AEROFLOT RUSSIAN AIRLINES AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2001

AEROFLOT RUSSIAN AIRLINES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Notes	Year ended 31 December 2001	Year ended 31 December 2000
		$ million	**$ million**
Traffic revenue	5	1,221.	1,074.
Other revenue	6	336.9	332.7
Revenue		**1,558.0**	**1,406.9**
Operating costs	7	1,218.	1,073.
Staff costs	8	195.2	146.2
Depreciation		104.4	104.7
Operating costs		**1,517.9**	**1,324.8**
Operating income		**40.1**	**82.1**
Interest expense	9	(44.9)	(48.7)
Interest income		3.7	0.9
Share of income in associated undertakings	23	6.3	7.8
Foreign exchange and translation gain (loss), net	4	1.7	(12.0)
Non-operating income, net	10	3.8	9.4
Income before taxation and minority interest		**10.7**	**39.5**
Taxation	11	11.1	(28.6)
Income after taxation		**21.8**	**10.9**
Minority interest share of income	20	(1.7)	(2.3)
Net Income		**20.1**	**8.6**
Earnings per share	4	**$ 0.018**	**$ 0.008**

The accompanying notes form an integral part of these consolidated financial statements.

AEROFLOT RUSSIAN AIRLINES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Assets	Notes	31 December 2001 $ million	31 December 2000 $ million
Current assets			
Cash and cash equivalents	12	20.2	30.7
Short-term investments		5.1	1.6
Accounts receivable and prepayments, net	13	241.9	257.9
Inventories	14	25.4	22.6
		292.6	**312.8**
Long-term assets			
Long-term investments, net	15	18.3	16.5
Aircraft lease deposits	4	20.2	32.3
Other non-current assets	11, 12	12.3	13.8
Property, plant and equipment, net	16	768.8	801.8
		819.6	**864.4**
Total assets		**1,112.2**	**1,177.2**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	17	382.0	432.8
Short-term borrowings	18	131.1	64.8
Current portion of finance leases payable	19	49.5	44.5
		562.6	**542.1**
Long-term liabilities			
Long-term borrowings		3.2	3.2
Finance leases payable	19	339.4	390.5
Non-current accounts payable and accrued liabilities	17	83.3	69.0
Deferred tax liability	11	38.4	97.1
		464.3	**559.8**
Minority interest	**20**	**7.6**	**7.0**
Shareholders' equity			
Ordinary shares	21	51.6	51.6
Retained earnings	22	26.1	16.7
		77.7	**68.3**
Total liabilities and shareholders' equity		**1,112.2**	**1,177.2**

V.M.Okulov
General Director

N.A.Kuznetsov
Deputy General Director
Finance and Planning

31 May 2002

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December 2001	Year ended 31 December 2000
	$ million	**$ million**
Cash flows from operating activities:		
Income before taxation and minority interest	10.7	39.5
Adjustments to reconcile income before taxation and minority interest to net cash provided by operating activities:		
Depreciation of property, plant and equipment	104.4	104.7
Loss on disposal of property, plant and equipment	8.7	4.1
Increase (decrease) in provisions and asset impairments	22.5	(49.4)
Accrued interest expense	2.3	0.7
Share of income in associated undertakings	(6.3)	(7.8)
Increase in accounts receivable	(104.9)	(41.8)
Increase in inventories	(2.8)	(8.0)
Increase in accounts payable and accrued liabilities	13.2	48.7
Profits tax paid	-	(4.7)
Net cash provided by operating activities	47.8	86.0
Cash flows from investing activities:		
Purchases of property, plant and equipment and intangible assets	(80.6)	(72.5)
Proceeds from sale of property, plant and equipment	1.3	6.0
(Acquisition) disposal of short-term investments, net	(3.5)	0.3
Acquisition of long-term investments, net	(3.0)	-
Dividends received	5.0	0.5
Net cash used in investing activities	(80.8)	(65.7)
Cash flows from financing activities:		
Capital element of finance lease	(46.1)	(42.5)
Dividends paid	(0.3)	(2.5)
Proceeds from (repayment of) borrowings	66.3	(4.9)
Net cash provided by (used in) financing activities	19.9	(49.9)
Change in cash and cash equivalents	**(13.1)**	**(29.6)**
Beginning of the year	34.8	64.6
Effect of exchange rate change	(0.5)	(0.2)
Cash and cash equivalents	**21.2**	**34.8**
Supplemental cash flow information:		
Interest paid	(42.5)	(47.9)
Interest received	1.5	0.9

Note:

Included in Cash and cash equivalents as of 31 December 2001 and 2000 are $1.0 million and $4.1 million, respectively, of restricted cash held by the Company's representative offices abroad. Restrictions are due to the specific local currency regulations. Restricted cash was classified as "Other non-current assets" in the accompanying consolidated balance sheets.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital $ million	Revaluation reserve $ million	Retained Earnings $ million	Total $ million
At 31 December 1999	**51.6**	**17.1**	**(9.0)**	**59.7**
Transfer	-	(17.1)	17.1	-
Income	-	-	8.6	8.6
Dividends - 2000 (Note 22)	-	-	-	-
At 31 December 2000	**51.6**	**-**	**16.7**	**68.3**
Effect of IAS 39 initial application (i)	-	-	(9.6)	(9.6)
Income	-	-	20.1	20.1
Dividends - 2000 (Note 22)	-	-	(1.1)	(1.1)
Dividends - 2001 (Note 22)	-	-	-	-
At 31 December 2001	**51.6**	**-**	**26.1**	**77.7**

i) At 1 January 2001 the Group changed its accounting policy with respect to the measurement of financial instruments in order to comply with IAS 39, "Financial Instruments: Recognition and Measurement". As of 1 January 2001 the Group had lease deposits which were previously recorded at cost. As of 1 January 2001 the Group re-measured those assets at amortised cost (refer also to Note 4). The adjustment of the previous carrying amount to amortised cost, net of $5.4 million tax, is recognised as a prior year adjustment.

1. NATURE OF THE BUSINESS

Aeroflot Russian Airlines ("the Company"), formerly Aeroflot Russian International Airlines, was formed as a joint stock company following a governmental decree in 1992. The 1992 decree conferred all rights and obligations of Aeroflot Soviet Airlines and its structural units, excluding its operations in Russia and Sheremetevo Airport, to the Company, including inter-government bilateral agreements and agreements signed with foreign airlines and enterprises in the field of civil aviation. The principal activity of the Company is the provision of passenger and cargo air transportation services both domestically and internationally and other aviation services from its base at Moscow Sheremetevo Airport. The Company and its subsidiaries (collectively "the Group") also includes activities comprising airline catering and the operation of a hotel. Associated undertakings mainly comprise hotel and duty free retail businesses.

At 31 December 2001 and 2000, the Government of the Russian Federation owned 51% of the Company. The Company's headquarters are located in Moscow at Leningradsky Prospect 37. The average number of employees in the Company during 2001 was approximately 15.3 thousand.

The table below provides information on the Group's aircraft fleet as of 31 December 2001:

Type of aircraft	Ownership	Aeroflot Russian Airlines (quantity)	Aeroflot-Don (quantity)	Group total (quantity)
Ilyushin Il-96-300	Owned	6	-	6
Ilyushin Il-62M	Owned	13	-	13
Ilyushin Il-86	Owned	14	-	14
Ilyushin Il-76 TD (cargo)	Owned	10	-	10
Tupolev Tu-154	Owned	24	11	35
Tupolev Tu-134	Owned	12	5	17
Antonov An-12	Owned	-	3	3
Airbus A-310	Finance lease	4	-	4
Boeing 737-400	Finance lease	10	-	10
Tupolev Tu-134	Operating lease	4	-	4
Airbus A-310	Operating lease	7	-	7
Boeing 767-36 NER	Operating lease	4	-	4
Boeing 777-2Q8	Operating lease	2	-	2
		110	**19**	**129**

2. RUSSIAN ENVIRONMENT AND ECONOMIC CONDITIONS

General

Over the past decade Russia has undergone substantial political, economic and social changes. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The current Government is attempting to address these issues; however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result, and as reflected in the Government's debt default and Ruble devaluation in 1998, operations in Russia involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, and continuing inflation. The Group will continue to be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets, and the ability of the Group to maintain or pay its debts as they mature. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Group's financial statements in the period when they become known and can be reasonably estimated.

