and the difference is recognised as an expense in the statement of operations.

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 is included in the statement of operations as incurred.

4. Summary of significant accounting policies (continued)

H. 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.

I. Foreign currency transactions and translation

Balance sheet items denominated in foreign currencies have been translated at the exchange rate at the balance sheet date. Exchange gains or losses arising from the settlements are taken to income for the year. Foreign subsidiary balance sheets and statements of operations have been translated into RR at the year end and average rates of exchange, respectively. Differences arising from translation of foreign subsidiaries' balances are included in shareholders' equity as currency translation adjustments.

J. Product warranty costs

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

K. Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred for development projects are recognised as intangible assets only to the extent that such expenditure is expected to generate future economic benefits.

L. 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 IAS financial statements.

M. Taxation charges

The profits' tax expense for the year within the statement of operations includes current profits' tax payable for the year and the movement in the deferred tax account. Provisions and settlements of claims and similar charges, in accordance with IAS, includes provision for all claims submitted by third parties and government authorities where management believe claims are substantiated (Note 19). Interest accrued on overdue tax liabilities has been included in financing expense.

N. Finance expense and interest income

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

O. Earnings (loss) per share

Preference shares are considered to be participating shares as their dividend may not be less than that given to ordinary shares. Earnings per share is determined by dividing the net income attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares outstanding during the reporting year. Losses are not allocated to preference shares in this calculation.

P. Environmental matters

Liabilities for environmental remediation are recognised when it is probable that an obligation exists and the amounts can be reasonably estimated.

Q. Pension costs

The Company contributes to the Russian Federation state pension scheme in respect of its employees. The Company's pension scheme contribution amounts to 28% of employees' gross salaries, and is expensed as incurred.

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)

4. Summary of significant accounting policies (continued)

R. Treasury shares

Treasury shares are stated at nominal value, restated to the equivalent power of the RR at 31 December 2000, 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 statement of changes in shareholders' equity.

S. Provisions

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

5. Balances and transactions with related parties

The transactions with related parties noted below are made in the ordinary course of business on normal commercial terms. The volume of transactions with these related parties is not significant in the context of the Group's overall activities. Balances and transactions with related parties of the Group as at and for the years ended 31 December 2000 and 1999 consist of the following:

A. Balances with related parties:

Balance sheet caption	Relationship	2000	1999
Trade receivables, gross:	Associate	857,550	378,952
Provision for doubtful debts:	Associate	(200,572)	(219,942)
Trade payables current:	Associate	502,959	605,867

B. Transactions with related parties:

Profit and loss statement caption	Relationship	2000	1999
Net sales:	Associate	1,923,823	432,245
Purchases:	Associate	2,230,146	332,943

Cash flow statement caption	Relationship	2000	1999
Net cash provided from (used in) operating activities:	Associate	(887,829)	405,078

C. Cross shareholding:

At 31 December 2000 AVVA, an 83% owned subsidiary of AvtoVAZ, owned 38% of the ordinary shares of the Company. Automobile Financial Corporation, a company in which AvtoVAZ has a 49% interest and AVVA has a 10% interest, in turn owns 23% of the ordinary shares of AvtoVAZ. As approximately 61% of the ordinary share capital of AvtoVAZ is held by entities within the Group, management of AvtoVAZ have effective control of the Group. Shares of AvtoVAZ owned by either AVVA or Automobile Financial Corporation are accounted for as treasury shares.

D. 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.

Discretionary bonuses may be also payable to board members, which are approved by the Board of Directors, provided the Company has statutory profit for the year.

Additional fees, compensation and allowances may be paid to directors for their services in that capacity, and also for attending board meetings and board committees' meetings.

Total directors' compensation included in Selling, general and administrative expenses in the statement of operations amounted to RR 11,348 for the year ended 31 December 2000.

