Aeroflot

annual report 2003

photo © Airbus

Contents

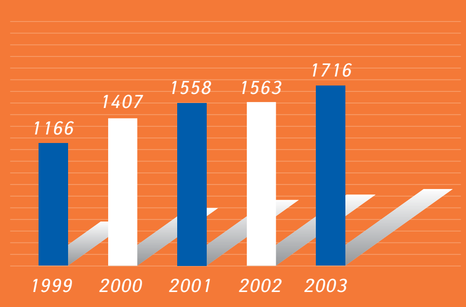
Key figures

Business performance		2003	2002	2001	2000	1999
Traffic revenue	USD millions	1,369.0	1,244.3	1,221.1	1,074.2	865.4
Total operating revenue	USD millions	1,716.0	1,563.0	1,558.0	1,406.9	1,166.2
EBIT	USD millions	168.5	162.3	51.9	87.3	45.2
Net income	USD millions	126.7	89.3	20.1	8.6	-59.6
Shareholders' equity (as of 31 December)	USD millions	281.2	164.8	77.7	68.3	59.7
Capital expenditures	USD millions	217.7	60.4	82.2	72.5	69.4
Personnel in airline sector (average)		15,854	16,049	16,287	15,694	14,429

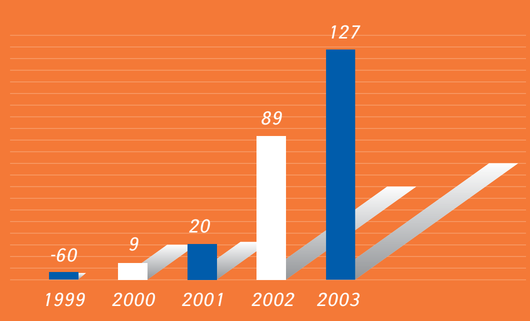
Capital market figures						
Earnings per share	USc	11.4	8.0	1.8	0.8	-5.4
P/E ratio (as of 31 December)		6.0	4.3	19.7	26.5	n/a
Market capitalization (as of 31 December)	USD millions	766.3	383.2	395.4	227.7	161.6

Traffic statistics						
Traffic statistics						
Passengers carried	millions	6.4	5.9	6.2	5.4	4.6
Cargo tons carried	thousands	116.9	111.9	103.8	109.2	89.5
Revenue passenger kilometers	billions	18.9	18.3	19.6	17.9	16.4
Revenue ton kilometers	billions	2.3	2.2	2.3	2.3	2.1
Passenger load factor	%	68.8	68.2	65.7	65.6	59.4
Weight load factor	%	57.0	56.5	53.7	54.7	50.8
Available ton kilometers per employee in airline sector	thousands	257.3	244.2	266.5	266.6	281.4
Aircraft (as of 31 December)		106	121	129	128	116

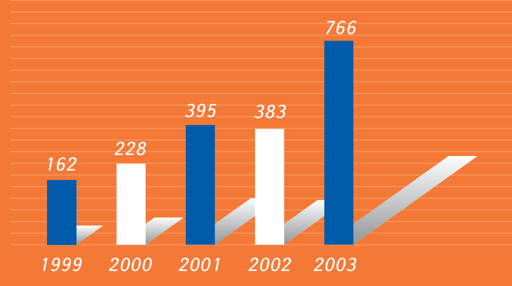
Operating revenue
(USD millions)



Net income
(USD millions)



Market capitalization
December 31
(USD millions)



Main results of the Aeroflot Group in 2003

Improved efficiency – enhanced quality indicators:

> 7.3% growth in number of passengers carried
> 3.6% increase in revenue passenger kilometers
> 9.1% rise in cargo ton kilometers
> 68.2% to 68.8% growth in passenger load factor
> 56.5% to 57.0% rise in the weight load factor
> Roughly 10% increase in passenger yield
> 10% rise in passenger punctuality rate
> 62% to 70% rise in average passenger plane serviceability rate
> 11.5% increase in average daily flight hours per listed passenger plane - from 5.8 to 6.5 hrs.
> 41.9% growth in net profit
> 100% rise in market cap compared to 58% growth in RTS index

Strategic initiatives are being successfully implemented:

> Network optimization: increased frequencies on highest-yield routes to Europe and Russia
> Fleet restructuring: 10 foreign aircraft have been withdrawn and a new type of aircraft is being rolled out – the Airbus A320 family
> The airline is able to ensure top-notch reliability: a quality management system in operating units has been prepared for ISO certification
> Improved service: the new service concept continues to be phased in
> Expanding market presence: progress in code-sharing agreements leading to a greater number of flights with partner airlines
> Improved corporate governance: the Code of Corporate Conduct has been approved and three relevant committees have been attached to the Board of Directors

Aeroflot turns *80*

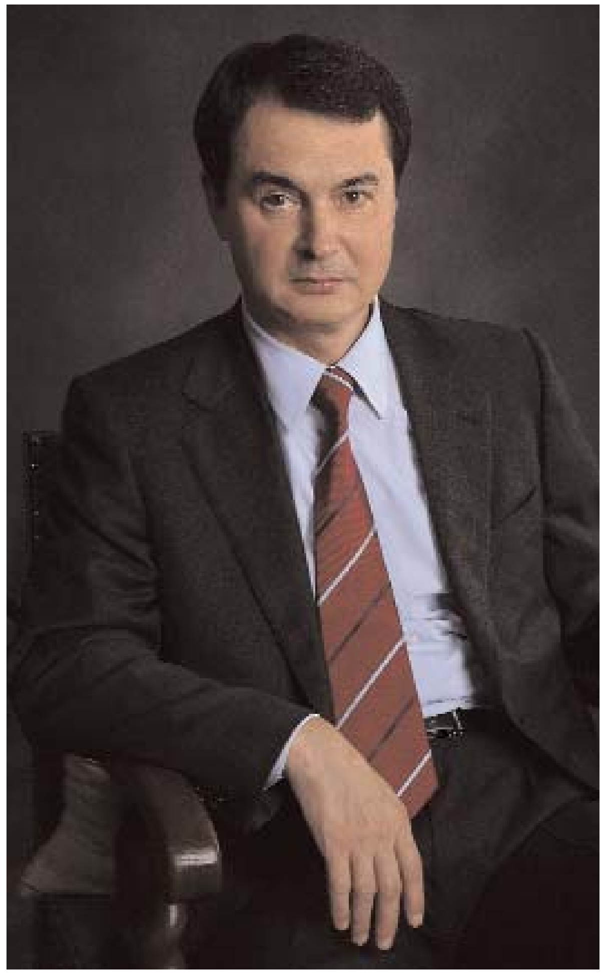
Aeroflot marked its 80th anniversary in February 2003

The official date of the inception of Russia's civil aviation fleet is considered to be February 9, 1923 when the Labor and Defense Council passed the resolution "On tasking the Main Air Fleet Administration with technical supervision over airlines and on establishing the Civil Aviation Council". Giant steps have been taken over the past 80 years. In May 1922, maiden flights were launched along the first international route: Moscow - Konigsberg, which was subsequently extended to Berlin. A little over a year later, in July 1923, the Moscow - Nizhny Novgorod route became the first scheduled domestic route. Back then, only five passengers were on board the plane. Since that time, over one billion passengers have enjoyed the services of Aeroflot's airliners.

Until 1991, Aeroflot was the sole representative of Russia's civil aviation industry. The airline has achieved amazing results and has turned into the world's largest carrier. This has been possible thanks to the mastery and expertise of many generations of aviation experts who have displayed their boundless love for aviation. Aeroflot's modern image materialized in 1992 after it became the legal successor to the Central Administration of International Airlines and was awarded trade mark rights.

Nowadays, Aeroflot is Russia's flagship civil aviation carrier and in association with its subsidiary Aeroflot-Don flies 115 routes (including marketing flights), thereby linking the Russian Federation with 42 countries around the world. Times have changed but Aeroflot has retained its core values – flight safety, the spirit of leadership, innovation, professionalism and enthusiasm.

Aeroflot has adopted a flexible approach to the demands and challenges of the constantly changing airline industry by becoming an increasingly client-driven business and striving to improve its operational efficiency. The company is committed to achieving the status of a world-class airline for which the passenger is its primary focus and concern.



CEO's address to shareholders

Dear shareholders,

I could safely venture to say that 2003 was a most challenging year for the aviation industry. The war in Iraq and the outbreak of SARS acted as a sequel to a string of disasters that hit global aviation in the wake of 9/11. Aggregate losses incurred by IATA members have reached a mind-boggling $30 billion over the past three years, outstripping the profit earnings derived by global carriers during the entire history of the industry.

As opposed to the international market, the Russian air transportation market has displayed robust growth trends, with an 11% rise in passenger traffic last year. According to IATA forecasts, upside in the Russian market could be quantifiable by up to 38 million passengers in 2006, thereby laying a solid foundation for the company's expansion.

Since Aeroflot is a full-fledged market player among international carriers, such downbeat events of global scale could not have failed to impact the company's performance, as a result of which Aeroflot was virtually operating in crisis mode during the first six months of 2003. But thanks to the clear-cut, focused and professional operations of Aeroflot's management, we managed not only to sidestep major losses, but also to meet and overshoot our key operating targets.

In 2003, we flew 5.9% or 3,900 more flights than in the year-earlier period. The total number of passengers carried by Aeroflot was 5.84 million and 510,000 by our subsidiary, Aeroflot-Don. Total revenues rose by 9.8% or by USD 153 million. According to an estimate by the Association of European Airlines (AEA), Aeroflot became a leader among European airlines by virtue of its 2003 financial indicators. Such impressive results were reached thanks to the company's proactive and focused management of network, capacity and overall operating performance.

The results we achieved in 2003 point not only to the efficient operations of our whole team, but also to our correct choice of business strategy. We decided to focus on a network business model which involved prioritizing the following areas of development: network optimization, fleet restructuring and radically improved service.

At present, Aeroflot is Russia's only network carrier, which gives us our single most important competitive edge. Our well-diversified network of international and domestic routes, along with the routes flown by our partners under code-sharing agreements (which now number about 20), allows Aeroflot passengers to reach virtually any point on the globe by way of a single ticket.

At the end of 2003, Aeroflot formed a set of new strategic targets in line with its business development strategy. We decided to call it "The Fast-Track Growth Strategy". Only by expanding at a rapid pace will be able to take full advantage of the favorable market environment which now prevails in the country. In accordance with the company's growth prospects, annual growth in passengers carried should average 13.5%. Over the next seven years we intend to significantly boost Aeroflot's share of the domestic market, lifting it from the current 12.2% to over 20%.

As for its 2004 plans, the Aeroflot Group plans to carry 7.3 million passengers, i.e. nearly one million more than in 2003. This would mean an increase of 16% with 29% growth on Russian domestic routes. Moreover, there are plans to lift the volume of freight and mail carried by 26% in 2004.

While fast-track growth is admittedly an ambitious goal, rising demand for carriage of passenger and cargo, coupled with the resources at the disposal of our company, will help turn this goal into reality. Our top-priority tasks are therefore as follows: rolling out the fleet and network, expanding commercial rights, building a new terminal at Sheremetyevo airport, developing partnership agreements, entering into a global alliance and sharpening our competitive ability.

Looking ahead, our growth potential is currently inhibited by two main hurdles: the limited handling capacity of the Sheremetyevo airport and an insufficiently large fleet. These are serious problems, but we are making concerted efforts to overcome them.

Aeroflot was the first company in Russia to raise the issue of competition in the air transportation industry and we were the first to set an example in pursuit of this goal. Aeroflot is the leader of Russia's civil aviation and we have a great responsibility to promote well-being among the entire industry. In line with this objective, we have displayed a strong competitive ability on the international air transportation market.

It should also be noted that great attention was devoted to corporate governance and conduct in 2003. Thus, three committees were set up under the board of directors: for strategy, audit as well as human resources and compensation. What's more, Aeroflot approved the Code of Corporate Conduct, which is a compilation of corporate governance principles, including the ways and means to establish and foster an efficient system for regulating relations among all parties interested in Aeroflot's activities.

In our business operations we remain committed to the principle of social responsibility. Aeroflot is involved in the following socially significant projects:

> The Kaliningrad shuttle – arranging the best possible transportation links between this Russian enclave and Moscow as well as the rest of Russia;
> Free transportation for World War II veterans;
> Special discount fares for medal-winning graduates from the Far East and regions of Siberia to help them enroll in universities and other academic institutions in Moscow.

Our work is in great demand as a growing number of passengers, both Russians and foreigners, are making their choice in favor of Aeroflot. I wish to thank all our shareholders for their continued support of our work.

Yours respectfully,

Valery Okulov

Aeroflot's awards

March 27, 2003

Aeroflot wins the national aviation prize "Wings of Russia – 2002" in the category "Passenger carrier on international routes in group I (with revenue passenger kilometers on international routes over 1 billion).

Aeroflot-Don is awarded the national aviation prize "Wings of Russia – 2002" in the category "Passenger carrier on domestic routes in group III (with revenue passenger kilometers on domestic routes from 0.2-0.5 billion).

April 16, 2003

Aeroflot received an award from Airfinance Journal, a leading magazine on finance for the airline and airports sectors in the category "Editor's Prize – Deal of 2002" for its successful fleet restructuring project.

November 4, 2003

Aeroflot wins the silver medal at the 6th competition "Brand of the Year / EFFIE – 2003" in the "Service" (Transport) category. (No gold medal was awarded).

November 21, 2003

Aeroflot wins the Russian Business Academy Award – 2003 in the category "Efficient Management".

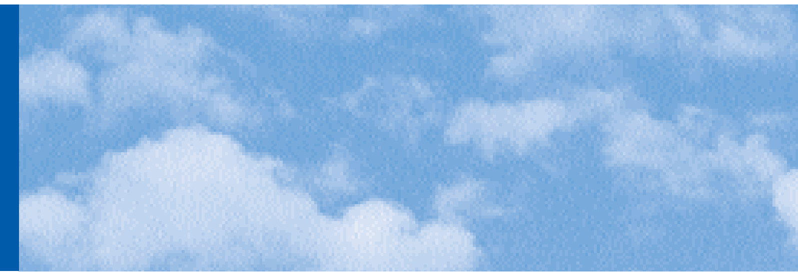
November 28, 2003

Aeroflot takes 4th place in the business competition for annual reports and corporate sites, which is conducted by the RTS electronic stock exchange and publishing house "Securities Market". Aeroflot receives awards in all categories, including 2nd place for "Best Ideas".

December 4, 2003

A project to fund the company's fleet restructuring program is the recipient of an award from Jane's Transport Magazine in the category "European Deal of 2003".

Our target is to roll out a world-class company



Our values

Aeroflot is a dynamically expanding company able to meet the challenges posed by a rapidly changing world. The company's core values are as follows:

> Our main priority is flight safety
> Our main concern is the passenger
> Our main asset is our staff
> Our main principle is deep social commitment

Our entire corporate history has highlighted the company's versatility and willingness to view new trends as the high road to future development. Our unswerving client focus and study of their needs, tastes and preferences enables the company to proactively respond to changes in their demands and wishes in order to devise and offer a product that will take into account the interests of the various consumer groups. A lively and open-ended discussion of problems makes it possible to adopt carefully-weighed decisions that find just the right professional solution. Our aspiration to build a corporate system geared towards the development of human capital is the driving force behind our rising competitive edge.

Our priority is safety

For Aeroflot safety is not just a key performance indicator; it is the top priority of the company. We have worked out and adhere to the "Safety Concept" which features the most stringent requirements, even compared to international standards, for pre-flight preparations. All of the airline's activities are aimed at constantly improving management, technology and business processes, which in turn guarantee unconditional flight safety.

Our concern is for the passenger

The passenger is always at the center of attention on Aeroflot flights. The main thrust of our efforts is to ensure that passengers are always in a good mood with a smile on their face. All our staff members are keenly aware of their responsibility to ensure flight safety and comfort for all passengers that choose Aeroflot. We make every effort to form a special relationship with passengers based on mutual respect and trust. We constantly strive to improve our service system since our goal is to offer service that exceeds passenger expectations.

Our asset is our staff

The airline's staff is its key asset. A creative attitude to work lays the necessary framework for satisfying the demands of the most exacting passengers. Every day our employees make a tiny contribution towards guaranteeing the efficient work of the company and each department works in unison like a well-seasoned team, whether they are engaged in flight work or technical maintenance of aircraft, booking and selling tickets, providing airport or in-flight service, or administration and management. The confidence with which Aeroflot services around 6 million passengers is the net result of tireless work by thousands of members of our professional team.