Currency exchange and control
Foreign currencies, in particular the US Dollar, play a significant role in the underlying economics of many business transactions in Russia. Following the 1998 economic crisis, the Ruble's value fell significantly against the US Dollar, falling from a pre-crisis rate of approximately 6 Rubles to 1 US Dollar, to 27 Rubles to 1 US Dollar by the end of 1999. During 2000 and 2001, the Ruble's value fluctuated between 26.9 and 30.3 to 1 US Dollar. As of 31 May 2002, the exchange rate was 31.31 Rubles to 1 US Dollar.

The following table summarizes the exchange rate of the Ruble to 1 US Dollar for the years ended 31 December 2001, 2000 and 1999.

At December 31 --	Exchange rate
2001	30.14
2000	28.16
1999	27.00

The Group's principal currency exchange rate risks are the ability to recover the investments in non-monetary assets, specifically Property, Plant and Equipment, as well as exposure to currency exchange losses and the ability to repay its foreign currency denominated obligations (primarily aircraft finance lease obligations).

The Central Bank of Russia has established strict currency control regulations designed to promote the commercial utilization of the Ruble. Such regulations place restrictions on the conversion of Rubles into foreign currencies and establish requirements for conversion of foreign currency sales to Rubles.

Inflation
The Russian economy has been characterized by relatively high rates of inflation. The following table summarizes the annual rate of inflation for the past three years:

For the years ended December 31 --	Annual inflation
2001	18.8%
2000	20.2%
1999	36.5%

The Company's principal inflation rate risk relates to the Company's ability to raise tariffs for tickets sold in Russia in line with the growth of operating expenses caused by inflation. In the event high levels of inflation continue, the Company could have financial difficulties accompanied by further deterioration in its results of operations and liquidity position.

3. LIQUIDITY AND MANAGEMENT PLANS

At 31 December 2001, the Group had a working capital deficiency of $270.0 million (2000: $229.3 million). During 2001, the Group's working capital deficiency deteriorated by $40.7 million. Several factors, which were not related to current operating activities of the Group, contributed to this deterioration:

i) as further described in Note 16 the Group performs construction site preparation works as part of Sheremetievo-3 terminal construction project. The 2001 capital expenditures, amounting to $5.9 million, were financed by working capital. In addition to capital expenditures related to Sheremetievo-3 project, other construction works amounting to $9.5 million performed by the Group in 2001 have also been financed by working capital.

ii) the Group purchases spare parts and performs major overhauls of its fleet. During 2001, vendors did not provide long-term financing with respect to such operations, therefore, capital expenditures have been partially financed from working capital.

To improve the current liquidity, subsequent to 31 December 2001, the Group issued bonds with two years maturity (see also Note 26). Management believes that this will allow the Group to properly structure its obligations considering the cyclical nature of its business.

To implement a new corporate vision and strategy, the Group continued rescheduling its network. Several new routes expected to be profitable were opened while 18 unprofitable routes were closed in 2001. Frequencies of flights were increased significantly which resulted in improved breadth and depth of the Group's network. Aircraft utilisation increased by approximately 4.9 percent in 2001 compared to 2000 and is expected to further increase in 2002. Route connections improved by 7.9 percent in 2001 and are planned to increase further. In 2001 the overall load factor reached 65.3 percent. Management expects the load factor to further increase up to 68% in 2002. In late 2000 the Company reconsidered its target customers as high classes passengers. In 2001 the share of higher classes passengers reached 19 percent for European routes. The Company continues campaign to increase further a share of higher classes passengers.

Management of the Group has developed a cost reduction program aimed at reducing operating costs in 2002 and subsequent years. In particular, increased efficiency of fleet utilization is expected to result in a reduction of fuel costs, which is a major component of the Group's operating expenses. Management is also focused on the improvement of internal controls over such expenses.

The Group also intends to convert the remaining depository certificates of Equant N. V. into 511,922 France Telecom's shares and further to sell them. The market value of 511,922 France Telecom's shares as of 31 May 2002 is approximately $9.9 million (see also Note 15), while the carrying value of investments in Equant N.V. depository certificates is nil.

Taken together, the actions to date and management plans for the future will be sufficient to improve the profitability of operations and allow the Group to continue to meet all of its obligations to its customers and counterparties. In management's opinion, it is appropriate to prepare the accompanying consolidated financial statements on the basis of a going concern.

4. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

Basis of preparation
The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS). The consolidated financial statements are presented in millions of US Dollars. All significant subsidiaries under legal and/or actual control of the Company are included in the consolidated financial statements. A listing of the Group's principal subsidiaries is set out in Note 28.

The Group maintains its accounting records and prepares its statutory accounting reports in accordance with Russian accounting legislation and instructions (RAL) or locally applicable accounting legislation or practices in Russian Rubles. The accompanying consolidated financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with the standards prescribed by the International Accounting Standards Board. The statutory amounts of non-monetary assets and liabilities have been adjusted to their historical cost denominated in US Dollars, the measurement currency of the Group, except in the case of owned aircraft fleet and engines owned by the Group at 31 December 1995, which have been independently appraised and valued in US Dollars, so as to present the financial statements in accordance with IFRS.

Measurement currency
The US Dollar has been determined as the measurement currency of the Company on the basis that the majority of revenues are denominated in US Dollars and settled in US Dollars or other foreign currency, the majority of assets and liabilities are denominated in foreign currency, as is a significant portion of operating expenses. Transactions and balances not already measured in US Dollars have been remeasured to US Dollars in accordance with IAS 21, "The Effect of Changes in Foreign Exchange Rates". Since US Dollars are not the currency of a hyperinflationary economy, the provisions of IAS 29 "Financial Reporting in Hyperinflationary Economies" have not been applied.

Accordingly, the Group's financial statements are presented in US Dollars, the measurement currency of the Company determined in accordance with IASC Interpretation SIC 19 "Reporting Currency – Measurement and Presentation of Financial Statements under IAS 21 and IAS 29" ("SIC 19").

As of 1 January 2001 ZAO Aeromar, a subsidiary of the Company (refer also to Note 28), changed its' accounting policy with respect to the currency in which its financial statements are measured and presented in order to comply with SIC 19. Previously, the subsidiary used the US Dollar for measuring and presenting items in its financial statements. However, to comply with SIC 19, ZAO Aeromar started to use the Russian Ruble as the measurement currency which resulted in the restatement of the standalone financial statements of the subsidiary as of 31 December 2000 and for the year then ended. The effect of the change of accounting policy of the subsidiary was not material to the Group's financial statements. Therefore, the financial statements of the Group as of 31 December 2000 and for the year then ended were not restated.

Consolidation
Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations are consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. Where a partly owned subsidiary has a net asset deficiency the deficiency is attributed to the Group in full and no amount is assigned to the minority interest. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies are eliminated.

Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made for minority interests.

Investments in associates
Associates in which the Group has significant influence but not a controlling interest are accounted for using the equity method of accounting. Significant influence is usually demonstrated by the Group owning, directly or indirectly, between 20 per cent and 50 per cent of the voting share capital or by exerting significant influence through other means. The Group's share of the net income or losses of associates is included in the consolidated statement of operations, and the Group's share of the net assets of associates is included in the consolidated balance sheet. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates and unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

A listing of the Group's principal associated undertakings is shown in Note 28.

Management estimates
The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and the reported amounts of revenues and operating costs during the reporting period. The most significant estimates relate to realisability and depreciable lives of property, plant and equipment, provision for bad and doubtful accounts, calculation of revenue from other airline revenue agreements and deferred taxation. Actual results could differ from these estimates.

Revenues
Passenger ticket and cargo waybill sales, net of discounts, are recorded as sales in advance of carriage under current liabilities until recognised as revenue when the transportation service is provided. Commission costs are recognised at the time of ticket sale and are charged to operating costs.

