OPEN JOINT STOCK COMPANY "AEROFLOT - RUSSIAN AIRLINES"

Independent Auditors' Report

Consolidated Financial Statements
For the Year Ended December 31, 2004

OPEN JOINT STOCK COMPANY “AEROFLOT – RUSSIAN AIRLINES”

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Open Joint Stock Company "Aeroflot – Russian Airlines":

We have audited the accompanying consolidated balance sheet of Open Joint Stock Company "Aeroflot – Russian Airlines" and its subsidiaries (the "Group") as of December 31, 2004 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2004 and the consolidated results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

June 3, 2005

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2004
(Amounts in millions of US Dollars, except shares and earnings-per-share amounts)

	Notes	2004	2003
Traffic revenue	5	1,735.5	1,369.0
Other revenue	6	423.3	347.0
Revenue		**2,158.8**	**1,716.0**
Operating costs	7	(1,559.0)	(1,254.3)
Staff costs	8	(300.9)	(244.2)
Depreciation		(94.0)	(91.1)
Operating costs		**(1,953.9)**	**(1,589.6)**
Operating income		**204.9**	**126.4**
Interest expense	9	(12.0)	(12.0)
Interest income		3.2	1.5
Share of income in associated undertakings		3.5	2.4
Foreign exchange and translation gain, net		13.5	8.5
Non-operating income, net	10	20.5	30.1
Income before taxation and minority interest		**233.6**	**156.9**
Taxation	11	(59.6)	(30.2)
Income before minority interest		**174.0**	**126.7**
Minority interest share of net income	25	(1.9)	-
Net income		**172.1**	**126.7**
Earnings per share (US Dollars)		**0.159**	**0.114**
Weighted average number of shares outstanding (millions)		**1,085**	**1,111**

V. M. Okulov
General Director

M. I. Poluboyarinov
Deputy General Director
Finance and Planning

June 3, 2005

The accompanying notes form an integral part of these consolidated financial statements.
The Independent Auditors’ Report is presented on page 1.

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2004
(Amounts in millions of US Dollars)

	Notes	2004	2003
ASSETS			
Current assets			
Cash and cash equivalents	12	65.2	52.2
Short-term aircraft lease deposits		6.4	-
Short-term investments	13	20.6	4.5
Accounts receivable and prepayments, net	14	448.3	297.4
Inventories	15	64.5	44.4
		605.0	**398.5**
Non-current assets			
Investments in affiliates, net	16	10.2	15.1
Long-term investments, net	17	20.4	18.3
Aircraft lease deposits		-	14.3
Deferred tax assets	11	6.4	6.8
Other non-current assets		3.3	3.5
Prepayment for property, plant and equipment		-	28.0
Property, plant and equipment	18	717.4	582.8
		757.7	**668.8**
TOTAL ASSETS		**1,362.7**	**1,067.3**
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	19	302.0	298.7
Deferred revenue		98.6	69.7
Short-term borrowings	22	78.4	72.4
Current portion of finance lease payable	24	53.0	124.1
		532.0	**564.9**
Non-current liabilities			
Long-term borrowings	23	16.2	3.2
Finance lease payable	24	304.3	144.2
Provisions	20	67.3	29.5
Deferred tax liabilities	11	8.2	18.2
Other non-current liabilities	21	23.2	20.4
		419.2	**215.5**

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2004 (CONTINUED)
(Amounts in millions of US Dollars)

	Notes	2004	2003
Minority interest	25	**8.6**	**5.7**
Shareholders’ equity			
Share capital	26	51.6	51.6
Treasury stock	26	(35.4)	(0.5)
Translation reserve		1.2	0.3
Retained earnings	27	385.5	229.8
		402.9	**281.2**
TOTAL LIABILITIES AND EQUITY		**1,362.7**	**1,067.3**

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June 3, 2005

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Amounts in millions of US Dollars)

	2004	2003
Cash flows from operating activities:		
Income before taxation and minority interest	**233.6**	**156.9**
Adjustments to reconcile income before taxation and minority interest to net cash provided by operating activities:		
Depreciation of property, plant and equipment	94.0	91.1
(Gain) loss on disposal of property, plant and equipment	(6.6)	8.6
Income on acquisition of subsidiary (Note 32)	(5.7)	-
Decrease in interest accrued	(3.1)	(1.1)
Share of income in associated undertakings	(3.5)	(2.4)
Gain on remeasurement of available-for-sale investments to fair value	(2.5)	(5.8)
Loss on impairment of fixed assets	12.7	-
Increase in other provisions and other assets impairments	46.7	24.4
Other non-cash income, net	(2.5)	-
Operating profit before working capital changes	**363.1**	**271.7**
Increase in accounts receivable	(149.0)	(67.3)
Increase in inventory	(19.3)	(13.2)
Increase (decrease) in accounts payable and accrued liabilities	1.9	(12.5)
Increase in deferred income	28.9	21.0
Decrease in other taxes payable	(1.5)	(11.5)
Income tax paid	(64.6)	(59.5)
Net cash provided by operating activities	**159.5**	**128.7**
Cash flows from investing activities:		
Purchases of property, plant and equipment and intangible assets	(104.5)	(51.6)
Proceeds from sale of property, plant and equipment	10.0	4.6
Refund from aircraft lease deposits	7.6	6.5
Purchases of investments	(18.6)	-
Proceeds from sale of investments	1.5	4.0
Acquisition of subsidiary (Note 32)	(3.2)	-
Refund of prepayments made for aircraft	28.0	-
Dividends received	3.6	4.4
Net cash used in investing activities	**(75.6)**	**(32.1)**
Cash flows from financing activities:		
Repayment of capital element of finance lease	(38.3)	(32.0)
Dividends paid	(16.2)	(7.5)
Purchases of treasury stock, net	(35.2)	-
Issue of shares to minority shareholders	1.3	-
Receipt (repayment) of borrowing, net	16.5	(37.3)
Net cash used in financing activities	**(71.9)**	**(76.8)**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)
(Amounts in millions of US Dollars)

	2004	2003
Net increase in cash and cash equivalents	**12.0**	**19.8**
Cash and cash equivalents at the beginning of the year	53.5	33.0
Effect of exchange rate change	0.7	0.7
Cash and cash equivalents at the end of the year	**66.2**	**53.5**
Supplemental cash flow information:		
Interest paid	(11.2)	(12.6)
Interest received	4.3	0.7
Non-cash investing and financing activities:		
Property, plant and equipment acquired under finance lease	204.0	158.2

Note:
Included in Cash and cash equivalents as of December 31, 2004 and 2003 are USD 1.0 million and USD 1.3 million respectively of restricted cash held by the Company's representative offices abroad. The restrictions are due to specific local currency regulations. Restricted cash is classified as "Other non-current assets" in the accompanying consolidated balance sheet.

