OPEN JOINT STOCK COMPANY
AEROFLOT– RUSSIAN AIRLINES

Consolidated Financial Statements
as at and for the year ended 31 December 2008

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The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2 and 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company Aeroflot – Russian Airlines and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2008, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been complied with, subject to any material departures being disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements as at and for the year ended 31 December 2008 were approved on 30 June 2009 by:

V. G. Saveliev	**M. I. Poluboyarinov**
General Director	Deputy General Director Finance and Planning

ZAO KPMG
Naberezhnaya Tower Complex, Block C
18 Krasnopresnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company Aeroflot – Russian Airlines

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Aeroflot – Russian Airlines (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated statement of income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ЗАО КПМГ

ZAO KPMG
30 June 2009

(All amounts in millions of US dollars)

	Notes	2008	2007
Traffic revenue	6	3,948.7	3,165.4
Other revenue	7	665.1	642.4
Revenue		**4,613.8**	**3,807.8**
Operating costs	8	(3,429.4)	(2,529.6)
Staff costs	9	(686.6)	(555.2)
Depreciation and amortisation	21, 22	(159.3)	(145.0)
Operating costs		**(4,275.3)**	**(3,229.8)**
Operating profit		**338.5**	**578.0**
Financial income	10	4.4	62.0
Financial expenses	10	(197.0)	(53.2)
Share of results of equity accounted investments	17	8.4	6.0
Other non-operating income /(expenses), net	11	20.8	(55.8)
Profit before income tax		**175.1**	**537.0**
Income tax	12	(138.1)	(223.6)
Profit for the year		**37.0**	**313.4**
Attributable to:			
Shareholders of the Company		56.1	305.3
Minority interest		(19.1)	8.1
		37.0	**313.4**
Earnings per share, basic and diluted (US cents)		**5.2**	**28.8**
Weighted average number of shares outstanding (millions)		**1,067.0**	**1,061.0**

V. G. Saveliev
General Director

M. I. Poluboyarinov
Deputy General Director
Finance and Planning

The consolidated statement of income should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

(All amounts in millions of US dollars)

	Notes	2008	2007
ASSETS			
Current assets			
Cash and cash equivalents	13	146.8	90.6
Short-term investments	14	9.5	54.1
Accounts receivable and prepayments, net	15	916.1	1,048.7
Aircraft lease deposits		0.6	0.7
Expendable spare parts and inventories, net	16	78.7	104.2
		1,151.7	**1,298.3**
Non-current assets			
Equity accounted investments	17	21.1	20.5
Long-term investments	18	16.8	21.8
Aircraft lease deposits		1.6	1.7
Deferred tax assets	12	34.9	8.2
Other non-current assets	19	240.4	216.6
Prepayment for aircraft	20	95.5	114.5
Property, plant and equipment	21	1,774.3	1,708.9
Intangible assets	22	14.1	7.8
		2,198.7	**2,100.0**
TOTAL ASSETS		**3,350.4**	**3,398.3**
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	23	669.2	629.8
Unearned transportation revenue	24	172.9	180.3
Provisions	25	22.8	4.0
Short-term borrowings	26	145.4	131.4
Finance lease liabilities	27	78.0	67.4
		1,088.3	**1,012.9**
Non-current liabilities			
Long-term borrowings	28	591.1	379.6
Finance lease liabilities	27	460.2	531.1
Provisions	25	2.4	60.9
Deferred tax liabilities	12	60.0	53.2
Other non-current liabilities	29	150.4	175.5
		1,264.1	**1,200.3**
Equity			
Share capital	30	51.6	51.6
Treasury stock	30	(9.1)	(29.7)
Investment revaluation reserve		8.3	12.7
Cumulative translation reserve		(117.2)	63.0
Retained earnings	31	1,011.4	1,014.6
Equity attributable to shareholders of the Company		**945.0**	**1,112.2**
Minority interest		53.0	72.9
		998.0	**1,185.1**
TOTAL LIABILITIES AND EQUITY		**3,350.4**	**3,398.3**

The consolidated balance sheet should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

(All amounts in millions of US dollars)

	Notes	2008	2007
Cash flows from operating activities:			
Profit before income tax		175.1	537.0
Adjustments to reconcile income before taxation to net cash provided by operating activities:			
Depreciation and amortisation	21, 22	159.3	145.0
Increase in impairment allowance for bad and doubtful debts	15	3.9	7.7
Accounts receivable write off	15	1.2	0.3
Increase in impairment allowance for obsolete inventory		2.5	5.9
Increase in impairment of property, plant and equipment	21	27.2	3.9
Loss/(Gain) on disposal of property, plant and equipment		7.4	(0.9)
Decrease in other provisions and other assets impairments		(34.4)	-
Accounts payable de-recognition		(4.5)	0.6
Share of profits in equity accounted investments	17	(8.4)	(6.0)
Loss/(Gain) on disposal of investments, net	10	1.3	(13.2)
Interest expense		54.5	53.2
Unrealised foreign exchange loss/(gains)	38	151.0	(37.3)
VAT write off	38	16.8	44.7
Other non-cash expenses	38	18.0	(1.0)
Operating profit before working capital changes		**570.9**	**739.9**
Decrease/(Increase) in accounts receivable and prepayments		70.3	(323.8)
Decrease/(Increase) in expendable spare parts and inventories		23.1	(31.1)
(Decrease)/Increase in accounts payable and accrued liabilities		(20.8)	34.8
		643.5	**419.8**
Income tax paid		(142.1)	(203.2)
Net cash flows from operating activities		**501.4**	**216.6**
Cash flows from investing activities:			
Proceeds from sale of investments		130.1	147.9
Proceeds from sale of property, plant and equipment		6.9	8.6
Dividends received		3.8	3.0
Decrease in aircraft lease deposits		-	2.3
Purchases of investments		(104.5)	(101.0)
Lease prepayments		(0.4)	(103.9)
Purchases of property, plant and equipment and intangible assets		(475.2)	(374.2)
Net cash flows to investing activities		**(439.3)**	**(417.3)**

The consolidated statement of cash flows should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

(All amounts in millions of US dollars)

	Note	2008	2007
Cash flows from financing activities:			
Proceeds from borrowings	38	904.0	858.4
Sale of treasury stock		64.3	5.0
Repayment of borrowing	38	(654.1)	(583.5)
Purchases of treasury stock		(28.8)	(0.8)
Repayment of the principal element of finance lease liabilities		(75.0)	(68.2)
Interest paid		(104.1)	(51.5)
Dividends paid		(61.7)	(58.5)
Net cash flows from financing activities		**44.6**	**100.9**
Effect of exchange rate fluctuations	38	(50.5)	9.1
Net increase/(decrease) in cash and cash equivalents		**56.2**	**(90.7)**
Cash and cash equivalents at the beginning of the year		90.6	181.3
Cash and cash equivalents at the end of the year	**13**	**146.8**	**90.6**
Supplemental cash flow information:			
Interest received		4.5	4.2
Non-cash investing and financing activities:			
Property, plant and equipment acquired under finance leases		19.3	178.0

The consolidated statement of cash flows should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

(All amounts in millions of US dollars)

	Share capital	Treasury stock	Investment revaluation reserve	Cumulative translation reserve	Retained earnings	Attributable to shareholders of the Company	Minority interest	Total
As at 31 December 2006 as previously reported	**51.6**	**(33.5)**	**11.0**	**2.7**	**752.7**	**784.5**	**4.4**	**788.9**
Changing of functional currency	-	(0.4)	-	-	10.9	10.5	(5.3)	5.2
As at 1 January 2007 (restated)	**51.6**	**(33.9)**	**11.0**	**2.7**	**763.6**	**795.0**	**(0.9)**	**794.1**
Profit for the period	-	-	-	-	305.3	305.3	8.1	313.4
Foreign currency translation for the period	-	-	-	60.3	-	60.3	0.1	60.4
Gain on investments available-for-sale	-	-	1.7	-	-	1.7	-	1.7
Total recognised income and expenses						**367.3**	**8.2**	**375.5**
Sales of subsidiary shares	-	-	-	-	-	-	69.8	69.8
Gain on disposal of treasury stock	-	4.6	-	-	-	4.6	-	4.6
Sale of treasury stock	-	0.4	-	-	-	0.4	-	0.4
Purchase of treasury stock	-	(0.8)	-	-	-	(0.8)	-	(0.8)
Dividends	-	-	-	-	(54.3)	(54.3)	(4.2)	(58.5)
As at 31 December 2007	**51.6**	**(29.7)**	**12.7**	**63.0**	**1,014.6**	**1,112.2**	**72.9**	**1,185.1**
Profit for the period	-	-	-	-	56.1	56.1	(19.1)	37.0
Foreign currency translation for the period	-	-	-	(180.2)	-	(180.2)	1.6	(178.6)
Gain on investments available-for-sale	-	-	(4.4)	-	-	(4.4)	-	(4.4)
Total recognised income and expenses						**(128.5)**	**(17.5)**	**(146.0)**
Gain on disposal of treasury stock	-	17.9	-	-	-	17.9	-	17.9
Sale of treasury stock	-	29.0	-	-	-	29.0	-	29.0
Purchase of treasury stock	-	(26.3)	-	-	-	(26.3)	-	(26.3)
Dividends	-	-	-	-	(59.3)	(59.3)	(2.4)	(61.7)
As at 31 December 2008	**51.6**	**(9.1)**	**8.3**	**(117.2)**	**1,011.4**	**945.0**	**53.0**	**998.0**

The consolidated statement of changes in equity should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

(All amounts in millions of US dollars)

1. NATURE OF THE BUSINESS

OJSC Aeroflot – Russian Airlines (the "Company" or "Aeroflot") was formed as a joint stock company following a government decree in 1992. The 1992 decree conferred all the rights and obligations of Aeroflot-Soviet Airlines and its structural units, excluding its operations in Russia and Sheremetyevo Airport, upon the Company, including inter-governmental bilateral agreements and agreements signed with foreign airlines and enterprises in the field of civil aviation.

The principal activities of the Company are the provision of passenger and cargo air transportation services, both domestically and internationally, and other aviation services from its base at Moscow Sheremetyevo Airport. The Company and its subsidiaries (the "Group") also conduct activities comprising airline catering, hotel operations, and the construction of the Sheremetyevo-3 terminal. Associated entities mainly comprise cargo-handling services, fuelling services and duty-free retail businesses.