Our team of like-minded staff, who are connected by common interests, sense of commitment, goals and objectives, is leading Aeroflot to new heights on the road to our main target: to achieve the status of a world-class airline. Our drive to conquer the future, spirit of leadership and client-driven mentality form the cornerstones of our corporate culture.

Our principle is deep social commitment

Aeroflot's business has profound business repercussions both for the domestic aviation industry and for the entire Russian economy. The company generates roughly 0.4% of the nation's GDP and is one of the biggest taxpayers in the country. Group-wide, Aeroflot employs a workforce of over 17,000. We strive constantly to ensure the social security of our employees, including proper pension benefits.

Aeroflot is involved in numerous social projects which have won broad public acclaim. The company has partnership ties with a number of public, cultural and sport organizations, and is committed to many socially significant initiatives in these areas. Special attention is devoted to environmental issues. Our deep sense of community and commitment to the ideas of social partnership lays the groundwork for greater social responsibility in mutual business dealings and the formation of a more socially sensitive business practice in Russia.

Strategic concept

In framing its strategic targets, Aeroflot seeks guidance from shareholder interests. The implementation of this strategy also makes a valuable contribution to the Transportation Strategy of Russia which was approved by the President of the Russian Federation Vladimir Putin at the end of 2003.

Aeroflot's strategic concept endorsed by the Board of Directors in March 2000 aims to roll out a world-class air transportation company, with a special focus on:

- securing leadership in Russia's civil aviation industry;
- setting up a convenient and economically viable route network for passengers;
- offering top-notch service quality;
- achieving a level of operating and economic indicators on par with European carriers; and
- forming an efficient set of in-house business relations.

In accordance with the strategic concept, management has set its main targets up until 2010, which were approved by the Board of Directors in December 2003, i.e.

- raising our stake in the civil aviation industry, including the international and domestic market, to 30%;
- securing the necessary number of aircraft;
- achieving a top-10 product rating among AEA carriers;
- commissioning a new terminal by 2007;
- boosting operational efficiency;
- improving labor relations; and
- joining an international air carriers' alliance.

Strategic initiatives

Management's main thrust in rolling out the strategic concept will be focused on achieving fast-track growth and raising economic efficiency. Aeroflot continues to expand the range of destinations and the frequency of flights available to its passengers, thereby forging an economically viable own route network and a growing number of code-sharing operations with its partner airlines. The company has big plans to scale up its fleet by either purchasing outright or leasing the most advanced and state-of-the-art aircraft models. A necessary prerequisite for further growth of the company is the creation of a modern operating base at its new Sheremetyevo terminal. This will enable the airline to dramatically lift the number and service level of passengers carried. Aeroflot will continue to scrutinize the needs of its passengers and raise the competitive edge of its product. Indeed, the company plans to radically improve its financial standing over the next three years. The process will also include upgrading the management system currently in place by seeing that current activities are pegged to the strategy concept and putting in place a system of incentives that will sufficiently motivate employees to achieve our strategic targets.

Network optimization

The airline industry is evolving along the following clear-cut trend pattern: increased attractiveness of Russia's domestic market and growing consolidation of global carriers. The domestic market holds considerable upside potential with revenue growth steadily rising on the heels of stronger real disposable income. Major growth in passenger traffic markets has been achieved along trunk routes from large cities. On the other hand, consolidation of the world aviation industry is being achieved by striking global alliances, the goal of which is to allow air carriers to reach a new level of competitiveness.

Aeroflot's main cash cow remains the international traffic market on which the company holds traditionally strong positions. On this market, Aeroflot intends to raise the number of destinations and frequency of flights available to its passengers, with the main focus on expanding partnership relations with foreign airlines. In the mid-term outlook, the company plans to join one of the global airline alliances. Aeroflot intends to raise the connectivity of its network in order to draw in transit traffic flows from the Russian regions abroad, and also those from Asia to Europe or America and vice versa. Another important challenge is to raise the company's share of high-yield traffic compared to foreign competitors by enhancing network and service quality.

In order for Aeroflot to consolidate its positions on the international market in the long term it will be necessary for the company to scale up its presence on the domestic market, since sizeable transit traffic from the Russian regions flows through Moscow. The company also plans to expand domestic traffic, which will involve both boosting frequency on existing flights and launching new heavy traffic routes. Our strategic objective is to capture over 20% of the domestic market. Taking into account the low level of current yields on a number of promising domestic routes, Aeroflot plans to pursue partnerships with other Russian airlines. The main areas of such partnerships will be: network and schedule coordination, joint operation of a number of routes (under code-sharing agreements), and Aeroflot's use of partner fleets within its network. There are also plans to take part in the formation of a regional hub system in Russia. One of these hubs is to be rolled out on the basis of the Rostov-on-Don airport and the Aeroflot-Don airline.

Both on international and domestic markets Aeroflot will gear its network and schedule to business travelers who value direct flights, high flight frequency and a convenient timetable for arrivals and departures. Aeroflot also intends to attract other categories of passengers.

Fleet restructuring

Generally speaking, both for Aeroflot, the leading national carrier, and other Russian air carriers, the issue of fleet expansion has reached the critical point in an all-out struggle to meet growing demand and hone competitive edges in the industry. The current state of affairs has arisen due to the impending end of aircraft service lives, an intensification of noise and emission control standards in a number of countries, limited capability of the Russian aerospace industry to manufacture aircraft and the prohibitively expensive nature of clearing foreign-made aviation equipment through Russian customs channels. As of 2006, there is a real threat that Tupolev Tu-154s will be banned from entering European airspace and other regions due to environmental restrictions. Needless to say, this calls into question the presence of Russian air carriers in their largest and most lucrative market segment.

Aeroflot's fleet development strategy calls for optimizing craft types and sizes depending on the route network, switching over to advanced fuel-efficient and more comfortable types of aircraft, downsizing the number of passenger models in service over the next 10 years from 10 to 5 in order to rein in costs. Along the same lines, Aeroflot-Don's fleet will eventually consist of only one type of aircraft.

The company's fleet expansion policy will be geared towards acquiring competitive aircraft and striking a balance between the use of domestic and foreign planes. Ever mindful of the domestic industry's interests, Aeroflot intends to tap its potential and make use of its best achievements.

Product enhancement

Brand quality is one of the key factors that determine the company's competitive ability in the marketplace. Aeroflot's strategy involves delivering a product which conveniently differs from that of its competitors and which meets the highest world-class standards.

The core components of our company's brand are safety and reliability. Aeroflot will endeavor to maintain its safety rating at the highest level in the industry, while striving to reach the punctuality and regularity indicators of leading global air carriers, as well as their standards of luggage safekeeping.

Within the next 2-3 years Aeroflot plans to radically improve its services. The company intends to phase in a 2-class aircraft configuration with improved business class. The main task of Aeroflot's marketing strategy will be to attract "high-end" revenue passengers. This will require investing in quality-enhanced servicing and making a number of extra services available. The plan is to rebrand our product with a distinctly national coloring. Our new service concept, after being tested on a number of pilot routes, will then be phased in and extended to all of Aeroflot's flights.

Another important strategic area involves bolstering our trade mark and strengthening the reputation of the company. Our rebranding program, which got under way in 2002, is designed to visually reinforce the positive changes underway in the company and to give Aeroflot a new look which has more attractive features and is more up-to-date. The company's new image will be reflective of our core values, such as courtesy, reliability and the specific Russian nature of Aeroflot.

The main principles that will go into defining the brand name of our regional subsidiary Aeroflot-Don include adherence to the parent company's branded image based on key parameters while leaving room for the special additional features that will shape the new image of Aeroflot-Don.

Construction of a new terminal

At present, the Sheremetyevo airport is not only out of step with modern airports across the world, but also with Russian airports Domodedovo and Vnukovo. The airport is extended well beyond its actual handling capacity, which has inevitably resulted in poor passenger service quality. The technological detachment of Sheremetyevo-1 from Sheremetyevo-2 makes it difficult to transit traffic flows. The vicious circle of improving airport management and upgrading/expanding facilities has been left unresolved for a number of years now.

Construction of the long-awaited Sheremetyevo-3 terminal is of great strategic importance to Aeroflot and will largely determine its long-term competitive ability. Aeroflot is doing its utmost to see that work commences on the new terminal as soon as possible. The company has accepted the challenge to see Sheremetyevo-3 made operational by 2007.

Raising economic efficiency

Aeroflot is poised to remain competitive by implementing cost-containment, optimizing its business processes, improving labor productivity and cutting fixed expenses, especially when it comes to administrative costs and conducting administrative reform in each and every department. Great attention will be devoted to phasing in management information systems and applying management accounting in the company by opting for the most advanced IT solutions available on the market. The purpose of these measures is to fashion a flexible cost-side structure which is readily adaptable to the current market environment.

Over the next two years, Aeroflot plans to dramatically improve its financial and operating performance. The company will continue to optimize its current resources and use them to the best of its ability, especially insofar as the aircraft serviceability rate is concerned, while cutting turnaround time, raising aircraft utilization and flexibly managing capacity based on traffic demand. The company is determined to cut costs on fuel, aircraft servicing at airports and en route to destinations, as well as lease payments thanks to more efficient foreign aircraft. Maintenance can also be made more cost-efficient by improving the business processes in the Aircraft Maintenance Center and extend its range of services to other carriers. The main lever for optimizing labor costs will be to ensure that labor productivity rises at a faster pace than salary growth. And last but not least, Aeroflot intends to drive up sales by optimizing the existing chain of representatives, expanding direct sales and rolling out zero-rated agent fees.

In addition, the company's capital investment program will be of a special-purpose and focused nature in order to obtain the greatest possible return in key areas that determine the company's competitive ability.

Personnel incentives

Providing incentives and motivation for staff members will be the basis for implementing changes in the company. Aeroflot plans to introduce a system of key performance indicators which will make it possible to gauge the contribution of each department and individual employees in attaining the company's strategic targets. Salaries will be pegged to strategy implementation and specific results. Good performance and the ability to achieve assigned targets will serve as the basis for promotions up the corporate ladder.

In addition, the company plans to continue involving its employees in cost-cutting activities by implementing various personnel incentive programs aimed at raising revenues, lowering expenses and optimizing business processes. Departments engaged in supporting activities will be offered incentives aimed at raising market orientation and expanding third-party sales. The company is firmly resolved to create a transparent system of material incentives and fringe benefits which is easy for all its employees to understand and which will motivate every one to achieve the main strategic goals.

IT development

The success of any company today is directly dependent on its use of cutting-edge information technology. Aeroflot devotes considerable attention to the development of such IT solutions. First and foremost, Aeroflot will focus on the highest possible degree of automated business processes and information exchange processes, by creating a company-wide database.

Furthermore, the company will expand its support systems for managerial decision-making. Aeroflot plans to make even wider use of electronic commerce by promoting online reservations and sales, e-tickets and registration. This will bring the company closer to its clients, make it easy to purchase tickets, register for flights and considerably cut distribution costs.

Improving corporate governance

Keenly aware of its corporate, public and social commitments, Aeroflot is firmly resolved to meet the best world practice of corporate governance. The main principles in the company's system of corporate governance are as follows: equal respect for the rights of all shareholders (including minorities and non-resident shareholders), maximum information transparency and accountability before shareholders and the investment community and adopting corporate governance standards that would tend to maximize the market value of the company's shares.

Aeroflot plans to continue focusing on ways and means to improve information disclosure, especially by holding regular briefings and conference calls for investors and equity analysts, scaling up the volume and quality of website content, and releasing more detailed information on revenues and expenses. Aeroflot plans to work out a dividend policy in order to lay down clear-cut principles used in determining amounts and procedures for divided payouts. The company is also striving to promote a greater convergence of interests between management and shareholders by rolling out ad hoc incentive programs for top managers based specifically on their ability to raise the air carrier's market cap.

Corporate restructuring

The main competitive advantages in Aeroflot's business model are: a talented and committed management, a uniform trade mark, a creative and hard-working staff, as well as a transparent and flexible cost structure. Corporate restructuring is intended to yield the best possible business model which can meet the above-mentioned requirements and ultimately add as much value to the company as possible.

Air traffic market

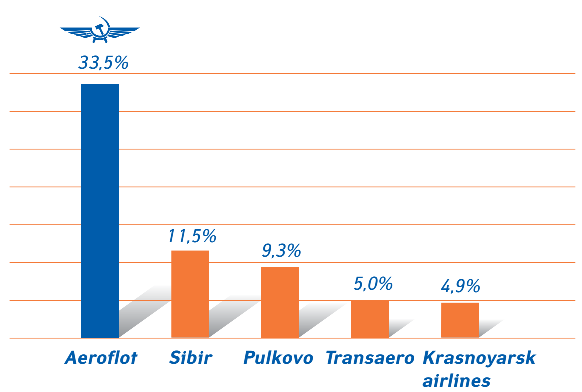
The year 2003 was one in which the entire world aviation industry was clearly experiencing yet another crisis. A low level of business activity, the war in Iraq and the SARS epidemic triggered a steep decline in air traffic demand, especially in the early part of the year. Fierce competition from low-cost carriers caused a further contraction in yields and forced traditional carriers to rethink their business models and overhaul their cost structures. Virtually all airlines, with the exception of low-cost airlines, posted losses in 2003.

The Russian air traffic market has been on the rise for the third year in a row, with the main driver being sustained economic growth. And even though the war in Iraq and SARS depressed demand for destinations in South-East Asia and the United States from March to May, as well as resort destinations in the Middle East and Southern Europe, by the end of the year Russian airlines managed not only to recover but also to boost the number of passengers carried by 11% (up to 29.4 million), revenue passenger kilometers by 10% (up to 71.1 billion). They achieved nearly the same pace of growth on international and domestic markets. The most dynamically expanding international charter traffic attained 18% growth.

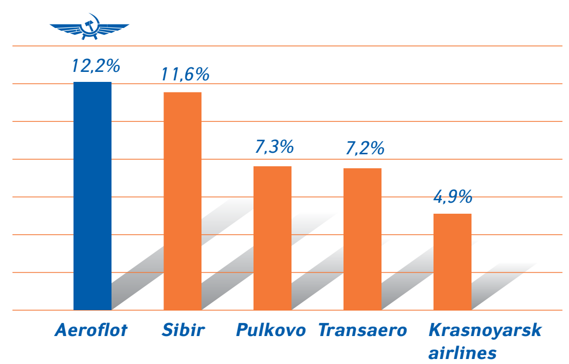
In 2003 the Group captured a 26.6% share of the total revenue passenger kilometers of Russian air carriers (with the parent company accounting for 25.6%). The Group transported 21.6% of all passengers carried in the industry (with the parent company accounting for 19.8%). Aeroflot's share of revenue passenger kilometers stood at 40.5% on the international market (with the parent company accounting for 39.9%) and 12.8% on the domestic market (with the parent company accounting for 11.3%).

Aeroflot's market share in civil aviation decreased by 1.6% compared to 2002. This was caused by force majeure events which mainly impacted the markets on which Aeroflot was operating and fast-track growth in the non-core charter segment. Despite the unfavorable market environment, Aeroflot not only managed to raise the number of passengers carried, but also its passenger load factor and flight revenues. On the top-priority market – scheduled non-CIS international destinations – Aeroflot retains its market share at over 77%.

Aeroflot group's position on the international market
(share of passengers carried)



Aeroflot group's position on the domestic market
(share of passengers carried)



Group management report

Safety

Flight safety

Aeroflot is one of the safest airlines in the world. Based on IATA's flight safety classification, Aeroflot has a "good" rating within the range of 99.90-99.98%. Flight safety is ensured by renewing aviation equipment, using the most advanced and equipped aircraft, devoting proper attention to flight personnel training and taking measures to improve the exchange of information.

In 2003, flight personnel was trained to operate a new type of aircraft, the Airbus A320 family in Airbus training centers in Toulouse, at the headquarters of Lufthansa in Frankfurt and Korean Air Operations Center. Regular professional training and advanced training of staff at the parent company is carried out at the company's Flight Personnel Training Center, while crew members of Aeroflot-Don are instructed at the North-Caucasian Civil Aviation Teaching and Training Center.

The key link in the flight safety chain is the quality management system. In 2003 work continued to bring the quality management system at operating units in line with ISO international standards. Certification of the entire operating division of the parent company will be completed in 2004 and the next stage involves certifying the quality management system of Aeroflot-Don.

In 2003, Aeroflot's Flight Safety Inspectorate began to implement several programs designed to ensure safety: renewal and improvement of databases; introduction of new forms of reporting on flight safety status on the basis of recommendations by the State Civil Aviation Service; development and implementation of operational technology and interaction between the crew members of Airbus A-319/320 and Boeing 767; ensuring safety on Aeroflot flights operated by other companies.