V. M. Okulov
General Director

M. I. Poluboyarinov
Deputy General Director
Finance and Planning

June 3, 2005

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2004
(Amounts in millions of US Dollars)

	Share capital	Treasury stock	Translation reserve	Retained earnings	Total
As of December 31, 2002	**51.6**	**-**	**-**	**113.2**	**164.8**
Net income	-	-	-	126.7	126.7
Purchase of treasury stock	-	(0.5)	-	-	(0.5)
Foreign currency translation for the year	-	-	0.3	-	0.3
Dividends (Note 27)	-	-	-	(10.1)	(10.1)
As of December 31, 2003	**51.6**	**(0.5)**	**0.3**	**229.8**	**281.2**
Net income	-	-	-	172.1	172.1
Purchase of treasury stock	-	(34.9)	-	-	(34.9)
Foreign currency translation for the year	-	-	0.9	-	0.9
Dividends (Note 27)	-	-	-	(16.4)	(16.4)
As of December 31, 2004	**51.6**	**(35.4)**	**1.2**	**385.5**	**402.9**

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General Director

M. I. Poluboyarinov
Deputy General Director
Finance and Planning

June 3, 2005

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(Amounts in millions of US Dollars)

1. NATURE OF THE BUSINESS

OJSC "Aeroflot – Russian Airlines" (the "Company") 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 activity of the Company is the provision of passenger and cargo air transportation services, both domestically and internationally, and other aviation services from its base at Moscow Sheremetyevo Airport. The Company and its subsidiaries (the "Group") also conduct activities comprising airline catering, the operation of a hotel, and provision of insurance services. Associated undertakings mainly comprise cargo-handling services, fuelling services and duty-free retail businesses.

As of December 31, 2004 and 2003, the Government of the Russian Federation owned 51% of the Company. The Company's headquarters are located in Moscow at 37 Leningradsky Prospect. The average number of employees working in the Company during 2004 and 2003 was approximately 14.7 thousand.

The principal subsidiary undertakings are:

Company name	Activity	Percentage held as of December 31, 2004
CJSC "Sherotel"	Hotel	100.0%
OJSC "Terminal"	Project Sheremetyevo-3	100.0%
CJSC "Aeroflot Plus"	Airline	100.0%
OJSC Insurance company "Moscow"	Insurance services	98.7%
CJSC "Aeromar"	Catering	51.0%
OJSC "Aeroflot-Don"	Airline	51.0%
CJSC "Aeroflot-Nord"	Airline	51.0%

The principal associated undertakings are:

Company name	Activity	Percentage held as of December 31, 2004
LLC "Airport Moscow"	Cargo handling	50.0%
CJSC "Aerofirst"	Trading	33.3%
CJSC "TZK Sheremetyevo"	Fuel trading company	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 of December 31, 2004:

Type of aircraft	Ownership	Aeroflot - Russian Airlines (number)	Aeroflot-Don (number)	Aeroflot-Nord (number)	Group total (number)
Ilyushin Il-96-300	Owned	6	-	-	6
Ilyushin Il-62M	Owned	1	-	-	1
Ilyushin Il-86	Owned	11	-	-	11
Tupolev Tu-154	Owned	22	9	1	32
Tupolev Tu-134	Owned	12	2	7	21
Antonov An-12	Owned	-	2	-	2
Antonov An-24	Owned	-	-	3	3
Antonov An-26	Owned	-	-	1	1
Tupolev Tu-134	Finance lease	-	-	2	2
Airbus A-319	Finance lease	4	-	-	4
Airbus A-320	Finance lease	1	-	-	1
Airbus A-321	Finance lease	3	-	-	3
Tupolev Tu-134	Operating lease	1	-	-	1
Tupolev Tu-154	Operating lease	2	-	-	2
Ilyushin Il-86	Operating lease	1	-	-	1
Airbus A-310	Operating lease	1	-	-	1
Airbus A-319	Operating lease	4	-	-	4
Airbus A-320	Operating lease	6	-	-	6
Boeing 767-36 NER	Operating lease	6	-	-	6
Boeing 777-2Q8	Operating lease	2	-	-	2
McDonnell Douglas DC10-40F	Operating lease	4	-	-	4
		87	**13**	**14**	**114**

Excluded in the table above are two Airbus A-310, which were in the process of return to the lessor as of December 31, 2004.

2. THE RUSSIAN ENVIRONMENT AND ECONOMIC CONDITIONS

Currency exchange and control – The Russian ruble is the national currency of the Russian Federation, however, foreign currencies, in particular the US dollar ("USD"), play a significant role in the underlying economics of many business transactions in Russia. Following the 1998 economic crisis, the Russian ruble's value fell significantly against the USD, falling from a pre-crisis rate of approximately 6 Russian rubles to 1 USD, to 27 Russian rubles to 1 USD by the end of 1999. During 2003 and 2004, the Russian ruble's value fluctuated between a low of 27.75 and a high of 31.88 to 1 USD. During 2004, the Russian ruble has appreciated against the US Dollar. As of June 3, 2005 the exchange rate is 28.38 Russian rubles to 1 USD.

The following table summarizes the exchange rate of the Russian ruble to 1 US Dollar for the following dates:

As of December 31,	Exchange rate
2004	27.75
2003	29.45
2002	31.78

The Group's principal currency exchange risks relate to its ability to recover investments in non-monetary assets, specifically property, plant and equipment, as well as exposure to currency exchange losses on monetary assets and liabilities linked to currencies other than the measurement currency of the Group's companies.

Currency regulations imposed by Russian law place certain limitations on the conversion of Russian rubles into foreign currencies and establish requirements for conversion of foreign currency sales to Russian rubles.

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

For the years ended December 31,	Annual inflation
2004	11.7%
2003	12.0%
2002	15.1%

The Company's principal inflation rate risk relates to the Company's ability to raise tariffs for tickets sold in Russia in line with the growth in operating expenses expressed in Russian rubles caused by inflation. Should inflation continue, the Company could experience financial difficulties, accompanied by deterioration in the results of its operations and liquidity position.

3. LIQUIDITY AND MANAGEMENT PLANS

As of December 31, 2004 the Group had a surplus in working capital of USD 73.0 million. As of December 31, 2003 the Group had working capital deficiency of USD 166.4 million and during 2004 the Group continued its efforts to eliminate its working capital deficiency. Increase in working capital for the year amounted to USD 239.4 million and resulted mainly from cessation of finance lease of three Airbus A-310 aircraft, decrease in other current liabilities, and increase in trade debtors.

In terms of a fleet restructuring program, intended to reduce overhaul and maintenance expenses, and also the fuel consumption per passenger kilometer flown, which was a major component of the Group's operating expenses, in 2003-2004 the Company put into operation 18 aircraft from a new family of Airbus the A-319, 320, 321.