As at 31 December 2008 and 2007 the Government of the Russian Federation owned 51% of the Company. The Company's headquarters are located in Moscow at 37 Leningradsky Prospect.

The principal subsidiary companies are:

Company name	Place of incorporation and operation	Activity	31 December 2008	31 December 2007
CJSC Sherotel	Moscow region	Hotel	100.00%	100.00%
CJSC Aeroflot Plus	Moscow	Airline	100.00%	100.00%
OJSC Insurance company Moscow	Moscow	Captive insurance services	100.00%	100.00%
OJSC Aeroflot-Don	Rostov-on-Don	Airline	100.00%	100.00%
CJSC Aeroflot-Cargo	Moscow	Cargo transportation services	100.00%	100.00%
OJSC Terminal	Moscow region	Construction of Sheremetyevo-3 terminal	52.82%	55.00%
CJSC Aeromar	Moscow region	Catering	51.00%	51.00%
CJSC Aeroflot-Nord	Arkhangelsk	Airline	51.00%	51.00%

The significant entities in which the Group holds more than 20% but less than 50% of the equity are:

Company name	Place of incorporation and operation	Activity	31 December 2008	31 December 2007
LLC Airport Moscow	Moscow region	Cargo handling	50.0%	50.0%
CJSC AeroMASH – AB	Moscow region	Aviation security	45.0%	45.0%
CJSC Aerofirst	Moscow region	Trading	33.3%	33.3%
CJSC TZK Sheremetyevo	Moscow region	Fuel trading company	31.0%	31.0%

All the companies listed above are incorporated in the Russian Federation.

The table below provides information on the Group's aircraft fleet as at 31 December 2008:

Type of aircraft	Ownership	Aeroflot - Russian Airlines (number)	Aeroflot-Don (number)	Aeroflot-Nord (number)	Aeroflot-Cargo (number)	Aeroflot-Plus (number)	Group total (number)
Antonov An-24	Owned	-	-	2	-	-	2
Antonov An-26	Owned	-	-	1	-	-	1
Ilyushin Il-86	Owned	3	-	-	-	-	3
Ilyushin Il-96-300	Owned	6	-	-	-	-	6
Tupolev Tu-134	Owned	1	2	10	-	1	14
Tupolev Tu-154	Owned	24	6	-	-	-	30
Total owned		**34**	**8**	**13**	**-**	**1**	**56**
Airbus A-319	Finance lease	4	-	-	-	-	4
Airbus A-320	Finance lease	1	-	-	-	-	1
Airbus A-321	Finance lease	10	-	-	-	-	10
Antonov An-24	Finance lease	-	-	1	-	-	1
Boeing 737	Finance lease	-	5	2	-	-	7
Tupolev Tu-134	Finance lease	-	-	1	-	-	1
Total finance lease		**15**	**5**	**4**	**-**	**-**	**24**
Airbus A-319	Operating lease	7	-	-	-	-	7
Airbus A-320	Operating lease	23	-	-	-	-	23
Airbus A-330	Operating lease	2	-	-	-	-	2
Antonov An-24	Operating lease	-	-	2	-	-	2
Antonov An-26	Operating lease	-	-	1	-	-	1
Boeing B-737	Operating lease	-	3	10	2	-	15
Boeing B-767	Operating lease	11	-	-	-	-	11
Ilyushin Il-86	Operating lease	-	2	-	-	-	2
McDonnell Douglas DC10-40F	Operating lease	-	-	-	1	-	1
McDonnell Douglas MD-11	Operating lease	-	-	-	3	-	3
Tupolev Tu-134	Operating lease	-	-	-	-	1	1
Total operating lease		**43**	**5**	**13**	**6**	**1**	**68**
Total fleet		**92**	**18**	**30**	**6**	**2**	**148**

2. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Basis of presentation – The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are presented in millions of US dollars ("USD"), except where specifically noted otherwise.

All significant subsidiaries directly or indirectly controlled by the Group are included in the consolidated financial statements. A listing of the Group's principal subsidiary companies is set out in Note 1.

The Group maintains its accounting records in Russian roubles ("RUR") and in accordance with Russian accounting legislation and regulations. The accompanying consolidated financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with IFRS.

(All amounts in millions of US dollars)

Functional and presentation currency – Since 1 January 2007 the functional currency of the Group is the Russian rouble. The presentation currency of the Group is the US dollar for convenience of foreign users, including the major lessors. The functional currency was changed due to the decrease in the cash inflows and outflows of the Group denominated in US dollars in 2007 and the increase in cash inflows and outflows denominated in Russian roubles.

The assets and liabilities, both monetary and non-monetary, have been translated at the closing rate at the date of each balance sheet presented in accordance with International Accounting Standard ("IAS") 21 *The Effect of Changes in Foreign Exchange Rates*. Income and expense items for all periods presented have been translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates. All exchange differences resulting from translation have been classified as equity and transferred to the Group's translation reserve.

Any conversion of Russian rouble amounts to US dollars should not be considered as a representation that Russian rouble amounts have been, could be or will be in the future, converted into US dollars at the exchange rate shown or at any other exchange rate.

The assets and liabilities, both monetary and non-monetary, of the subsidiaries of the Company with functional currencies other than the Russian rouble have been translated at the closing rate at the date of each balance sheet presented; income and expense items for all periods presented have been translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates. All exchange differences resulting from translation have been classified as equity and transferred to the Group's translation reserve.

The following table details the exchange rates used to translate Russian roubles to US dollars:

	Exchange rate
31 December 2008	29.38
Average rate for 12 month 2008	24.86
31 December 2007	24.55
Average rate for 2007	25.58
31 December 2006	26.33

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the entity has not adopted early and which potentially could have an impact:

- IFRS 8 *Operating segments*, effective for annual periods beginning on or after 1 January 2009. The Group is currently evaluating the potential impact of IFRS 8 on the presentation of segmental information.
- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The Group is currently evaluating the potential impact of this revision and amendment.

- IFRIC 12 *Service concession arrangements*, effective for the annual periods beginning on or after 1 January 2008. The Group is currently evaluating the potential impact of IFRIC 12 on the presentation of service concession agreements.
- IFRIC 13 *Customer Loyalty Programmes*, effective for annual periods beginning on or after 1 July 2008. The Group is currently evaluating the potential impact of IFRIC 13 on the valuation of the frequent flyer programme liabilities.

4. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

Consolidation – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared through 31 December each year. Subsidiaries comprise entities in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over their operations. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date on which effective control is obtained by the Group and are no longer consolidated from the date of disposal or loss of control.

All intra-group transactions, balances and unrealised surpluses and deficits on transactions between Group companies are eliminated on consolidation. Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity therein. The interest of minority shareholders is stated at the minority’s proportion of the fair values of the assets and liabilities acquired adjusted by subsequent changes in the carrying value of net assets of those entities. Losses applicable to the minority in excess of the minority’s interest in the subsidiary’s equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations – The acquisition of subsidiaries is accounted for using the purchase allocation method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire, plus any costs directly attributable to the business combination. The acquirer’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations,* which are recognised and measured at fair value less costs to sell.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Purchases of minority interests – The difference between the cost of acquisition and the carrying value of minority interests is recognised as an adjustment to equity.

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’s owning, directly or indirectly, between 20% and 50% of the voting share capital or by exerting significant influence through other means.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. The Group's share of the net income or losses of associates is included in the consolidated statement of income. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or that the impairment losses recognised in prior years no longer exist. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. A listing of the Group's principal associated entities is included in Note 1.

Foreign currency translation – Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies at the balance sheet date are translated into the functional currency at the year end exchange rate. Exchange differences arising from such translation are included in the consolidated statement of income.

Non-current assets and disposal groups held for sale – Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as being met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Any liabilities related to non-current assets to be sold are also presented separately as liabilities in the balance sheet. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Revenue recognition – Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes.

Passenger revenue: Ticket sales are reported as traffic revenue when the transportation service has been provided. The value of tickets sold and still valid but not used by the balance sheet date is reported as unearned transportation revenue. This item is reduced either when the Group completes the transportation service or when the passenger requests a refund. Sales representing the value of tickets that have been issued, but which will never be used, are recognised as traffic revenue at the date the tickets are issued based on an analysis of historical patterns of actual sales data. Commissions, which are payable to the sales agents are recognised as sales and marketing expenses at the same time as revenue from the air transportation to which they relate.

Passenger revenue includes revenue from code-share agreements with certain other airlines. Under these agreements, the Group sells seats on these airlines' flights and those other airlines sell seats on the Group's flights. Revenue from the sale of code-share seats on other airlines are recorded net in Group's passenger revenue in the consolidated statement of income. The revenue from other airlines' sales of code-share seats on the Group's flights is recorded in passenger revenue in the Group's consolidated statement of income.

Cargo revenue: The Group's cargo transport services are recognised as revenue when the air transportation is provided. Cargo sales for which the transportation service has not yet been provided are shown as unearned transportation revenue.

Catering revenue: Revenue is recognised when meal packages are delivered to the aircraft, as this is the date when the risks and rewards of ownership are transferred to customers.

Other revenue: Revenue from bilateral airline agreements is recognised when earned with reference to the terms of each agreement. Hotel accommodation revenue is recognised when the services are provided. Sales of goods and other services are recognised as revenue when the goods are delivered or the service is rendered.

Borrowing costs – All borrowing costs that are directly attributable to the acquisition, construction and production of a qualifying asset form part of the cost of that asset. All other borrowings costs are recognised as an expense in the consolidated statement of income.

Segment reporting – For the purposes of segment disclosure the Group has identified the following segments:

(a) Business segments

The principal business segments are airline operations, airline catering and development of an airport terminal, hotel operations and other. Business segment assets comprise all assets used directly in the operation of the business segment. Income tax assets are excluded from segment assets. Equity interests in affiliated companies are presented separately. Business segment liabilities and provisions comprise all commitments that are directly attributable to the business segment's operations.

(b) Geographic segments

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

(i) *Geographic analysis of revenue from flights* – The analysis of revenue from scheduled flights is based upon the geographic location of the place of flight origin;

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

Property, plant and equipment – Property, plant and equipment is stated at cost, or appraised value, as described below. Depreciation is calculated in order to amortise the cost or appraised value (less estimated salvage value where applicable) over the remaining useful lives of the assets.