Aviation safety

The current geopolitical situation and actions by extremist groups are forcing all global airlines to take heightened aviation security measures. Ensuring the highest possible level of flying safety is one of the company's greatest challenges. Aeroflot's aviation security team is implementing a number of special-purpose programs: 100% luggage control; high-risk flight escorts; a comprehensive security system to monitor the safety of the company's facilities; a dog unit; and a "rowdy passengers" response team.

Thanks to the company's diligent efforts to ensure safety on all flights, not a single incident occurred in 2003 that risked jeopardizing the personal safety of passengers.

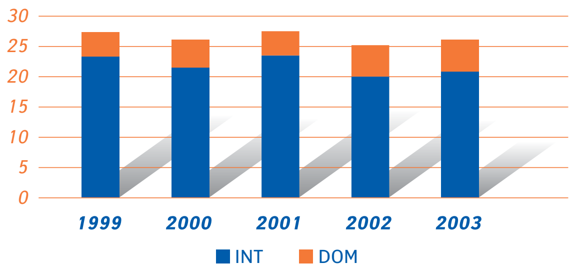
photo © Airbus

Group's operating data

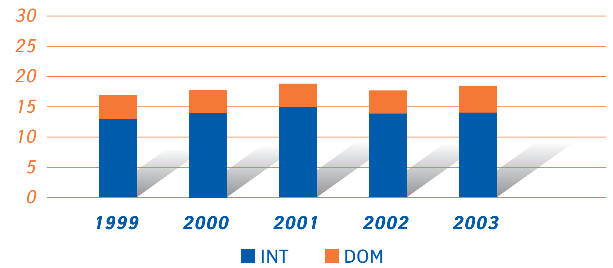
International traffic	2003	2002	%
Passengers carried (thousands)	4,259.7	3,988.5	106.8
Revenue passenger kilometers (millions)	14,380.3	14,027.4	102.5
Available seat kilometers (millions)	21,230.1	20,903.7	101.6
Passenger load factor (%)	67.7	67.1	0.6 pt*
Share of scheduled traffic** (%)	97.8	97.7	0.1 pt
Freight and mail tons carried (thousands)	96.3	93.9	102.6
Cargo ton kilometers (millions)	531.6	492.5	107.9
Revenue ton kilometers (millions)	1,825.8	1,754.9	104.0
Available ton kilometers (millions)	3,296.6	3,164.5	104.2
Weight load factor (%)	55.4	55.5	-0.1 pt
Domestic traffic			
Passengers carried (thousands)	2,090.7	1,928.2	108.4
Revenue passenger kilometers (millions)	4,566.3	4,266.1	107.0
Available seat kilometers (millions)	6,295.0	5,925.8	106.2
Passenger load factor (%)	72.5	72.0	0.5 pt
Share of scheduled traffic ** (%)	99.9	99.7	0.2 pt
Freight and mail tons carried (thousands)	20.6	18.0	114.2
Cargo ton kilometers (millions)	87.9	75.2	116.8
Revenue ton kilometers (millions)	498.9	459.2	108.6
Available ton kilometers (millions)	782.8	754.6	103.7
Weight load factor (%)	63.7	60.9	2.9 pt
Total for international and domestic traffic			
Passengers carried (thousands)	6,350.3	5,916.7	107.3
Revenue passenger kilometers (millions)	18,946.6	18,293.5	103.6
Available seat kilometers (millions)	27,525.1	26,829.5	102.6
Passenger load factor (%)	68.8	68.2	0.6 pt
Share of scheduled traffic ** (%)	98.3	98.1	0.1 pt
Freight and mail tons carried (thousands)	116.9	111.9	104.4
Cargo ton kilometers (millions)	619.5	567.7	109.1
Revenue ton kilometers (millions)	2,324.7	2,214.2	105.0
Available ton kilometers (millions)	4,079.5	3,919.1	104.1
Weight load factor (%)	57.0	56.5	0.5 pt

* pt – percentage point ** in revenue passenger kilometers

Available seat kilometers
(billions)



Revenue passenger kilometers
(billions)



Operating results

Passenger traffic

Aeroflot opted for a flexible response to the market situation, rerouting about 30% of traffic flows during March until May 2003 from routes from destinations in South-Eastern Asia to Europe and Russia. Thanks to rapid modifications in the route network, the company managed to maintain traffic at its 2002 level during the crisis period. In year-on-year terms the Aeroflot Group raised the number of passengers carried by 7.3%, while revenue passenger kilometers were up 3.6%. The passenger load factor of the parent company improved by 1.0 percentage point and stood at 69.4%. On a Group-wide basis the passenger load factor reached 68.8%.

The bulk of revenue passenger kilometers (53.1%) was achieved using foreign-made aircraft. At the same time, Aeroflot is expanding its use of Russian airplanes as they accounted for 46.9% of revenue passenger kilometers in 2003, up from 43.5% in 2002.

The company improved its use of operating assets: the parent company's serviceability rate of passenger aircraft (excluding the Ilyushin Il-62s which are in the process of being withdrawn) rose from 63% to 69% in 2003, which led to an increase in average daily flight hours per listed passenger plane more than 10% - from 6.4 to 7.0 hours. The aircraft serviceability rate also increased considerably at Aeroflot-Don thanks to the commissioning of a new Tupolev Tu-154M and retirement of an idle Tupolev Tu-154B. Flight time per listed plane increased by 25.6% at Aeroflot-Don. Planning and routing of traffic made it possible to sustain a high intensity of aircraft operation, as daily average flight time per active aircraft of the parent company stood at 10.1 hours and 9.3 hours for the Aeroflot Group as a whole.

International traffic

International traffic accounts for 67% of passengers carried and 76% of the Group's revenue passenger kilometers. Nearly 98% of the revenue passenger kilometers was performed on scheduled flights. International traffic flow amounted to 4.3 million passengers in 2003, which is up 6.8% year-on-year. Average stage distance was reduced as a result of rerouting traffic during the crisis period from long-haul trunk routes in South-East Asia to medium and short-haul European routes. This resulted in a slower pace of growth in international revenue passenger kilometers compared to growth in passengers carried, i.e. 2.5%. The passenger load factor increased on international routes from 67.1% to 67.7%.

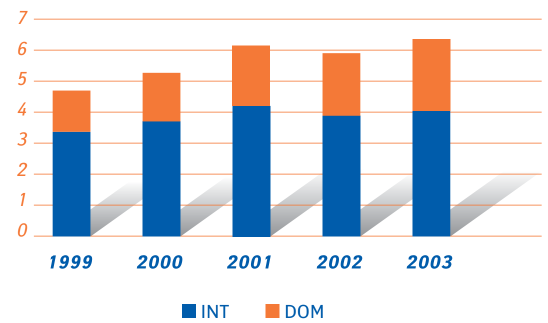
Domestic traffic

Aeroflot flew 2.1 million passengers on its domestic routes, which is 33% of the airline's traffic flow and 8.4% more than in 2002. Revenue passenger kilometers on domestic routes rose by 7.0%. Nearly all traffic came from scheduled flights. In 2003 the parent company managed to raise the passenger load factor by more than 2 percentage points on domestic routes, bringing it to 74.9%. All in all, the Group's passenger load factor increased from 72.0% to 72.5%.

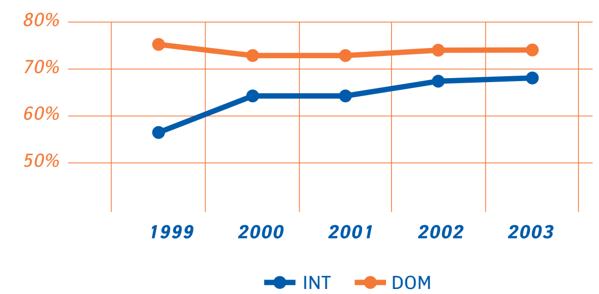
Cargo traffic

The SARS epidemic in April and May 2003 triggered a sharp downturn in cargo traffic to and from China and on other South-East Asian routes, which is an extremely important market for Aeroflot. During 2H 2003 cargo traffic demand began to recover rapidly. As a result, freight and mail carried by the Aeroflot Group after declining by more than 6% year-on-year in April and May reached

Passengers carried
(millions)



Passenger load factor



116,900 tons for FY 2003, which is up 4.4% on the year-earlier period. Cargo ton kilometers rose 9.1% in 2003. The weight load factor, which characterizes the utilization of passenger and cargo capacity altogether, rose from 56.5 to 57.0%.

In 2003, around 58% of total cargo ton kilometers was achieved on passenger planes and 42% on cargo planes. In addition, DS-10s account for 88% of freight and mail flows carried by cargo planes.

International cargo traffic

International traffic accounts for over 82% of cargo tons carried and nearly 86% of cargo ton kilometers. Almost all cargo traffic was performed on scheduled flights. Cargo traffic on international routes rose by 2.6% in 2003. Thanks to an increase in cargo aircraft fleet, which operates on long-haul Europe-South-East-Asia trunk routes, average stage distance posted an increase. This in turn resulted in a higher rate of cargo ton kilometers growth, i.e. 7.9%. In addition, the weight load factor on international routes stood at 55.4%.

Domestic cargo traffic

Cargo shipments inside Russia were made using passenger planes. Cargo tons carried on the domestic market posted a gain of 14.2% in 2003, while cargo ton kilometers rose by 16.8%. By raising volumes of actual passenger and cargo flows while maintaining the same supply capacity the Aeroflot group significantly boosted the weight load factor on domestic flights, i.e. from 60.9% to 63.7%.

Financial results

In 2003 the Aeroflot Group generated revenue of USD 1,716.0 million, which is up 9.8% compared to the amount of revenues earned in 2002. Operating costs rose by 13.2% and stood at USD 1,589.6 million. As a result of operating activity, Aeroflot generated operating income of USD 126.4 million, which is down 20.4% on an annualized basis.

As a result of non-operating activity, the company earned an income of USD 31.6 million.

Income before taxation and minority interest amounted to USD 158 million in 2003, which is 18.9% more than in 2002. Net income rose 41.9% year-on-year and reached USD 126.7 million.

Operating revenue

In the breakdown of operating revenue, 72.4% falls to passengers carried, 7.4% to freight and mail carried, 15.9% to earnings from airline revenue agreements with foreign carriers and 4.3% to other revenue.

Passenger revenue

Traffic revenue rose by 10.8% in 2003 and reached USD 1,241.8 million. Of this amount, international traffic accounted for 80.3% and domestic traffic for 19.7%.

Traffic revenue from international destinations stood at USD 996.9 million in 2003, which is up 10.3% on 2002. All revenue gains were achieved as a result of increased passenger yields.

Traffic revenue from domestic destinations rose by 12.9% in 2003 and amounted to USD 244.9 million. The bulk of revenue gains came from increased traffic yields.

Cargo revenue

Revenues from freight and mail carried increased by 2.7% in 2003 and reached USD 127.2 million. The bulk of revenues – 92.1% – was derived from international traffic. Revenue gains were achieved by increased volume of cargo traffic.

Airline revenue agreements and other revenue

Airline revenue agreements with foreign carriers totaled USD 272.7 million, which is up 5.1% on 2002. Other revenue was derived from ground handling and maintenance in the airport, airline catering and refueling services to outside airlines, hotel services, in-flight duty-free trade and other services. In 2003, Aeroflot raised its earnings from other revenue to USD 74.3 million.

Operating costs

The largest expense items are as follows: aircraft fuel (20.6%), aircraft and traffic servicing (18.5%), staff costs (15.3%) and maintenance (10.2%).

In 2003 Aeroflot's aircraft fuel costs surged 19.3%. The main reason behind such a surge was the rise in energy costs, including aviation kerosene due to the war in Iraq and low inventories on the global crude oil market.

Servicing of aircraft and passengers in airports and en route surged 20.1% in 2003, which is attributable to an increase in traffic, higher airport and navigation fees, as well as rising costs to ensure security in the airport of entry.

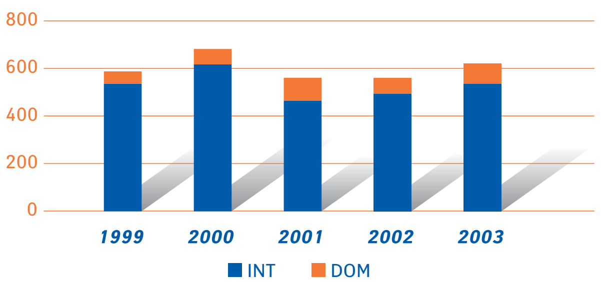
Staff costs rose 13.0% on the back of increased official salaries to offset inflation rates and motivate employees to remain committed to professional growth.

The year 2003 saw a steep rise (48.0%) in maintenance costs, which is attributable to the rising scope of works designated to improve working order and airworthiness of aircraft, and also due to implementation of the aircraft fleet restructuring program of the parent company (redelivery of aircraft).

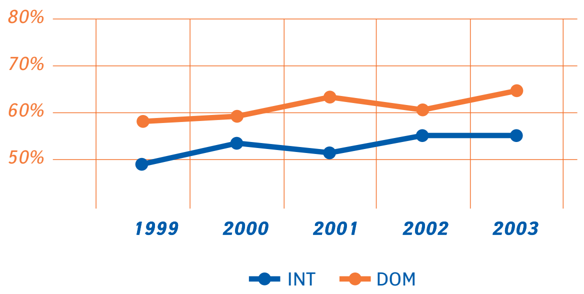
The increase in operating lease costs was determined by an increase in the number of the aircraft listed under operating lease, since at the end of 2002 10 Boeing 737s were transferred from finance lease to operating lease.

Due to a rise in traffic volume marketing and sales costs grew 7.6%.

Cargo ton kilometers
(millions)



Weight load factor



Summary of financial results (USD millions)

	2003	2002	%
Operating Revenue	1,716.0	1,563.0	109.8
Operating Costs	(1,589.6)	(1,404.2)	113.2
Operating Income	126.4	158.8	79.6
Non-operating income (loss)	31.6	(25.9)	
Income before taxation and minority interest	158.0	132.9	118.9
Taxation	(31.3)	(41.6)	
Minority interest	0.0	(2.0)	
Net Income	126.7	89.3	141.9

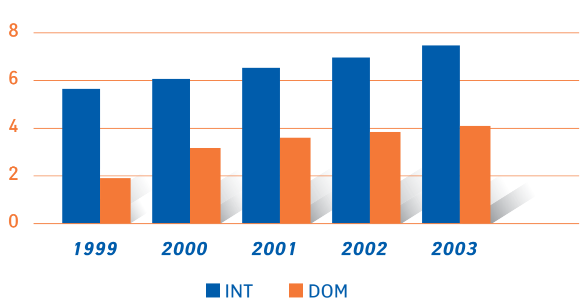
Operating revenue (USD millions)

	2003	2002	%
Passenger revenue	1,241.8	1,120.5	110.8
Incl. international*	996.9	903.6	110.3
Domestic	244.9	216.9	112.9
Cargo revenue	127.2	123.8	102.7
Airline revenue agreements	272.7	259.4	105.1
Other revenue	74.3	59.3	125.3
Total operating revenue	1,716.0	1,563.0	109.8

* All charter passengers are included in the international segment

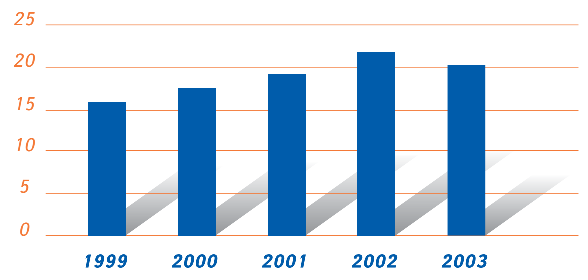
USc/RPK

(USc/RPK)



Cargo yield

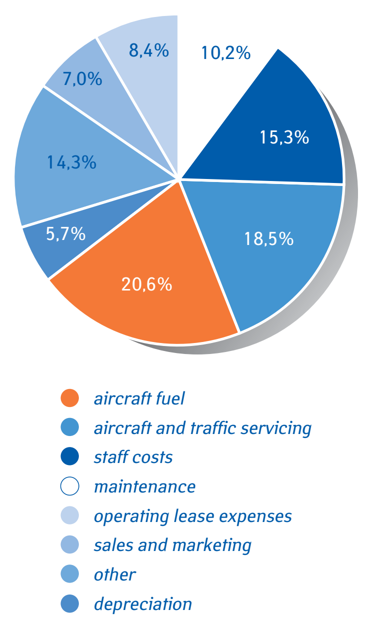
(USc/CTK)



Operating costs (USD millions)

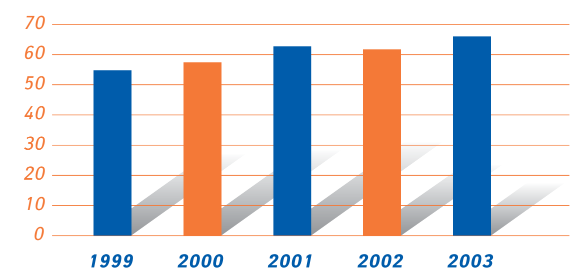
	2003	2002	%
Aircraft fuel	327.8	274.7	119.3
Aircraft and traffic servicing	294.0	244.8	120.1
Staff costs	243.3	215.4	113.0
Maintenance	162.4	109.7	148.0
Operating lease expenses	133.0	104.2	127.6
Sales and marketing	111.0	103.2	107.6
Administration and general expenses	71.9	69.5	103.5
Communication expenses	39.2	35.3	111.0
Other expenses	115.9	140.4	82.5
Depreciation	91.1	107.0	85.1
Total operating costs	1,589.6	1,404.2	113.2

Operating cost structure, 2003



Operating cost structure, 2003

(USc/RTK)



Non-operating income (loss)

Interest expenses dropped nearly three-fold in 2003 following a decrease in interest payable on finance lease due to the reduction of aircraft listed under finance lease. Also contributing to the decrease in expenses was a reduction in borrowings and works performed to diversify the loan portfolio by signing agreements with banks on granting revolving credit lines and lending at floating interest rates.