Other revenue is recognised at the time the service is provided.

Segment reporting
For the purposes of segment disclosure the Group determined the following segments:

a) Business segments
The principal business segments are airline operations, airline catering and hotel operations.

b) Geographical segments
The operations of all segments are based in the Russian Federation. With respect to scheduled passenger and cargo activities, the following geographical analysis is provided:

i) *Geographical analysis of turnover from flights* The analysis of turnover from scheduled flights is based upon the geographical location of the place of flight origin.

ii) *Geographical analysis of net assets* The major revenue-earning assets of the Company are comprised of the aircraft fleet. Since the Company's aircraft fleet is employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and liabilities to geographical segments.

Property, plant and equipment
Property, plant and equipment is stated at cost or valuation as described below which do not exceed their estimated net realisable value. Depreciation is calculated to write off the cost or valuation (less estimated salvage value where applicable) over the remaining useful lives of the assets (the useful lives for the fleet range from 11 to 25 years).

a) *Fleet*
   i) *Owned aircraft and engines* Aircraft and engines owned by the Group at 31 December 1995 were stated at depreciated replacement cost based upon external valuations denominated in US Dollars. Subsequent purchases are recorded at cost. The valuation was conducted by Airclaims, an international firm of aircraft appraisers. The Group has chosen not to re-value these assets subsequent to 1995. The 1995 revaluation reserve has been utilised to absorb the depreciation of revaluation adjustments made in 1995.

   ii) *Finance leased aircraft and engines* Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The Group recognises finance leases as assets and liabilities in the balance sheets as amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding obligation, reduced by the capital portion of lease payments made, is included in payables. The interest element of the lease payments made is included in interest expense in the statement of operations.

   iii) *Capitalised maintenance costs* The valuation of the aircraft and engines at 31 December 1995 reflects the maintenance condition as measured on the basis of previous expenditure on major overhauls and the estimated usage since the previous major overhaul. Amounts spent on major maintenance overhauls subsequently have been capitalised and depreciated to the projected date of the next overhaul. Other maintenance costs are expensed as incurred.

   iv) *Depreciation* The Group depreciates fleet assets owned or held under finance leases on a straight-line basis to the end of their estimated useful life. Salvage value for the foreign fleet is estimated as 5% of the historic cost, while salvage value for Russian aircraft is zero. Engines are depreciated on a straight-line basis to the end of the useful life of the related type of aircraft. Operating lives for the Russian fleet range from 11 to 25 years, for the foreign fleet – 16 years to 20 years. These lives will be reviewed periodically.

b) *Land and buildings, plant and equipment and other assets under construction*
   Property and equipment is stated at historical US Dollar cost. Provision is made for the depreciation of property, plant and equipment based upon expected useful lives or, in the case of leasehold properties, over the duration of the leases. These useful lives range from 10 to 20 years.

Impairment of assets
At each balance sheet date an assessment is made as to whether there is any indication that the Group's assets may be impaired. If any such indication exists, an assessment is made to establish whether the recoverable amount of the assets has declined below the carrying amount of those assets as disclosed in the financial statements. When such a decline has occurred, the carrying amount of the assets is reduced to the recoverable amount. The amount of any such reduction is recognized immediately as an expense in the statement of operations. Any subsequent increase in the recoverable amount of the assets would be written back when the circumstances that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

The recoverable amount is determined as the higher of the assets' net selling price and value in use. The value in use of the assets is estimated based on forecast future cash inflows and outflows to be derived from continuing use of the assets and from the estimated net proceeds on disposal, discounted to present value using an appropriate discount rate.

Lease deposits
Lease deposits represent amounts in foreign currency paid to the lessors of foreign aircraft, which are held as security deposits by lessors in accordance with the provisions of finance and operating lease agreements. Part of these deposits in amount of $11.2 million as of 31 December 2001 are interest-free. Interest-free deposits have been recorded at amortized cost using average market yield of 5.9%.

Operating leases
Payments under operating leases are charged to the statement of operations in equal annual amounts over the period of the lease.

Investments
The Group adopted IAS 39, "Financial Instruments: Recognition and Measurement" on 1 January 2001. Accordingly, investments are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale.

The Group had no securities classified as trading securities or held-to-maturity at 31 December 2001 and 2000. Available-for-sale investments are stated at market value determined on an individual investment basis. Investments in equity instruments of other companies that do not have a quoted market price are stated at cost less impairment loss since it is not practicable to determine the fair value of such investments. Unrealized gains and losses are included in the determination of net income. Income from available-for-sale investments is included in other non-operating income in the consolidated statement of operations.

Inventories
Inventories are valued at the lower of cost or net realisable value as determined by the "first-in, first-out" method. Inventories are reported net of provisions for slow moving or obsolete items.

Accounts receivable
Receivables are stated in the balance sheet at the fair value of the consideration given and are carried at amortized cost, after provision for impairment. Bad debts are written off in the period in which they are identified.

Financial instruments
Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, borrowings, investments, and notes payable. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

a) Credit risks

The sale of passage and freight documents is largely processed through agencies which are normally linked to country-specific clearing systems for the settlement of passage and freight sales. Individual agents operating outside of the Russian Federation are checked by clearing centres. Individual agents operating in the Russian Federation are checked in-house.

Receivables and liabilities between major airlines, unless otherwise stipulated in the respective agreements, are settled on a bilateral basis or by settlement through a clearing house of the International Air Transport Association (IATA).

The Group has a significant amount of non-trade related accounts receivable, the recovery of which could be influenced by economic factors. Management however believes there are no significant risks of loss for bad debt to the Group beyond the provisions already made.

b) Fair value

The fair value of financial instruments is determined with reference to various market information and other valuation methods as considered appropriate. At balance sheet date, the fair values of financial instruments held by the Group did not materially differ from their recorded book values.

Management does not believe that it is practicable to estimate the fair value of the Group's long term investments in share capital of certain Russian companies. These instruments are not traded in the Russian financial markets and an objective estimate of fair value is not available.

c) Foreign exchange risk

A majority of sales and purchases are denominated in US Dollars and hence the foreign exchange risk to the Group is minimised. Borrowings are all denominated in US Dollars further reducing foreign currency exposure in US Dollar terms. The Group does not manage foreign exchange risk through the use of hedging instruments but rather matches revenues and expenses in the same currency to limit exposure.

d) *Interest rate risk*

The Group's main exposure to interest rate risk is from its finance lease liabilities and short term borrowings. The Group does not use financial hedging instruments as they are not currently available on the Russian market. The Group manages its interest rates exposure by fixing interest rates on its liabilities under a portion of its aircraft lease agreements.

Foreign currency translation

Monetary assets and liabilities denominated in currencies other than US Dollars at the balance sheet date are translated into US Dollars at the year-end exchange rate. Exchange differences arising from the settlement of transactions denominated in currencies other than the US Dollar are included in the results at the settlement date using the exchange rate prevailing at that time. Translation differences arising from the above procedures are credited/charged to the statement of operations.

Profit tax

The profit tax rate for industrial enterprises in Russia in 2000 was 30%. From 1 January 2001 to 31 December 2001 the profit tax rate for industrial enterprises in Russia was 35%. Starting from 1 January 2002 the rate has been decreased to 24%.

Deferred profit taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences in accordance with IAS 12, "Income Taxes", Revised 1996 ("IAS 12"). IAS 12 requires the use of a 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. Therefore as of 31 December 2001 deferred tax assets and liabilities have been measured based on 24% tax rate.

Employee benefits

The Company makes certain payments to employees on retirement, or when they otherwise leave the employment of the Company. These obligations, which are unfunded, represent obligations under a defined benefit pension scheme. For such plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of operations so as to spread the regular cost over the average service lives of employees. Actuarial gains and losses are recognized in the statement of operations immediately.

Where such post-employment employee benefits fall due more than 12 months after the balance sheet date, they are discounted using a discount rate determined by reference to the average market yields at the balance sheet date.