(a) Fleet

(i) *Owned aircraft and engines* – Aircraft and engines owned by the Group as at 31 December 1995 were stated at depreciated replacement cost based upon external valuations denominated in US dollars. Airclaims, an international firm of aircraft appraisers, conducted the valuation. The Group has chosen not to revalue these assets subsequent to 1995. Subsequent purchases are recorded at cost.

(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 sheet at amounts equal to the fair value of the leased property at the inception of the lease 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. Custom duties, legal fees and other initial direct costs are added to the amount recognised as an asset. The interest element of lease payments made is included in interest expense in the consolidated statement of income.

(iii) *Capitalised maintenance costs* – The valuation of aircraft and engines as at 31 December 1995 reflected their maintenance condition, as measured on the basis of previous expenditure on major overhauls and estimated usage since the previous major overhaul. Subsequent expenditure incurred on modernisation and improvements projects that are significant in size (mainly aircraft modifications involving installation of replacement parts) are separately capitalised in the balance sheet. The carrying amount of those parts that are replaced is derecognised from the balance sheet and included in gain or loss on disposals of property, plan and equipment in the Group's consolidated statement of income. Capitalised costs of aircraft checks and major modernisation and improvements projects are depreciated on a straight-line basis to the projected date of the next check or based on estimates of their useful lives. Ordinary repair and 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. The airframe, engines and interior of an aircraft are depreciated separately over their respective estimated useful lives. The salvage value for airframes of the foreign fleet is estimated at 5% of historical cost, while the 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.

Useful lives of the Group's fleet assets are as follows:

Airframes of foreign aircraft	20 years
Airframes of Russian aircraft	25-32 years
Engines of foreign aircraft	8 years
Engines of Russian aircraft	8-10 years
Interiors	5 years

(v) *Capitalised leasehold improvements* – capitalised costs that relate to the rented fleet are depreciated over the shorter of their useful life and the lease term.

(b) Land and buildings, plant and equipment

Property, plant and equipment is stated at the historical US dollar cost recalculated at the exchange rate on 1 January 2007, the date of the change of the functional currency of the Company from the US dollar to the Russian rouble (Note 2). 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 using a straight-line basis. These useful lives range from 3 to 20 years. Land is not depreciated.

(c) Capital expenditure

Capital expenditures comprise costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Capital expenditures are reviewed regularly to determine whether their carrying value is fairly stated and whether appropriate provision for impairment is made.

(d) Gain or loss on disposal

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

Impairment of non-current assets – At each balance sheet date the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication of impairment of those assets. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

Lease deposits – Lease deposits represent amounts 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. These deposits are returned to the Group at the end of the lease period. Lease deposits relating to operating lease agreements are presented as assets in the balance sheet. A portion of these deposits is interest-free. Interest-free deposits are recorded at amortised cost using an average market yield of 6.1%. Lease deposits that are part of finance lease arrangements are presented net as part of the finance lease liability.

Operating leases – Payments under operating leases are charged to the consolidated statement of income in equal annual instalments over the period of the lease. Related direct expenses including custom duties for leased aircraft are amortised using a straight-line method over the term of lease agreement.

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

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, and 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. The result from the realisation of the financial instruments is determined on the FIFO basis.

(a) Credit risks

The sale of passenger and freight transportation is largely processed through agencies that are normally linked to country specific clearing systems for the settlement of passenger and freight sales. Clearing centres check individual agents operating outside of the Russian Federation. Individual agents operating within 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 an International Air Transport Association ("IATA") clearing house.

(b) Fair value

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

(c) Foreign exchange risk

In 2008 the Group did not manage foreign exchange risk through the use of hedging instruments but rather aimed to broadly match its assets and liabilities in the different currencies to limit exposure. The Group monitors changes in foreign exchange rates to minimise the level of foreign currency exposure and to identify any need for hedging activities.

(d) Interest rate risk

The Group's main exposure to interest rate risk is from its finance lease liabilities and short-term borrowings. In 2008 the Group did not use financial hedging instruments to hedge its exposure to the changes in interest rates, as they are not generally available on the Russian market. The Group constantly monitors changes in interest rates to minimise the level of its exposure and to identify any need for hedging activities.

(e) Non-financial risks – fuel hedging activities

The results of Group's operations can be significantly impacted by changes in the price of aircraft fuel. The Group periodically purchases derivatives such as aircraft fuel options in order to hedge its exposure from future price fluctuations in aircraft fuel. In 2008 the Group did not engage in any fuel hedging activities. The Group does not use derivative instruments for speculative purposes.

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

Investments – The Group's financial assets have been classified according to IAS 39 *Financial Instruments: Recognition and Measurement* into the following categories: trading securities, held-to-maturity investments, loans and other receivables, and available-for-sale investments. Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intent and ability to hold to maturity, other than loans and receivables, are classified as held-to-maturity investments. Derivative financial instruments and 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, are classified as available-for-sale.

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Held-to-maturity investments are financial assets excluding derivative contracts which mature on a specified date and which a company has the firm intent and ability to hold to maturity. They are valued at allocated acquisition cost and they are included in long-term assets.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Investments in equity instruments of other companies that do not have a quoted market price are stated at cost less impairment loss, as it is not practicable to determine the fair value of such investments. For derivatives and other financial instruments classified as held for trading, gains and losses arising from changes in fair value are included in the consolidated statement of income for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the consolidated statement of income for the period. Impairment losses recognised in the consolidated statement of income for equity investments classified as available-for-sale are not subsequently reversed through the consolidated statement of income. Impairment losses recognised in the consolidated statement of income for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

During the years ended 31 December 2008 and 2007 the Group held corporate and Government derivative instruments primarily comprising shares and bonds. These are disclosed as held-for-trading investments in Note 14. Gains and losses arising from changes in fair value of held-for-trading investments are recognised in the consolidated statement of income.

Derivative instruments are accounted for as held for trading with related gains or losses from re-measurement to fair value included in the current period consolidated statement of income as other non-operating gains or losses.

The Group assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. If there is objective evidence that an impairment loss has arisen for loans and other receivables entered at allocated acquisition cost in the balance sheet or for held-to-maturity investments, the size of the loss is determined as the difference between the book value of the asset item and the present value of expected future cash flows of the said financial asset item discounted at the original effective interest rate. The loss is recognised in the consolidated statement of income.

Loans and receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are individually recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Because the expected term of an account receivable is short, the value is typically stated at the nominal amount without discounting, which corresponds with the fair value. Uncertain accounts receivable balances are assessed individually and any impairment losses are included in non-operating expenses.

Accounts payable – Trade payables are initially measured at fair value and are subsequently measured at amortised cost and because the expected term of accounts payable is short the value is stated at the nominal amount without discounting, which corresponds with the fair value.

Short-term borrowings – Short-term borrowings comprise:

- Interest bearing borrowings with a term shorter than one year;
- Current portion of interest-bearing long-term borrowings.

These liabilities are measured at amortised cost and reported based on the settlement date.

Long-term borrowings – Long-term borrowings (i.e. liabilities with a term longer than one year) consist of interest-bearing loans, which are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method as at the settlement date.

Expendable spare parts and inventories – Inventories, including aircraft expendable spare parts, are valued at cost or net realisable value, whichever is lower. The costs are determined on the first-in, first-out (“FIFO”) basis. Inventories are reported net of provisions for slow-moving or obsolete items.

Value added taxes – Value added tax (“VAT”) related to sales is payable to the tax authorities on an accruals basis. For sales of passenger tickets this is when the tickets are registered for a flight by the customers. Domestic flights are subject to VAT at 18% and international flights are subject to VAT at 0%. Input VAT invoiced by domestic suppliers as well as VAT paid in respect of imported aircraft and spare parts may be recovered, subject to certain restrictions, against output VAT. The recovery of input VAT relating sales at 0% is typically delayed by up to 6 months and sometimes longer due to compulsory tax audit requirements and other administrative matters. Input VAT claimed for recovery as at the balance sheet date is presented net of the output VAT liability. Recoverable input VAT that is not claimed for recovery in the current period is recorded in the balance sheet as VAT receivable. VAT receivables that are not expected to be recovered within the twelve months from the balance sheet date are classified as long-term assets. VAT balances are not discounted. Where provision has been made for uncollectible receivables, the bad debt expense is recorded at the gross amount of the account receivable, including VAT. The provision for non-recoverable VAT is charged to the consolidated statement of income as a non-operating expense.

Frequent flyer programme – The Company records an estimated liability for the incremental costs associated with providing free transportation under the Aeroflot Bonus programme (Note 23) when a free air ticket or upgrade of service class are earned. Principal incremental costs include aircraft fuel costs and third-party passenger services (such as catering services and airport charges) reduced by the fuel surcharge paid by the passenger. The liability is included in accounts payable and accrued liabilities, and is adjusted periodically based on awards earned, awards redeemed and changes to the Aeroflot Bonus programme. The costs are included in sales and marketing expenses in the consolidated statement of income.

Provisions – Provisions are recognised when the Group 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 expected timing of cash flows can be estimated and the effect of the time value of money is significant, the amount of a provision is stated at the present value of the expenditures required to settle the obligation.

Income tax – The nominal income tax rate for industrial enterprises in Russia in 2008 and 2007 was 24%. With effect from 1 January 2009, the income tax rate for Russian companies has been reduced to 20%.

Deferred income taxes – Deferred tax assets and liabilities are calculated in respect of temporary differences in accordance with IAS 12 *Income Taxes*. IAS 12 requires the application of 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 bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are 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 offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the asset is to be realised or the liability settled, based on tax rates that have been enacted or substantively enacted as at the balance sheet date. As at 31 December 2008 deferred tax assets and liabilities have been measured at 20% (2007: 24%). Deferred tax is charged or credited to the consolidated statement of income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is dealt with in equity.

Employee benefits – The Group makes certain payments to employees on retirement or when they otherwise leave the employment of the Group. These obligations, which are unfunded, represent obligations under a defined benefit pension plan. 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 consolidated statement of income in order to spread the regular cost over the average service lives of employees. Actuarial gains and losses are recognised in the consolidated statement of income immediately. The pension payments may be increased upon the retirement of an employee based on the decision of management. The pension liability for non-retired employees is calculated based on a minimum annual pension payment and do not include increases, if any, to be made by management in the future. 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 Group also participates in a defined contribution plan, under which the Group has committed to contribute a certain percentage (15% to 20% in 2008) of the contribution made by employees choosing to participate in the plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred. Contributions are also made to the Government Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

Treasury shares – The Company's shares, which are held as treasury stock or belong to the Company's subsidiaries, are reflected as a reduction of the Group's equity. The disposal of such shares does not impact net income for the current year and is recognised as a change in the shareholders' equity of the Group. Dividend distributions by the Company are recorded net of the dividends related to treasury shares.