Other non-operating income items rose by USD 39.1 million owing to a contraction in losses from disposal of fixed assets in 2003 and write-off of accounts payable which were not claimed by creditors and which were no longer due in terms of the Russian Civil Code.

Financial condition and cash flows

At year-end 2003 the company's cash flows totaled USD 53.5 million, which is USD 20.5 million more than at the end of 2002. Net cash flow from operating activities equaled USD 128.7 million, USD 32.1 million was allocated to investment programs and USD 76.8 million to financing activities.

The company's 2003 capital expenditures stood at USD 217.7 million, including USD 158.2 million to purchase four Airbus A-319s under finance lease and USD 59.5 million to implement other investment projects. The latter involves construction of the Sheremetyevo-3 terminal, several logistics facilities and reconstruction of obsolete buildings at the Sheremetyevo airport (airsheds, a gasoline filling station in the Aircraft Maintenance Center, etc.), upgrade of aircraft, acquisition of a Tupolev Tu-154M by Aeroflot-Don and a Flight Simulator Airbus A320 under finance lease, purchase and refurbishment of computers and office equipment, and purchase of equipment for the parent company's Medical center.

In 2003 Aeroflot raised most of its loans to finance working capital. The only exception was a loan obtained from Standard Bank in August 2003 amounting to USD 14.3 million which was used to finance the insurance premium (part of the loan was repaid during the year and the balance was USD 6.5 million at the end of 2003). In September 2003 the company prematurely redeemed bonds issued in 2002 since more lucrative financing terms were being offered by commercial banks. The overall balance of credits and loans was reduced due to sufficiency of the company's in-house funds during the reporting period.

In 2003 the company took measures to raise funds for the finance lease of four Airbus A-319s as part of the foreign fleet restructuring program. The total cost of the project exceeded USD 150 million. The loan was raised by a special purpose company, established by Aeroflot, and is listed on its balance sheet. Eighty five percent of the loan was granted by European commercial banks and secured by European Export Credit Agencies (ECA). The interest rate on the loan was below LIBOR+1%. Ten percent of the loan was raised as a subordinated credit from Airbus, while the rest (5%) was financed using Aeroflot's own resources.

Non-operating income (loss) (USD millions)

	2003	2002
Interest expense	(12)	(34.6)
Interest income	1.5	5.2
Share of income in associated undertakings	3.5	5.9
Foreign exchange and translation gain, net	8.5	6.6
Other non-operating income (loss), net	30.1	(9.0)
Total non-operating income (loss)	31.6	(25.9)

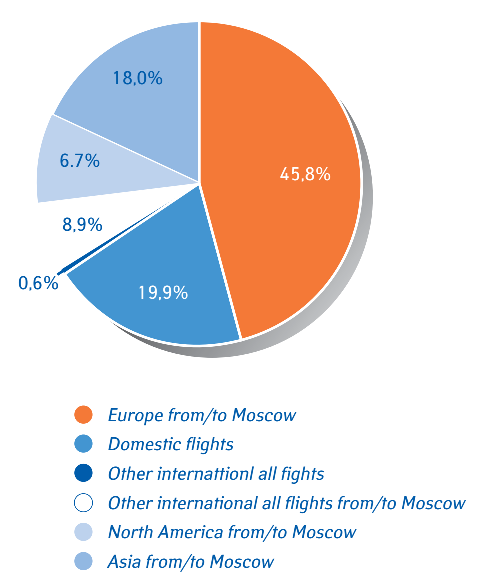
Cash flows (USD millions)

	2003	2002
Net cash provided by operating activities	128.7	160.0
Net cash (used in) provided by investing activities	(32.1)	128.7
Net cash used in financing activities	(76.8)	(276.6)
Change in cash and cash equivalents	19.8	12.1
Foreign exchange differences	0.7	(0.3)
Cash and cash equivalents at the end of the year	53.5	33.0

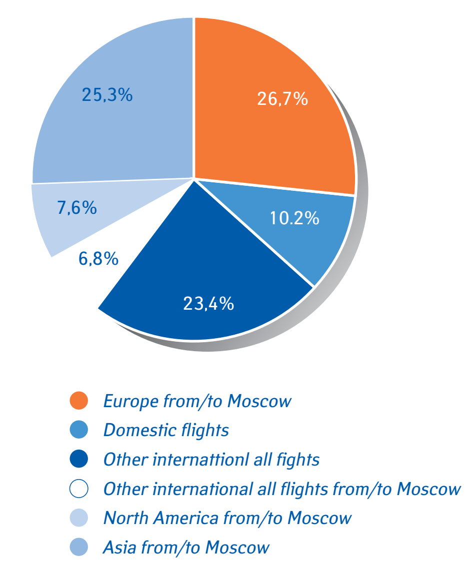
Short-term and long-term borrowings (USD millions)

	December 31, 2003	December 31, 2002
Short-term borrowings	–	–
Bonds payable in Russian rubles	–	28.5
Loans and credit lines in Russian rubles	0.9	14.2
Loans and credit lines in USD	71.5	67.0
Total short-term borrowings	72.4	109.7
Long-term borrowings	3.2	3.2

Scheduled passenger revenue by region, 2003



Scheduled cargo revenue by region, 2003



Segment information

Financial data (USD millions)

Years ended December 31,	2003	2002	%
Airline:			
External Sales	1,688.8	1,536.1	109.9
Inter-segment sales	3.5	5.5	63.6
Total operating revenue	1,692.3	1,541.6	109.8
Operating costs	1,569.2	1,390.0	112.9
Operating income	123.1	151.6	81.2
Catering:			
External Sales	13.3	14.0	95.0
Inter-segment sales	30.6	33.1	92.4
Total operating revenue	43.9	47.1	93.2
Operating costs	43.0	42.6	100.9
Operating income	0.9	4.5	20.0
Hotels:			
External Sales	11.1	10.2	108.8
Inter-segment sales	4.4	4.8	91.7
Total operating revenue	15.5	15.0	103.3
Operating costs	13.5	13.5	100.0
Operating income	2.0	1.5	133.3
Other Businesses:			
External Sales	2.8	2.7	103.7
Inter-segment sales	-	-	-
Total operating revenue	2.8	2.7	103.7
Operating costs	2.4	1.5	160.0
Operating income	0.4	1.2	33.3
Intercompany Eliminations:			
Inter-segment sales	(38.5)	(43.4)	88.7
Operating costs	(38.5)	(43.4)	88.7
Operating income	0.0	0.0	-
Consolidated:			
Operating revenue	1,716.0	1,563.0	109.8
Operating costs	1,589.6	1,404.2	113.2
Operating income	126.4	158.8	79.6

OJSC Aeroflot

Subsidiaries		Associates
OJSC Aeroflot-Don 51.0%	OJSC Insurance Company Moscow (Insurance services) 94.9%	CJSC Airport Moscow (Cargo handling) 50.0%
CJSC Aeromar 51.0%	CJSC Aeroflot's World (Travel agency) 99.9%	CJSC Aerofirst (Trading) 33.3%
CJSC Sherotel 100%	OJSC Terminal (Airport management) 100%	CJSC TZK (Fuel trading company) 31.0%
		LLC Aeroimp 25.0%

Airlines   Catering   Hotels   Others

Airline operations

Revenue in the key segment of activities – air transportation – rose by 9.8% to USD 1,692.3 million in 2003. Operating costs climbed 12.9% to USD 1,569.2 million. As a result, operating income decreased 18.8% to USD 123.1 million in 2003.

Passenger network

International traffic

In 2003 Aeroflot increased the frequency of (summer schedule) flights from Moscow to Munich, DЯsseldorf, Niece, Madrid, Barcelona, Athens, Oslo, Toronto, Beirut, Teheran, Bangkok, Hong Kong, Seoul and Yerevan. The company also launched a new flight, Moscow-Tashkent. The Moscow-Dnepropetrovsk flight was performed in partnership with Aeroflot-Don, while flights from Moscow to Amsterdam, Shannon, Dublin were flown jointly with Skynet airline. Several new flights were launched by air carrier Aeroflot-Don: in 2003 airline began to fly from Rostov-on-Don to Baku and Gyumri, while flights were resumed from Rostov-on-Don to Tashkent and Dusseldorf.

The company cut the number of flights from Moscow to Larnaka, cancelled flights from Moscow to Thessaloniki, Tunis, Singapore, Ho Chi Min City, Lisbon, Osaka and Amman. The war in Iraq and the SARS epidemic forced the company to adjust its flight schedule during March-June 2003. Consequently, flight frequency declined, but flights were not cancelled on a number of routes such as Beirut, Damascus, Beijing, Shanghai, Hong Kong and Toronto. Freed-up traffic capacity was provided for flights to Europe and Russia. As early as in July-August Aeroflot operated as usual with flights to the Middle East, China and Canada. As a result of measures taken the company managed to retain about 65% of the traffic on South-East Asian flights.

For international flights Aeroflot has signed code-sharing agreements with the following air carriers: Air France, LOT, Malev, Bulgaria Air, CSA, Singapore Airways, Uzbekistan Havo Yullari – as a marketing partner and an operating partner; with Tarom, Cubana, Air India, Iran Air – as an operating partner; with Austrian Airlines, Skynet, Slovak Airlines, Adria Airways, Royal Jordanian, Estonian Air – as a marketing partner. Code-sharing agreements were signed with Adria Airways and Bulgaria Air in 2003.

Domestic traffic

In 2003 Aeroflot increased the frequency of (summer schedule) flights from Moscow to Krasnodar and St. Petersburg. A new Moscow–Norilsk flight was launched. Flights from Moscow to Rostov-on-Don and also several flights from Moscow to Murmansk are currently performed jointly with Aeroflot-Don. In 2003 Aeroflot signed a code-sharing agreement with air carrier Arkhangelsk Airlines and now they are jointly carrying passengers on the Moscow-Arkhangelsk-Narian-Mar route.

Qualitative indicators

In 2003 Aeroflot improved the quality of its network. The parent company's average flight frequency reached 5.9 round-trip flights per week (against 5.2 flights in 2002). During the summer schedule average flight frequency was 7.0 round-trip flights per week (up from 6.1 flights in 2002). Including partner flights, average flight frequency totaled 7.8 round-trip flights per week (up from 6.7 flights in 2002).

The number of connections on the parent company's flights advanced 12.7% in 2003, while for Aeroflot's flights, including marketing flights, this indicator skyrock-

*Group's passenger data by regions**

Region	Passengers carried (thousands)		Revenue passenger kilometers (millions)		Available seat kilometers (millions)		Passenger load factor (%)	
	2003	2002	2003	2002	2003	2002	2003	2002
North America	291.5	288.0	2,520.7	2,478.3	3,630.9	3,539.2	69.4	70.0
Africa & Middle East	233.3	227.2	710.6	690.7	1,016.5	1,082.1	69.9	63.8
Asia	741.8	772.5	4,706.8	5,078.7	6,766.7	7,186.5	69.6	70.7
Europe	2,304.5	2,094.9	5,102.7	4,615.6	7,980.4	7,510.1	63.9	61.5
Russia	2,087.5	1,923.5	4,560.7	4,253.6	6,280.0	5,902.4	72.6	72.1
CIS & Baltia	600.5	520.3	1,015.9	838.0	1,399.7	1,138.0	72.6	73.6
Total	6,259.1	5,826.4	18,617.4	17,954.9	27,074.2	26,358.3	68.8	68.1

* on scheduled flights.

eted 49.8%. During the summer schedule the connectivity ratio for Aeroflot's own flights jumped 23% to 25.0 compared with the year-earlier period and for Aeroflot's flights, including marketing flights, it surged 37% to 29.3.

Regularity of scheduled passenger flights of the parent company climbed to 72.6% from the previous 62.0% in 2003. The same ratio for Aeroflot-Don jumped even higher to 75.6% from the previous 73.3%.

Product

In line with its passenger services enhancement program, Aeroflot continued to purse the new service concept. New services were offered to passengers on the flight from Moscow to New York and those from Moscow to Tokyo. The new services package provides for better inflight catering, menu-based services, a wide range of beverages, use of newly designed porcelain dishware and new service standards based on traditional Russian cordiality and hospitality. All flight attendants working on pilot routes completed psychological training to facilitate interaction with passengers and create a more pleasant atmosphere on board.

With the re-branding program under way, in 2003 Aeroflot changed the range of its corporate colors, began renewing the interior and exterior of aircraft, approved new uniforms for flight attendants and ground personnel. But the company left intact its corporate logo, which has a 70-year history and is widely known across the world. Aeroflot also kicked off a new image advertising campaign in December 2003.

The company has made a concerted effort to expand its Aeroflot Bonus frequent flyer program. In 2003 the company launched a new Aeroflot Bonus Junior program. Those participating in Aeroflot Bonus were given the opportunity to obtain information from their personal accounts through Internet and cellular phones. The overall number of participants in the program soared 38% to 243,000 in 2003. Flights effective under this program rose 40% to 512,000.

Sales

Measures aimed at increasing sales in 2003 involved gaining new customers and cutting costs. The company is rolling out its own sales network in order to better understand people's needs and offer just the right product. The 2003 corporate roster climbed to 247 from the prior of 180. Aeroflot is striving to improve the quality of services in ticket offices and expand the range of its services. One example of this in 2003 was a new service featuring delivery of air flight tickets to VIP clients.

In 2003 the company revised its commission calculation system used in the Russian Federation by lowering the minimum level of base commission fees and phasing in an incentive program for regional agents, which provides for an additional bonus. The transfer of some through-agent sales abroad to a more cost-effective distribution channel of BSP/ARC made it possible to reduce the average commission fee to 9.8% from 10.7%. Sales through neutral systems of BSP/ARC jumped from 38% to 43% in 2003. Aeroflot has plans to boost its sales through this channel and raise it to 60%.

photo © Airbus

Cargo traffic

The key cargo traffic markets for Aeroflot are South-East Asia and Europe. The company in 2003 launched new Hahn-Shanghai-Hahn cargo flights (4 times a week) and Oslo-Tokyo-Hong Kong-Hahn (once a week).

Aeroflot has also been successful in developing its regional cargo representative office in Hahn (Germany). Cooperating with commercial partners in many European countries (France, Germany, Italy, Austria, Denmark, etc.), Aeroflot's representative office provides sustainable loading for DS-10 flights from the Hahn airport with cargo from all parts of continental Europe. A cargo-highway-delivery system was fine-tuned and is now up and running, thereby facilitating delivery of goods brought by Aeroflot's aircraft to the Hahn airport to end consumers. The above system offers broad information support, making it possible to monitor shipments on a real-time basis.

In 2003 the company took measures to enhance its sales mechanism so as to ramp up cargo yields. The company combines tender-based sales terms, sells cargo capacity, offers free sales, and develops direct sales of cargo transportation services. For the purpose of sustaining permanent loading of cargo flights the company entered into several agreements with the world's largest shipping companies, including Schenker, Nippon Express, Pan Alpina, and Danzas.

Catering

In 2003 CJSC Aeromar prepared 8.1 million in-flight meals (up 4.3% on 2002) and serviced 46,505 flights (9.6% more than in 2002). Apart from Aeroflot Group, this entity provides catering services to 12 Russian and 38 foreign air carriers.