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2000	1999
RR denominated cash on hand and balances with banks	1,517,015	1,150,473
Foreign currency denominated balances with bank	1,254,971	2,064,429
	2,771,986	**3,214,902**

7. Trade receivables

	2000	1999
Trade receivables		
Rouble denominated	4,465,445	6,313,024
Foreign currency denominated	3,085,297	3,355,936
	7,550,742	**9,668,960**
Less Provision for doubtful debts		
Rouble denominated	(485,856)	(1,157,069)
Foreign currency denominated	(200,572)	(923,471)
	(686,428)	**(2,080,540)**
Net receivable		
Rouble denominated	3,979,589	5,155,955
Foreign currency denominated	2,884,725	2,432,465
	6,864,314	**7,588,420**

8. Inventories

Inventories consist of the following:

	2000	1999
Raw materials	5,581,235	4,175,481
Work in progress	2,178,497	2,016,025
Finished products	2,810,275	4,385,745
	10,570,007	**10,577,251**

9. Property, plant and equipment

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

	Buildings	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 31 December 1998	**52,369,358**	**64,216,897**	**7,879,238**	**20,707,774**	**145,173,267**
Additions / Transfers in	1,414,736	7,602,351	48,492	4,875,223	13,940,802
Disposals / Transfers out	(1,104,049)	(2,056,914)	(406,654)	(8,467,677)	(12,035,294)
Balance at 31 December 1999	**52,680,045**	**69,762,334**	**7,521,076**	**17,115,320**	**147,078,775**
Additions / Transfers in	1,492,195	7,477,680	221,968	5,262,999	14,454,842
Disposals / Transfers out	(2,083,403)	(2,770,602)	(481,603)	(8,799,398)	(14,135,006)
Balance at 31 December 2000	**52,088,837**	**74,469,412**	**7,261,441**	**13,578,921**	**147,398,611**
Accumulated Depreciation					
Balance at 31 December 1998	**(21,653,491)**	**(38,847,774)**	**(5,586,950)**	**(4,526,596)**	**(70,614,811)**
Depreciation expense for 1999	(1,222,072)	(2,856,272)	(251,539)	-	(4,329,883)
Disposals	242,740	1,573,489	146,144	-	1,962,373
Balance at 31 December 1999	**(22,632,823)**	**(40,130,557)**	**(5,692,345)**	**(4,526,596)**	**(72,982,321)**
Depreciation expense for 2000	(1,496,552)	(2,638,285)	(345,951)	-	(4,480,788)
Disposals	995,868	1,534,567	238,414	84,929	2,853,778
Balance at 31 December 2000	**(23,133,507)**	**(41,234,275)**	**(5,799,882)**	**(4,441,667)**	**(74,609,331)**
Net Book Value					
Balance at 31 December 1999	**30,047,222**	**29,631,777**	**1,828,731**	**12,588,724**	**74,096,454**
Balance at 31 December 2000	**28,955,330**	**33,235,137**	**1,461,559**	**9,137,254**	**72,789,280**

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)

9. Property, plant and equipment (continued)

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 Group presently does not have funds available to finance the completion of the majority of the remaining projects in AUC. However, management believes that the completion of these assets will be financed through funds generated from operations and additional financing.

Management reassessed the recoverability of property, plant and equipment at 31 December 1998. Value in use of cash generating units were estimated through a review of estimated discounted cash flows. Based upon this reassessment, management recorded an impairment provision of RR 7,853,334. For the year ended 31 December 2000, management have assessed the adequacy of its existing impairment provision and concluded that the amount reflected in the 1999 financial statements is still appropriate. No further adjustments have been recorded. Real discount rates approximating to 20 percent have been used to discount these future cash flows in assessing the appropriateness of the impairment provision.

The accumulated depreciation within assets under construction of RR 4,441,667 and RR 4,526,596 at 31 December 2000 and 1999, respectively, represents the cumulative impairment provision on assets under construction. The cumulative impairment provision included within the accumulated depreciation of the remaining property, plant and equipment is RR 3,262,332 at 31 December 2000. Management has used various assumptions in the calculation of the recoverable value of property, plant and equipment. Variations in these assumptions may give rise to a significantly different amount for the impairment provision. In management's opinion, this provision represents the best estimate of the impact of impairment.

The assets transferred to the Company upon privatisation do not include the land on which the Company's factories and buildings, comprising the Group's principal manufacturing facilities, are situated. The Company has the option to purchase this land upon application to the Property Fund of the Samara Oblast or to continue occupying this land under a rental agreement. Russian legislation does not specify an expiry date to this option. At 31 December 2000 the Company has not filed any application to exercise the purchase option.