Dividends – Dividends are recognised at the date they are declared by the shareholders at a general meeting.

Retained earnings legally distributable by the Company are based on the amounts available for distribution in accordance with applicable legislation and reflected in the statutory financial statements. These amounts may differ significantly from the amounts presented in accordance with IFRS.

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. The Group does not have any potentially dilutive equity instruments.

Contingencies – Contingent liabilities are not recognised in the consolidated financial statements unless they arise as a result of a business combination. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

5. SIGNIFICANT ESTIMATES

The key assumptions concerning the future, and other key sources of estimation uncertainties at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provisions – Provisions are made when any probable and quantifiable risk of loss attributable to disputes is judged to exist.

Depreciable lives of property, plant and equipment – In reporting property, plant and equipment and intangible assets an assessment of the useful economic life is made at least once a year to determine whether impairment exists.

Compliance with tax legislation – As discussed further in Note 37 compliance with tax legislation, particularly in the Russian Federation, is subject to a significant degree of interpretation and can be routinely challenged by the tax authorities. The management records a provision in respect of its best estimate of likely additional tax payments and related penalties which may be payable if the Group's tax compliance is challenged by the relevant tax authorities.

(All amounts in millions of US dollars)

6. TRAFFIC REVENUE

	2008	2007
Scheduled passenger flights	3,507.6	2,845.7
Cargo	333.6	271.9
Charter passenger flights	107.5	47.8
	3,948.7	**3,165.4**

7. OTHER REVENUE

	2008	2007
Airline revenue agreements	477.1	481.2
Refuelling services	63.1	40.3
Ground handling and maintenance	25.4	22.0
Hotel revenue	22.1	19.9
Catering services	15.2	17.0
Other revenue	62.2	62.0
	665.1	**642.4**

8. OPERATING COSTS

	2008	2007
Aircraft and traffic servicing	594.1	497.7
Maintenance	295.1	208.7
Sales and marketing	235.7	208.3
Operating lease expenses	207.4	170.2
Administration and general expenses	149.8	117.4
Passenger services	139.6	105.6
Communication expenses	65.3	57.7
Customs duties	26.8	12.4
Insurance expenses	21.4	21.7
Other expenses	145.2	106.8
Operating cost excluding aircraft fuel	**1,880.4**	**1,506.5**
Aircraft fuel	1,549.0	1,023.1
	3,429.4	**2,529.6**

9. STAFF COSTS

	2008	2007
Wages and salaries	582.7	474.3
Pension costs	78.8	57.9
Social security costs	25.1	23.0
	686.6	**555.2**

The Group continued its participation in a non-government pension fund to provide additional pensions to certain of its employees upon their retirement. The pension fund requires contributions from both employees and the Group and is a defined contribution pension plan for the employer.

Furthermore, the Group makes payments, upon retirement, to employees participating in the plan with one or more years' service. These obligations, which are unfunded, represent obligations under a defined benefit pension plan.

(All amounts in millions of US dollars)

Pension costs also include compulsory payments to the Russian Federation Pension Fund ("RFPF"), contributions to a non-government pension fund and an increase in the net present value of the future benefits which the Group expects to pay to its employees upon their retirement under a defined benefit pension plan, as follows:

	2008	2007
Payments to the RFPF	77.2	56.9
Defined benefit pension plan	1.2	0.5
Defined contribution pension plan	0.4	0.5
	78.8	**57.9**

10. FINANCIAL INCOME AND EXPENSES

	2008	2007
Financial income:		
Interest income on bank deposits	4.4	4.2
Gain on disposal of investments, net	-	13.2
Foreign exchange gain, net	-	44.6
Financial income	**4.4**	**62.0**
Financial expenses:		
Foreign exchange loss, net	(141.0)	-
Interest expense on finance lease liabilities	(24.6)	(31.6)
Interest expense on customs duty discounting	(13.4)	(11.9)
Interest expense on short and long-term borrowings	(16.7)	(9.7)
Loss on disposal of investments, net	(1.3)	-
Financial expenses	**(197.0)**	**(53.2)**

11. OTHER NON-OPERATING INCOME/(EXPENSES), NET

	2008	2007
Reversal of payables no longer due	4.5	0.6
Fines and penalties received from suppliers	1.8	1.8
Insurance compensation received	1.3	0.5
Non-recoverable VAT	(16.8)	(44.7)
Other income /(expenses)	30.0	(14.0)
	20.8	**(55.8)**

12. INCOME TAX

	2008	2007
Current income tax charge	151.4	207.6
Deferred income tax (benefit)/expense	(13.3)	16.0
	138.1	**223.6**

(All amounts in millions of US dollars)

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

	2008	2007
Profit before income tax	175.1	537.0
Theoretical tax at rate applicable for each jurisdiction	(42.0)	(128.9)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of income tax rate reduction to 20%	7.5	-
Prior period tax adjustment	1.6	(20.4)
Effect of lower tax rates	-	(3.2)
Non-taxable income	6.3	14.4
Unrecognised current year tax losses	(22.1)	(9.4)
Non-deductible expenses	(89.4)	(76.1)
	(138.1)	**(223.6)**

The Group did not recognise a deferred tax assets related to certain subsidiaries' tax losses of USD 22.1 million (2007: USD 9.4 million). Most of the amount relates to CJSC Aeroflot Cargo's tax losses of USD 14.7 million (2007: USD 9.4 million) as the subsidiary is not expected to earn sufficient taxable profits in the foreseeable future against which the unused tax losses can be utilised by the Group.

The Russian corporate profit tax rate has been reduced to 20% from 24%. The new rate is effective from 1 January 2009.

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 their values for profits tax purposes. The tax effect of the movement in these temporary differences is recorded at the tax rate applicable to the Group companies of 20% for the year ended 31 December 2008 and 24% for the year ended 31 December 2007.

	2008	Movement for period	2007	Movement for period	2006
Tax effects of temporary differences:					
Loss carry-forward	26.4	26.1	0.3	0.3	-
Accounts receivable	3.2	2.2	1.0	0.8	0.2
Property, plant and equipment	3.0	(2.4)	5.4	0.2	5.2
Accounts payable	2.0	0.8	1.2	1.0	0.2
Long-term investments	0.3	0.3	-	-	-
Short and long-term borrowings	-	(0.3)	0.3	(1.2)	1.5
Deferred tax assets	**34.9**	**26.7**	**8.2**	**1.1**	**7.1**
Property, plant and equipment	(54.8)	13.1	(67.9)	2.3	(70.2)
Customs duties related to aircraft operation leases	(10.6)	(4.4)	(6.2)	(6.2)	-
Long-term investments	(4.1)	3.7	(7.8)	2.8	(10.6)
Accounts receivable	1.2	(1.7)	2.9	19.4	(16.5)
Accounts payable	8.3	(17.5)	25.8	(39.0)	64.8
Deferred tax liabilities	**(60.0)**	**(6.8)**	**(53.2)**	**(20.7)**	**(32.5)**
Movement for the year, net		19.9		(19.6)	
Less: Deferred tax recognised directly in equity (i)		(1.8)		1.2	

(All amounts in millions of US dollars)

	2008	Movement for period	2007	Movement for period	2006
Effect of translation to presentation currency		(4.8)		2.4	
Deferred tax benefit/(expense) for the year		**13.3**		**(16.0)**	

(i) The Group holds shares in France Telecom, which are classified as long-term investments available-for-sale. Gains and losses arising from changes in fair value of the France Telecom shares are recognized directly in equity, deferred tax related to them is also dealt with in equity. The movement during 2008 amounted to USD 1.8 million (2007: USD 1.2 million).

A deferred tax asset in relation to temporary differences of USD 27.5 million (2007: USD 4.9 million) relating to investments in subsidiaries and associates has not been recognised in the consolidated financial statements as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

13. CASH AND CASH EQUIVALENTS

	2008	2007
Bank accounts denominated in Russian roubles	61.5	27.4
Bank accounts denominated in other currencies	23.0	17.7
Bank accounts denominated in US dollars	20.4	24.2
Bank accounts denominated in Euros	7.3	9.6
Bank deposits	33.9	8.2
Cash in transit and other	0.7	3.5
	146.8	**90.6**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 33. Most of the funds are held at state owned Russian bank such as Sberbank of the Russian Federation, Vneshtogbank and Vnesheconombank and well known multinational banks such as Royal Bank of Scotland. All funds are accessible by the Group.

14. SHORT-TERM INVESTMENTS

	2008	2007
Held-for-trading investments:		
Corporate and government bonds	3.7	3.9
Corporate shares	1.4	22.2
	5.1	**26.1**
Other short-term investments:		
Promissory notes from third parties	2.3	4.7
Bank deposits with original maturities exceeding 90 days	1.6	16.7
Other short-term investments	0.9	7.1
Impairment allowance for short-term investments	(0.4)	(0.5)
	4.4	**28.0**
	9.5	**54.1**

Corporate and government bonds represent bonds denominated in Russian roubles issued by the Government of the Russian Federation and major Russian companies with maturity dates from 2009 to 2014 and yield to maturity rates of 7.3% to 19.0% per annum as at 31 December 2008.

The Group's investments in bonds and shares are reflected at market values at the end of the period based on the last traded prices obtained from the Moscow Interbank Currency Exchange ("MICEX").

(All amounts in millions of US dollars)

Corporate shares are publicly traded shares of Russian companies with readily available market prices.

As at 31 December 2008 the interest rate on bank deposits denominated in Russian roubles, with original maturities exceeding 90 days, were 10.0% per annum (2007: 7.0% to 9.75%).

15. ACCOUNTS RECEIVABLE AND PREPAYMENTS, NET

	2008	2007
VAT and other taxes recoverable	401.5	552.9
Trade accounts receivable	341.3	354.5
Income tax prepaid	61.7	42.2
Prepayments to suppliers	47.7	46.9
Deferred customs duties related to aircraft operating leases	27.1	20.8
Other receivables	59.5	55.7
Accounts receivable and prepayments, gross	**938.8**	**1,073.0**
Impairment allowance for bad and doubtful accounts	(22.7)	(24.3)
	916.1	**1,048.7**

Deferred customs duties of USD 27.1 million (2007: USD 20.8 million) relate to the current portion of customs duties incurred on importation of aircraft under operating leases. These customs duties are expensed in the consolidated statement of income over the term of the operating lease. The non-current portion of the deferred customs duties is disclosed in Note 19.