In 2003 revenues from catering services reached USD 43.9 million, or down 6.8% compared with 2002. Revenues dropped mainly due to a contraction in prices for food and services provided to Aeroflot Group air carriers. In 2003 the operating costs for catering services amounted to USD 43.0 million, i.e. 0.9% more than in 2002. Despite the reduction in management fees to LSC/Sky Chefs Group, operating costs took a slight jump on the back of rising scope of works performed and switch of prices by European suppliers to Euro from the US dollar. As a result, 2003 operating income totaled USD 0.9 million.

Hotel operations

In 2003 CJSC Sherotel raised the occupancy rate at Novotel-Sheremetyevo-2 to 93.74% from 92.38%, which is a record-high rate since the opening of the hotel. As for occupancy breakdown, 22.3% of hotel suits are occupied by Aeroflot crews, 25.9% by those from other air carriers, 10.9% by individuals, 10.8% by corporate clients, 8.5% by clients who booked rooms through travel agents, 7.5% by passengers in the event of some technical malfunction, 6.4% by people who came to the city to attend seminars, 5.1% by transit passengers and 2.5% by tourist groups. The occupancy rate in 2003 rose thanks to rising demand on the part of corporate clients due to launching of new projects in Russia by foreign companies, active cooperation between the company and agencies responsible for accommodation of tourists, as well as a growing flow of foreign tourists who came to Moscow to visit the 2003 Air Show and Japanese tourist in transit through Moscow.

Hotel service revenues rose 3.3% to USD 15.5 million in 2003. Rising revenues were secured by a jump both in the occupancy rate and the average room price, while operating costs in 2003 remained at the same level as in 2002. Operating income surged 33.3% to USD 2.0 million.

In order to enhance operating efficiency the following measures were taken in 2003:

> Consolidation of purchases and optimization of accommodation at the Novotel hotel chain in Russia.
> A contract was concluded with the Novotel-Center hotel in order to jointly train staff in Accor Novotel standards.
> Fidelio Front Office computer-aided system was implemented for reception and accommodation services, as well as Macros, a restaurant management system.
> In order to boost sales a new incentive program for corporate clients was framed and the Notovel Club of Smiles was launched.

Based on the results of the Moscow Region Governor prize contest, hotel Notovel-Sheremetyevo-2 was declared to be the best company in the tourist sector of the Moscow region in 2003.

Fleet

Foreign passenger fleet restructuring program

One of the ways for Aeroflot to improve the efficiency of its operations and quality of services has been a program to refurbish (restructure) the aircraft fleet.

The primary objective of the program is:

> to reduce the number of foreign aircraft types in operation from four to three without increasing the total number of foreign aircraft;
> to raise the operating, commercial and financial stability of the company;
> to cut aircraft servicing costs, lease and maintenance expenses.

The financial framework of the restructuring program is integrated and entails complicated phases of project and corporate financing, as well as lease schemes. Several national European export-credit agencies, commercial banks, lease companies and aircraft suppliers have taken part in the program. Thanks to its highly professional staff Aeroflot was able to avoid hiring well-paid financial consultants to structure and arrange financing of the above project..

Fleet structure in 2003

At the beginning of 2003 Aeroflot's fleet comprised 121 aircraft, including 89 owned and 32 leased. The parent company's aircraft fleet consisted of 104 airplanes, including 72 owned and 32 leased. Aeroflot-Don operated 17 aircraft, owned by the company.

During the year the parent company's fleet underwent the following changes:

> Nine Ilyushin Il-62s were sold, six Ilyushin Il-76s were written off or sold;
> Two Tupolev Tu-134s were returned to air carrier KomiInterAvia in connection with termination of the lease contract;
> Two Tupolev Tu-154Ms were provided by air carrier Aviaenergo on an operating lease basis;
> Four Boeing 737s and six Airbus _-310s were returned to lessors as part of the fleet restructuring project;
> Two McDonnell Douglas DC-10s (cargo) were obtained under operating lease ;
> A Boeing 767 was obtained under operating lease, four Airbus A-319s were obtained under finance lease, an Airbus A-319 was recorded under operating lease and four Airbus A-320s were listed on operating lease as part of the fleet restructuring project.

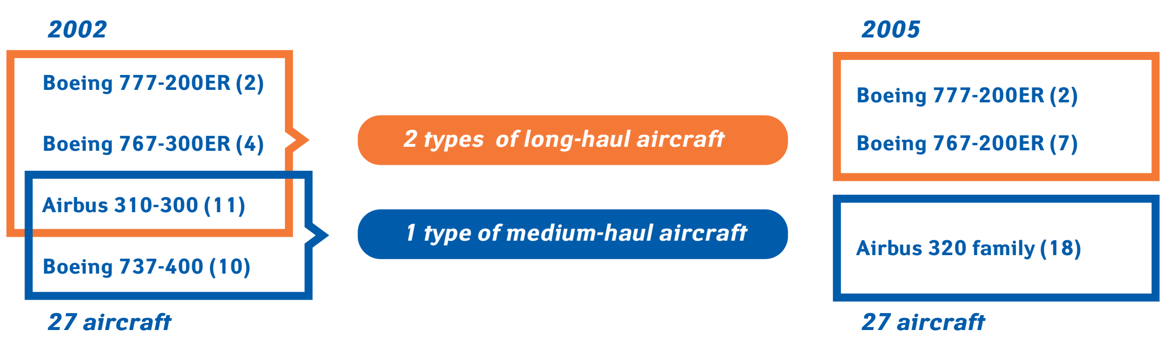
Aeroflot-Don's fleet underwent the following changes:

> One Tupolev Tu-154M was acquired;
> Two Tupolev Tu-154Bs were written off and scrapped;
> One Antonov An-12 was sold.

As a result of the above changes, the listed fleet was reduced by 15 aircraft. By year-end the fleet consisted of 106 aircraft, including 72 owned and 34 leased.

On some routes Aeroflot operated aircraft (Tupolev Tu-134, Tupolev Tu-214, Ilyushin Il-62 and Yakovlev Yak-40) owned by Rossiya, a state-owned transportation company, on a contractual basis.

Foreign fleet restructuring project



Fleet structure *

	2003 Owned	2003 Lease	2003 Total	2003 Change, y-o-y	2004 plan	2005 plan	2006 plan	2007 plan
OJSC Aeroflot								
Passenger aircraft								
Short-haul aircraft								
Tupolev Tu-134	12	1	13	-2	11	8	7	3
Medium-haul aircraft								
Tupolev Tu-154_	20		20		25	25	25	25
Ilyushin Il-86	14		14		11	8		
Boeing 737		6	6	-4				
Airbus A-310		5	5	-6	1			
Airbus A-321					3	3	3	3
Airbus A-320		4	4	+4	7	7	7	7
Airbus A-319		5	5	+5	8	8	8	8
Modern medium-haul aircraft*						3	18	24
Long-haul aircraft								
Ilyushin Il-96	6		6		6	7	12	12
Ilyushin Il-62	1		1	-9				
Boeing 777		2	2		2	2	2	2
Boeing 767		5	5	+1	6	7	7	7
Modern long-haul aircraft						3	5	6
Passenger aircraft total	53	28	81	-11	80	81	94	97
Cargo aircraft								
Ilyushin Il-76								
Mc Donnell Douglas DC-10		4	4	+2	4			
Modern cargo aircraft						4	4	6
Cargo aircraft total	4	4	8	-4	4	4	4	6
Aircraft total	57	32	89	-15	84	85	98	103
OJSC Aeroflot-Don								
Passenger aircraft								
Short-haul aircraft								
Tupolev Tu-134	4		4		2	1	1	1
Modern short-haul aircraft						2	3	3
Medium-haul aircraft								
Tupolev Tu-154_	9		9	-1	9	9	9	9
Modern medium-haul aircraft								
Passenger aircraft total	13		13	-1	11	12	13	13
Cargo aircraft								
Antonov An-12	2		2	-1				
Cargo aircraft total	4	4	8	-4	4	4	4	6
Aircraft total	57	32	89	-15	84	85	98	103
Group aircraft total	72	34	106	-15	95	97	111	116

* at end of the year

Fleet development plan

In 2004 most of the program to restructure the parent company's fleet will be completed. Due to rising demand for air transportation on European destinations Aeroflot adopted a decision to swap two Airbus A-319s and one Airbus A-320, previously expected to be received under the finance lease in the fourth quarter of 2004, for three Airbus A-321s. Thus, in 2004 the aircraft fleet will be upgraded by 10 airplanes: three Airbus A-319s under operating lease, two Airbus A-320s under operating lease, one Airbus A-320 under finance lease, three Airbus A-321s under finance lease and one Boeing 767 under operating lease. Consequently, four Airbus A-310s and all Boeing 737s will be removed from the fleet. The final phase of the project, which is slated for 2005, calls for receiving one Boeing 767 under operating lease and removing the last Airbus A-310 from the fleet.

In 2004 the parent company plans to purchase five Tupolev Tu-154s and return two Tupolev Tu-154s to air carrier Aviaenergo. By the year-end 2004 three Ilyushin Il-86s will be removed from the fleet and there are plans to write off and sell obsolete Ilyushin Il-76 airplanes. This year Aeroflot-Don intends to write off two Tupolev Tu-134s whose service life has expired and also write off and sell all Antonov An-12 cargo planes.

Projected growth on the Russia's civil aviation market points to the need to expand the passenger fleet of the Aeroflot Group. The parent company's need for airplanes will be around 100 by 2007, including roughly 30 additional airplanes. Under the fleet expansion program, in December 2003 OJSC Aeroflot and leasing company Ilyushin-Finance signed a contract to delivery six Ilyushin Il-96-300s. The airplanes will be delivered in 2005-2006. Moreover, the company needs up to six additional long-haul aircraft. It also needs 24 more medium-haul modern airplanes, including those which are needed to replace the Tupolev Tu-154s operating on the European market as a result of tightening noise requirements to be phased in as of 2006. Aeroflot-Don will need 13 airplanes by 2007, including three additional short-haul aircraft.

The development program for cargo aircraft calls for replacing McDonnell Douglas DC-10s with those of a greater tonnage (McDonnell Douglas MD-11) and increasing the cargo fleet to six airplanes by 2007.

Personnel

The Group's average head count totaled 17,423 in 2003, or 1.6% less than the same period in 2002. Major downsizing (242 employees) took place at OJSC Aeroflot, mainly due to the grounding of Ilyushin Il-62s and restructuring of the company's foreign aircraft fleet. The breakdown of staff involved in aviation activities is as follows: 11.6% of pilots and other cockpit personnel, 17.4% – flight attendants, 22.5% – ground handling staff, 21.6% – maintenance staff, 13.0% – sales and advertising staff and 13.9% – other employees.

Environmental activities

The company devotes special attention to environmental protection issues. Thorough monitoring and environmental measures are conducted by the company's Environmental Security Service. For the purpose of ensuring environmental security in the course of operation of aircraft, the company's environmental specialists verified and monitored compliance with statutory requirements, including:

> pollutant emissions from aircraft engines;
> level of noise produced by aircraft.

Average headcount

	2003	2002	%
Airline	15,854	16,049	98.8
including			
OJSC Aeroflot	14,714	14,956	98.4
OJSC Aeroflot-Don	1,140	1,093	104.3
Catering	1,120	1,170	95.7
Hotels	337	355	94.9
Others	112	132	84.7
Total	17,423	17,706	98.4

In conjunction with organizations holding special licenses, Aeroflot undertakes regular measures to inspect and adjust fuel systems to ascertain whether they are compliant with smoke specifications as well as carbon dioxide and hydrocarbon content of exhaust fumes. The company's environmental specialists work diligently to keep abreast of all major ecological rules and regulations.

Community efforts

The main concepts of Aeroflot's community outreach policy hinge on focused action, responsibility, balanced goals and opportunities, a democratic approach to decision-making and consistent implementation. In 2003 Aeroflot targeted the following social actions:

> implementation of a special-focus housing program to sponsor its employees in taking out loans with lending institutions which are partners of Aeroflot;
> implementation of non-state pension fund schemes;
> partial compensation of preschool expenses;
> arranging access to health resorts, therapy and recreation;
> arranging sporting events.

A sports palace was erected using the company's special-purpose funding (tax payments to the regional budget) in Lobnia, Moscow region, in October 2003.

The Kaliningrad-Shuttle project was a significant social project for Aeroflot in 2003. Socially-oriented tariffs were set for tickets on the Moscow-Kaliningrad flight with up to four scheduled departures every day. Low tariffs attracted a lot of passengers who traditionally use railroad services, thus raising the passenger load factor to 90%. The company's social commitment will be extended in 2004 and summer flights will head for Moscow more frequently.

The company also has sponsorship ties with the Chaikovsky Moscow State Conservatory. As of 2003 the best Russian musicians will be able to take advantage of Aeroflot's flight schedule to arrange their international and domestic tours.

Aeroflot is a traditional partner of the Olympic Committee of the Russian Federation and in 2004 the company will be the official carrier of the Russian Olympic team, official delegation and guests to the 28th Olympic Games in Athens.

Part of Aeroflot's 2003 community outreach was a special campaign called "Meeting Brothers in Arms", under which every World War II veteran or participant with Russian citizenship became eligible to take a free flight to cities in the Russian Federation, Europe, the CIS and the Baltic States, which are on the company's network. All in all, 3,541 veterans took part in the campaign. In 2003 Aeroflot set discount ticket prices for high school graduates from remote areas of Russia, who decided to enter Moscow-based higher education institutions. In association with the National Reserve Bank Aeroflot launched a campaign for Kaliningrad children under the title "Children of Russia Travel in Russia". On New Year's Eve 2004 Aeroflot has arranged four flights from Vladivostok, Irkutsk, Norilsk and Petropavlovsk to fly children from Russian orphanages and boarding schools, by invitation of the Russian President, to have fun at the All-Russian New Year's Tree celebration in the Kremlin.

Risk management

The air carrier's activities are impacted by various risk factors – both general commercial and industry-related. The main risks involve changes in aviation fuel prices, alteration of lease and interest rates, forex fluctuations and also credit risks. The need to prevent possible losses, as well as the company's growing responsibility to its shareholders made it imperative to devise and pursue a risk management policy that reflects the air carrier's risk management tools. The risk management policy is carried out in order to promptly identify, restrict and minimize risk impact on the company's operations and also to respond appropriately to risks which are identified.

Changes in aircraft fuel prices

Fuel consumption is one of the primary cost centers facing the company. During the reporting period aviation fuel costs accounted for 20.6% of the overall cost structure. Unfavorable changes in fuel prices can be mitigated by resorting to a variety of hedging instruments – contracts with a fixed strike price and listed derivatives.

Credit risk

The company launched its new credit risk management system in 2002. Credit risk is related to possible insolvency of sales agents. The risk is partially offset by bank guarantees and is partially considered to be unsecured. In order to reduce its credit risk the company elaborated special methods to assess the "reliability" of its agents. Making use of the above methods, the company assigns a credit rating to each agent, sets credit limits and further tracks funds collected by agents to minimize exposure.

Currency risk

The greater part of the company's revenue is generated in foreign currency since tariffs are mainly set in USD or euro, while most of the cost incurred are ruble-denominated. The currency risk is largely attributed to the discrepancy between the hard-currency revenue component and cash expenses denominated in the domestic currency, as well as the availability of net positions in USD or euro. As a result of legislative amendments, beginning in 2003 the company obtained the opportunity and intends to use the appropriate financial instruments to hedge its currency positions.