In order to implement a new corporate vision and strategy, the Group continued to reschedule its network. In 2004 several new routes, including routes launched in partnership with other airlines, expected to be profitable, were opened, while unprofitable routes were closed. Flight frequencies were increased significantly, which resulted in improved depth of the Group's network.

In 2004 the Group took the following fuel cost reduction measures: consolidation of fuel purchases; an increase in its share of direct supplies; and utilization of geographic differences in fuel prices.

Management believes that the Group has the ability to raise short-term financing, if necessary, to cover any operating cash flow deficit should they arise.

Considering the actions taken and management plans for the future, management believes it is appropriate to prepare the consolidated financial statements on the basis of a going concern.

4. PRINCIPAL ACCOUNTING POLICIES

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

Basis of preparation – The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements are presented in millions of US Dollars, except where it specifically noted otherwise.

All significant subsidiaries under the legal and/or actual control of the Company are included in the consolidated financial statements. A listing of the Group's principal subsidiary undertakings is set out in Note 1.

The Group maintains its accounting records in Russian rubles 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 the standards prescribed by the International Accounting Standards Board.

Certain reclassifications have been made to the financial statements for the year ended December 31, 2003 to conform to the current year presentation. Such reclassifications do not affect retained earnings.

Measurement and reporting currency – The majority of the Company's revenues are denominated in US Dollars or other foreign currencies. The majority of its assets, purchases, finance and operating leases, and liabilities are denominated in US Dollars, as is a significant portion of its operating expenses. Therefore the US Dollar has been determined as the measurement and reporting currency of the Company. Transactions and balances not already measured in US Dollars have been remeasured to US Dollars in accordance with International Accounting Standard 21 ("IAS") "The Effect of Changes in Foreign Exchange Rates".

The Russian ruble is not a freely convertible currency outside the Russian Federation and accordingly any conversion of Russian ruble amounts to US Dollars should not be considered as a representation that Russian ruble 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 other reporting currency than US dollar have been translated at closing rate. Income and expense items of the entity have been translated at average annual exchange rates. All resulting exchange differences have been classified as equity and transferred to the Group's translation reserve.

Consolidation – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared through December 31 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.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent, unless the minority owner has a legally enforceable obligation to contribute additional funds. All inter-group transactions, balances and unrealized surpluses and deficits on transactions between Group companies are eliminated.

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 percent and 50 percent of the voting share capital or by exerting significant influence through other means. The Group's share of the net income or losses of associates is included in the consolidated income statement, and the Group's share of the net assets of associates is included in the consolidated balance sheet. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or that the impairment losses recognized in prior years no longer exist. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, and unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. A listing of the Group's principal associated undertakings is shown in Note 1.

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

Revenues – Traffic revenue is recognized when the transportation service is provided. Passenger and cargo sales for which transportation has not yet been provided are shown as deferred revenue. Commissions which are distributed to the sales agents of the airline services are recognized as the commercial and marketing expenses at the same time as revenue from the air transportation to which they refer to.

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

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, hotel operations and other.

(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 are stated at cost, or appraised value, as described below. Depreciation is calculated in order to amortize 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 of December 31, 1995 were stated at depreciated replacement cost based upon external valuations denominated in US Dollars. Subsequent purchases are recorded at cost. Airclaims, an international firm of aircraft appraisers, conducted the valuation. The Group has chosen not to revalue these assets subsequent to 1995.

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

(iii) *Capitalized maintenance costs* – The valuation of aircraft and engines as of December 31, 1995 reflected their maintenance condition, as measured on the basis of previous expenditure on major overhauls and estimated usage since the previous major overhaul. Amounts spent on major maintenance overhauls subsequently have been separately capitalized and depreciated to the projected date of the next overhaul. Other maintenance costs are expensed as incurred.

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

(b) *Land and buildings, plant and equipment*
Property, plant and equipment are stated at historical US Dollar cost. Provision is made for the depreciation of property, plant and equipment based upon expected useful lives or, in the case of leasehold properties, over the duration of the leases using a straight-line basis. These useful lives range from 10 to 20 years.

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

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

Lease deposits – Lease deposits represent amounts in foreign currency paid to the lessors of foreign aircraft, which are held as security deposits by lessors in accordance with the provisions of finance and operating lease agreements; these deposits are returned back to The Group at the end of the lease period. A part of these deposits is interest-free. Interest-free deposits have been recorded at amortized cost using an average market yield of 6.3% percent.

Operating leases – Payments under operating leases are charged to the income statement in equal annual installments over the period of the lease.

Investments – Investments are classified in the following categories: held-to-maturity, trading and available-for-sale. 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 originated by the Group, are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale.

The Group had no securities classified as trading securities or held-to-maturity as of December 31, 2004 and 2003. Available-for-sale investments are stated at market value and are determined for each individual investment. 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. Unrealized gains and losses are included in the determination of net income. Income from available-for-sale investments is included in other non-operating income in the consolidated statement of operations. The Company's shares, which are held in treasury stock or belong to the Company's subsidiaries, are reflected as a reduction of the Group's shareholders' equity. The disposal of such shares does not impact net income of the current year and is recognized as a change in shareholders' equity of the Group.

Inventories – Inventories are valued at cost as determined by the "first-in, first-out" method ("FIFO") or net realizable value, whichever is lower. Inventories are reported net of provisions for slow-moving or obsolete items.

Accounts receivable – Accounts receivable are stated in the balance sheet at their net realizable value after deduction of a provision for bad and doubtful accounts.

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

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, 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 realize the asset and settle the liability simultaneously. The result from the realization of the financial instruments is determined based on the FIFO method.

(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 passage and freight sales. Clearing centers 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 a clearinghouse of the International Air Transport Association (IATA).

(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.

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

(c) *Foreign exchange risk*

The majority of the Group's sales and purchases are denominated in US Dollars and hence the foreign exchange risk to the Group is minimized. The majority of borrowings are denominated in US Dollars, thus further reducing foreign currency exposure in US Dollar terms. In 2004 the Group did not manage foreign exchange risk through the use of hedging instruments but rather matches revenues and expenses in the same currency to limit exposure. The Group constantly monitors changes in foreign exchange rates to minimize the level of foreign currency exposure and to identify 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 2004 the Group did not use financial hedging instruments, as they are not currently available on the Russian market. The Group constantly monitors changes in interest rates to minimize the level of interest rate exposure and to identify need for hedging activities.