The Company also participates in a defined contribution plan under which the Company has committed to contribute a certain percentage (from 15% to 20% in 2001) of contribution made by an employee choosing to participate in the plan. Contributions made by the Company on defined contribution plans are charged to expense when incurred.

Contributions are additionally made to the Government's social and medical insurance, retirement benefit plans at the statutory rates in force during the year. The costs of these benefits are charged to the statement of operations as incurred.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand and balances with banks and short-term interest bearing accounts which are used in the day to day financing of the Group's airline activities.

Value Added Taxes

Value added taxes related to sales are payable to the tax authorities upon reflection of sales. Input VAT is reclaimable against output VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. Output VAT payable and input VAT related to purchase transactions which have not been settled at the balance sheet date are recognised in the balance sheet on a gross basis.

Frequent Flyer Program

The Company records an estimated liability for the incremental cost associated with providing free transportation under the "Aeroflot Bonus" program (see also Note 17) when a free travel award is earned. Principal incremental costs include aircraft fuel costs, third-party passenger services (such as catering services) and sales and marketing. The liability is included in accounts payable and accrued liabilities, and is adjusted periodically based on awards earned, awards redeemed and changes in the "Aeroflot Bonus" program. The costs are included in sales and marketing expenses in the statement of operations.

Earnings per share

Earnings per share are calculated by dividing the income for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Borrowing costs

Borrowing costs are expensed as incurred unless relating to loans which fund capital projects. To the extent borrowing costs are directly attributable to qualifying assets they are capitalized with the relevant asset from the date the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred until the related qualifying asset is substantially ready for its intended use and are subsequently charged to the statement of operations in the period over which the asset is depreciated.

Provisions

A provision is recognised when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Subsequent events

Post-year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Reclassifications

Certain reclassifications were made to 2000 balances to conform with the 2001 presentation.

5. TRAFFIC REVENUE

By sector	2001 $ million	2000 $ million
Scheduled flights:		
Passengers	1,071.1	920.1
Cargo	74.5	92.4
Charter flights:		
Passengers	44.6	36.3
Cargo	30.9	25.4
	1,221.1	**1,074.2**

By region

a) Scheduled passenger revenue

	2001 $ million	2000 $ million
International flights from Moscow to:		
Europe	218.9	174.8
Asia	105.9	99.5
North America	51.3	50.0
Other	44.5	41.5
International flights to Moscow from:		
Europe	213.2	173.1
Asia	112.1	105.0
North America	47.0	44.7
Other	46.3	42.7
Other international flights	20.2	23.8
Domestic flights	211.7	165.0
	1,071.1	**920.1**

b) Scheduled cargo revenue

	2001 $ million	2000 $ million
International flights from Moscow to:		
Europe	6.1	7.6
Asia	3.2	3.4
North America	3.1	5.3
Other	1.8	2.0
International flights to Moscow from:		
Europe	10.2	7.0
Asia	20.5	26.8
North America	3.2	2.5
Other	3.1	3.4
Other international flights	11.1	23.6
Domestic flights	12.2	10.8
	74.5	**92.4**

6. OTHER REVENUE

By sector	2001	2000
	$ million	$ million
Airline revenue agreements	273.5	272.4
Ground handling and maintenance	15.6	14.8
Catering services	14.6	14.2
Hotel revenue	9.1	8.2
Re-fuelling services	10.4	6.8
Other revenue	13.7	16.3
	336.9	**332.7**

Airline revenue agreements represent primarily revenue from pooling agreements.

Included in other revenue for 2001 and 2000 is revenue from management services provided by the Company to its associated undertaking Aerofirst in the amount of $2.3 million and $2.1 million, respectively.

7. OPERATING COSTS

	2001	2000
	$ million	$ million
Aircraft fuel	358.7	335.4
Aircraft and traffic servicing	259.3	240.5
Maintenance	112.5	94.1
Sales and marketing	110.7	92.0
Operating lease expenses	99.5	100.5
Administration and general expenses	83.2	64.0
Operating taxes	56.9	82.6
Third-party passenger services	41.5	34.4
Communication expenses	35.9	32.2
Increase in (release of) provision for bad and doubtful accounts	5.6	(34.2)
Other expenses	54.5	32.4
	1,218	**1,073**

Release of provision for doubtful accounts receivable in 2000 includes $57.0 million release of provision for accounts receivable which were realised from the repayment of a long-term loan (see also Note 10).

Sales and marketing expenses include incremental costs associated with providing free transportation under the frequent flyer "Aeroflot Bonus" program related to free travel awards earned during the year. These costs amounted to $4.6 million in 2001 and $nil in 2000 as the program had only been launched in late 1999 and the incremental costs related to free travel awards earned as of 31 December 2000 were immaterial.

8. STAFF COSTS

	2001 $ million	2000 $ million
Wages and salaries	152.8	111.8
Social security costs	12.5	7.0
Pension costs	29.9	27.4
	195.2	**146.2**

The Company continued participation in a non-government pension fund to provide additional pensions to some of its employees upon their retirement. The pension fund requires contributions from both employees and the Group and is a defined contribution scheme for the employer. In 2001 and 2000, the Company made pension contributions to the fund amounting to $0.5 million and $0.7 million, respectively.

Further, the Company makes payments, on retirement, to employees participating in the plan with three or more years service. These obligations, which are unfunded, represent obligations under a defined benefit pension scheme. As of 31 December 2001 an accrual of $1.0 million, representing the net present value of the future benefits the Company expects to pay, has been included in wages and social contributions payable in the amount of $0.3 million (current portion) and in non-current accounts payable and accrued liabilities in the amount of $0.7 million (long-term portion).

9. INTEREST EXPENSE

	2001 $ million	2000 $ million
Finance leases	28.6	37.9
Short-term bonds	3.2	-
Long-term borrowings	0.3	4.1
Short-term borrowings	12.8	6.7
	44.9	**48.7**

10. NON-OPERATING INCOME, NET

By income (expense)	2001 $ million	2000 $ million
Loss on fixed assets disposal, net	(7.3)	(4.0)
Dividend income	0.5	0.5
Gain from long-term investments disposals, net (ii)	-	10.7
Loss from short-term investments disposals, net (ii)	-	(11.1)
Other income and expenses, net (i)	10.6	13.3
	3.8	**9.4**

i) In September 2001 an aircraft Ilyshin-86 was damaged while emergency landing in Dubai, United Arab Emirates. The aircraft is not subject to restoration. Included in other income and expenses is the insurance compensation received amounting to $6.1 million, net of the carrying value of the aircraft written-off of $0.5 million and costs associated with the accident of $0.7 million.

In 2001 the Company received insurance compensation amounting to $4.5 from the Ministry of Foreign Affairs of the Russian Federation in respect of lost profits in the region of Kuwait as a result of the Iraq invasion in 1990.

ii) In December 1998, the Government of the Russian Federation included all of the foreign debts of the Company's subsidiary Sherotel in the Paris Club arrangements. In return, the Company signed a loan agreement with the Ministry of Finance of the Russian Federation for $76.5 million. Under the terms of the agreement, the Company acquired the outstanding obligations of JSC "Sherotel" to the government of the Russian Federation on debts to foreign creditors. This loan was to be repaid in

2001 through 2012 in accordance with the agreed repayment schedule. The loan's contractual interest equalled six month LIBOR plus 13/16 of a percent, due semi-annually.

During 2000, the Company together with the Ministry of Finance of the Russian Federation agreed a settlement of the debt and the loan was repaid in full during 2000. As part of the settlement agreement the Company transferred old accounts receivable totalling approximately $57 million which were previously fully provided. As a result, the Company reduced its bad debt reserves by $57 million in the accompanying consolidated statement of operations for the year ended 31 December 2000 (see also Note 7). The Company also transferred bonds which were recorded at nil carrying value at a profit $8.0 million (included in gain from long-term investments disposals, net) and short-term investments at a net loss of $12.3 million (included in loss from short-term investments disposals, net).