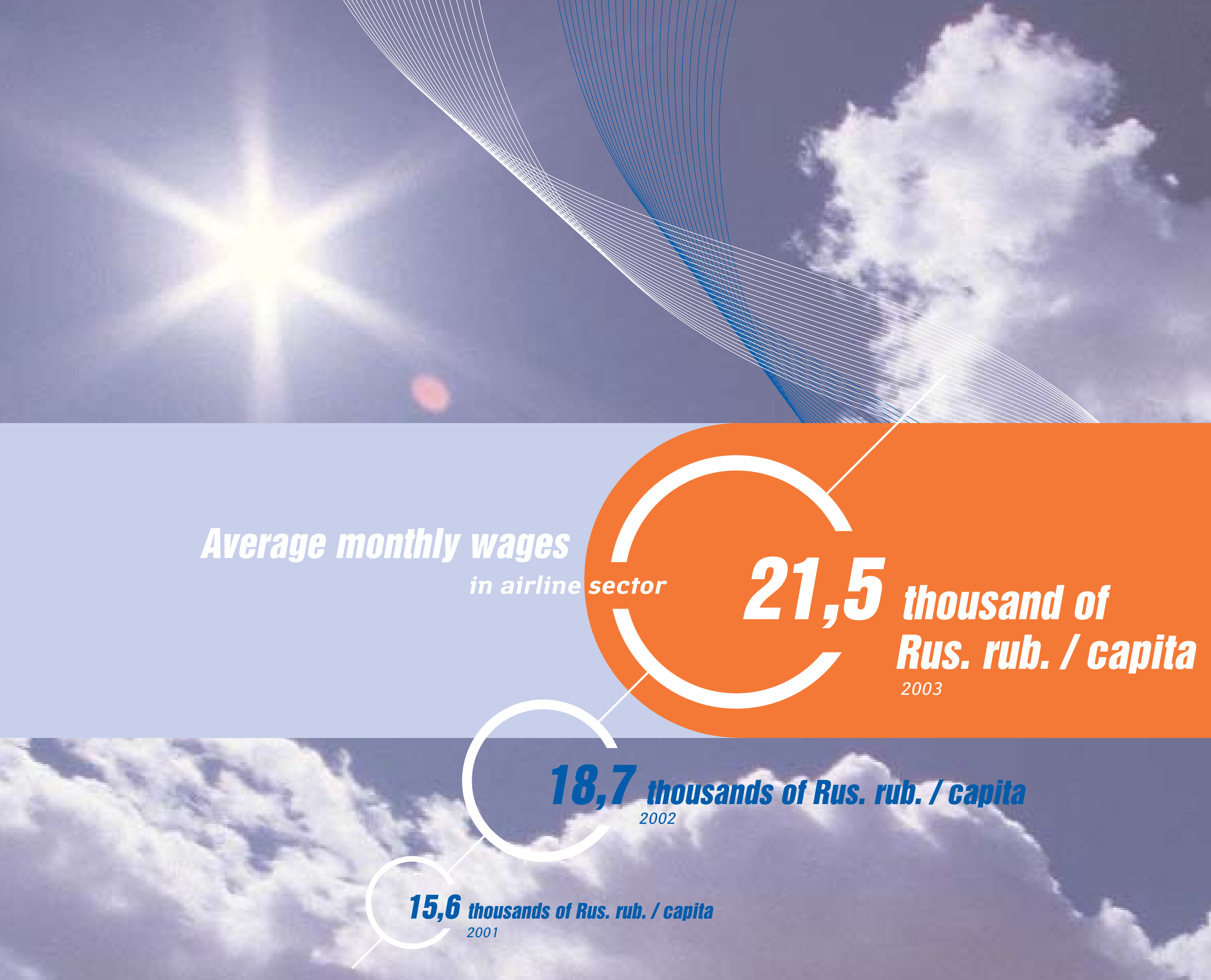
Interest rate risk

For the purpose of minimizing the risk of changes in interest rates the company resorts to short-term borrowings with fixed and floating interest rates. A diversified credit portfolio allows Aeroflot to mitigate the impact of negative debt market factors that could impair the company's financial results.

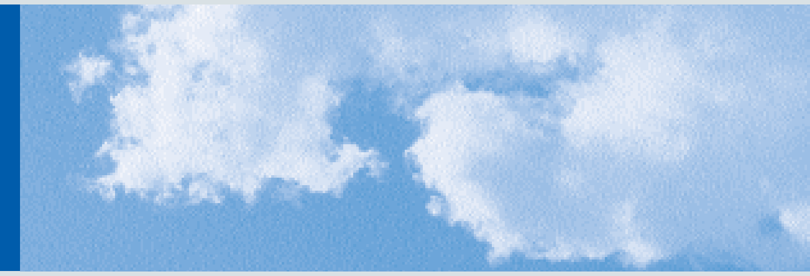
Other risks

Other possibilities of unfavorable influence on the company's financial results are associated with an upturn in prices for "infrastructure" services such as air navigation service, airport fees, etc.

Cost escalation can also occur due to rising prices for repair and operation of domestic aircraft which are approaching the end of their service lives. In order to minimize exposure to aircraft operation and maintenance costs the company is committed to a program to restructure and upgrade its aircraft fleet.



Consolidated financial statements



Consolidated financial statements

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, 2003, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated 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 financial position of the Group as of December 31, 2003, and the consolidated results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

May 17, 2004
except for Note 30 dated May 24, 2004

Consolidated income statement (USD millions)

Year ended December 31

	Notes	2003	2002
Traffic revenue	5	1,369.0	1,244.3
Other revenue	6	347.0	318.7
Revenue	**–**	**1,716.0**	**1,563.0**
Operating costs	7	(1,255.2)	(1,081.8)
Staff costs	8	(243.3)	(215.4)
Depreciation	–	(91.1)	(107.0)
Operating costs	**–**	**(1,589.6)**	**(1,404.2)**
Operating income	**–**	**126.4**	**158.8**
Interest expense	9	(12.0)	(34.6)
Interest income	–	1.5	5.2
Share of income in associated undertakings	–	3.5	5.9
Foreign exchange and translation gain, net	–	8.5	6.6
Non-operating income (loss), net	10	30.1	(9.0)
Income before taxation and minority interest	**–**	**158.0**	**132.9**
Taxation	11	(31.3)	(41.6)
Income after taxation	**–**	**126.7**	**91.3**
Minority interest	21	–	(2.0)
Net income	**–**	**126.7**	**89.3**
Earnings per share	**–**	**USD 0.114**	**USD 0.080**

Consolidated balance sheet (USD millions)

Year ended December 31

	Notes	2003	2002
Assets			
Current assets:			
Cash and cash equivalents	12	52.2	32.0
Short-term aircraft lease deposits	–	–	6.5
Short-term investments	–	4.5	6.8
Accounts receivable and prepayments, net	13	297.4	243.9
Inventories	14	44.4	31.2
		398.5	**320.4**
Deferred tax assets	**11**	**6.8**	**6.3**
Non-current assets:			
Long-term investments, net	15	33.4	27.7
Aircraft lease deposits	–	14.3	27.4
Other non-current assets	–	3.5	3.3
Prepayment for property, plant and equipment	26 (iii)	28.0	31.5
Property, plant and equipment, net	16	582.8	468.8
	–	**662.0**	**558.7**
Total assets	**–**	**1,067.3**	**885.4**
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities	17	298.7	276.0
Deferred revenue	–	69.7	54.9
Short-term borrowings	19	72.4	109.7
Current portion of finance leases payable	20	124.1	21.3
	–	**564.9**	**461.9**
Deferred tax liabilities	**11**	**18.2**	**36.5**
Non-current liabilities:			
Long-term borrowings	–	3.2	3.2
Finance leases payable	20	144.2	113.8
Non-current accounts payable and accrued liabilities	18	49.9	97.3
	–	**197.3**	**214.3**
Minority interest	21	5.7	7.9
Shareholders' equity:			
Share capital	22	51.6	51.6
Treasury stock	22	(0.5)	–
Translation reserve	–	0.3	–
Retained earnings	23	229.8	113.2
	–	281.2	164.8
Total liabilities and shareholders' equity		**1,067.3**	**885.4**

Consolidated statement of cash flows (USD millions)

Year ended December 31

	2003	2002
Operating activities:		
Income before taxation and minority interest	158.0	132.9
Adjustments to reconcile income before taxation and minority interest		
to net cash provided by operating activities:		
Depreciation of property, plant and equipment	91.1	107.0
Loss on disposal of property, plant and equipment	8.6	25.5
Increase in provisions and asset impairments	24.4	2.8
Decrease in accrued interest payable	(1.1)	(4.7)
Share of income in associated undertakings	(3.5)	(5.9)
Gain on remeasurement of available-for-sale investments to fair value	(5.8)	(6.5)
Operating profit before working capital changes	**271.7**	**251.1**
Increase in accounts receivable	(67.3)	(38.5)
Increase in inventories	(13.2)	(5.8)
(Decrease) increase in accounts payable and accrued liabilities	(3.0)	2.5
Income tax paid	(59.5)	(49.3)
Net cash provided by operating activities	**128.7**	**160.0**
Investing activities:		
Purchases of property, plant and equipment	(51.6)	(89.5)
Proceeds from sale of property, plant and equipment	4.6	218.3
Proceeds from aircraft lease deposits	6.5	–
Disposal (acquisition) of short-term investments, net	2.3	(1.7)
Disposal (acquisition) of long-term investments, net	1.7	(1.0)
Dividends received	4.4	2.6
Net cash (used in) provided by investing activities	**(32.1)**	**128.7**
Financing activities:		
Capital element of finance lease	(32.0)	(252.5)
Dividends paid	(7.5)	(2.8)
Repayment of borrowings, net	(37.3)	(21.3)
Net cash used in financing activities	**(76.8)**	**(276.6)**
Change in cash and cash equivalents	**19.8**	**12.1**
Cash and cash equivalents at the beginning of the year	33.0	21.2
Foreign exchange differences	0.7	(0.3)
Cash and cash equivalents at the end of the year	**53.5**	**33.0**

Supplemental cash flow information:		
Interest paid	(12.6)	(39.3)
Interest received	0.7	1.4

Note: included in Cash and cash equivalents as of December 31, 2003 and 2002 are USD 1.3 million and USD 1.0 million, respectively,of restricted cash held by the Company's representative offices abroad. The restrictions are because of specific local currency regulations. Restricted cash is classified as "Other non-current assets" in the accompanying consolidated balance sheet.

Consolidated statement of changes in shareholders' equity (USD millions)

	Share capital	Treasury stock	Translation reserve	Retained earnings	Total
At December 31, 2001:	**51.6**	**–**	**–**	**26.1**	**77.7**
Net income	–	–	–	89.3	89.3
Dividends (refer also to Note 23)	–	–	–	(2.2)	(2.2)
At December 31, 2002	**51.6**	**–**	**–**	**113.2**	**164.8**
Net income	–	–	–	126.7	126.7
Purchase of treasury stock	–	(0.5)	–	–	(0.5)
Foreign exchange differences	–	–	0.3	–	0.3
Dividends (refer also to Note 23)	–	–	–	(10.1)	(10.1)
At December 31, 2003	**51.6**	**(0.5)**	**0.3**	**229.8**	**281.2**

Notes to consolidated financial statements

1. Nature of business

Aeroflot - Russian Airlines (the "Company") was formed as an Open Joint Stock Company following a decree of the Government of the Russian Federation in 1992. The 1992 decree conferred all the rights and obligations of Aeroflot - Soviet Airlines and its structural units, excluding its operations in the Russian Federation 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 (collectively the "Group") also conduct activities comprising airline catering, the operation of a hotel, and provision of insurance services. Associated undertakings mainly comprise hotel and duty-free retail businesses.

At December 31, 2003 and 2002, 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 2003 was approximately 14.7 thousand (15.0 thousand in 2002).

The principal subsidiaries of the Group are:

Company name	Activity	Percentage held*
CJSC Sherotel	Hotel	100.0%
OJSC Terminal	Airport management	100.0%
CJSC Aeroflot's World	Travel agency	99.9%
OJSC Insurance company Moscow	Insurance services	94.9%
CJSC Aeromar	Catering	51.0%
CJSC Aeroflot-Don	Airline	51.0%

* at December 31, 2003

The principal associates of the Group are:

Company name	Activity	Percentage held*
CJSC Airport Moscow	Cargo handling	50.0%
CJSC Aerofirst	Trading	33.3%
CJSC TZK	Fuel trading company	31.0%
LLC Aeroimp	Hotel	25.0%

* at December 31, 2003

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, 2003:

Type of aircraft	Ownership	Aeroflot- Russian Airlines (number)	Aeroflot-Don (number)	Group total (number)
Ilyushin Il-96-300	Owned	6	–	6
Ilyushin Il-62M	Owned	1	–	1
Ilyushin Il-86	Owned	14	–	14
Ilyushin Il-76 TD (cargo)	Owned	4	–	4
Tupolev Tu-154	Owned	20	9	29
Tupolev Tu-134	Owned	12	4	16
Antonov An-12	Owned	–	2	2
Airbus A-310	Finance lease	4	–	4
Airbus A-319	Finance lease	4	–	4
Tupolev Tu-134	Operating lease	1	–	1
Tupolev Tu-154	Operating lease	2	–	2
Boeing 737-400	Operating lease	6	–	6
Airbus A-310	Operating lease	1	–	1
Airbus A-319	Operating lease	1	–	1
Airbus A-320	Operating lease	4	–	4
Boeing 767-36 NER	Operating lease	5	–	5
Boeing 777-2Q8	Operating lease	2	–	2
McDonnell Douglas DC10-40F	Operating lease	4	–	4
		91	15	106

Excluded in the table above are four Airbus A-310 and one Boeing 737-400, which were in the process of redelivery to the lessor as of December 31, 2003.

2. The Russian environment and economic conditions

Currency exchange and control

Foreign currencies, in particular the US Dollar ("USD"), play a significant role in the underlying economics of many business transactions in the Russian Federation. 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 2002 and 2003, the Russian ruble's value fluctuated between a low of 29.25 and a high of 31.88 to 1 USD. During 2003, the Russian ruble has appreciated against the US Dollar. As of May 17, 2004, the exchange rate is 29.07 Russian rubles to 1 USD.

The following table summarizes the exchange rates of the Russian ruble to 1 US Dollar for the years ended December 31, 2003, 2002 and 2001.

At December 31	Exchange rate
2003	29.45
2002	31.78
2001	30.14

The Group's principal currency exchange rate 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 and the ability to repay its foreign currency-denominated obligations (primarily aircraft finance lease obligations).

The Central Bank of the Russian Federation has established strict currency control regulations designed to promote the commercial utilization of the Russian ruble. These regulations place restrictions 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 rates of inflation for the past three years:

At December 31	Annual inflation
2003	12.0%
2002	15.1%
2001	18.8%

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

3. Liquidity and management plans

As of December 31, 2003 the Group had a working capital deficiency of USD 166.4 million, a deterioration of USD 24.9 million since December 31, 2002.

Several factors, unrelated to current operating activities of the Group, contributed to this deterioration:

\> As a part of its foreign fleet restructuring program (refer to Note 26) the Group agreed an early termination to occur in 2004 of four Airbus A-310 aircraft finance leases with no further obligation to pay any outstanding liability as of the redelivery dates. The remaining lease liability at the redelivery date will approximate USD 95 million. Accordingly, liability under those finance leases in the amount of USD 113.9 million is included in the current portion of finance leases payable;

\> Included in accounts payable is an amount of USD 17.1 million payable to a US based company arising from a court judgment against the Group in 2003 (refer also to Note 17 (ii)).

In order to implement a new corporate vision and strategy, the Group continues to reschedule its network. During 2003 several new routes, expected to be profitable, were opened, while unprofitable routes were closed. Flight frequencies were increased significantly, which resulted in improved breadth and depth of the Group's network. Aircraft utilization increased from 68.4% in 2002 to 69.4% in 2003.

In 2002 the Group commenced a restructuring of its foreign aircraft fleet, which has resulted in savings on lease expenses. The fleet will be eventually comprised of aircraft produced after 1999, which will decrease maintenance expenses. In terms of fleet restructuring program the Group replaced 10 foreign made aircraft and introduced a new family Airbus A-320 aircraft.

During 2003 the Group continued to expand code-sharing operations with other airlines. Route connections improved by 12.7% in 2003. In 2003 the overall passenger load factor rose to 69.4% (in 2002 – 68.4%). The Group is continuing its campaign to increase the proportion of passengers paying higher-class fares.

The Group's management has developed a cost-reduction program to reduce operating costs in 2004 and subsequent years. In particular, increased efficiency of fleet utilization is expected to result in a reduction of fuel consumption per passenger kilometer flown, which is a major component of the Group's operating expenses. In 2003 the Group took the following cost reduction measures: consolidation of fuel suppliers, an increase in its share of direct supplies, and utilization of geographic differences in fuel prices. In 2004 the Group has introduced a fuel hedging program. Management also believes that the Group has the ability to raise short-term financing, if necessary, to cover any short-term operating cash flow deficits 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.

All significant subsidiaries under the control of the Group are included in the consolidated financial statements. A listing of the Group's principal subsidiaries 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.

Measurement and presentation currency

The majority of the Company's revenues are denominated in US Dollars and settled in US Dollars or other foreign currency. 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 presentation currency of the Company. Transactions and balances not already measured in US Dollars have been remeasured to US Dollars in accordance with IAS 21 "The Effect of Changes in Foreign Exchange Rates" ("IAS 21").

Entities with measurement currency other than the measurement currency of the Company

Monetary and non-monetary assets and liabilities of entities with measurement currency other than US Dollar are translated at the closing exchange rate. Income statement items are translated at an average exchange rate for the year. Exchange differences arising on translation are charged to the translation reserve, included in shareholders' equity.