Foreign currency translation – Monetary assets and liabilities denominated in currencies other than reporting currency at the balance sheet date are translated into the reporting currency at the year-end exchange rate. Exchange differences arising from such translation are included into the consolidated income statement

Income tax – The nominal income tax rate for industrial enterprises in Russia in 2004 and 2003 was 24%. The nominal tax rate is subject to regional reductions by up to 4%. The average nominal tax rate of the Group was lower than 24% as the tax rate applicable to different entities within the Group varied from 20% to 24%.

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 use 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 basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. 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 realized or the liability settled, based on tax rates that have been enacted or substantively enacted as at the balance-sheet date. As of December 31, 2004 deferred tax assets and liabilities have been measured based on tax rates applicable to the Group's companies range from 20% to 24%. As of December 31, 2003 deferred tax assets and liabilities have been measured based on a tax rate of 24%.

Employee benefits – The Company makes certain payments to employees on retirement, or when they otherwise leave the employment of the Company. These obligations, which are unfunded, represent obligations under a defined benefit pension scheme. For such plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement in order to spread the regular cost over the average service lives of employees. Actuarial gains and losses are recognized in the income statement 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 Company also participates in a defined contribution plan, under which the Company has committed to contribute a certain percentage (15% to 20% in 2004) of the contribution made by employees choosing to participate in the plan. Contributions made by the Company on defined contribution plans are charged to expenses when incurred. Contributions are additionally made to the Government's Pension fund at the statutory rates in force during the year. Such contributions expensed as incurred.

Cash and cash equivalents – For the purposes of the statement of cash flows, 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.

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

Frequent flyer program – The Company records an estimated liability for the incremental cost associated with providing free transportation under the "Aeroflot Bonus" program (see also Note 19) 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). 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" program. The costs are included in sales and marketing expenses in the income statement.

Dividends – Dividends are recognized 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 calculated on the basis of 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. There are no potentially dilutive common stock equivalents.

Borrowing costs – Borrowing costs are reflected in the income statement and are expensed as incurred. The exception to this rule is borrowing costs which are related to capital construction or the purchase of fixed assets, and that can be referred from the beginning of construction. To the extent that borrowing costs are directly attributable to qualifying assets, they are capitalized with the relevant asset from the date of the commencement of activities to prepare the asset. Expenditures and borrowing costs are incurred until the related qualifying asset is substantially ready for its intended use, and are subsequently charged to the income statement in the period over which the asset is depreciated.

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

Contingencies – Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

5. TRAFFIC REVENUE

By sector	2004	2003
Scheduled flights:		
Passengers	1,523.2	1,228.9
Cargo	134.5	97.6
Charter flights:		
Passengers	14.9	12.9
Cargo	62.9	29.6
	1,735.5	**1,369.0**

6. OTHER REVENUE

	2004	2003
Airline revenue agreements	343.5	272.7
Ground handling and maintenance	18.1	16.1
Catering services	14.6	13.3
Hotel revenue	12.5	11.1
Refueling services	17.3	14.0
Other revenue	17.3	19.8
	423.3	**347.0**

Airline revenue agreements primarily represent revenue from pooling, code-sharing and bilateral air-service agreements.

7. OPERATING COSTS

	2004	2003
Aircraft fuel	496.1	316.7
Aircraft and traffic servicing	310.0	241.2
Maintenance	203.7	217.5
Operating lease expenses	127.6	133.0
Sales and marketing	125.3	110.5
Administration and general expenses	94.8	73.6
Passenger services	52.8	47.8
Increase in provisions (Note 20)	37.6	14.7
Communication expenses	34.2	32.4
Insurance expenses	27.0	33.2
Operating taxes	24.7	19.7
Other expenses	47.5	42.6
Operating expenses, subtotal	**1,581.3**	**1,282.9**
Taxes refunded under court decision (i)	(22.3)	(11.5)
Reversal of provision for tax penalties	-	(12.2)
Recovery of receivables	-	(4.9)
Operating income, subtotal	**(22.3)**	**(28.6)**
Total operating costs, net	**1,559.0**	**1,254.3**

(i) Taxes refunded under a court decision in 2004 and 2003 comprise of a road users tax refund for the years 1998-2000.

8. STAFF COSTS

	2004	2003
Wages and salaries	251.8	200.2
Social security costs	13.0	12.2
Pension costs (i)	36.1	31.8
	300.9	**244.2**

(i) The Company 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 Company, and is a defined contribution pension plan for the employer.

Furthermore, the Company 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.

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

	2004	2003
Payments to the Pension Fund of the RF	33.3	29.7
Defined benefit pension plan	2.5	1.9
Defined contribution pension plan	0.3	0.2
	36.1	**31.8**

9. INTEREST EXPENSE

	2004	2003
Finance leases	6.7	3.4
Short-term bonds	-	3.1
Short-term and long-term borrowings	5.3	5.5
	12.0	**12.0**

10. NON-OPERATING INCOME, NET

	2004	2003
Gain (loss) on disposal of property, plant and equipment, net (i)	6.6	(8.6)
Fines and penalties received from suppliers	6.0	2.1
Negative goodwill on acquisition (Note 32)	5.7	-
Discounts received	4.8	0.2
Insurance compensation	4.2	-
Reversal of payables no longer due (ii)	2.8	41.1
Gain on remeasurement of available-for-sale securities to fair value	2.5	5.8
Release (increase) of provision for non-recovery of aircraft lease deposits	0.9	(13.9)
Increase of provision for impairment of fixed assets (Note 18)	(12.7)	-
Increase of provision for long-term investments (iii)	(5.6)	(0.5)
(Loss) gain from disposal of long-term investments, net	(1.3)	2.8
Other income, net	6.6	1.1
	20.5	**30.1**

(i) In 2004 the Company discontinued finance leases of three Airbus A-310 (Note 18). Gain on disposal of these aircraft comprised USD 7.6 million.

(ii) In 2003 the Group wrote off unclaimed payables amounting to USD 41.1 million to one Russian creditor that had expired under the Russian Civil Code. These payables originated before 1999. The Russian creditor liquidated in 2000 and another entity was established to perform the functions of the liquidated entity but never claimed payables.

(iii) In 2004 the Company accrued 100% impairment reserve for a carrying value of investments in associates LLC "Aeroimp" and CJSC "TZK" due to discontinuation of their operations.

11. TAXATION

	2004	2003
Current income tax charge	(71.5)	(49.0)
Deferred income tax benefit	11.9	18.8
	(59.6)	**(30.2)**

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

	2004	2003
Income before taxation and minority interest	233.6	156.9
Theoretical tax at statutory rate	(56.0)	(37.7)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of lower tax rates applied	8.7	5.4
Non-deductible expenses	(17.8)	(18.1)
Non-taxable income	4.6	21.0
Other permanent differences	(1.5)	(0.8)
Effect of change in calculation of prior year deferred tax	2.4	-
Taxation	**(59.6)**	**(30.2)**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying values of certain assets and liabilities for financial reporting purposes and their values for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the tax rates applicable to the Group's companies and range from 20% to 24% for the year ended December 31, 2004 and 24% for the year ended December 31, 2003.