As at 31 December 2008 sufficient impairment allowance has been made against accounts receivable and prepayments.

The movement in the Group's impairment allowance for bad and doubtful debts is as follows:

	Impairment allowance
As at 31 December 2006	**18.2**
Provision exchange rate	1.5
Increase in impairment allowance for bad and doubtful accounts	8.0
Receivables written off during the year as uncollectible	(3.4)
As at 31 December 2007	**24.3**
Provision exchange rate	(4.3)
Increase in impairment allowance for bad and doubtful accounts	3.9
Accounts receivable written off during the year as uncollectible	(1.2)
As at 31 December 2008	**22.7**

16. EXPENDABLE SPARE PARTS AND INVENTORIES, NET

	2008	2007
Expendable spare parts	57.0	60.1
Fuel	7.8	24.5
Other inventories	20.9	25.5
Expendable spare parts and inventories, gross	**85.7**	**110.1**
Impairment allowance for obsolete inventory	(7.0)	(5.9)
	78.7	**104.2**

(All amounts in millions of US dollars)

17. EQUITY ACCOUNTED INVESTMENTS

	2008		2007	
	Voting rights	**Carrying value**	**Voting rights**	**Carrying value**
LLC Airport Moscow	50.0%	4.4	50.0%	4.4
CJSC AeroMASH – AB	45.0%	1.5	45.0%	1.7
CJSC Aerofirst	33.3%	4.5	33.3%	5.8
CJSC TZK Sheremetyevo	31.0%	10.2	31.0%	7.9
Other	Various	0.5	Various	0.7
		21.1		**20.5**

Summarised financial information in respect of the Group's affiliates accounted for using the equity method based on their respective financial statements prepared for the years ended 31 December 2008 and 2007 is set out below:

	2008	**2007**
Total assets	174.7	182.4
Total liabilities	(115.8)	(126.7)
Net assets	**58.9**	**55.7**
Group's share in the net assets of equity accounted investments	**21.1**	**20.5**
Revenue	1,125.2	852.0
Profit for the year	28.4	12.6
Group's share of profits for the year in equity accounted investments	**8.4**	**6.0**

18. LONG-TERM INVESTMENTS

	2008	**2007**
Available-for-sale investments:		
Shares in France Telecom	14.4	18.5
Mutual investment funds	0.8	0.9
SITA Investment Certificates	0.6	0.7
	15.8	**20.1**
Other long-term investments:		
Loans issued and promissory notes from third parties	0.3	0.5
Other	0.7	1.2
	1.0	**1.7**
	16.8	**21.8**

19. OTHER NON-CURRENT ASSETS

	2008	**2007**
Deferred customs duties related to aircraft operating leases	152.3	104.3
VAT recoverable	76.3	109.6
Other	11.8	2.7
	240.4	**216.6**

(All amounts in millions of US dollars)

VAT recoverable primarily includes USD 76.3 million (2007: USD 80.5 million) related to the acquisition of aircraft. As at 31 December 2008 VAT (2007: USD 22.7 million) related to the construction of the Sheremetyevo-3 terminal has been reported in accounts receivable and prepayments (Note 15) as the new terminal is expected to be commissioned in 2009. None of the amounts are impaired.

20. PREPAYMENTS FOR AIRCRAFT

Prepayments for aircraft relate to cash advances made in relation to twenty-two Boeing B-787 (delivery: 2014 – 2016), twenty-two Airbus A-350 (delivery: 2016-2019) and nineteen Sukhoi Superjet-100 (SSJ) (delivery: 2010 – 2012) aircraft which are expected to be used under operating lease agreements.

21. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Plant. equipment and other	Construction in progress (i)	Total
Cost						
As at 31 December 2006	**500.9**	**683.1**	**184.5**	**217.2**	**303.3**	**1 889.0**
Additions	54.5	151.6	8.6	27.6	291.2	533.5
Capitalised overhaul costs	21.9	-	-	-	-	21.9
Disposals	(36.0)	(11.3)	(0.3)	(14.2)	(11.0)	(72.8)
Transfers	-	39.1	13.3	6.6	(59.0)	-
Foreign currency translation	38.1	57.3	13.8	16.9	31.1	157.2
As at 31 December 2007	**579.4**	**919.8**	**219.9**	**254.1**	**555.6**	**2 528.8**
Additions (ii)	40.3	11.7	4.2	34.4	489.2	579.8
Capitalised overhaul costs (iii)	30.2	-	-	-	-	30.2
Disposals (iv)	(56.2)	-	(0.2)	(16.4)	(1.8)	(74.6)
Transfers	1.2	0.7	0.9	19.6	(22.4)	-
Foreign currency translation	(97.7)	(153.3)	(36.2)	(48.1)	(162.9)	(498.2)
31 December 2008	**497.2**	**778.9**	**188.6**	**243.6**	**857.7**	**2,566.0**
Accumulated depreciation						
31 December 2006	**(357.1)**	**(72.3)**	**(79.0)**	**(152.0)**	**(1.1)**	**(661.5)**
Charge for the year	(42.3)	(73.1)	(10.3)	(19.3)	-	(145.0)
Impairment	(3.9)	-	-	-	-	(3.9)
Disposals	31.8	-	-	11.2	-	43.0
Foreign currency translation	(26.5)	(8.4)	(6.9)	(10.7)	-	(52.5)
31 December 2007	**(398.0)**	**(153.8)**	**(96.2)**	**(170.8)**	**(1.1)**	**(819.9)**
Charge for the year	(49.0)	(74.3)	(11.0)	(22.9)	-	(157.2)
Impairment (v)	-	-	-	-	(27.8)	(27.8)
Disposals (iv)	46.2	-	-	12.8	-	59.0
Foreign currency translation	65.9	36.8	19.1	28.0	4.4	154.2
31 December 2008	**(334.9)**	**(191.3)**	**(88.1)**	**(152.9)**	**(24.5)**	**(791.7)**

(All amounts in millions of US dollars)

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Plant. equipment and other	Construction in progress (i)	Total
Net book value						
31 December 2007	**181.4**	**766.0**	**123.7**	**83.3**	**554.5**	**1,708.9**
31 December 2008	**162.3**	**587.6**	**100.5**	**90.7**	**833.2**	**1,774.3**

As at 31 December 2008 property, plant and equipment, consisting primarily of construction in progress related to the construction of the Sheremetyevo-3 terminal of USD 645.8 million, are subject to a registered debenture to secure bank loans (Note 26 and Note 28).

(i) Construction in progress mainly includes:

- capital expenditure incurred in relation to the construction of the new Sheremetyevo-3 terminal of USD 645.8 million (2007: USD 431.7 million);
- capital expenditure and prepayments of USD 74.5 million (2007: USD 42.1 million) related to the construction of the Company's new office building;
- prepayments of USD 4.1 million related to the delivery of ten new Sukhoi SuperJet-100 (SSJ) aircraft;
- prepayments for the delivery of three McDonnell Douglas MD-11 aircraft of USD 23.5 million;
- prepayments for delivery of sixteen Airbus A-321 aircrafts of USD 51.8 million.

(ii) The 2008 additions mostly related to the acquisition of two Boeing B-737 aircrafts under finance lease;

(iii) Capitalised overhaul costs primarily relate to the renovations of aircraft interiors and modernisation of aircraft engines;

(iv) The 2008 disposals relate to the disposal of four Tupolev Tu-154, seven Tupolev Tu-134, one Ilyushin Il-62 and one Ilyushin Il-86 aircraft previously owned by the Group.

(v) A full impairment allowance has been made against cash prepayments related to three McDonnell Douglas MD-11 aircraft (Note 21(i)) as it is unlikely that the Group will get any future economic benefits related to these assets.

In 2008 the total of USD 110.2 million was capitalised in the cost of property, plant and equipment of which USD 69.3 million (2007: Nil) related to the portion of foreign currency translation losses on non-Rouble denominated construction loans that were deemed as borrowing costs. The remaining USD 40.9 million (2007: USD 20.7 million) comprised interest accrued on these loans and was fully capitalised in cost of the construction. All amounts related to the new Sheremetyevo-3 terminal.

(All amounts in millions of US dollars)

22. INTANGIBLE ASSETS

	Software	Licences	Construction in progress	Total
Cost				
As at 31 December 2006	**-**	**-**	**-**	**-**
Additions	-	-	7.5	7.5
Foreign currency translation	-	-	0.3	0.3
As at 31 December 2007	**-**	**-**	**7.8**	**7.8**
Additions	3.6	5.4	2.2	11.2
Transfers	5.8	-	(5.8)	-
Foreign currency translation	(1.5)	(0.9)	(0.8)	(3.2)
31 December 2008	**7.9**	**4.5**	**3.4**	**15.8**
Accumulated amortisation				
31 December 2006	**-**	**-**	**-**	**-**
Charge for the year	-	-	-	-
Foreign currency translation	-	-	-	-
31 December 2007	**-**	**-**	**-**	**-**
Charge for the year	(2.1)	-	-	(2.1)
Foreign currency translation	0.4	-	-	0.4
31 December 2008	**(1.7)**	**-**	**-**	**(1.7)**
Net book value				
31 December 2007	**-**	**-**	**7.8**	**7.8**
31 December 2008	**6.2**	**4.5**	**3.4**	**14.1**

23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007
Trade accounts payable	348.3	293.3
VAT payable on leased aircraft	91.9	87.2
Staff related liabilities	76.6	87.9
Customs duties payable on leased aircraft	74.2	71.0
Advances received (other than unearned transportation revenue)	27.6	27.3
Other taxes payable	8.1	7.7
Frequent flyer programme liability	6.9	5.0
Merchandise credits	4.8	6.9
Dividends payable	2.5	3.8
Income tax payable	0.1	8.8
Other payables	28.2	30.9
	669.2	**629.8**

(All amounts in millions of US dollars)

As at 31 December 2008 accounts payable and accrued liabilities include the short-term portion of VAT of USD 91.9 million (2007: USD 87.2 million) and customs duties of USD 74.2 million (2007: USD 71.0 million) relating to imported leased aircraft, which are payable in equal monthly instalments over a 34 month period from the date these assets were cleared through customs. The long-term portion of VAT payable and customs duties of USD 76.2 million (2007: USD 80.5 million) and USD 63.7 million (2007: USD 69.6 million), respectively, relating to the leased aircrafts are disclosed in Note 29.