Consolidation

Subsidiaries, which comprise those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which effective control is obtained by the Group and are no longer consolidated from the date of disposal or loss of control. Where a partly owned subsidiary has a net asset deficiency, the deficiency is attributed to the Group in full and no amount is assigned to the minority interest, unless the minority owner had a legally enforceable obligation to contribute additional funds. All inter-company 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% and 50% 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 makes 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; provision for bad and doubtful accounts; calculation of revenue from other airline revenue agreements; contingent liabilities; 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.

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 Group are comprised of its aircraft fleet. Since the Group'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 a cost, or valuation, as described below, which does not exceed its estimated net realizable value. Depreciation is calculated in order to amortize the cost or valuation (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. The valuation was conducted by Airclaims, an international firm of aircraft appraisers. The Group has chosen not to revalue these assets subsequent to 1995. The 1995 revaluation reserve has been utilized to absorb the depreciation of revaluation adjustments made in 1995.

ii) Finance leased aircraft and engines - Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The Group 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 the 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 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 the historic cost, while salvage value for Russian aircraft is zero. Engines are depreciated on a straight-line basis to the end of the useful life of the related type of aircraft. Operating lives for the Russian fleet range from 11 to 25 years; for the foreign fleet 16 to 20 years. These lives are reviewed periodically.

b) Land and buildings, plant and equipment and other assets under construction

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

Impairment of assets

At each balance sheet date an assessment is made as to whether there is any indication that the Group's assets may be impaired. If any such indication exists, an assessment is made to establish whether the recoverable amount of the assets has declined below the carrying amount of those assets as disclosed in the financial statements. When such a decline has occurred, the carrying amount of the assets is reduced to the recoverable amount. The amount of any such reduction is recognized immediately as an expense in the 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. A part of these deposits is interest-free. Interest-free deposits have been recorded at amortized cost using average market yield of 5.9%.

Operating leases

Payments under operating leases are charged to the income statement in equal annual amounts 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 Group, are classified as available-for-sale.

The Group had no securities classified as trading securities or held-to-maturity as of December 31, 2003 and 2002. Available-for-sale investments are stated at market value and is 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 income statement.

Inventories

Inventories are valued at cost as determined by the "first-in first-out" method 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.

a) Credit risks

The sale of passenger and freight transportation is largely processed through agencies which are normally linked to country-specific clearing systems for the settlement of passage and freight sales. Individual agents operating outside of the Russian Federation are checked by clearing centers. 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 clearing house of the International Air Transport Association (IATA).

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

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

d) Interest rate risk

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

Foreign currency translation

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

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.

Income tax

The income tax rate for industrial enterprises in the Russian Federation in 2003 and 2002 was 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"). 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, 2003 and 2002 deferred tax assets and liabilities have been measured based on a tax rate of 24%.

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 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 made by 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 upon its retirement. 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 2003) 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 additionally made to the Government's social and medical insurance and retirement benefit plans at the statutory rates in force during the year. The costs of these benefits are charged to the income statement 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 the ticket is 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 Group records an estimated liability for the incremental cost associated with providing free transportation under the Aeroflot Bonus program (see also Note 17) when a free travel award is earned. No liability is established for points awarded to a customer who has not reached an award level due to the lack of history in predicting ultimate awards granted. Principal incremental costs include aircraft fuel costs, third-party passenger services (such as catering services) and airport charges. 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 Group are based on the amounts available for distribution in accordance with the 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 diluted common stock equivalents.

Borrowing costs

Borrowing costs are expensed as incurred, unless relating to loans which fund capital projects. 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 material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Subsequent events

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

Contingencies

Contingent liabilities are not 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

	2003	2002
By sector	USD millions	USD millions
Scheduled flights:		
Passengers	1,228.9	1,092.9
Cargo	97.6	97.8
Charter flights:		
Passengers	12.9	27.6
Cargo	29.6	26.0
	1,369.0	**1,244.3**

6. Other revenue

	2003	2002
By sector	USD millions	USD millions
Airline revenue agreements	272.7	259.4
Ground handling and maintenance	16.1	13.2
Catering services	13.3	14.0
Hotel revenue	11.1	10.2
Refueling services	14.0	12.1
Other revenue	19.8	9.8
	347.0	318.7

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

Included in other revenue for 2003 and 2002 is revenue from management services provided by the Group to its associate CJSC Aerofirst in the amount of USD 3.6 million and USD 2.5 million, respectively.

7. Operating costs

	2003	2002
	USD millions	USD millions
Aircraft fuel	327.8	274.7
Aircraft and traffic servicing	294.0	244.8
Maintenance	162.4	109.7
Sales and marketing (i)	111.0	103.2
Operating lease expenses	133.0	104.2
Administration and general expenses	71.9	69.5
Operating taxes	20.1	30.6
Third-party passenger services	34.8	32.5
Communication expenses	39.2	35.3
Taxes refunded under court decision (ii)	(11.5)	–
Reversal of provision for tax penalties	(12.2)	–
Recovery of receivables previously provided for	(4.9)	–
(Decrease) increase in provision for bad and doubtful receivables	(0.2)	6.2
Fines and penalties (iii)	1.5	16.4
Increase (decrease) in contingency provisions	14.7	(0.3)
Other expenses	73.6	55.0
	1,255.2	**1,081.8**

i) Sales and marketing expenses include incremental costs associated with provision of free transportation under the frequent flyer Aeroflot Bonus program, related to free travel awards earned during the year. These costs amounted to USD 2.5 million in 2003 and USD 1.7 million in 2002.

ii) Taxes refunded under court decision for 2003 comprise wholly of a road users tax refund for 1998.

iii) In 2002 fines and penalties arose because of the early termination of the finance leases of ten Boeing B-737's (refer also to Notes 10 and 26).

8. Staff costs

	2003	2002
	USD millions	USD millions
Wages and salaries	199.3	168.3
Social security costs	12.2	10.7
Pension costs	31.8	36.4
	243.3	**215.4**

The Group continued its participation in a non-government pension fund to provide additional pensions to some of its employees upon their retirement. The pension fund requires contributions from both employees and the Group, and is a defined contribution scheme for the employer. In 2003 and 2002 the Group made pension contributions to the fund amounting to USD 0.1 million for each year.

Furthermore, the Group makes payments, on their 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 scheme. As of December 31, 2003 and 2002 an accrual of USD 11.5 million and USD 8.2 million, respectively, representing the net present value of the future benefits the Group expects to pay, has been included in wages and social contributions payable in the amount of USD 1.1 million and USD 1.0 million (current portion), respectively, and in non-current accounts payable and accrued liabilities in the amount of USD 10.4 million and USD 7.2 million (long-term portion), respectively.

9. Interest expense

	2003	2002
	USD millions	USD millions
Finance leases	3.4	20.1
Short-term bonds	3.1	5.3
Short-term and long-term borrowings	5.5	9.2
	12.0	**34.6**

10. Non-operating income (loss), net

	2003	2002
	USD millions	USD millions
Loss on disposal of property, plant and equipment, net (i)	(8.6)	(25.5)
Dividend income	0.8	0.7
Gain from disposal of short-term investments, net	0.3	1.4
Gain from disposal of long-term investments, net (ii)	2.8	1.0
Gain on remeasurement of available-for-sale securities to fair value (iii)	5.8	6.5
Reversal of payables no longer due (iv)	41.1	–
Provision for non-recovery of aircraft lease deposits	(13.9)	(0.9)
Fines and penalties received	2.1	1.4
(Increase) release of provision for long-term investments	(0.5)	1.8
Other income and expenses, net	0.2	4.6
	30.1	**(9.0)**

i) In 2002 the Group restructured finance leases on ten Boeing 737-400 aircraft into operating leases (refer also to Note 26). In 2002 loss on disposal of these aircraft comprised USD 29.7 million and is shown net of USD 12.1 million related amortization on security lease deposits.

ii) Included in gain from disposal of long-term investments for 2003 is a gain on option redemption in the amount of USD 2.4 million. Being a shareholder of France Telecom in March 2003 the Group received call option on purchase of its shares at EUR 14.5 per share with exchange right 20 options for 19 shares. The Group declined to purchase those shares and in April 2003 the options were redeemed by France Telecom for EUR 2.2 million.
Included in gain from disposal of long-term investments for 2002 is the cost of depository certificates representing an economic interest in Class A shares in Equant N. V., a subsidiary of SITA (Societe Internationale de Telecommunications Aeronautiques) (refer also to Note 15).

iii) Included in gain on remeasurement of available-for-sale securities for 2003 and 2002 is the difference between purchase price and market value of France Telecom shares as of December 31, 2003 and 2002, respectively (refer also to Note 15).

iv) In 2003, the Group wrote off an unclaimed payable to a Russian creditor of USD 41.1 million which was no longer due in terms of the Russian Civil Code. Those payables originate prior to 1999. The Russian creditor was subject to liquidation proceedings in 2000 and although another entity was established to perform the functions of the liquidated entity it has never claimed those payables (refer also to Note 17).z

11. Taxation

	2003	2002
	USD millions	USD millions
Current income tax charge	(49.0)	(42.9)
Deferred income tax benefit	18.8	2.8
Share of income taxes of associated companies	(1.1)	(1.5)
	(31.3)	**(41.6)**

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

	2003	2002
	USD millions	USD millions
Income before taxation and minority interest	**158.0**	**132.9**
Theoretical tax at statutory rate of 24%	(37.9)	(31.9)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible foreign exchange losses	–	(0.2)
Non-deductible expenses	(18.1)	(13.0)
Non-taxable income	20.4	4.2
Other permanent differences	4.3	(0.7)
Taxation	**(31.3)**	**(41.6)**

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 rates of 24% for the years ended December 31, 2003 and 2002.

	December 31, 2003	Movement for year	December 31, 2002	Movement for year	December 31, 2001
	USD millions	USD millions	USD millions	USD millions	USD millions
Tax effects of temporary differences:					
Property, plant and equipment	2.1	1.6	0.5	0.7	(0.2)
Borrowings	4.7	(1.1)	5.8	0.2	5.6
Deferred tax assets	**6.8**	**–**	**6.3**	**–**	**5.4**
Property, plant and equipment	(27.7)	8.0	(35.7)	2.8	(38.5)
Long-term investments	(13.9)	3.7	(17.6)	(4.8)	(12.8)
Accounts receivable	(2.5)	(0.1)	(2.4)	7.4	(9.8)
Accounts payable	25.9	6.7	19.2	(3.5)	22.7
Deferred tax liabilities	**(18.2)**	**–**	**(36.5)**	**–**	**(38.4)**
Movement for the year	**–**	**18.8**	**–**	**2.8**	**–**

In 2003, the exchange rate of the Russian ruble to 1 US dollar decreased by 7%. This decrease in exchange rate resulted in an increase of tax base of assets and liabilities and, therefore, in the decrease of the difference between the carrying value of the assets and liabilities recorded in the consolidated balance sheet as of December 31, 2003 and their tax base. Accordingly, deferred tax liability as of December 31, 2003 decreased.

In 2003, the Group revalued certain long-term investments at fair-value for tax purposes. This revaluation resulted in an increase of tax base of investments being revalued and, therefore, in the decrease of the difference between the carrying values of the assets recorded in the consolidated balance sheet as of December 31, 2003 and their tax base. Accordingly, deferred tax liability as of December 31, 2003 decreased. The tax effect of change in tax base of investments amounted to USD 3.1 million.

In 2003, the Group disposed of certain property, plant and equipment which resulted in a decrease in the difference between the carrying value of the assets and liabilities recorded in the consolidated balance sheet as of December 31, 2003 and their tax base. Accordingly, deferred tax liability as of December 31, 2003 decreased. The tax effect of disposal of property, plant and equipment amounted to USD 2.8 million.

12. Cash and cash equivalents

	December 31, 2003	December 31, 2002
	USD millions	USD millions
Ruble denominated bank accounts	12.8	9.5
Bank accounts in other currency	35.0	19.7
Cash equivalents	4.4	2.8
	52.2	**32.0**

Included in other non-current assets as of December 31, 2003 and 2002 is approximately USD 1.3 million and USD 1.0 million, respectively, of restricted cash, held by the Group's representative offices abroad. The restrictions are because of specific local currency regulations.

13. Accounts receivable and prepayments, net

	December 31, 2003	December 31, 2002
	USD millions	USD millions
Trade receivables	181.2	174.6
Prepayments and accrued income	47.1	34.3
Other receivables	5.1	13.1
Provision for bad and doubtful accounts	(33.9)	(48.9)
	199.5	**173.1**
VAT and other taxes recoverable	97.9	70.8
	297.4	**243.9**

Included in other non-current assets as of December 31, 2003 and 2002 is approximately USD 1.3 million and USD 1.0 million, respectively, of restricted cash, held by the Group's representative offices abroad. The restrictions are because of specific local currency regulations.

14. Inventories

	December 31, 2003	December 31, 2002
	USD millions	USD millions
Spare parts	19.3	13.5
Fuel	8.9	4.4
Other inventory	16.2	13.3
	44.4	31.2

Included in other non-current assets as of December 31, 2003 and 2002 is approximately USD 1.3 million and USD 1.0 million, respectively, of restricted cash, held by the Group's representative offices abroad. The restrictions are because of specific local currency regulations.

15. Long-term investments, net

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

	Associates' equity	Othere quity	Other	Total
	USD millions	USD millions	USD millions	USD millions
January 1, 2002	**13.2**	**2.8**	**2.3**	**18.3**
Additions	–	0.8	8.3	9.1
Share of undistributed income	4.5	–	–	4.5
Dividends received	(2.0)	–	–	(2.0)
Disposals	–	–	(2.2)	(2.2)
December 31, 2002	**15.7**	**3.6**	**8.4**	**27.7**
Additions	–	0.6	6.9	7.5
Share of undistributed income	2.4	–	–	2.4
Dividends received	(3.7)	–	–	(3.7)
Disposals	–	(0.5)	–	(0.5)
December 31, 2003	**14.4**	**3.7**	**15.3**	**33.4**

In 2001, SITA was reorganized by merging with France Telecom. Reorganization provided for an exchange of shares in SITA and its subsidiaries for shares in France Telecom. Under this reorganization, the depository certificates of Equant N.V. were exchanged for 511,992 shares in France Telecom. The Group reflects its investments in France Telecom at market value in the consolidated balance sheet. Refer also to Note 10.

In 2003 the Group created a wholly owned subsidiary OJSC Terminal.

16. Property, plant and equipment, net

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Plant, equipment and other	Assets under construction (i)	Total
Cost or valuation						
December 31, 2001	505.8	640.1	160.2	182.7	27.2	1,516.0
Additions	12.6	–	–	1.3	16.5	30.4
Capitalized overhaul costs	12.5	17.5	–	–	–	30.0
Transfers	–	–	6.0	8.9	(14.9)	-
Disposals (ii)	(27.4)	(328.1)	(5.2)	(14.3)	–	(375.0)
December 31, 2002	503.5	329.5	161.0	178.6	28.8	1,201.4
Foreign currency translation	–	–	–	1.5	–	1.5
Additions (iii)	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
Depreciation						
December 31, 2001	(345.2)	(254.8)	(41.5)	(105.7)	-	(747.2)
Charge for the year	(46.0)	(33.8)	(6.7)	(20.5)	-	(107.0)
Disposals (ii)	24.6	81.8	1.2	14.0	-	121.6
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)
Net book amount						
December 31, 2003	**113.3**	**259.6**	**116.1**	**57.4**	**36.4**	**582.8**
December 31, 2002	**136.9**	**122.7**	**114.0**	**66.4**	**28.8**	**468.8**

As of December 31, 2003 and 2002 fixed assets, principally Russian aircraft and engines, with a net book value of USD 10.5 million and USD 11.4 million, respectively, were pledged as collateral under short-term loan agreements (refer also to Note 19).

i) Assets under construction include capital expenditures made by the Group on the construction of new Sheremetyevo-3 terminal. Capital expenditures as of December 31, 2003 and 2002 amount to USD 15.9 million and USD 13.2 million, respectively, and mainly relate to construction-site preparation work. Capital expenditures related to the project in 2003 and 2002 amounted to USD 2.7 million and USD 2.9 million, respectively.

ii) In 2002 the Group sold ten Boeing 737-400 aircraft, which were subject to finance leases (refer also to Notes 10 and 26).

iii) In 2003 the Group acquired four Airbus A-319's and a Flight Simulator (A-320) under finance leases (refer also to Note 20 and 26).