	2004	Movement for year	Effect of acquisition (Note 32)	2003	Movement for year	2002
	USD million	USD million	USD million	USD million	USD million	USD million
Tax effects of temporary differences:						
Property, plant and equipment	3.1	1.0	-	2.1	1.6	0.5
Borrowings	3.1	(1.6)	-	4.7	(1.1)	5.8
Accounts payable	0.2	0.2	-	-	-	-
Deferred tax assets, net	**6.4**			**6.8**		**6.3**

	2004	Movement for year	Effect of acquisition (Note 32)	2003	Movement for year	2002
	USD million	USD million	USD million	USD million	USD million	USD million
Property, plant and equipment	(26.3)	3.7	(2.3)	(27.7)	8.0	(35.7)
Long-term investments	(13.9)	-	-	(13.9)	3.7	(17.6)
Accounts receivable	(2.8)	(0.3)	-	(2.5)	(0.1)	(2.4)
Accounts payable	34.8	8.9	-	25.9	6.7	19.2
Deferred tax liabilities, net	**(8.2)**			**(18.2)**		**(36.5)**
		11.9	**(2.3)**		**18.8**	

12. CASH AND CASH EQUIVALENTS

	2004	2003
Ruble denominated bank accounts	31.0	12.8
Bank accounts denominated in USD	9.2	31.4
Bank accounts denominated in Euros	5.4	3.3
Bank accounts denominated in other currencies	7.9	0.3
Cash equivalents	11.7	4.4
	65.2	**52.2**

Cash equivalents are comprised primarily of term deposits with banks with original maturities less than 90 days.

In 2004 the Company placed cash in a short-term bank deposit at the interest rate of 7.25 percent per annum. As of December 31, 2004 the amount of short-term bank deposit included in cash equivalents is USD 10.1 million.

13. SHORT-TERM INVESTMENTS

	2004	2003
Trading securities		
Corporate bonds	4.0	-
Corporate shares	0.3	-
	4.3	-
Other short-term investments		
Promissory notes from third parties	3.8	-
Bank deposits with original maturities exceeding 90 days	12.4	2.5
Other short-term investments	0.1	2.0
	16.3	4.5
	20.6	**4.5**

Corporate bonds denominated in Russian rubles represent bonds issued by major Russian companies with maturity dates from 2005 to 2010.

Corporate shares are liquid publicly traded shares of Russian companies. In the consolidated financial statements of the Group they are reflected at period-end market value based on last traded prices obtained from the Moscow Interbank Currency Exchange ("MICEX").

14. ACCOUNTS RECEIVABLE AND PREPAYMENTS, NET

	2004	2003
Trade receivables	203.7	181.2
Prepayments and accrued income	60.2	47.1
Other receivables	9.3	5.1
Provision for bad and doubtful accounts	(32.7)	(33.9)
	240.5	199.5
VAT and other taxes recoverable (Note 33 (ii))	207.8	97.9
	448.3	**297.4**

15. INVENTORIES

	2004	2003
Spare parts	27.3	20.0
Fuel	20.3	10.1
Other inventory	16.9	14.3
	64.5	**44.4**

16. INVESTMENTS IN AFFILIATES, NET

	2004		2003	
	Voting power	Carrying value	Voting power	Carrying value
CJSC "Aerofirst"	33.3%	5.4	33.3%	5.0
CJSC "TZK Sheremetyevo"	31%	1.3	-	-
CJSC "TZK"	31%	1.3	31%	1.9
LLC "Aeroimp"	25%	5.3	25%	5.7
LLC "Airport Moscow"	50%	1.2	50%	0.9
OJSC Severleasing	25.5%	0.9	-	-
Other equity investments	Various	1.4	Various	1.6
Less impairment (Note 10)		(6.6)		-
		10.2		**15.1**

17. LONG-TERM INVESTMENTS, NET

	2004	2003
Available-for-sale securities		
SITA Investment Certificates	1.0	-
Corporate shares (France Telecom)	17.1	14.6
	18.1	14.6
Other long-term investments		
Loans and promissory notes from related parties	-	1.1
Loans and promissory notes from third parties	0.4	0.7
Mutual investment funds	0.9	0.9
Other	1.0	1.0
	2.3	3.7
	20.4	**18.3**

18. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Plant, equipment and other	Capital expenditure (i)	Total
	USD million	USD million	USD million	USD million	USD Million	USD million
Cost						
December 31, 2002	503.5	329.5	161.0	178.6	28.8	1,201.4
Foreign currency translation	-	-	-	1.5	-	1.5
Additions	23.2	158.2	-	1.3	26.9	209.6
Capitalized overhaul costs	8.1	-	-	-	-	8.1
Transfers	-	-	7.3	12.0	(19.3)	-
Disposals	(68.9)	-	-	(13.6)	-	(82.5)
December 31, 2003	465.9	487.7	168.3	179.8	36.4	1,338.1
Foreign currency translation	1.3	0.1	0.6	0.8	-	2.8
Acquisition of net assets of OJSC “Arkhangelskie Avialinii”	8.9	2.6	2.6	1.5	-	15.6
Additions (ii)	32.4	204.0	7.5	7.5	31.4	282.8
Capitalized overhaul costs (iv)	18.0	2.3	-	-	5.6	25.9
Transfers	-	-	0.4	11.8	(12.2)	-
Disposals (iii)	(43.9)	(249.9)	(0.2)	(12.2)	(6.9)	(313.1)
December 31, 2004	482.6	446.8	179.2	189.2	54.3	1,352.1
Accumulated Depreciation						
December 31, 2002	(366.6)	(206.8)	(47.0)	(112.2)	-	(732.6)
Foreign currency translation	-	-	-	(0.9)		(0.9)
Charge for the year	(45.4)	(21.3)	(5.2)	(19.2)	-	(91.1)
Disposals	59.4	-	-	9.9	-	69.3
December 31, 2003	(352.6)	(228.1)	(52.2)	(122.4)	-	(755.3)
Foreign currency translation	(0.6)	-	(0.2)	(0.5)	-	(1.3)
Impairment reserve (v)	(1.1)	-	-	(11.6)	-	(12.7)
Charge for the year	(43.7)	(26.7)	(8.2)	(15.4)	-	(94.0)
Disposals (iii)	34.9	184.3	0.1	9.3	-	228.6
December 31, 2004	(363.1)	(70.5)	(60.5)	(140.6)	-	(634.7)
Net Book Value						
December 31, 2003	**113.3**	**259.6**	**116.1**	**57.4**	**36.4**	**582.8**
December 31, 2004	**119.5**	**376.3**	**118.7**	**48.6**	**54.3**	**717.4**

As of December 31, 2004 and 2003, fixed assets, principally Russian aircraft and engines, with a net book value of USD 24.2 million and USD 10.5 million, respectively, were pledged as collateral under loan agreements (Notes 22 and 23).