Staff related payables primarily include salaries and social contribution liabilities of USD 40.7 million (2007: USD 59.3 million) and the unused vacation accrual of USD 35.0 million (2007: USD 27.4 million).

The Group introduced the Aeroflot Bonus frequent flyer programme in 1999. As at 31 December 2008 and 2007 approximately 1,387 thousand and 920 thousand passengers, respectively, participated in the programme. The frequent flyer programme liability as at 31 December 2008 and 2007 represents the incremental costs, which are included in sales and marketing expenses, associated with providing free transportation under the Aeroflot Bonus programme.

The Group's exposure to currency and liquidity risk related to accounts payable and accrued liabilities is disclosed in Note 33.

24. UNEARNED TRANSPORTATION REVENUE

As at 31 December 2008 unearned transportation revenue of USD 172.9 million (2007: USD 180.3 million) comprised passenger transportation revenue of USD 172.8 million (2007: USD 180.1 million) and cargo transportation revenue of USD 0.1 million (2007: USD 0.2 million).

25. PROVISIONS

	2008	2007
1 January	**64.9**	**83.3**
Additional provision in the year	9.1	26.0
Release of provision	(48.8)	(44.4)
31 December	**25.2**	**64.9**
Analysed as:		
Current liabilities	22.8	4.0
Non-current liabilities	2.4	60.9
	25.2	**64.9**

The Group is a defendant in various legal actions. The provision represents management's best estimate of the Group's probable losses relating to various actual and potential legal claims. The Group also provides against tax contingencies and the related interest and penalties based on management's estimate of the amount of the additional taxes that may become due.

The Company is a defendant in a claim by the owner of a cargo plane, which crashed in 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. According to a report prepared by Airclaims, compensation relating to crashed aircraft ranges between USD 11.8 million and USD 15.3 million. Management made their best assessment of the likely outcome associated with this issue and recorded a provision amounting to USD 12.0 million as at 31 December 2003. In 2005 the

(All amounts in millions of US dollars)

Arbitration court decided in favour of the claimant. Consequently, the most likely amount of potential damages was reassessed by the Company at 28 million euros. The Company had filed an appeal. A court decision was made in June 2009 as a result of which the total damages awarded to the plaintiff amount to 9.1 million euros. Consequently USD 12.8 million is provided in the consolidated financial statements as at 31 December 2008. Although the plaintiff could appeal this judgement, the Company considers it likely to be final since the total damages awarded cannot be altered by such an appeal. The amount has been calculated using the cross-rate of 1.41 US dollars per 1 euro.

A court decision was obtained in 2009 in relation to one of the property sales transactions that occurred prior to 31 December 2008 as a result of which the sales contract was found void and non-existent. Consequently the Company has been ordered to return the funds received from the buyer. The amount to be reimbursed is USD 9.1 million and has been recognised in the consolidated financial statements.

26. SHORT-TERM BORROWING

	2008	2007
Loans denominated in US dollars:		
Royal Bank of Scotland (i)	16.0	-
Société Générale Vostok (ii)	15.0	-
Vneshtorgbank - short term portion (Note 28)	14.0	-
Vnesheconombank - short term portion (Note 28)	12.9	-
WestLB Vostok (iii)	10.1	-
Alfa-Bank (iv)	5.5	-
	73.5	**-**
Loans denominated in Russian roubles:		
Sberbank of the Russian Federation (v)	20.8	69.4
Gazprombank (vi)	17.3	34.2
Gazprombank (vii)	11.6	-
Raiffeisenbank – short term portion (Note 28)	7.3	-
UniCredit Bank (viii)	5.1	-
Sberbank of the Russian Federation (ix)	4.3	-
Vneshtorgbank (vi)	-	12.6
Renaissance Capital (vi)	-	9.2
MDM Bank (vi)	-	5.5
Other short-term bank loans	5.5	0.5
	71.9	**131.4**
	145.4	**131.4**

(i) The balance as at 31 December 2008 represents a credit line of USD 16.0 million issued at an interest rate of LIBOR plus 1.45% per annum. The effective annualised interest rate related this credit line in 2008 was equal to 3.81% per annum. The loan is unsecured;

(ii) The balance as at 31 December 2008 represents a credit line of USD 15.0 million issued at an interest rate of six-month LIBOR plus 4.27% per annum. The effective annualised interest rate related to this credit line in 2008 was equal to 8.65% per annum. The loan is unsecured;

(iii) The balance as at 31 December 2008 represents a credit line of USD 10.1 million issued at an interest rate of six-month LIBOR plus 3.95% per annum. The effective annualised interest rate related to this credit line in 2008 was equal to 7.46% per annum. The loan is unsecured;

(iv) The balances as at 31 December 2008 represents two loans for the total of USD 5.5 million issued at interest rates of LIBOR plus 9.14% and LIBOR plus 9.32% per annum. The effective annualised interest rate related to these loans in 2008 was equal to 11.76% per annum. The loans are unsecured;

(All amounts in millions of US dollars)

(v) As at 31 December 2008 USD 20.8 million was payable to Sberbank of the Russian Federation in relation to the credit line issued to the Group. The effective annualised interest rate related to this loan in 2008 was equal to 14.4% per annum. The loan is unsecured;

(vi) The balances represent the net amounts due under a series of short-term security sale and repurchase agreements bearing an interest rate of 12.04% per annum. The securities that are subject to the sale and repurchase agreements are pledged as collateral pertaining to these loans;

(vii) The balance as at 31 December 2008 represents three loans for the total amount of USD 11.6 million issued at interest rates of 11%, 14% and 15% per annum. The effective annualised interest rate on the total outstanding balance of these loans in 2008 was equal to 14.05% per annum. The loans are unsecured;

(viii) The balances as at 31 December 2008 represent a loan of USD 5.1 million issued at an interest rate of 10.75% per annum. The effective annualised interest rate related to this loan in 2008 was equal to 11.29% per annum. The loan is unsecured;

(ix) The balances as at 31 December 2008 represent two loans for the total of USD 4.3 million issued at an interest rate from 10% to 18% per annum. The effective annualised interest rate related to these loans in 2008 was 11.41% per annum. The loans are secured by property, plant and equipment with a carrying value of USD 4.0 million.

27. FINANCE LEASE LIABILITIES

The Group leases aircrafts under finance lease agreements. Leased assets are listed in Note 1 above.

	2008	**2007**
Total outstanding payments	623.6	766.1
Finance charges	(85.4)	(167.6)
Principal outstanding	**538.2**	**598.5**
Representing:		
Current lease liabilities	78.0	67.4
Non-current lease liabilities	460.2	531.1
	538.2	**598.5**
Due for repayment (principal and finance charges):		
On demand or within one year	97.9	105.6
In two to five years	305.3	347.4
After five years	220.4	313.1
	623.6	**766.1**

Interest unpaid as at 31 December 2008 amounted to approximately USD 3.7 million (2007: USD 3.6 million) and is included in accrued expenses. In 2008 the effective interest rate on this lease was approximately 3.8% per annum (2007: 5.9% per annum).

In 2008 the Group acquired two Boeing B-737 aircraft under financial lease arrangements. The related short-term and long-term finance lease liabilities as at 31 December 2008 amounted of USD 2.6 million and USD 9.8 million, respectively.

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

(All amounts in millions of US dollars)

The Group's aircrafts leased under finance lease agreements are subject to a registered debenture to secure liabilities in relation to their lease.

28. LONG-TERM BORROWINGS

	2008	2007
Loans denominated in US dollars:		
Vneshtorgbank (i)	252.4	177.8
Vnesheconombank (ii)	201.9	179.6
Vnesheconombank (iii)	121.1	-
Accor	2.7	2.7
Other long-term loans	3.3	3.2
	581.4	**363.3**
Loans denominated in Russian roubles:		
Raiffeisen bank (iv)	9.7	16.3
	591.1	**379.6**

(i) The balance as at 31 December 2008 represents an outstanding amount of USD 252.4 million on a credit line issued by Vneshtorgbank at a fixed interest rate of 7.75% per annum. The amount was borrowed in order to finance the construction of the new Sheremetyevo-3 terminal. The sublease of the land and the construction in progress are pledged as collateral under a secondary loan agreement with hypothecation values of USD 59.5 million and USD 645.8 million, respectively;

(ii) The balance as at 31 December 2008 represents an outstanding balance of USD 201.9 million on a credit line issued by Vnesheconombank at a fixed interest rate of 10.56% per annum. The amount was borrowed in order to finance the construction of the new Sheremetyevo-3 terminal. The sublease of the land and the construction in progress are pledged as collateral under a primary loan agreement with hypothecation values of USD 59.5 million and USD 645.8 million, respectively;

(iii) The balance as at 31 December 2008 relates to a loan of USD 121.1 million borrowed at an interest rate of 9.0% per annum. The agreed interest rate will be effective until 20 August 2018 after which the interest rate will be LIBOR plus 4% per annum. The amount was borrowed in order to finance the construction of the new Sheremetyevo-3 terminal. The sublease of the land is pledged as collateral under a primary loan agreement with a hypothecation value of USD 59.5 million;

(iv) The balance as at 31 December 2008 represents an outstanding amount of USD 9.7 million at a fixed interest rate of MosPrime plus 3% per annum. The loan was borrowed in order to finance the Group's working capital requirements. The effective annualised interest rate in 2008 was equal to 11.94% per annum. The loan is unsecured.

The borrowings are repayable as follows:

	2008	2007
On demand or within one year	34.2	-
In two to five years	239.8	147.4
After five years	351.3	232.2
	625.3	**379.6**
Less: amounts due for settlement within 12 months	(34.2)	-
Amounts due for settlement after 12 months	**591.1**	**379.6**

(All amounts in millions of US dollars)

29. OTHER NON-CURRENT LIABILITIES

	2008	2007
VAT payable on leased aircraft	76.2	80.5
Custom duties payable on leased aircraft	63.7	69.6
Defined benefit pension obligation – non-current portion	9.9	11.8
Other non-current liabilities	0.6	13.6
	150.4	**175.5**

As at 31 December 2008 other non-current liabilities include the long-term portion of VAT of USD 76.2 million (2007: USD 80.5 million) and customs duties of USD 63.7 million (2007: USD 69.6 million) relating to imported leased aircraft, which are payable in equal monthly instalments over a 34 month period from the date these assets are cleared through customs.