At 31 December 2000 and 31 December 1999, the gross carrying value of fully depreciated property, plant and equipment was RR 31,037,668 and RR 29,629,807 respectively.

10. Other payables and accrued expenses

Included within Other payables and accrued expenses are provisions in the amount of RR 1,200,500 (1999: RR 2,645,262).

During 2000 the following movements of these provisions took place:

	Customs claims	Legal claims	Total
Balance at 31 December 1999	2,402,600	242,662	2,645,262
Inflationary gain	(301,848)	(40,662)	(342,510)
Utilised in the year	(1,102,252)	-	(1,102,252)
Balance at 31 December 2000	**998,500**	**202,000**	**1,200,500**

Customs claims

The amount above represents management's best estimate of the probable liability in respect of claims for the non-timely repatriation of proceeds of export automobiles. Existing legislation requires proceeds from the sale of automobiles to be repatriated within 90 days.

Legal claims

The Group is subject to a number of legal claims. The amount above represents management's best estimate of the probable liability.

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)

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

Short-term and long-term debt by principal lender may be analysed as follows:

Short-term debt (including current portion of long-term debt)	2000	1999
Vnesheconombank	1,673,512	2,735,771
Ministry of Finance	450,332	538,015
Sberbank	438,316	180,195
GAZBANK	411,320	348,784
AvtoVAZbank	120,000	120,130
KB Solidarnost	100,000	40,844
Various financial institutions	899,898	649,517
	4,093,378	**4,613,256**

Short-term debt comprises a total of foreign currency denominated loans in US$/DM of RR 2,274,844 (1999: RR 3,444,008) and RR denominated loans of RR 1,818,534 (1999: RR 1,169,248) at fixed interest rates ranging from 3.8% to 8.6% and 24% to 36% respectively.

Long-term debt	2000	1999
Vnesheconombank	4,712,935	11,802,793
Ministry of Finance	467,950	752,494
KB Avtomobilniy Bankirskiy Dom	438,416	426,338
Other	384,483	637,496
	6,003,784	**13,619,121**

During 2000 the Group defaulted on the repayment of the Vnesheconombank and Ministry of Finance (the Lenders) loans and, as a result, the Lenders have the option to call these loans. However, the Lenders have not exercised these options and management is confident that the balance classified as long-term amounting to RR 5,180,885 will not become payable on demand. Moreover, subsequent to the year end management has settled a further US$ 126 million (RR 3,629 million) of current and long-term debt payable to Vnesheconombank through consideration of RR 1,587 million of cash, RR 566 million of non-interest bearing rouble denominated bills of exchange payable within one year, and RR 1,481 million of non-interest bearing rouble denominated bills of exchange payable in 2020.

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

Currency	Interest Rate	2000	1999
US$/DM	3.8%-8.6%	5,293,885	13,160,876
RR	12%-36%	709,899	458,245
Total loans from financial institutions		**6,003,784**	**13,619,121**

Long-term debt is repayable as follows:

	2000	1999
1 to 2 years	1,377,926	2,666,211
2 to 3 years	990,595	1,983,035
3 to 4 years	990,595	1,983,035
4 to 5 years	923,746	1,983,035
Over 5 years	1,720,922	5,003,805
	6,003,784	**13,619,121**

As at 31 December 2000 and 1999 loans for RR 2,660,738 and RR 2,585,798 respectively, inclusive of short-term borrowings, are guaranteed by collateral of receivables and inventories.

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

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)

12. Taxation

Taxes payable-current

Taxes payable-current are comprised of the following:

	2000	1999
Value-added tax	382,230	263,223
Profit tax	196,108	-
Penalties, interest and provisions for profit tax	2,073,524	74,491
Property, road users, pensions and other taxes	3,155,797	3,440,032
Penalties and interest on other taxes	1,334,778	3,692,542
Excise tax	314,913	201,183
Current portion of taxes restructured to long-term	531,702	463,483
	7,989,052	**8,134,954**

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 2000 was equal to an effective rate of 30% (1999: 67%). The principal tax liabilities past due at 31 December 2000 and 1999 were approximately RR 205 million and RR 1,081 million, 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 Government Resolutions 254 and 1316, as described below.