11. TAXATION

	2001	2000
	$ million	**$ million**
Current income tax charge	(41.9)	(35.1)
Deferred income tax benefit	56.1	9.6
Share of income taxes of associated companies	(3.1)	(3.1)
	11.1	**(28.6)**

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

	2001	2000
	$ million	**$ million**
Income before taxation and minority interest	10.7	39.5
Theoretical tax loss at statutory rate of 35% for the year ended 31 December 2001 and of 30% for the year ended 31 December 2000	(3.7)	(11.9)
Effect of tax rate decrease from 35% to 24% for 2001 and increase from 30% to 35% for 2000	15.2	(13.5)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible foreign exchange losses	(5.3)	(3.1)
Non-deductible expenses	(15.5)	(20.2)
(Increase) release of provision for doubtful accounts	(7.2)	15.2
(Increase) reduction of accruals	(5.4)	2.1
Revaluation of aircraft engines for statutory purposes	22.4	-
Revaluation of hotel building for statutory purposes	9.0	-
Non-taxable income	2.3	-
Other non-temporary differences	(0.7)	2.8
Taxation	**11.1**	**(28.6)**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. As described in Note 4 starting 1 January 2002 the profit tax rate in Russia has been decreased from 35% to 24%. The tax effect of the movement on these temporary differences is recorded at the rates of 24% and 35% for the years ended 31 December 2001 and 2000, respectively. The impact of the tax rate decrease on deferred tax liabilities, net as of 31 December 2001 is $15.2 million.

The increase in deferred tax liabilities by $13.5 million as of 31 December 2000 is the result of profit tax rate increase from 30% in 2000 to 35% starting from 1 January 2001.

The Company performed revaluation of owned aircraft engines as of 1 January 2001 for Russian statutory accounting and tax purposes. In addition, one of its subsidiaries, ZAO "Sherotel", performed statutory revaluation of the hotel building as of 1 January 2001. The results of these revaluations did not affect (and will not affect in the future) the carrying value of the assets reflected in the financial statements prepared in accordance with IFRS. These revaluations resulted in an increase of tax base of assets being revalued and, therefore, in the decrease of the difference between the carrying value of the assets reflected in the accompanying balance sheet as of 31 December 2001 and their tax base. Accordingly, deferred tax liability as of 31 December 2001 decreased. Tax effect of the change in the tax base of aircraft engines amounted to $22.4 million and of the change in tax base of the building to $9.0 million.

On 1 January 2001 the Group changed its accounting policy with respect to financial instruments measurement in order to comply with IAS 39, "Financial Instruments: Recognition and Measurement". As of 1 January 2001 the Group had interest-free lease deposits which were previously recorded at cost which were re-measured at amortised cost. Remeasurement resulted in a negative difference between the carrying value of lease deposits and their tax base and, accordingly, resulted in the deferred tax asset. The deferred tax effect of the change in carrying value of lease deposits of $5.4 million is recorded as an adjustment of the balance of Retained earnings at the beginning of 2001.

	2001	**Movement**	**2000**	**Movement**	**1999**
	$ million	**$ million**	**$ million**	**$ million**	**$ million**
Tax effects of temporary differences:					
Property, plant and equipment	(33.4)	46.9	(80.3)	3.0	(83.3)
Long-term investments	(13.1)	9.3	(22.4)	(0.6)	(21.8)
Inventories	(5.0)	(4.8)	(0.2)	(2.3)	2.1
Accounts receivable	(9.7)	9.7	(19.4)	3.0	(22.4)
Borrowings	5.6	5.6	-	-	-
Accounts payable	22.6	(5.2)	27.8	6.5	21.3
Net deferred tax (liabilities) assets	(33.0)	61.5	(94.5)	9.6	(104.1)
Total deferred tax assets	**5.4**	**2.8**	**2.6**	**2.6**	-
Total deferred tax liabilities	**(38.4)**	**58.7**	**(97.1)**	**7.0**	**(104.1)**

Deferred tax asset relates to the difference in carrying value of property, plant and equipment and their tax base of the Company's subsidiaries. Deferred tax assets are included in Other non-current assets in the accompanying balance sheets.

12. CASH AND CASH EQUIVALENTS

	2001	2000
	$ million	$ million
Ruble bank accounts	5.3	9.1
Currency bank accounts	12.0	19.1
Cash equivalents	2.9	2.5
	20.2	**30.7**

Included in Other non-current assets as of 31 December 2001 and 2000 are approximately $1.0 million and $4.1 million, respectively, of restricted cash held by the Company's representative offices abroad. Restrictions are due to the specific local currency regulations.

13. ACCOUNTS RECEIVABLE AND PREPAYMENTS, NET

	2001	2000
	$ million	$ million
Trade receivables	116.5	118.1
Other receivables	21.3	25.7
Prepayments and accrued income	60.6	53.9
Provision for bad and doubtful accounts	(45.9)	(40.3)
	152.5	157.4
VAT and other taxes recoverable	89.4	100.5
	241.9	**257.9**

14. INVENTORIES

	2001	2000
	$ million	$ million
Fuel	7.3	7.0
Other inventory	18.1	15.6
	25.4	**22.6**

15. LONG-TERM INVESTMENTS, NET

Movements in the net book value of long-term investments consist of the following:

	Associates equity	Other equity	Other	Total
	$ million	$ million	$ million	$ million
1 January 2000	**13.2**	**1.5**	**0.3**	**15.0**
Additions	-	0.5	-	0.5
Share of undistributed income	4.7	-	-	4.7
Dividends received	(3.1)	-	-	(3.1)
Disposals	(0.3)	-	(0.3)	(0.6)
31 December 2000	**14.5**	**2.0**	**-**	**16.5**
Additions	-	0.8	2.3	3.1
Share of undistributed income	3.2	-	-	3.2
Dividends received	(4.5)	-	-	(4.5)
31 December 2001	**13.2**	**2.8**	**2.3**	**18.3**

A list of the principal subsidiaries and associates is included in Note 28. Net book value is stated after the following provisions for permanent diminution in the value:

31 December 2001	**0.5**	**2.0**	**1.0**	**3.5**
31 December 2000	**0.5**	**2.8**	**1.0**	**4.3**

As of 31 December 2001 and 2000, the Company owned 1,123,241 depository certificates representing an economic interest in Class A shares of Equant N. V., a subsidiary of SITA (Societe Internationale de Telecommunications Aeronautiques) providing communication services to various international airlines. The certificates were distributed free of charge to participating airlines proportionally to their use of SITA services during the period 1990 – 1994. The Company reflects its investments in the depository certificates at cost (nil) in the accompanying consolidated balance sheets as those deposits do not have a quoted market price in an active market and their fair value cannot be reliably measured.

In 2001 SITA was reorganized by merging with France Telecom. Reorganization implies exchange of shares of SITA and its subsidiaries for shares of France Telecom. Under this reorganization, the depository certificates of Equant N.V. are to be exchanged for 511,922 shares of France Telecom. The market value of France Telecom shares as of 31 December 2001 quoted at Paris Stock Exchange the was EUR 44.9 per share, or $41.3 (EUR 20.77, or $19.38 per share as of 31 May 2002).