Customs duties payable on leased aircraft have been discounted using a discount rate between 8.05% and 15.0%.

The short-term portion of the VAT payable and the customs duties of USD 91.9 million (2007: USD 87.2 million) and USD 74.2 million (2007: USD 71.0 million), respectively, relating to the imported leased aircraft are disclosed in Note 23.

30. SHARE CAPITAL

	Number of shares authorised and issued	Number of treasury shares	Number of shares outstanding
Ordinary shares of one Russian rouble each:			
As at 31 December 2007	1,110,616,299	(48,940,319)	1,061,675,980
As at 31 December 2008	1,110,616,299	(27,770,779)	1,082,845,520

Ordinary shareholders are entitled to one vote per share.

During 2008 the number of treasury shares held by the Group decreased by 21,169,540

The Company's shares are listed on the Russian Trade System ("RTS") and the Moscow Interbank Currency Exchange ("MICEX") and on 29 June 2009 were traded at USD 1.06 per share.

The Company launched a Level 1 Global Depositary Receipts (GDR's) programme in December 2000. The Company signed a depositary agreement with Deutsche Bank Group, allowing the Company's shareholders to swap their shares for GDR's, which trade over-the-counter on US and European markets. The swap ratio was established at 100 shares per GDR. In accordance with the depositary agreement the total volume of the GDR's of the Company cannot exceed 20% of the Company's share capital. In 2001 the Company's GDR's were listed on the New Europe Exchange ("NEWEX") in Vienna and after closing of this stock exchange the GDR's were transferred to the third segment of the stock exchange in Frankfurt. On 29 June 2009 the GDR's were traded at USD 104.05 each.

31. RETAINED EARNINGS AND DIVIDENDS

The statutory accounting reports of the Group companies are the basis for profit distribution and other appropriations. For the years ended 31 December 2008 and 2007, the statutory profits of the Company, as reported in the published annual statutory financial statements, were 5,807 million Russian roubles and 6,074 million Russian roubles, respectively.

A dividend of 0.62 US cents (0.1818 Russian roubles) per share in respect of the 2008 financial year was approved by the shareholders of the Company at the Annual Shareholder Meeting held on 20 June 2009. The total amount of dividends to be distributed to the Shareholders amounts to 199.9 million Russian roubles (USD 6.8 million) and will be distributed between 21 June and 31 December 2009.

(All amounts in millions of US dollars)

32. SEGMENT INFORMATION

The Group is organised into four 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;
- Hotels – the operation of hotels;
- Airport terminal – the operation of the Sheremetyevo-3 terminal.

All operations are based in the Russian Federation; therefore no geographical segment information is disclosed.

Details of the geographical breakdown of revenues from scheduled passenger and cargo airline activities are as follows:

	2008	2007
Scheduled passenger revenue:		
International flights from Moscow to:		
Europe	689.5	542.1
Asia	293.3	266.2
North America	85.1	88.1
Other	28.5	23.5
	1,096.4	**919.9**
International flights to Moscow from:		
Europe	684.3	544.6
Asia	300.6	278.3
North America	84.4	83.4
Other	26.9	22.7
	1,096.2	**929.0**
Domestic flights	1,247.5	945.5
Other international flights	67.5	51.3
	3,507.6	**2,845.7**

	2008	2007
Cargo revenue:		
International flights from Moscow to:		
Europe	4.3	4.3
Asia	2.1	3.2
North America	1.2	2.1
Other	0.2	0.1
	7.8	**9.7**
International flights to Moscow from:		
Europe	56.7	42.2
Asia	57.3	44.6
North America	6.8	5.6
Other	0.2	0.7
	121.0	**93.1**

(All amounts in millions of US dollars)

	2008	2007
Other international flights	151.4	120.4
Domestic flights	53.4	48.7
	333.6	**271.9**

Business segments

	Airline	Catering	Hotels	Terminal	Other	Elimi-nations	Total Group
Year ended 31 December 2008							
External sales	4,580.7	17.6	22.1	-	(6.6)	-	4,613.8
Inter-segment sales	-	74.3	6.7	-	4.0	(85.0)	-
Total revenue	**4,580.7**	**91.9**	**28.8**	**-**	**(2.6)**	**(85.0)**	**4,613.8**
Operating profit/(loss)	335.6	10.7	6.7	(8.6)	(14.8)	8.9	338.5
Financial income							4.4
Financial expenses							(197.0)
Share of income in associates	8.4	-	-	-	-	-	8.4
Non-operating income/(expenses), net							20.8
Profit before income tax							175.1
Income tax							(138.1)
Profit for the period							**37.0**
Year ended 31 December 2008							
Segment assets	2,634.0	28.2	20.3	734.1	44.4	(220.9)	3,240.1
Associates	13.8						13.8
Unallocated assets							96.5
Consolidated total assets							**3,350.4**
Segment liabilities	664.7	19.4	21.4	25.9	28.5	(52.7)	707.2
Unallocated liabilities							1,645.2
Consolidated total liabilities							**2,352.4**
Capital expenditure (Note 21)	267.3	2.7	2.8	337.2	-	-	610.0
Depreciation and amortisation	154.4	0.9	3.8	0.1	0.1	-	159.3
Non-recoverable VAT (Note 11)	16.8	-	-	-	-	-	16.8

Year ended 31 December 2007	Airline	Catering	Hotels	Terminal	Other	Eliminat ions	Total Group
External sales	3,759.4	19.1	19.9	-	9.4	-	3,807.8
Inter-segment sales	-	55.6	5.9	-	3.6	(65.1)	-
Total revenue	**3,759.4**	**74.7**	**25.8**	**-**	**13.0**	**(65.1)**	**3,807.8**
Operating profit/(loss)	562.6	12.2	6.3	(4.5)	1.6	(0.2)	578.0
Financial income							62.0
Financial expenses							(53.2)
Share of income in associates	6.0	-	-	-	-	-	6.0
Non-operating income/(expenses), net							(55.8)
Profit before income tax							537.0

(All amounts in millions of US dollars)

	Airline	Catering	Hotels	Terminal	Other	Elimi-nations	Total Group
Income tax							(223.6)
Profit for the year							**313.4**
Segment assets	2,919.7	25.6	24.8	539.7	67.9	(241.9)	3,335.8
Associates	12.1	-	-	-	-	-	12.1
Unallocated assets	-	-	-	-	-	-	50.4
Consolidated total assets							**3,398.3**
Segment liabilities	687.7	21.7	4.8	2.9	25.6	(26.5)	716.2
Unallocated liabilities	-	-	-	-	-	-	1,497.0
Consolidated total liabilities							**2,213.2**
Capital expenditure (Note 21)	353.7	1.6	0.6	199.4	0.1	-	555.4
Depreciation and amortisation	140.4	0.8	3.6	0.1	0.1	-	145.0
Non-recoverable VAT (Note 11)	44.7	-	-	-	-	-	44.7

33. RISK CONNECTED WITH FINANCIAL INSTRUMENTS

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group entities utilise a detailed budgeting and cash forecasting process to ensure their liquidity is maintained at the appropriate level.

The Group has entered into various agreements with a number of banks in Russia whereby the banks have issued facilities to guarantee the repayment of the Group's commitments related to the existing aircraft lease agreements. As at 31 December 2008 the total value of the guarantees issued amounted to USD 76.4 million (2007: USD 63.7 million). The following are the contractual maturities of financial liabilities, excluding estimated interest payments and the impact of netting agreements:

2008	**Average interest rate Contrac-tual**	**Effective**	**0-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Non-derivative financial liabilities:							
Loans in US dollars	8.9%	8.9%	73.5	126.2	103.8	351.4	654.9
Loans in Russian roubles	13.3%	13.3%	71.9	9.7	-	-	81.6
Finance lease liabilities	3.8%	3.8%	78.0	65.6	189.8	204.8	538.2
Customs duties	0%	6%	74.2	45.1	18.6	-	137.9
Trade and other payables (excluding customs duties)	0%	0%	595.0	56.7	24.1	5.9	681.7
			892.6	**303.3**	**336.3**	**562.1**	**2,094.3**

(All amounts in millions of US dollars)

2007	**Average interest rate Contrac-tual**	**Effective**	**0-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Non-derivative financial liabilities:							
Loans in US dollars	8.0%	8.0%	131.4	41.2	89.9	232.2	494.7
Loans in Russian roubles	12.5%	12.5%	-	16.3	-	-	16.3
Finance lease liabilities	5.9%	5.9%	67.4	63.2	192.1	275.8	598.5
Customs duties	0%	9%	69.6	59.4	11.7	-	140.7
Trade and other payables (excluding customs duties)	0%	0%	560.2	81.2	16.1	7.1	664.6
			828.6	**261.3**	**309.8**	**515.1**	**1,914.8**

Customs duties represent discounted customs duty liabilities related to finance and operation leases of aircrafts. The effective annualised interest rate is impacted by the date of adding a new aircraft to the fleet of the Group.

As at 31 December 2008 the Group had available a total amount of USD 451.2 million (2007: USD 114.7 million) in relation to lines of credit granted to the Group by various lending institutions.

Currency risk – The Group is exposed to currency risk in relation to sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities, which are primarily the Russian rouble. The currencies in which these transactions are primarily denominated are Euro and USD.