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

	2000			1999		
	Federal	Regional taxes and other state funds	Total	Federal	Regional taxes and other state funds	Total
Current	**285,600**	**246,102**	**531,702**	343,091	120,392	463,483
1 to 2 years	**285,600**	**3,355,929**	**3,641,529**	343,091	5,447,498	5,790,589
2 to 3 years	**285,600**	**613,070**	**898,670**	343,091	188,238	531,329
3 to 4 years	**285,600**	**621,161**	**906,761**	343,091	705,195	1,048,286
4 to 5 years	**285,600**	**446,197**	**731,797**	343,091	149,245	492,336
Thereafter	**1,555,205**	**1,147,302**	**2,702,507**	2,832,751	1,238,362	4,071,113
Total restructured	**2,983,205**	**6,429,761**	**9,412,966**	4,548,206	7,848,930	12,397,136
Less: portion of taxes Payable - current	**(285,600)**	**(246,102)**	**(531,702)**	(343,091)	(120,392)	(463,483)
Long-term portion of restructured taxes	**2,697,605**	**6,183,659**	**8,881,264**	4,205,115	7,728,538	11,933,653

Restructured taxes and other state funds includes RR 3,929,855 at 31 December 2000, which accrue interest as follows:

- RR 2,427,003 at the official rate of financing of the Central Bank of Russia (31 December 2000: 25%);
- RR 1,005,860 accrue interest at the three-fourth of the official rate of financing of the Central Bank of Russia (31 December 2000: 19%);
- RR 496,992 accrue interest at the one-three hundredth of the official rate of the Central Bank of Russia per day (31 December 2000: 30%).

Comparatively, at 31 December 1999 restructured taxes and other state funds includes RR 4,163,831 which accrue interest at the official rate of financing of the Central Bank of Russia (31 December 1999: 55%).

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)

12. Taxation (continued)

Long-term taxes payable (continued)

The remaining balance of RR 4,951,409 (1999: RR 7,769,822) has been discounted to reflect the net present value of the liability. This balance accrues interest (see Note 13).

As part of the condition of restructuring the federal taxes, the Company was required to register 50% plus one share of the authorised statutory share capital with the Russian Federal Property Fund ("RFPF"). These shares will be auctioned by the government in the event that the Company makes no payment on these restructured taxes within two months after the due date of its payable or if the Company has more than two late payments within a period of 12 months (Note 14).

Other principal conditions related to restructuring the federal taxes include:

- the Company is not able to perform a securities issue of voting shares;
- the Company should inform the Ministry of Taxes and Duties of its intentions to dispose of shares of its subsidiaries or main production assets exceeding 10% of the total value of its assets.

Subsequent to year end, the Company submitted to the Government of the Russian Federation a programme of long-term development and improvement in the investment attractiveness of the Group. This proposed programme included the abolition of the requirement to register with the RFPF the issuance of 50% plus one share as collateral for the timely settlement of debts in accordance with Resolutions 254 and 1316 of the Government of the Russian Federation. At the time of preparation of these financial statements the draft programme was approved by the Ministry of Taxes and Duties, the Ministry of Economy and the Ministry of Industry, Science and Technologies, and is currently being considered by the Prime Minister of the Russian Federation.

The Company is in compliance with the terms of restructuring the federal tax debts at 31 December 2000.

13. Gains on extinguishment and forgiveness of debt

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

	2000	1999
Gain on forgiveness of tax debts	3,685,411	1,173,992
Gain on extinguishment of tax debts	119,185	2,542,101
Gain on extinguishments of other borrowings	5,734,948	2,448,094
	9,539,544	**6,164,187**

During 1999, interest of RR 1,173,992 was forgiven in accordance with the Tax Code provision which was in effect from 1 January 1999 to August 1999. The Tax Code provided that the amount of accrued interest cannot be in excess of the principal debt, through the application of this provision in the Tax Code a gain was realised on some of the previously recorded interest in excess of the principal balance. During 2000 a further gain was recorded reflecting the forgiveness of the remaining interest in excess of the principal debt of RR 2,474,751. In addition, during 2000 interest of RR 1,210,660 accrued in prior periods was forgiven in accordance with an agreement with the medical insurance fund.