16. PROPERTY, PLANT AND EQUIPMENT, NET

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Plant, equipment and other	Assets under construction (ii)	Total
	$ million	$ million	$ million	$ million	$ million	$ million
Cost or valuation						
31 December 1999	462.5	627.1	143.5	192.9	13.7	1,439
Additions	26.7	-	0.4	14.8	9.5	51.4
Capitalised overhaul costs	17.2	4.5	-	-	-	21.7
Transfers	-	-	-	0.3	(0.3)	-
Disposals	(27.2)	-	-	(18.1)	(1.0)	(46.3)
31 December 2000	479.2	631.6	143.9	189.9	21.9	1,466
Additions	30.6	-	0.2	11.1	15.4	57.3
Capitalised overhaul costs	16.4	8.5	-	-	-	24.9
Transfers	-	-	9.5	0.6	(10.1)	-
Disposals	(20.4)	-	(3.2)	(9.1)	-	(32.7)
31 December 2001	505.8	640.1	150.4	192.5	27.2	1,516
Depreciation						
31 December 1999	(281.7)	(191.5)	(25.8)	(89.7)	-	(588.7)
Charge for the year	(46.7)	(31.9)	(7.1)	(19.0)	-	(104.7)
Additions (i)	(4.0)	-	(0.1)	-	-	(4.1)
Disposals	19.1	-	-	13.7	-	32.8
31 December 2000	(313.3)	(223.4)	(33.0)	(95.0)	-	(664.7)
Charge for the year	(46.6)	(31.4)	(6.8)	(19.3)	-	(104.1)
Disposals	14.7	-	0.6	6.3	-	21.6
31 December 2001	(345.2)	(254.8)	(39.2)	(108.0)	-	(747.2)
Net book amount						
31 December 2001	**160.6**	**385.3**	**111.2**	**84.5**	**27.2**	**768.8**
31 December 2000	**165.9**	**408.2**	**110.9**	**94.9**	**21.9**	**801.8**

As of 31 December 2001 and 2000 fixed assets, principally Russian aircraft and engines, of approximately $12.3 million and $13.3 million, respectively, were pledged as collateral under short-term loan agreements.

i) Additions to depreciation represent the opening accumulated depreciation of fixed assets of the consolidated subsidiary (Aeroflot-Don). See also Note 28.

ii) Assets under construction include capital expenditures made by the Company under Sheremetievo-3 terminal construction project. Capital expenditures as of 31 December 2001 and 2000 amount to $10.3 million and $4.4 million, respectively, and mainly relate to construction site preparation works. Capital expenditures in 2001 related to the project were equal to $5.9 million.

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2001 $ million	2000 $ million
Trade payables and accruals (i)	179.8	233.5
Profit and other taxes payable	73.7	86.8
Sales in advance of carriage	51.5	46.7
Accrued expenses	19.8	4.5
Wages and social contributions payable	15.8	13.4
Other payables	13.9	19.2
Notes payable	13.0	19.8
Advances received	9.0	8.7
Frequent flyer program liability (ii)	4.6	-
Dividends payable	0.9	0.2
	382.0	**432.8**

i) As of 31 December 2001 the Group had payables to a Russian creditor in the amount of $59.3 million. This creditor was liquidated in 2000. Another entity was established to perform the functions of the liquidated entity. Part of the amount previously payable to the liquidated entity in the amount of $16.2 million was claimed by the new entity and the relevant agreement with respect to the change of the creditor was signed.

Currently, it is uncertain whether other amounts payable to the liquidated entity will be claimed by the newly established entity and in what amount. Management of the Company believes that the new entity is not a legal successor of the liquidated entity. In this case the Company's liabilities mentioned above may be significantly lower than the accounts payable reflected in the consolidated balance sheet as of 31 December 2001. The adjustments (if any) in respect to this uncertainty will be made in the financial statements when the outcome of the issue is known.

The major portion of the above mentioned payables originated before 1999. As of 31 December 2000 the balance outstanding was $66.2 million. In 2000 the Group signed an agreement with the creditor stipulating that only $21.9 million were due in 2001, thus, $21.9 million was included in current trade payables and accruals as of 31 December 2000. The remaining $44.3 million were classified as non-current accounts payable and accrued liabilities as of 31 December 2000. Based on the analysis of the situation as of 31 December 2001, management has included payables to the newly established entity of $16.2 million (see above) in current trade payables and accruals and the remaining portion of payables amounting to $43.1 million – in non-current accounts payable and accrued liabilities.

ii) The Company started frequent flyer program "Aeroflot Bonus" in 1999. As of 31 December 2001 and 2000 approximately 111,000 and 66,000 of passengers, respectively, participated in the program. Frequent flyer program liability as of 31 December 2001 represents incremental costs, which are included in sales and marketing expenses, associated with providing free transportation under "Aeroflot Bonus". As of 31 December 2000, this liability was immaterial.

18. SHORT-TERM BORROWINGS

	2001 $ million	2000 $ million
Bonds payable in Rubles (i)	20.0	-
Loans and credit lines in USD		
Moscow Narodny Bank Ltd. (ii)	40.0	-
Sindicated loan provided by Raiffeisenbank Austria, Kommerzbank (Eurasija) and Citibank (Moscow) (iii)	27.7	-
Savings Bank of the Russian Federation (iv)	-	22.7
Vnesheconombank (v)	-	6.0
Alfa Bank (vi)	-	5.0
Loans and credit lines in Rubles		
Savings Bank of the Russian Federation (vii)	31.5	1.3
Trust Investment Bank (viii)	5.0	-
Petrocommerzbank (ix)	3.3	-
Guta Bank (x)	2.1	0.8
Rosbank (xi)	-	18.5
Alfa Bank (xii)	-	5.4
Moscow Narodny Bank Ltd. (xiii)	-	5.1
Other	1.5	-
	131.1	**64.8**

Notes:

i) In March 2001 the Company issued 600,000 bonds at a par value of 1,000 Rubles per bond with maturity 374 days. Bonds were traded in the Moscow Interbank Currency Exchange. The bonds were repaid subsequently to the year-end by its maturity. The bonds' effective interest was 18 percent per annum. Interest accrued as of 31 December 2001 amounting to $838 thousand is included in accrued expenses.

ii) This balance consists of three credit lines. Two credit lines amounting to $10 million bear interest of 10 percent per annum and a credit line amounting to $30 million bears interest of 8.5 percent per annum.

iii) Loan bears interest of LIBOR + 4.7 percent. The effective interest rate for 2001 was 8.7 percent. It is secured by existing and future receivables from IATA originated under Counterindemnity agreement and Billing and Settlement Plan (BSP) and from a specified agent originated under Carrier Services Agreement for sales of tickets to the Company's flights abroad.

iv) Loan is bearing interest of 13 percent per annum. Fixed assets of $13.3 million pledged as a collateral under this loan agreement are disclosed in Note 16 above. The loan was repaid in 2001.

v) Unsecured loan bearing interest of 12 percent per annum paid in 2001.

vi) Unsecured loan bearing interest of 12.25 percent per annum paid in 2001.

vii) Loan bears interest of 17 percent per annum. The loan has been paid subsequently to year-end as it matured. Fixed assets of $12.3 million pledged as a collateral under this loan agreement are disclosed in Note 16.

viii) Unsecured loan bearing interest of 20 percent per annum. The loan has been paid subsequently to year-end as it matured.

ix) Unsecured loan bearing interest of 20 percent per annum payable in 2002.

x) In 2001 the Company was granted an unsecured overdraft loan with a limit of Rbl 100 million ($3.3 million at the exchange rate as of 31 December 2001). As of 31 December 2001, the balance drawn under this facility was $2.1 million payable in 2002 and bearing interest of 15 percent per annum. In 2000 the Company was granted a similar unsecured overdraft loan with the same limit and interest. As of 31 December 2000, the balance drawn under this facility was $0.8 million settled in 2001.

xi) In 2000, the Company was granted two unsecured overdraft loans with a limit of Rbl 100 million and Rbl 420 million ($3.6 million and $14.9 million, respectively, at the exchange rate as of 31 December 2000). As of 31 December 2000, the balances drawn under these facilities were $3.6 million and $14.9 million, respectively, bearing interest of 21 percent per annum and 20.8 percent per annum, respectively, and paid in 2001.

xii) In 2000, the Company was granted two unsecured overdraft loans with a limit of Rbl 100 million and Rbl 50 million ($3.6 million and $1.8 million, respectively, at the exchange rate as of 31 December 2000). As of 31 December 2000, the balances drawn under these facilities were $3.6 million and $1.8 million, respectively, bearing variable interest of 12.25-22.75 percent per annum depending on the length of the borrowing period and settled in 2001.

xiii) Unsecured loan bearing 18 percent per annum settled in 2001.

19. FINANCE LEASES PAYABLE

The Company leases foreign aircraft under the finance lease agreements. Leased assets are listed in Note 1 above.