(i) Assets under construction include capital expenditures made by the Company on the construction of the new Sheremetyevo-3 terminal. Capital expenditures as of December 31, 2004 and 2003 amount to USD 17.9 million and USD 15.9 million, respectively, and mainly relate to pre-constructions studies and construction-site preparation work.

(ii) In 2004 the Company acquired one Airbus A-320 aircraft and three Airbus A-321 aircraft under finance leases for an amount of USD 203.0 million. In 2004 the Group acquired four Tupolev Tu-154 aircraft. Two of the above mentioned aircraft were not put into operation in 2004 and as of December 31, 2004 have been included in capital expenditures in the amount of USD 7.5 million.

(iii) In 2004, the Company returned to a lessor two Airbus A-310 aircraft, which were subject to finance leases. Terms for one Airbus A-310 aircraft were changed from finance lease to operating lease (refer also to Note 30). In the second half of 2004 the Company sold four Ilyshin Il-76 cargo aircraft owned by the Company.

(iv) In 2004 the Company has started modernization of the interiors of the Boeing 767-300 aircraft and partially finished the modernization of one aircraft. Expenses under that modernization as of December 31, 2004 amounted to USD 2.3 million and were capitalized. Expenses related to preparatory work under the modernization program for these aircraft are included in capital expenditures in the amount of USD 5.6 million.

(v) As of December 31, 2004 the Group reviewed the carrying amounts of its fixed assets to determine whether there is any indication that those assets had suffered an impairment loss. As a result the Group recognized an impairment loss of USD 12.7 million.

19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2004	2003
Trade payables and accruals	168.8	175.7
Wages and social contributions payable	44.7	31.5
Profit and other taxes payable	31.9	26.9
Other payables	21.0	18.4
Accrued expenses	14.8	15.7
Advances received	6.4	15.3
Frequent flyer program liability (i)	7.7	7.0
Merchandise credits (ii)	2.3	5.0
Dividends payable	2.8	2.9
Notes payable	1.6	0.3
	302.0	**298.7**

(i) The Group introduced the "Aeroflot Bonus" frequent flyer program in 1999. As of December 31, 2004 and 2003 approximately 326 thousand and 243 thousand passengers, respectively, participated in the program. Frequent flyer program liability as of December 31, 2004 and 2003 represents incremental costs, which are included in sales and marketing expenses, associated with providing free transportation under "Aeroflot Bonus".

(ii) Merchandise credits represent deferred discounts given by the lessor for entering into new leases under the fleet restructuring program.

20. PROVISIONS

As of January 1, 2004	29.5
Additional provision in the year	45.2
Utilization of provision	(0.7)
Release of provision	(6.7)
As of December 31, 2004	**67.3**

The Group is a defendant in various legal actions. Provisions represent management's best estimate of the Group's probable losses relating to various actual and potential legal claims.

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 from USD 11.8 million to USD 15.3 million. Management had made their best assessment of the likely outcome associated with this issue and recorded a provision amounting to USD 12.0 million as of December 31, 2003. In April 2005 the Arbitration court has decided in favor of the claimant regarding compensation and awarded damages amounting to USD 35.0 million, accordingly the reserve was increased to

USD 35.0 million. Currently, there is uncertainty regarding final resolution. At the present time execution of the court decision is suspended and the Company has filed an appeal. Final adjustments (if any) to this uncertainty will be made in the financial statements when the outcome of the issue is known.

In 2001 Federal Unitary Entity, Goscorporation OVD claimed the agreement with Federal Aviation Service on application of a 50 percent discount in 1997-1998 to be void, as this contradicted Russian legislation and invoiced the Company for 200.0 million Russian rubles (approximately USD 7.2 million at 2004 year-end exchange rate) for underpaid amounts relating to 1997-1998 and interest accrued as of December 31, 2003. No provision was recognized for this claim as of December 31, 2003. As a result of further developments during 2004 this amount is now included in provisions as of December 31, 2004 in full.

21. OTHER NON-CURRENT LIABILITIES

	2004	2003
Defined benefit pension obligation – non-current portion	12.7	10.4
Other non-current liabilities	10.5	10.0
	23.2	**20.4**

22. SHORT-TERM BORROWINGS

	2004	2003
Loans and credit lines in USD		
Syndicated loan organized by Donau Bank AG, Citibank (Moscow) and Bank of Foreign Trade	-	60.0
Standard Bank London (Moscow)	-	6.5
HSBC	-	5.0
VestLB Vostok (i)	10.0	-
Savings Bank of the Russian Federation (ii)	27.0	-
Amsterdam Trading Bank – current portion (Note 23)	0.9	-
Loans in Russian rubles		
Bank of Foreign Trade (iii)	31.9	-
Transkreditbank (iii)	5.4	-
Other short-term bank loans	3.2	0.9
	78.4	**72.4**

(i) The balance as of December 31, 2004 consists of a credit line amounting to USD 10 million and bears interest of LIBOR + 2.6 percent per annum. It was obtained by the Company to finance its current activities. The effective average interest rate for 2004 was 4.42 percent per annum.

(ii) The credit line granted by the Savings Bank of the Russian Federation amounting to USD 27 million. The credit was obtained to finance its current activities and bears interest of LIBOR + 3.5 percent per annum. Fixed assets with a net book value of USD 9.6 million are pledged as a collateral under this loan agreement. The effective average interest rate for 2004 was 5.09 percent per annum.

(iii) The amounts represent the net balance due under a series of short-term security sale and repurchase agreements bearing interest rates of 7-9% and collateralized of the securities.

23. LONG-TERM BORROWINGS

	2004	2003
Loans in USD		
Amsterdam trading Bank (i)	8.0	-
Amsterdam trading Bank (ii)	3.0	-
Accor	2.4	-
Other long-term bank loans	2.8	3.2
	16.2	**3.2**

(i) The loan amounting to USD 8 million bears interest of 8.5 percent per annum and is payable by December 1, 2009. The loan was obtained by the company to finance the purchase of property, plant and equipment with a net book value of USD 7.5 million which were pledged as collateral under this agreement. The effective average interest rate for 2004 was 8.5 percent per annum.

(ii) Long-term portion of the loan amounting to USD 3.0 million is payable by June 8, 2009 and bears interest of 8.0 percent per annum. The loan was obtained by the company to finance the purchase of fixed assets. Fixed assets with a net book value of USD 3.1 million are pledged as collateral under this agreement. The effective average interest rate for 2004 was 8.0 percent per annum.