The net gain on extinguishment of tax debt arises from the application of Resolutions 254 and 1316 and certain restructuring agreements which restructures 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 free of interest. This restructuring constituted a substantial modification in terms of the difference between the recorded value of the tax liabilities prior to restructuring and the present value of the future cash flows of the restructured liabilities. The difference between the recorded and net present value of the restructured liabilities, using a discount rate of 12%, is accounted for as an extinguishment of debt and, accordingly, a gain of RR 119,185 (1999: RR 2,542,101) was included in the net gain on extinguishment of tax debts.

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)

13. Gains on extinguishment and forgiveness of debt (continued)

During 1999, management negotiated the settlement of US$ 118 million of the Group's current portion of long-term debt, through consideration of RR 691,156 of cash and RR 2,828,753 of non-interest bearing rouble denominated bills of exchange payable between 18 and 20 years. During 2000, management has settled a further US$ 260 million of its debt through consideration of RR 1,578,500 of cash, RR 590,490 of non-interest bearing rouble denominated bills of exchange payable within 1 year, and RR 5,293,020 of non-interest bearing rouble denominated bills of exchange payable between 26 and 30 years. The present value of these bills of exchange using a 16% discount rate is RR 83,250. The resulting gain of RR 5,734,948 (1999: RR 2,448,094) has been credited to the statement of operations as an extinguishment of debt. Further settlement of this debt has taken place subsequent to year-end (see Note 11).

14. Share capital

The carrying value of share capital, as restated in terms of the purchasing power of the Rouble as of 31 December 2000, and the legal share capital value subscribed, issued and fully paid up, consists of the following classes of shares:

	2000			1999		
	No. of shares	Legal statutory value	Carrying amount	No. of shares	Legal statutory value	Carrying amount
Class A preference	**4,930,340**	**2,465,170**	**7,208,978**	4,930,340	2,465,170	7,208,979
Ordinary	**27,194,624**	**13,597,312**	**39,763,069**	27,194,624	13,597,312	39,763,068
Total share capital	**32,124,964**	**16,062,482**	**46,972,047**	32,124,964	16,062,482	46,972,047
Less: treasury share capital						
Class A preference	**(291,018)**	**(145,509)**	**(425,517)**	-	-	-
Ordinary	**(16,728,945)**	**(8,364,473)**	**(24,460,503)**	(16,983,226)	(8,491,613)	(24,832,304)
Total treasury share capital	**(17,019,963)**	**(8,509,982)**	**(24,886,020)**	(16,983,226)	(8,491,613)	(24,832,304)
Total outstanding share capital	**15,105,001**	**7,552,500**	**22,086,027**	15,141,738	7,570,869	22,139,743

Class A preference shares, which were issued to employees free of charge at the privatisation date (see Note 1), give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. The preferred shares have no rights of redemption or conversion but carry guaranteed dividends per share of 10% of adjusted Russian accounting net profits for the year. If the Company fails to pay dividends, or has no profits in any year, the preferred shareholders have the right to vote in the general shareholders' meeting. As a result, the preferred shares have carried voting rights since 1996. These voting rights will continue until the year when the guaranteed dividend for that year is paid.

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

Treasury shares mainly represent ordinary shares of the Company held within the other Group members. All Russia Automobile Alliance (AVVA) and ZAO Automobile Finance Corporation (AFC), subsidiaries of the Company, own approximately 38% and 23% of the ordinary share capital, respectively. As set out in Note 5C, this results in the management of AvtoVAZ having effective control of the Group.

No dividends were proposed at the 2000 and 1999 Annual General Shareholders' Meetings. These decisions were approved by the shareholders.

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)

14. Share capital (continued)

In addition to the issued share capital of 32,124,964 shares, the Company in 2000 issued a further 32,124,965 ordinary shares. These shares were pledged in accordance with tax restructuring agreements with the RFPF. These shares will be auctioned by the Russian government in the event of defaults in the tax restructuring agreements as described in Note 12 under the heading "Long-term taxes payable".