	2001 $ million	2000 $ million
Total outstanding payments	525.1	604.6
Finance charge	(136.2)	(169.6)
Principal outstanding	**388.9**	**435.0**
Representing:		
Short-term lease payable	49.5	44.5
Long-term lease payable	339.4	390.5
Due for repayment (principal and finance charge):		
Within one year	83.0	79.5
Between:		
one and two years	77.7	83.0
two and three years	79.2	77.7
three and four years	63.9	79.2
four and five years	59.4	63.9
five and ten years	161.9	220.7
after ten years	-	0.6
	525.1	**604.6**

Interest unpaid at 31 December 2001 and 2000 was approximately $3.3 million and $4.2 million, respectively, and has been included in accrued expenses. In 2001 the effective interest rates on these leases range from 5.94% to 8.54%.

The Company's aircraft leases are subject to normal positive and negative covenants. In accordance with those covenants, the Company maintains insurance coverage for its leased aircraft.

20. MINORITY INTEREST

	2001 $ million	2000 $ million
Beginning balance	7.0	5.0
Minority interest at the date of acquisition of a new subsidiary	-	1.5
Share of net profit of subsidiaries	1.7	2.3
Dividends	(1.1)	(1.8)
	7.6	**7.0**

During 2000, the Company acquired a 51% interest in a new subsidiary, ZAO "Aeroflot-Don" (see also Note 28).

21. ORDINARY SHARES

	Number of shares authorised, issued and outstanding	Book amount
		$ million
Ordinary shares of one Russian Ruble each:		
As of 31 December 2001 and 2000	1,110,616,299	51.6

Ordinary shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the directors and legally declared and approved at the annual shareholders' meeting.

The Company launched its Level 1 Global Depositary Receipts (GDR) programme in December 2000. The Company signed a depositary agreement with Deutsche Bank Group which allowed the Company's shareholders to swap their shares in GDRs, which trade over-the-counter in US and European markets. The swap ratio was established at 100 shares per GDR, and totalled 20% of the Company's share capital. In 2001, the Company's GDRs were listed on the NEWEX (New Europe Exchange) stock exchange in Vienna. The Company's GDRs were traded at approximately 41 Euro (or 38.27 USD at the exchange rate at that date) as of 31 May 2002.

22. RESERVES AND DIVIDENDS

The distributable reserves of the Group comprise only the distributable reserves of the parent company. Furthermore, the statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit. For the years ended 31 December 2001 and 2000, the statutory profit for the Company as reported in the published annual statutory reporting forms was 1,314 million and 1,238 million Russian Rubles, respectively. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

For the years ended 31 December 2001 and 2000 the shareholders of the Company have approved dividends totalling 66.6 million Russian Rubles ($2.2 million at the 2001 year-end exchange rate) and 33.3 million Russian Rubles (approximately $1.1 million at the 2000 year-end exchange rate), respectively.

In accordance with IAS 10 (revised 1999) "Events after the balance sheet date" which became operative for annual financial statements covering periods beginning on or after 1 January 2000, dividends for 2001 which were declared and approved subsequently to 31 December 2001, have not been accrued in the accompanying financial statements for the year ended 31 December 2001. They will be recorded in the statement of shareholders' equity for the year ending 31 December 2002.

Dividends for 1999 were accrued in the financial statements for the year ended 31 December 1999. Dividends for 2000 were accrued in the financial statements for the year ended 31 December 2001.

23. SEGMENT INFORMATION

Reporting format – business segments

Year ended 31 December 2001	**Airline $ million**	**Catering $ million**	**Hotels $ million**	**Other $ million**	**Eliminations $ million**	**Group $ million**
External sales	1,534	14.5	9.2	-	-	1,558
Intra segment sales	0.7	35.5	4.6	-	(40.8)	-
Total revenue	1,535	50.0	13.8	-	(40.8)	1,558
Operating profit	32.0	7.1	1.0	-	-	40.1
Interest expense	(44.6)	-	(3.4)	-	3.1	(44.9)
Interest income	6.8	-	-	-	(3.1)	3.7
Share of income in associates	-	-	1.0	5.3	-	6.3
Foreign exchange and translation income (loss), net	2.3	(0.1)	(0.5)	-	-	1.7
Non-operating income (loss), net	8.4	0.1	(0.2)	-	(4.5)	3.8
Income (loss) before tax	4.9	7.1	(2.1)	5.3	(4.5)	10.7
Taxation	1.8	(2.5)	14.6	(2.8)	-	11.1
Income after tax	6.7	4.6	12.5	2.5	(4.5)	21.8
Minority interest						(1.7)
Net income						20.1
Segment assets	1,053	11.4	35.0	-	-	1,099
Associates	-	-	6.1	7.1	-	13.2
Consolidated total assets						1,112
Segment liabilities	1,005	10.5	10.5	-	-	1,026
Capital expenditure	81.1	0.9	0.2	-	-	82.2
Depreciation	98.1	1.0	5.3	-	-	104.4

Reporting format – business segments

Year ended 31 December 2000	**Airline $ million**	**Catering $ million**	**Hotels $ million**	**Other $ million**	**Eliminations $ million**	**Group $ million**
External sales	1,384	14.2	8.2	-	-	1,406
Intra segment sales	-	32.1	3.6	-	(35.7)	-
Total revenue	1,384	46.3	11.8	-	(35.7)	1,406
Operating profit (loss)	79.4	3.2	(0.5)	-	-	82.1
Interest expense	(48.6)	-	(5.9)	-	5.8	(48.7)
Interest income	6.7	-	-	-	(5.8)	0.9
Share of income in associates	-	-	0.3	7.5	-	7.8
Foreign exchange and translation loss, net	(7.2)	(0.4)	(4.4)	-	-	(12.0)
Non-operating income (loss), net	14.5	-	0.5	-	(5.6)	9.4
Income (loss) before tax	44.8	2.8	(10.0)	7.5	(5.6)	39.5
Taxation	(20.3)	(2.5)	(2.9)	(2.9)	-	(28.6)
Income (loss) after tax	24.5	0.3	(12.9)	4.6	(5.6)	10.9
Minority interest						(2.3)
Net income						8.6
Segment assets	1,107	11.8	43.6	-	-	1,162
Associates	-	-	6.4	8.1	-	14.5
Consolidated total assets						1,177
Segment liabilities	1,065	14.0	22.4	-	-	1,101
Capital expenditure	72.2	0.9	-	-	-	73.1
Depreciation	98.4	1.0	5.3	-	-	104.7

The Group is organised into three main segments:

- Airline – domestic and international passenger and cargo air transport and other airline services;
- Catering – the preparation of food and beverages for air travel; and
- Hotels – the operation of hotels.

All operations are based in Russia therefore no geographical segment information is disclosed. Details of the geographical split of revenues from scheduled passenger and cargo airline activities are provided in Note 5.

24. COMMITMENTS UNDER OPERATING LEASES

The future minimum lease payments under non-cancellable foreign aircraft and other operating leases are as follows (the amounts below represent base rent. Maintenance fees which will be paid to the lessors based on actual flight hours are not included in the table):

	2001 $ million	2000 $ million
Within one year	87.1	95.7
Between:		
one and two years	83.6	91.9
two and three years	56.5	80.4
three and four years	48.7	56.5
four and five years	29.1	48.7
after five years	-	29.1
Total minimum payments	**305.0**	**402.3**

For details of the fleet under operating leases refer to Note 1.

In 2001 the Company renegotiated base rent under operating lease on certain aircraft. This resulted in reduction of base rent and related reduction in future minimum lease payments under non-cancellable operating leases as of 31 December 2001 as compared to those as of 31 December 2000.

25. CONTINGENT LIABILITIES

Political environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings are not predictable.

Taxation

Russian tax legislation is subject to varying interpretations and constant changes. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax authorities for three years. Management of the Group believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretative issues and the effect could be significant.

Currency control

The Group operates in approximately 50 countries, as well as in Russia, through its representative offices. Given the Group’s significant foreign currency revenues and obligations, it is exposed to the risk of non-compliance with Russian currency control legislation. Management believes that the Group generally complies with the currency control regulations and that no contingency provisions are necessary in the accompanying consolidated financial statements.

Legal

i) Members of former management of the Company and two Swiss non-bank financial companies that provided treasury and financial services to the Company are currently under investigation by Swiss and Russian authorities for potential misconduct related to the funds managed under the treasury and financial services agreements that were entered into by the former management of the Company.