24. FINANCE LEASES PAYABLE

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

	2004	2003
Total outstanding payments	407.8	289.9
Finance charge	(50.5)	(21.6)
Principal outstanding	**357.3**	**268.3**
Representing:		
Short-term lease payable	53.0	124.1
Long-term lease payable	304.3	144.2
Due for repayment (principal and finance charge):		
2004	-	130.3
2005	60.5	13.2
2006	31.3	13.5
2007	30.9	13.8
2008	31.5	14.2
2009	32.2	14.5
After 2009	221.4	90.4
	407.8	**289.9**

Interest unpaid as of December 31, 2004 and 2003 was approximately USD 1.3 million and USD 0.7 million, respectively, and has been included in accrued expenses. In 2004 and 2003 the effective interest rate on these leases approximated 2.7 and 2.8 percent per annum, respectively.

In 2003 the Company obtained a flight simulator (A-320) under terms that initially were classified as a finance lease. In 2004 the management of the Company changed their plans regarding obtaining the ownership rights and the period of the lease. Due to these changes, the Company changed the classification of the lease from finance to operating (Note 30). As of December 31, 2003 amounts included in short-term and long-term lease liabilities under finance lease of this flight simulator were approximately USD 0.8 million and USD 6.1 million, respectively.

In 2004 the Company obtained one Airbus A-320 aircraft and three Airbus A-321 aircraft under finance leases, that are reflected in short-term and long-term lease liabilities in the amounts of USD 12.3 million and USD 175.8 million, respectively.

The Company'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.

25. MINORITY INTEREST

	2004	2003
Beginning balance	5.7	7.9
Foreign currency translation	0.4	0.2
Minority interest on acquisition of subsidiary	1.3	-
Minority interest share of net income	1.9	-
Minority interest dividends	(0.7)	(2.4)
	8.6	**5.7**

26. SHARE CAPITAL

	Number of shares authorised and issued	Number of shares in treasury stock	Number of shares outstanding
Ordinary shares of one Russian ruble each:			
As of December 31, 2003	1,110,616,299	(10,000)	1,110,606,299
As of December 31, 2004	1,110,616,299	(51,321,913)	1,059,294,386

Ordinary shareholders are allowed one vote per share.

In 2003 one of the subsidiaries of the Group acquired 10,000 of the Company's shares, which we resold in 2004. During 2004 the Group increased the number of the Company's shares held by the Group by 51,311,913, including 36,913 its own shares acquired by the Company itself.

The Company's shares are listed on the Russian Trade System ("RTS") and MICEX and as of June 3, 2005 were traded at RUR 42 per share.

The Company launched a Level 1 Global Depositary Receipts (GDR) program 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. Per depositary agreement the total volume of GDR of the Company cannot exceed 20 percent of the Company's share capital. In 2001, the Company's GDR's were listed on the NEWEX (New Europe Exchange) stock exchange in Vienna and after closing of this exchange the GDR's were transferred to the third segment of the stock exchange in Frankfurt. The Company's GDR's were traded at USD 144 as of June 3, 2005.

27. RETAINED EARNINGS

The statutory accounting reports of the Group companies are the basis for profit distribution and other appropriations. For the years ended December 31, 2004 and 2003, the statutory profits of the Company, as reported in the published annual statutory financial statements, were 6,330 million Russian rubles and 3,978 million Russian rubles, respectively.

For the years ended December 31, 2003 and 2002 the shareholders of the Company approved dividends totaling 485.3 million and 322.1 million Russian rubles, respectively (USD 16.4 million and USD 10.1 million at 2003 and 2002 year-end exchange rates, respectively).

In respect of 2004, the Board of Directors recommended to approve dividends of RUR 0.7 per share (approximately 2.5 cents per share) which will be paid to shareholders between June 20 and August 18, 2005. This dividend is subject to approval by shareholders at the annual shareholders' meeting and has not been included as a liability in these financial statements.

28. SEGMENT INFORMATION

The Group is organized into three main segments:

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

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:

By region	**2004**	**2003**
a) Scheduled passenger revenue		
International flights from Moscow to:		
Europe	335.0	280.7
Asia	135.6	106.9
North America	67.8	56.5
Other	49.3	40.8
International flights to Moscow from:		
Europe	342.4	282.4
Asia	142.2	114.0
North America	65.3	53.4
Other	49.5	41.7
Other international flights	4.0	7.6
Domestic flights	332.1	244.9
	1,523.2	**1,228.9**

By region	2004	2003
b) Scheduled cargo revenue		
International flights from Moscow to:		
Europe	8.5	7.4
Asia	3.0	3.4
North America	4.7	3.6
Other	2.2	1.9
International flights to Moscow from:		
Europe	29.6	18.7
Asia	38.2	21.3
North America	6.1	3.8
Other	6.2	4.7
Other international flights	18.7	22.8
Domestic flights	17.3	10.0
	134.5	**97.6**

Reporting format – business segments

Year ended December 31, 2004	Airline	Catering	Hotels	Other	Eliminations	Total Group
External sales	2,131.6	14.6	12.5	0.1	-	2,158.8
Inter-segment sales	2.3	37.1	5.1	-	(44.5)	-
Total revenue	2,133.9	51.7	17.6	0.1	(44.5)	2,158.8
Operating profit	198.9	1.7	5.7	(1.4)	-	204.9
Interest expense	(9.3)	(0.1)	(1.9)	(2.4)	1.7	(12.0)
Interest income	3.9	-	-	1.0	(1.7)	3.2
Share of income in associates	3.5	-	-	-	-	3.5
Foreign exchange and translation income, net	15.1	(0.2)	(1.3)	(0.1)	-	13.5
Non-operating income, net	16.3	(1.8)	0.6	5.4	-	20.5
Income before tax	228.4	(0.4)	3.1	2.5	-	233.6
Taxation	(57.2)	(1.5)	(0.8)	(0.1)	-	(59.6)
Income before minority interest	171.2	(1.9)	2.3	2.4	-	174.0
Minority interest						(1.9)
Net income						172.1
Segment assets	1,411.1	22.0	32.9	24.7	(128.6)	1,362.1
Associates	0.6	-	-	-		0.6
Consolidated total assets						1,362.7
Segment liabilities	889.2	18.7	82.8	52.0	(91.5)	951.2
Capital expenditure	323.0	0.5	0.6	0.2		324.3
Depreciation	89.6	1.3	3.1	-		94.0