15. Net sales revenue

The components of net sales were as follows:

	2000	1999
Finished vehicles	70,043,359	63,420,183
Automotive components and assembly kits	10,097,670	9,478,361
Other sales	3,044,501	2,868,826
	83,185,530	**75,767,370**

16. Cost of sales

The components of cost of sales were as follows:

	2000	1999
Changes in inventories of finished goods and work in progress	1,412,998	(772,546)
Materials and components used	47,680,890	43,424,675
Production overheads	8,872,334	9,005,144
Labour costs	5,500,776	5,371,411
Depreciation	4,480,788	4,329,883
Social expenditure	1,648,713	1,560,811
	69,596,499	**62,919,378**

17. Selling, general and administrative expenses

Selling, general and administrative expenses comprise:

	2000	1999
Taxes (property, dwelling)	2,196,676	1,750,072
Road user tax	1,989,451	1,563,219
Labour	1,969,342	1,788,367
Transportation	1,581,768	1,265,113
Advertising	437,586	144,376
Materials	384,242	103,769
Administration overheads	364,408	268,822
Discounts and commissions to dealers	60,436	128,726
Bad debt expense	476,983	(355,842)
Other	1,171,121	869,987
	10,632,013	**7,526,609**

18. Research and development expenses

Research and development expenses comprise:

	2000	1999
Labour costs	500,174	539,413
Materials	426,989	344,272
Other	229,900	378,326
	1,157,063	**1,262,011**

19. Other operating expenses

The components of other operating expenses were as follows:

	2000	1999
Provisions and settlements of claims and similar charges	731,900	3,158,052
Write-off or loss on disposal of fixed assets	683,012	659,622
Provision for impairment of investments	(34,695)	29,844
Other	281,547	182,171
	1,661,764	**4,029,689**

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)

20. Income tax expense

	2000	1999
Current profits tax	3,943,185	1,491,591
Effect of increase (reduction) in tax rate	1,504,361	(435,404)
Movement in deferred tax account	3,694,921	2,718,822
	9,142,467	**3,775,009**

In accordance with IAS 37 ("Provisions, contingent liabilities and contingent assets") AvtoVAZ has accrued a provision of RR 2,300,000 in respect of claims raised by the tax authorities for profits taxes. The Group has included this within the Current profits tax expense. This provision is reflected within Taxes payable-current.

The tax charge of the Group may be reconciled as follows:

	2000	1999
IAS profit before taxation in AO AvtoVAZ's consolidated financial statements	12,472,764	5,016,029
Theoretical tax charge at statutory rate of 30 percent	3,741,829	1,504,809
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax penalties and interest	318,594	751,193
Qualifying capital expenditure	(283,052)	(465,638)
Non-temporary elements of monetary gain	2,063,388	2,773,597
Other non-deductible expenses	5,738,806	3,430,009
Inflation effect on deferred tax balance at beginning of the year	(893,349)	(816,459)
Effect of increase (reduction) in tax rate	1,504,361	(435,404)
Temporary difference on statutory revaluation of tax base	(3,048,110)	(2,967,098)
Consolidated tax charge	**9,142,467**	**3,775,009**

In general during 2000 the companies in the Group were subject to tax rates of approximately 30% on taxable profits. In the context of the Group's current structure, tax losses in different companies may not be applied against taxable profits of other companies and accordingly taxes may accrue even where there is a net consolidated tax or accounting loss. As a result of the changes in the Russian tax legislation, a profit tax rate of 35 % has been enacted starting from 1 January 2001. The effect of the change is reflected in the financial statements for the year ended 31 December 2000.

	31 December 1999	Movement in year	Change in tax rate	31 December 2000
Tax effects of future deductible items (temporary differences)				
Trade receivables	2,929,270	(2,862,311)	11,160	78,119
Inventories	531,409	72,315	100,621	704,345
Property, plant and equipment	(8,378,970)	727,118	(1,275,309)	(8,927,161)
Accounts payable and provisions	133,574	130,585	44,026	308,185
Long-term debt	(611,361)	(1,551,443)	(360,467)	(2,523,271)
Other temporary differences	64,829	(211,185)	(24,392)	(170,748)
Deferred tax liability	**(5,331,249)**	**(3,694,921)**	**(1,504,361)**	**(10,530,531)**

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.

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)

21. Contingencies, commitments and guarantees

A. Contractual commitments and guarantees

As at 31 December 2000 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 371,840 (1999: RR 444,361).

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 financial statements.