   For part of 1997, the Company providing treasury services had a director in common with the Company. From May 1997, following a new agreement between the parties, restrictions were placed upon the use of the funds by means of a fiduciary clause requiring that all funds provided to the Swiss financial company be deposited with the Union Bank of Switzerland. In the course of providing treasury services the Swiss financial company also effected payments on behalf of the Company. Commissions charged during 1999, 1998 and 1997 totalled $2.5 million, $14.5 million and $10.1 million, respectively. As of

31 December 2001 and 2000, no funds were held by this non-bank Swiss financial company. The operations with the company providing treasury services were ceased in May 1999. During 2001 and 2000 $0.2 million and $0.4 million of finance charges have been billed to the Company on the outstanding liability for the services.

In addition, the Company had an unsecured $25.0 million US Dollar denominated bridging credit facility with a subsidiary of the Swiss financial company referred to above. The funds drawn on this facility were repaid in 1999. No balance was outstanding as of 31 December 2001 and 2000. The credit lines were for a maximum duration of 180 days at interest rates ranging from nil to LIBOR plus 3 percent. In addition, a facility fee was payable for the credit lines. No interest or fees were paid in 2001 and 2000.

In 1996, the Company employed another Swiss non-bank financial company to act as a financial consultant in finance raising activities and to supply a US Dollar line of credit. The security provided against this credit line were the interline cash flows from the airlines agreed with the lender. As of 31 December 1998, the Company had not drawn on this facility. The operations with this financial company were ceased in April 1999.

The Company is not named in the investigation and current management is not aware of misallocated funds, if any. In management's opinion, the Company does not have any potential exposure related to the treasury and financial services agreements nor any of the allegations currently subject to investigation. The accompanying consolidated financial statements do not include provision for any amounts that might result from the investigations. Such amounts, if any, will be reported when they become known and estimable.

ii) The Company is being sued for $39.2 million by the Russian owner of an Antonov 124 cargo plane which crashed in the Turin region of Italy in October 1996, whilst on charter to the Group. The basis of the claim concerns liability for the loss of the aircraft and the responsibilities of the parties at the time of the crash. In April 1999, an Italian court ruled that they do not have jurisdiction to hear this case as the litigated matter is subject to the jurisdiction of the Russian Federation. The plaintiff lodged an appeal. Subsequent to 31 December 2001 the appeal was rejected by the Italian court. Management is of the opinion that it is unlikely that the plaintiff will apply to the court of Russian Federation and therefore no amount has been accrued in the accompanying consolidated financial statements.

iii) The Company is being sued for approximately $20.2 million (during 2001 the plaintiff increased the claim amount from $7.7 million to $20.2 million) by a US based company provided consulting services related to the Company's commercial activity in the Middle Asia for breach of the terms of paying the consultant's fees. The management of the Group believes that there was no valid agreement between the Company and the consultant and thus, no basis for settlements. However, management has made the best assessment of the likely outcome associated with this issue and made a provision accordingly amounting to $5.1 million as of 31 December 2001.

iv) A subsidiary's treatment of customs duties in relation to past practice has been challenged by the customs authorities. No final resolution has been reached between the parties. The maximum extent of the exposure as of 31 December 2001 is approximately $ 13.4 million. However, management has made the best assessment of the likely outcome associated with this issue and made a provision accordingly amounting to $0.9 million as of 31 December 2001.

v) The Group is a defendant in various other legal actions. The maximum extent of the exposure as of 31 December 2001 is approximately $12.7 million. Management has made the best assessment of the likely outcome of the claims outstanding and made a provision amounting to $2.8 million as of 31 December 2001.

vi) In 1997-1998 the Company was charged by the Federal Aviation Service (FAS) for aeronautical services at 50% discount as was agreed by the parties. In 2001 the legal successor of FAS (GOVD) claimed application by FAS of 50% discount in 1997-1998 to be void as contradicting Russian legislation and invoiced the Company for Rubles 116 million (approximately $3.8 million at 2001 year-end exchange rate) for underpaid amounts during 1997-1998 and interest accrued as of 31 December 2001. In the opinion of the management, after taking appropriate legal advise, GOVD arguments are not justifiable until proven in court. Currently GOVD did not take this case to the court. Management believes that it is not likely that any significant settlement will arise and therefore no amount has been accrued in the accompanying consolidated financial statements.

<u>Commitments</u>

The Company has commitment to sell two aircraft Ilyushin Il-76 TD (cargo) for $0.6 million. The aircrafts' net book value as of 31 December 2001 amounted to $0.5 million.

26. SUBSEQUENT EVENTS

Subsequent to year-end the following events have occurred:

i) In March 2002, the Company issued long-term interest bearing Ruble bonds totalling 1,000 million Russian Rubles (approximately $32.2 million at the exchange rate at the date of issue). The bonds were placed on the Moscow Interbank Currency Exchange. The bonds mature in March 2004. Interest is payable semi-annually. Interest rate for the first interest repayment period is 19.85% per annum.

ii) In 2002, the Company increased its share from the OAO Insurance company "Moscow" from 14.9% as of 31 December 2001 to 94.9%. OAO Insurance company "Moscow" provides insurance services to the Company.

iii) Starting from 1 April 2002 new technical requirements established by the International Civil Aviation Organisation (ICAO) entered into force. These requirements set limits for aircraft noise level. In response to these requirements, the Company transferred certain types of aircraft (Tu-134, Il-86, Il-76 TD) from regular international to domestic and certain international charter flights. The carrying value of these aircraft and the related engines as of 31 December 2001 is $41.7 million. The management believes that the Company will be able to utilise these aircraft on domestic market and no impairment loss should be recognised as of 31 December 2001.

27. INTRA GROUP TRANSACTIONS

The financial statements of the Group include the following balances:

	2001 $ million	2000 $ million
Amounts receivable from non-consolidated subsidiaries and associated undertakings	3.2	1.9
Amounts payable to non-consolidated subsidiaries and associated undertakings	2.9	3.7

The statements of operations include the following transactions with group companies:

	2001 $ million	2000 $ million
Sales to non-consolidated subsidiaries and associated undertakings	2.5	2.9
Purchases from non-consolidated subsidiaries and associated undertakings	24.0	19.6

Management believes that pricing of the transactions between group companies is based on the normal business conditions.

28. PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

The principal subsidiary undertakings are:

Company name	Activity	Percentage held at 31 December 2001
ZAO "Sherotel"	Hotel	100.0 %
"Aeroflot's World"	Travel agency	99.9 %
"Aeroflot Garant"	Non-governmental pension fund	81.1 %
ZAO "Aeromar"	Catering	51.0 %
ZAO "Aeroflot-Don"	Airline	51.0 %
ZAO "Aeroservice"	Transportation and courier services	51.0 %

ZAO “Sherotel”, ZAO “Aeromar” and ZAO “Aeroflot-Don” (the company established in 2000) were consolidated in the accompanying financial statements. Investments in “Aeroflot Garant” and ZAO “Aeroservice” are stated at cost due to the immateriality of these subsidiaries.

In 2001, the Group established a subsidiary, travel agency “Aeroflot’s World”. The Group anticipates the travel agency to become a large commercial partner of the Company which will be fully controlled by the Group. As of 31 December 2001 investments in “Aeroflot’s World” are stated at cost due to the immateriality of this subsidiary.

The principal associated undertakings are:

Company name	**Activity**	**Percentage held at 31 December 2001**
ZAO “Airport Moscow”	Cargo handling	50.0 %
ZAO “Aerofirst”	Trading	33.3 %
ZAO “TZK”	Fuel trading company	31.0 %
OOO “Aeroimp”	Hotel	25.0 %

Investments in ZAO “Aerofirst”, OOO “Aeroimp” and ZAO “TZK” were recorded using the equity method of accounting. Investments in ZAO “Airport Moscow” were recorded at cost due to the immateriality of the Group’s share in the net assets of this associate.

All companies listed above are incorporated in the Russian Federation.