The Group’s exposure to foreign currency risk was as follows based on notional amounts:

	2008				**2007**			
	USD	**EUR**	**Other**	**Total**	**USD**	**EUR**	**Other**	**Total**
Cash and cash equivalents	38.5	7.5	23.4	69.4	25.7	12.8	16.5	55.0
Accounts receivable and prepayments, net	207.1	47.0	39.4	293.5	280.1	64.2	53.9	398.2
Other non-current assets	87.6	-	-	87.6	103.2	-	-	103.2
	333.2	**54.5**	**62.8**	**450.5**	**409.0**	**77.0**	**70.4**	**556.4**
Accounts payable and accrued liabilities	141.0	37.3	15.3	193.6	93.9	28.9	13.2	136.0
Finance lease liabilities (current portion)	76.3	-	-	76.3	61.8	-	-	61.8
Finance lease liabilities (non-current portion)	460.2	-	-	460.2	531.1	-	-	531.1
Short-term borrowings	73.5	-	-	73.5	-	-	-	-
Long-term borrowings	581.4	-	-	581.4	363.3	-	-	363.3
Other non-current liabilities	-	-	-	-	13.5	-	-	13.5
	1,332.4	**37.3**	**15.3**	**1,385.0**	**1,063.6**	**28.9**	**13.2**	**1,105.7**
Net assets/(liabilities)	**(999.2)**	**17.2**	**47.5**	**(934.5)**	**(654.6)**	**48.1**	**57.2**	**(549.3)**

A 20% in 2008 and 10% in 2007 strengthening or weakening of the Russian rouble against the following currencies as at 31 December 2008 and 2007, respectively, would have increased (decreased) profit before income tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008 and 2007.

(All amounts in millions of US dollars)

	2008		2007	
	Percent against RUR	**Effect on profit before income tax**	**Percent against RUR**	**Effect on profit before income tax**
Increase in the rate of exchange to rouble				
USD	20%	199.8	10%	65.5
Euro	20%	(3.4)	10%	(4.8)
Other currencies	20%	(9.5)	10%	(5.7)
Decrease in rate of exchange to rouble				
USD	20%	(199.8)	10%	(65.5)
Euro	20%	3.4	10%	4.8
Other currencies	20%	9.5	10%	5.7

Interest rate risk – Changes in interest rates impact primarily loans and borrowings by changing either their value (fixed rate debt) or their future cash flows (variable rate debt). At the time of raising new loans or borrowings management uses judgment to decide whether it believes that a fixed or variable interest rate would be more favourable to the Group over the expected period until maturity.

As at 31 December 2008 and 2007 the interest rate profiles of the Group's interest-bearing financial instruments were:

	Carrying amount	
	2008	**2007**
Fixed rate instruments		
Financial assets	33.9	25.6
Financial liabilities	709.2	534.2
	743.1	**559.8**
Variable rate instruments		
Financial liabilities	**565.5**	**575.3**

During the year some of the Group's loans bore variable interest rates (Note 26 and Note 28). If the variable interest rates on borrowings in 2008 were 30% greater or lower that the actual interest rates for the year, with all other variables held constant, interest expense would have been higher or lower by USD 0.8 million (2007: USD 0.4 million).

The interest component of the Group's finance leases primarily accrues at variable interest rates. If in 2008 those rates were 30% greater or lower than what they actually were, with all other variables held constant, interest expense on finance leases for the year would have been different by USD 4.9 million (2007: USD 8.0 million).

Fuel price risk – The results of Group's operations can be significantly impacted by changes in the price of aircraft fuel. Had aircraft fuel prices in 2008 been 25% higher or lower, with all other variables held constant, the profit for the year would have been USD 370.9 million higher or lower. The impact on the 2007 net profit would have been USD 98.3 million if the fuel prices in 2007 had been 10% higher or lower, with all other variables held constant.

Capital risk management – Management's policy is to have a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital and the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements.

(All amounts in millions of US dollars)

34. RELATED PARTY TRANSACTIONS

The ultimate controlling party of the Company is the Government of the Russian Federation and all companies controlled by the Government of the Russian Federation are treated as related parties of the Group for the purpose of these consolidated financial statements.

The consolidated financial statements of the Group include the following balances and transaction with related parties:

	2008	2007
Assets		
VAT and customs duties recoverable on leased aircraft	347.5	293.3
Cash and cash equivalents	66.1	39.3
Trade and accounts receivable	32.8	41.1
Bank deposits with maturity date not exceeding 90 days	21.9	4.0
	468.3	**377.7**
Liabilities		
Long-term borrowings	575.4	357.4
VAT and customs duties payable on leased aircraft	306.0	308.4
Short-term borrowings	81.7	116.2
Trade and other accounts payable	56.3	66.6
	1,019.4	**848.6**

	2008	2007
Sales	54.7	67.9
Purchases from associates	677.9	514.6
Purchases from other related parties	571.8	431.1
Dividend income received	0.3	0.4

Purchases consist primarily of purchases of aircraft fuel as well as air navigation and airport services. In 2008 and 2007 most of the transactions between the Group and its related parties were based on market prices.

The summary of balances and charges relating to the taxes due to the Government of the Russian Federation for the years 2008 and 2007 is presented below:

	2008	2007
Accounts receivable from tax authorities	371.0	507.5
Tax refunds received during the year	390.6	159.8
Total amount of taxes settled with tax authorities during the year	376.5	449.0
Accounts payable to tax authorities	10.8	19.7

The amounts outstanding to and from related parties mainly will be settled in cash. Tax receivable and tax payable might be offset according to Russian tax legislation.

Total amount of guarantees given in 2008 USD 1.3 million (2007: USD 1.5 million), guarantees received USD 0.4 million (2007: USD 0.3 million).

Compensation of key management personnel

The remuneration of directors and other members of key management (the members of the Board of Directors and Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group) consist of short-term benefits including salary and bonuses as well as short-term compensation for serving on the management bodies of Group companies, and in 2008 amounted to approximately USD 15.6

(All amounts in millions of US dollars)

million (2007: USD 13.0 million).

Such amounts are stated before personal income tax but exclude unified social tax. According to Russian legislation, the Group makes contributions to the Russian State pension fund as part of unified social tax for all its employees, including key management personnel. Government officials, who are directors, do not receive remuneration from the Group.

35. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under non-cancellable aircraft and other operating leases are as follows:

	2008	2007
On demand or within one year	269.7	176.5
In two to five years	1,254.3	812.3
After five years	1,068.7	608.7
Total minimum payments	**2,592.7**	**1,597.5**

The operating lease commitments disclosed in the table above include the aircraft currently in use under operating lease, and two Boeing B-737, nine Airbus A-320, one A-319 and eight Airbus A-330-200 aircraft for which the lease agreements were signed in 2008 but which will commence during 2009-2012.

Commitments under operating leases include USD 13.6 million related to lease contracts which are likely to be terminated by management.

The amounts above represent base rentals payable. Maintenance fees payable to the lessor, based on actual flight hours, and other usage variables are not included in the table.

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

36. CAPITAL COMMITMENTS

The Group's capital commitments in relation to the acquisition of property, plant and equipment as at 31 December 2008 amounted to approximately USD 1,397 million (2007: USD 1,171 million). These commitments mainly relate to the finance leases of ten Sukhoi SuperJet-100 (SSJ) aircraft, the finance lease of sixteen Airbus A-321-200 aircraft, and contracts related to the putting into operation of the Sheremetyevo-3 terminal.

37. CONTINGENCIES

Political environment – The Government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result laws and regulations affecting businesses continue to change rapidly. These changes are characterised by poor drafting, different interpretations and arbitrary application by the authorities.

Business environment – The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Taxation – Russian tax legislation is subject to varying interpretations and constant changes. Furthermore, the interpretation of the tax legislation by the tax authorities, as applied to the transactions and activities of the Group, may not coincide with that of management. As a result, the tax authorities could challenge transactions and the Group could be assessed additional taxes, penalties and interest. which could be significant. Periods remain open to review by the tax authorities for three years. The Group's management believes that it has adequately provided for all tax liabilities in the consolidated financial statements. However, the risk remains that the relevant authorities could take up differing positions with regard to interpretative issues and the effect could be significant. In addition, tax treatment of air transportation services is relatively less regulated part of Russian taxation.

Legal action – Former members of the Group's management and two Swiss non-bank financial companies that provided treasury and financial services to the Group, are currently under civil and criminal investigation by the Swiss and Russian authorities for potential misconduct related to funds managed under treasury and financial services agreements. which were entered into by the former management of the Group. On 16 November 2006 the court in Moscow considered the Company's claim against two former employees of the Group and an employee of Financial United Corporation and awarded a total of approximately USD 8.2 million in damages to the Group. The Group intends to pursue the recovery of all losses to the fullest extent possible. However, due to remaining uncertainties in collecting already awarded and any possible additional amounts, it has not recognised any assets related to this matter in its consolidated financial statements.

38. CASH FLOW PRESENTATION

In 2008 year presentation of cash flow was changed with regards to:

Operating activities
In 2007 other non-cash expenses of USD 28.4 million were presented combined and included de-recognition of accounts payable, unrealised foreign exchange gains and losses, customs duties and non-recoverable VAT written off during the year. In 2008 unrealised foreign exchange losses are included in the consolidated cash flow statement as a separate line item. Presentation of the prior year comparative information has also been changed.

Financing activities
In 2007 cash inflows related to new loans borrowed in 2007 were offset with loan repayments that occurred during the year and were presented on a net basis at USD 276.5 million. In 2008 these are presented separately on a gross basis with the 2007 comparatives presented accordingly.
In 2008 the amount reported in the effect of exchange rate fluctuations line of USD 50.5 million represents the translation effect on the cash flows as a result of the translation from the Group's function currency RUR to USD, its presentation currency (Note 2).

39. SUBSEQUENT EVENTS

In 2009 the Group made a decision to return two Boeing 737-300SF aircraft obtained under operating lease agreements. The early termination penalty associated with this decision and payable by the Group to the lessor has not yet been finally determined and is currently under negotiation.

In accordance with the Russian Federal Law on Joint Stock Companies No.208-FZ the Russian Tax Office (the RTO) responsible for the town of Solnechnogorsk of the Moscow Region on 11 June 2009 submitted an application to the Arbitration Court of the Moscow Region (the "Court") requesting the Court to recognise CJSC Aeroflot – Cargo (Cargo), a subsidiary of the Group, insolvent and liquidate it in accordance with the Russia Federal Law on Bankruptcy No.127-FZ. The

Company is currently planning the process of liquidation of Cargo and intends to transfer its business to a new department within the Company. The Company does not expect the liquidation to have a material impact on these consolidated financial statements.

Subsequent to the investigation by the Russian Aviation Authority ("Rosaviatsia") into the crash of CJSC Aeroflot Nord's Boeing 737-500 in the town of Perm, Russia, Rosaviatsia has ordered this subsidiary of the Group to discontinue a selected number of its international charter flights effective from 15 June 2009. In addition, the subsidiary has been ordered to ground all of its aircraft with deferred defects detected during the investigation. If these issues are not resolved by 1 September 2009 the subsidiary's operating licence will be revoked.