B. Taxation

Russian tax legislation is subject to varying interpretations and changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years. In addition, the Company is subject to several claims from tax authorities for additional taxes and related fines and penalties. In the opinion of management, the ultimate outcome of these claims should not have a material adverse effect on the result of operations or financial position of the Company.

C. Insurance policies

The Group holds no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies covering export shipments, and no provisions for self-insurance are included in the accompanying balance sheet.

D. 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 Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalised. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

E. 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. Also, the Company is subject to various environmental laws regarding handling, storage, and disposal of certain products and is subject to regulation by various governmental authorities. 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 Company.

22. Principal subsidiaries and associates

The principal subsidiaries consolidated within the Group and the degree of control exercised by AO AvtoVAZ are as follows:

Entity	Country of Incorporation	Activity	2000 % share	1999 % share
AO AVVA	Russia	Investments	83	81
AO DAAZ	Russia	Car components	100	100
AO SAAZ	Russia	Car components	100	100
AO AvtoVAZtrans	Russia	Transport	100	100
AO Tevis	Russia	Utilities	100	100
AO SeAZ	Russia	Car assembly	100	100
ZAO AFC	Russia	Financial	57	58
Lada International Ltd.	Cyprus	Car distribution	100	100
Oy Konela Ab	Finland	Car distribution	70	70
142 Technical Service Centres	Russia	Car service centres	50.1-100	50.1-100

(In thousands of Russian Roubles in terms of purchasing power of the Rouble as of 31 December 2000, Note 3)

22. Principal subsidiaries and associates (continued)

In November 2000, the Company disposed of a 100% stake in AO AvtoVAZagregat. The Company no longer considers this investment to be a subsidiary. As a result, assets and liabilities of AO AvtoVAZagregat were not consolidated at the year end. However, results of operations for the year were reflected in the Consolidated Statement of Operations until the date control was disposed of. A gain on the disposal of RR 76,081 was reflected in the statement of operations.

In addition to the above there are a further two subsidiaries which have not been consolidated within the Group as they are insignificant in total. These non-consolidated subsidiaries accounted for at restated cost comprise:

Entity	Country of Incorporation	Activity	2000 % of share	1999 % of share
Lada Hellas S.A.	Greece	Car distribution	50	50
Lada Parts Hellas S.A.	Greece	Spare parts distribution	50	50

A number of subsidiaries located in the republics of the Former Soviet Union (excluding the Russian Federation) were not consolidated, since AvtoVAZ lost effective control of these entities when the republics gained independence. The Group is in the process of trying to regain control over these entities.

All associated companies are immaterial to the Group and are included in investments at restated cost. The principal associated companies and degree of ownership by the Group are as follows:

Entity	Country of Incorporation	Activity	2000 % of share	1999 % of share
FerroVAZ GmbH	Germany	Metal production	50	50

23. Financial instruments

A. Credit risk

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

B. Foreign exchange risk

The Group's manufacturing operation is in the Russian Federation with limited imports of raw materials and components. The Group exports 16% (1999: 14%) of its automobile production to western and eastern Europe, these sales are denominated in hard currency. The Group has net foreign currency receivables of RR 2,884,725 (1999: RR 2,432,465). The Group has debt obligations of RR 7,568,729 (1999: RR 16,604,884) denominated in hard currency.

C. Interest rate risk

The majority of interest rates on debt are fixed, these are disclosed in Note 11. Assets are generally non-interest bearing.

D. Fair values

Management does not believe it is practicable to estimate the fair value of long-term investments and trade payables. These financial instruments are not traded in the Russian financial market and an objective fair value is not, therefore, available. All other balances have been included at their fair value.

24. Post balance sheet events

A. Agreement with strategic partners

The Company is in advanced discussions with General Motors Corporation ("GM") and the European Bank for Reconstruction and Development ("EBRD") to develop an off-road vehicle called the NIVA 2123. It is planned for the Company to contribute patents, buildings and equipment for a 41.5% stake and management control, with GM investing US$ 100 million in cash for a further 41.5% stake. It is further planned that the EBRD would acquire the remaining 17% stake in exchange for cash consideration of US$ 40 million and that it would make an additional loan of about US$ 90 million.

General information

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Date of the Company's state registration:	5 January 1993, registration number - 2925
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