Year ended December 31, 2003	Airline	Catering	Hotels	Other	Eliminations	Total Group
External sales	1,688.8	13.3	11.1	2.8	-	1,716.0
Inter-segment sales	3.5	30.6	4.4	-	(38.5)	-
Total revenue	1,692.3	43.9	15.5	2.8	(38.5)	1,716.0
Operating profit	123.1	0.9	2.0	0.4	-	126.4
Interest expense	(11.9)	-	(6.9)	-	6.8	(12.0)
Interest income	8.0	-	-	0.3	(6.8)	1.5
Share of income in associates	1.2	-	1.2	-	-	2.4
Foreign exchange and translation income, net	6.4	-	1.2	0.9	-	8.5
Non-operating income, net	30.1	-	0.3	(0.3)	-	30.1
Income before tax	156.9	0.9	(2.2)	1.3	-	156.9
Taxation	(29.7)	-	-	(0.5)	-	(30.2)
Income before minority interest	127.2	0.9	(2.2)	0.8	-	126.7
Minority interest						-
Net income						126.7
Segment assets	997.4	15.1	33.7	16.5		1,062.7
Associates	-	-	4.6	-		4.6
Consolidated total assets						1,067.3
Segment liabilities	745.7	12.8	10.7	11.2		780.4
Capital expenditure	216.8	0.3	0.6	-		217.7
Depreciation	84.8	1.0	5.3	-		91.1

29. RELATED PARTY TRANSACTIONS

The financial statements of the Group include the following balances and transaction with non-consolidated subsidiaries and associate companies:

	2004	2003
Amounts receivable from non-consolidated subsidiaries and associated undertakings	15.8	8.3
Amounts payable to non-consolidated subsidiaries and associated undertakings	2.6	4.1
Sales to non-consolidated subsidiaries and associated undertakings	3.7	3.6
Purchases from non-consolidated subsidiaries and associated undertakings	117.2	47.4

Management believes that the pricing of transactions between related parties is based on normal business terms.

As of December 31, 2004 the Group had a short-term 4.5% bank deposit denominated in Russian rubles with an entity, controlled by a significant shareholder of the Group, amounting to USD 6.1 million. Bank balances kept with this entity as of December 31, 2004 was USD 0.5 million.

30. COMMITMENTS UNDER OPERATING LEASES

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

	2004	2003
2004	-	106.2
2005	98.5	100.8
2006	78.9	84.4
2007	42.4	60.4
2008	39.3	44.0
2009	37.7	41.6
after 2009	123.3	127.4
Total minimum payments	**420.1**	**564.8**

The amounts above represent base rent. Maintenance fees to be paid to the lessor based on actual flight hours are not included in the table.

In accordance with the operating lease agreements for the Airbus A-319 and A-320 aircraft, lease payments are not fixed and should be revised by the lessor periodically. As of December 31, 2004 and 2003 lease commitments were calculated using base rent which was effective in 2004 and 2003, respectively.

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

In 2004 the Company renegotiated the base rent payable on certain aircraft operating leases as well as adjusting the delivery schedule for aircraft under fleet restructuring program. This resulted in changes to future minimum lease payments under non-cancelable operating leases as of December 31, 2004 as compared to those as of 31 December 2003.

As of December 31, 2004 commitments under operating leases include obligations under lease of the flight simulator (A-320). Initially this lease was considered as finance lease and obligations as of December 31, 2003 were included in commitments under finance leases (Note 24).

31. CAPITAL COMMITMENTS

The Group's future commitments related to contracted purchases of new fixed assets as of December 31, 2004 are summarized as follow:

	2004
Purchase of aircraft	3.6
Overhauls of interiors of aircraft	15.4
Total	**19.0**

The Group committed to purchase five Tupolev Tu-154M aircraft within the Russian passenger fleet restructuring program. As of December 31, 2004 the Group received four Tupolev Tu-154M aircraft. One Tupolev Tu-154M aircraft will be delivered in June 2005.

32. ACQUISITION OF OJSC “ARKHANGELSKIE AVIALINII”

In October 2004 a 51% owned subsidiary of the Group, CJSC “Aeroflot-Nord”, acquired net assets of OJSC “Arkhangelskie Avialinii” for a total cash consideration of approximately USD 2.7 million.

Fair value of the identified assets and liabilities of OJSC “Arkhangelskie Avialinii” at the date of acquisition and the resulting negative difference on acquisition has been determined as follows:

Investments	0.9
Trade receivables	3.9
Other receivables	0.1
Inventories	0.8
Property, plant and equipment	15.6
Total assets	**21.3**
Trade payables	5.5
Other payables and accruals	2.7
Loans payable	2.5
Deferred tax liability	2.2
Total liabilities	**12.9**
Net assets acquired	**8.4**
Negative difference on acquisition	(5.7)
Satisfied by cash paid	2.7

This acquisition was accounted using the purchase method in accordance with IFRS 3 “Business Combinations”. Fair value of the acquired property, plant and equipment was determined based on results of an independent valuation by professional appraisers. It has not been practicable to determine the carrying amounts of the acquired assets and liabilities in accordance with IFRS immediately before the acquisition as the selling entity did not prepare financial statements that comply with IFRS. The excess of the net fair value of assets acquired over the consideration paid is recognized in the income statement in other non-operating income. The acquired business contributed USD 11.4 million to the Group’s revenue and USD 2.5 million to the Group’s consolidated income during the three month period ended December 31, 2004. It has not been practicable to determine the effect of this acquisition on the consolidated revenue and net profit for the whole year as if the acquisition date had been the beginning of 2004 due to the differences in accounting policies used in respect of the acquired business before and after the acquisition.

33. CONTINGENT LIABILITIES

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 characterized by poor drafting, different interpretations and arbitrary application by the authorities.

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 activity 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 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.

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

Legal claims

(i) 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 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.

The Group is not named in the investigation. In management's opinion, the Group does not have any potential exposure related to the treasury and financial services agreements, or any of the allegations currently subject to investigation. The accompanying consolidated financial statements do not include provision for any amounts that might result from the investigations. Such amounts, if any, will be reported when they become known and estimable.

(ii) The Company's application of nil percent value added tax rate on export activities is being challenged by the tax authorities. This issue was brought to the arbitrage for resolution. The maximum extent of the exposure as of December 31, 2004 is approximately 2,148.9 million Russian rubles (approximately USD 77.4 million at 2004 year-end exchange rate). No provision was created as of December 31, 2004 in the Group's consolidated financial statements, as several disputes in this respect had been decided in the favor of the Company during 2004.

34. SUBSEQUENT EVENTS

In December 2004 the Group made an agreement with a syndicate of banks – ABN-AMRO Bank N.V., Banque Societe Generale Vostok, WestLB AG and Calyon S.A. for a loan of USD 150 million, granted for 3 years at a LIBOR 1M + 2.25%, interest rate. The loan proceeds were received on 11 February 2005. The loan is secured by cash inflow from the sale of tickets abroad through the international sales and settlements system IATA. The major part of the loan will be used by Aeroflot to finance construction of the new passenger terminal "Sheremetyevo-3".