17. Accounts payable and accrued liabilities

	December 31, 2003	December 31, 2002
	USD millions	USD millions
Trade payables and accruals (i), (ii)	175.7	164.9
Wages and social contributions payable	31.5	22.0
Profit and other taxes payable	26.9	48.0
Other payables	18.4	6.3
Accrued expenses	15.7	15.1
Advances received	15.3	11.0
Frequent flyer program liability (iii)	7.0	6.3
Merchandise credits (iv)	5.0	-
Dividends payable	2.9	0.3
Notes payable	0.3	2.1
	298.7	276.0

i) As of December 31, 2002 the Group had payables to a Russian creditor in an amount of USD 56.1 million. This creditor was subject to liquidation proceedings in 2000. Another entity was established to perform the functions of the liquidated entity, but its successor was not determined. Part of the amount previously payable to the liquidated entity was claimed by the new entity and the relevant agreements with respect to the assignment of the debt entered into.
In 2003, the Group wrote off an unclaimed portion of this debt amounting to USD 41.1 million which was no longer due in terms of the Russian Civil Code (refer also to Note 10).
As of December 31, 2003, management has included accounts payables to the newly-established entity of USD 5.4 million in current trade payables and accruals, and the remaining portion of payables, amounting to USD 4.1 million, in non-current accounts payable and accrued liabilities.

ii) Included in trade accounts payable as of December 31, 2003 is an amount of USD 17.1 million payable to a US based company arising from a court judgment against the Group in 2003. As of December 31, 2002 those payables have been included as a provision in non-current accounts payable.

iii) The Group introduced the Aeroflot Bonus frequent flyer program in 1999. As of December 31, 2003 and 2002 approximately 243 thousand and 177 thousand passengers, respectively, participated in the program. Frequent flyer program liability as of December 31, 2003 and 2002 represents incremental costs, which are included in sales and marketing expenses, associated with providing free transportation under Aeroflot Bonus.

iv) Merchandise credits as of December 31, 2003 represents deferred discounts given by the lessor for entering into new leases under the fleet restructuring program which are dependent on the completion on the restructuring program (refer also to Note 26).

18. Non-current accounts payable and accrued liabilities

	December 31, 2003	December 31, 2002
	USD millions	USD millions
Provisions	29.5	31.7
Non-current accounts payable and accrued liabilities	20.4	65.6
	49.9	97.3

Included in non-current accounts payable and accrued liabilities as of December 31, 2003 and 2002 is the long-term portion of a payable to a Russian creditor in the amount of USD 4.1 and USD 50.6 million, respectively, as described in Note 17 to the consolidated financial statements.

19. Short-term borrowings

	December 31, 2003	December 31, 2002
	USD millions	USD millions
Bonds payable in Russian rubles (i)	–	28.5
Loans and credit lines in USD		
Syndicated loan organized by Donau Bank AG, Citibank (Moscow) and Bank of Foreign Trade (ii)	60.0	–
Standard Bank London (Moscow) (iii)	6.5	–
HSBC (iv)	5.0	–
Moscow Narodny Bank Ltd. (v)	–	40.0
CB Mosnarbank (v)	–	10.0
Savings Bank of the Russian Federation (vi)	–	17.0
Loans and credit lines in Russian rubles		
Savings Bank of the Russian Federation (vii)	–	10.9
Other	0.9	3.3
	72.4	**109.7**

i) In March 2002 the Company issued 1,000,000 bonds at a par value of 1,000 Russian rubles per bond, with maturity of 728 days. The bonds are traded on the Moscow Interbank Currency Exchange. The Bonds' effective interest in 2003 was 15.8% per annum. Interest is payable semi-annually. Bonds were redeemed in September 2003 before their maturity date.

ii) This syndicated loan matures in October 2004 and bears interest of LIBOR + 3% per annum. It was obtained by the Group to finance current activities and is secured by cash receipts that pass through IATA Clearing House. The effective interest rate for 2003 was 4.15% per annum.

iii) The loan granted by Standard Bank London (Moscow) bears interest of 1.87% per annum. The loan was obtained by the Group to finance the payment of its annual insurance premium.

iv) The loan received from HSBC matures in September 2004 and bears interest of LIBOR + 3.25% per annum. The effective interest rate for 2003 was 4.68% per annum.

v) The balance as of December 31, 2002 comprised of a credit line and two loans. The credit line amounting to USD 40 million bore interest of LIBOR + 4.25% per annum and the two loans amounting to USD 5 million each bore interest of 7.50% and 7.75% per annum, respectively. They were fully repaid in 2003 at maturity. The credit line effective rate for 2003 was 5.68% per annum.

vi) This amount represents a balance due under a revolving credit line with a limit of USD 27 million. The amount due is payable by June 2004, but was repaid before maturity in December 2003. The credit line bears interest at LIBOR + 4% per annum. The effective interest rate for 2003 was 5.20% per annum. Fixed assets with a net book value of USD 10.5 million are pledged as a collateral under this loan agreement.

vii) The balance as of December 31, 2002 consisted of one non-revolving secured credit line amounting to ruble equivalent of USD 8.4 million (with limit up to ruble equivalent of USD 18.4 million) and secured loan amounting to ruble equivalent of USD 2.5 million. Credit line and loan both bore interest at 17% per annum. Both credit line and loan have been repaid in January-March 2003 before maturity.

20. Finance lease payable

	December 31, 2003	December 31, 2002
	USD millions	USD millions
Total outstanding payments	289.9	143.1
Finance charge	(21.6)	(8.0)
Principal outstanding	**268.3**	**135.1**
Representing:		
Short-term lease payable	124.1	21.3
Long-term lease payable	144.2	113.8
Due for repayment (principal and finance charge):		
2003	–	25.6
2004	130.3	117.5
2005	13.2	–
2006	13.5	–
2007	13.8	–
2008	14.2	–
after 2008	104.9	–
	289.9	**143.1**

Interest unpaid as of December 31, 2003 and 2002 was approximately USD 0.7 million and USD 0.4 million, respectively, and has been included in accrued expenses. In 2003 and 2002 the effective interest rate on these leases approximated 2.8% per annum and 6% per annum, respectively.

In 2003 the Group obtained four Airbus A-319's and a flight simulator (A-320) under finance leases (refer also to Note 16 and 26).

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

21. Minority interest

	December 31, 2003	December 31, 2002
	USD millions	USD millions
Beginning balance	7.9	7.6
Foreign currency translation	0.2	–
Minority interest share of net income	–	2.0
Minority interest dividends	(2.4)	(1.7)
	5.7	**7.9**

Included in non-current accounts payable and accrued liabilities as of December 31, 2003 and 2002 is the long-term portion of a payable to a Russian creditor in the amount of USD 4.1 and USD 50.6 million, respectively, as described in Note 17 to the consolidated financial statements.

22. Share capital

	Number of shares authorized 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, 2002	1,110,616,299	–	1,110,616,299

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

In 2003, one of Group's subsidiaries purchased 10,000 of the Company's shares.

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 into GDR's, which trade over-the-counter on US and European markets. The swap ratio was established at 100 shares per GDR, and totaled 20% 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. The Company's GDR's were traded at approximately EUR 86 (or USD 102 at the exchange rate at that date) as of May 17, 2004.

23. Retained earnings

The distributable reserves of the Group comprise only the distributable reserves of the parent company. Furthermore, the statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit. For the years ended December 31, 2003 and 2002, the statutory profits of the Company, as reported in the published annual statutory financial statements, were 3,978 million of Russian rubles and 3,198 million of Russian rubles, respectively. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation, and accordingly management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

For the years ended December 31, 2002 the shareholders of the Company approved dividends totaling 322.1 million of Russian rubles (USD 10.1 million at a 2002 year-end exchange rate).

In accordance with IAS 10 "Events after the balance sheet date", dividends for 2003, which will be declared and approved subsequent to December 31, 2003, have not been accrued in the consolidated financial statements for the year ended December 31, 2003. They will be recorded in the consolidated statement of shareholders' equity for the year ending December 31, 2004.

24. Minority interest

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:

	December 31, 2003	December 31, 2002
	USD millions	USD millions
a) Scheduled passenger revenue		
International flights from Moscow to:		
Europe	280.7	229.2
Asia	106.9	106.0
North America	56.5	53.5
Other	40.8	38.6
International flights to Moscow from:		
Europe	282.4	227.3
Asia	114.0	112.2
North America	53.4	49.4
Other	41.7	39.7
Other international flights	7.6	20.1
Domestic flights	244.9	216.9
	1,228.9	**1,092.9**
b) Scheduled cargo revenue		
International flights from Moscow to:		
Europe	7.4	10.7
Asia	3.4	4.9
North America	3.6	5.9
Other	1.9	2.8
International flights to Moscow from:		
Europe	18.7	17.9
Asia	21.3	27.0
North America	3.8	3.9
Other	4.7	5.1
Other international flights	22.8	10.0
Domestic flights	10.0	9.6
	97.6	**97.8**

Reporting format – business segments

Year ended December 31, 2003	Airline	Catering	Hotels	Other	Eliminations	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	-	-	1.6	1.9	-	3.5
Foreign exchange and translation income, net	6.4	-	1.2	0.9	-	8.5
Non-operating (loss) income, net	30.1	-	0.3	(0.3)	-	30.1
Income (loss) before tax	**155.7**	**0.9**	**(1.8)**	**3.2**	**-**	**158.0**
Taxation	(30.4)	-	-	(0.9)	-	(31.3)
Income (loss) after tax	**125.3**	**0.9**	**(1.8)**	**2.3**	**-**	**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

Year ended December 31, 2002	Airline	Catering	Hotels	Other	Eliminations	Group
External sales	1,536.1	14.0	10.2	2.7	-	1,563.0
Inter-segment sales	5.5	33.1	4.8	-	(43.4)	-
Total revenue	**1,541.6**	**47.1**	**15.0**	**2.7**	**(43.4)**	**1,563.0**
Operating profit	151.6	4.5	1.5	1.2	-	158.8
Interest expense	(34.6)	-	(2.1)	-	2.1	(34.6)
Interest income	7.3	-	-	-	(2.1)	5.2
Share of income in associates	-	-	3.0	2.9	-	5.9
Foreign exchange and translation income (loss), net	8.2	(0.5)	(1.1)	-	-	6.6
Non-operating (loss) income, net	(9.2)	-	-	0.2	-	(9.0)
Income before tax	**123.3**	**4.0**	**1.3**	**4.3**	**-**	**132.9**
Taxation	(39.4)	(1.2)	0.9	(1.9)	-	(41.6)
Income after tax	**83.9**	**2.8**	**2.2**	**2.4**	**-**	**91.3**
Minority interest						(2.0)
Net income						**89.3**
Segment assets	809.7	11.9	37.8	20.0		879.4
Associates	-	-	5.1	0.9		6.0
Consolidated total assets						**885.4**
Segment liabilities	675.2	10.0	10.2	17.3		712.7
Capital expenditure	58.8	1.6	-	-		60.4
Depreciation	100.5	1.2	5.3	-		107.0

25. Commitments under operating leases

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

	December 31, 2003	December 31, 2002
	USD millions	USD millions
2003	-	114.2
2004	106.2	118.6
2005	100.8	111.1
2006	84.4	60.2
2007	60.4	60.2
2008	44.0	54.0
after 2008	169.0	190.9
Total minimum payments	**564.8**	**709.2**

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

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

In 2003 the Group renegotiated the base rent payable on certain aircraft operating leases as well as adjusting the delivery schedule for aircrafts under fleet restructuring program (refer also to Note 26). This resulted in changes to future minimum lease payments under non-cancelable operating leases as of December 31, 2003 as compared to those as of December 31, 2002.

26. Foreign passenger fleet restructuring

In 2002 the Group committed to a restructuring of its foreign passenger fleet during 2003-2004. The fleet restructuring program comprises the following steps:

i) In December 2002 the Group sold and leased back ten Boeing 737-400 aircraft. The sale and leaseback resulted in an eighteen-month operating lease. In 2003 three Boeing 737-400 aircraft were returned to the lessor in accordance with the restructuring schedule. The remaining 7 aircraft will be returned to the lessor in 2004.

ii) In December 2002 the Group committed to return in July-December 2004 four Airbus A-310 aircraft which are currently under finance lease. In January 2004 the Group decided to postpone the return of aircraft to last quarter of 2004.

iii) In November 2002 the Group committed to purchase six Airbus A-319 aircraft and two Airbus A-320 aircraft (including engines) in 2003-2004. The purchase price for each Airbus A-319 and Airbus A-320 aircraft (including engines) approximates USD 36.7 million and USD 40.7 million, respectively. In 2003 four Airbus A-319 have been delivered to the Group (refer also to Note 16 and 20). In January 2004 the Group decided to replace two Airbus A-319 and one Airbus A-320 with three Airbus A-321 with delivery in the second half of 2004. The purchase price for each Airbus A-321 (including engines) approximates USD 46.9 million. As of December 31, 2003 and 2002 the Group had a prepayment in the amount of USD 28.0 million and USD 31.5 million, respectively.

iv) In December 2002 the Group committed to enter into an operating lease in October-December 2003 for four Airbus A-320 aircraft, for a period of ten years. In 2003 those four aircraft were delivered to the Group.

v) In December 2002 the Group committed to enter into an operating lease in 2004 for six Airbus A-319/320 aircraft, for a period of ten years. In 2003 one Airbus A-319 aircraft was delivered to the Group. The remaining five aircraft will be delivered in 2004.

vi) In December 2002 the Group committed to enter into an operating lease in August 2003 for three Boeing 767-300 ER aircraft, for a period of six years. In 2003, in terms of this commitment one aircraft was delivered to the Group. A further aircraft, a Boeing 767-300 ER, will be delivered in 2004. The lessor has revealed the Group from its commitment to lease the remaining aircraft.

As a result of this restructuring, by the end of 2004 the foreign passenger fleet will consist of eighteen Airbus A-321/A-320/A-319 aircraft, eight Boeing 767/777 aircraft. The Group will also have purchase rights for up to twenty Airbus A-320/319 aircraft in 2005-2007

27. Other commitments

Purchase of Il-96 aircraft

In December 2003 the Group signed lease agreement with "Ilyushin Finance & Co", a related party, for six Il-96-300 aircraft. Aircraft delivery is scheduled for 2005-2007. The purchase price for each aircraft approximates USD 37 million.

Rent of land

In December 2003 the Government of Moscow issued an Order granting the Group the right to sign enter into a forty-nine year land lease agreement for a consideration of USD 1.0 million which has been paid in January 2004. The Group will lease the land in Khimki region for construction of office building in 2004-2005 and subsequent building exploitation.

28. 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, transactions could be challenged by the tax authorities 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 the Russian Federation, through its representative offices. Given the Group's significant foreign currency revenues and obligations, it is exposed to the risk of non-compliance with Russian currency control legislation. Management believes that the Group generally complies with the currency control regulations and that no contingency provisions are necessary in the consolidated financial statements.

Legal

i) Former members of the Company's management, and two Swiss non-bank financial companies that provided treasury and financial services to the Company, 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 former management of the Company. The Company is not named in the investigation. In management's opinion, the Company 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 is a defendant in a claim by the Russian 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, the cost of crashed aircraft ranges from USD 11.8 million to USD 15.3 million. Management have 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.

iii) The Group is a defendant in various other legal actions. The maximum extent of its exposure as of December 31, 2003 is approximately USD 2.3 million. Management have made their assessment of the likely outcome of the claims outstanding, and recorded a provision amounting to USD 1.5 million as of December 31, 2003.

iv) In 1997-1998 the Company was charged by the Federal Aviation Service (FAS) for aeronautical services at a 50% discount, as was agreed by the parties. In 2001 the legal successor of the FAS (GOVD) claimed the application by the FAS of a 50% discount in 1997-1998 to be void, as this contradicted Russian legislation, and invoiced the Company for 200 million of Russian rubles (approximately USD 6.8 million at 2003 year-end exchange rate) for underpaid amounts during 1997-1998 and interest accrued as of December 31, 2003. In the opinion of management, after taking appropriate legal advice, it is unlikely that any significant settlement will arise, and therefore no amount has been accrued in the consolidated financial statements.

v) Company's treatment of the reimbursement of incoming value added tax on export activities in relation to past practice has been challenged by the tax authorities. No final resolution has been reached between the parties. The maximum extent of the exposure as of December 31, 2003 is approximately 827.6 million of Russian rubles (approximately USD 28.1 million at 2003 year-end exchange rate). The Company has applied to the Court to defend its tax position. Management believes that it is not likely that tax authorities' arguments will be accepted by the Court and therefore no amount has been accrued in the consolidated financial statements.

29. Contingent asset

In 1998-2000 the Group paid road users tax at a rate of 2%. In 2000 the tax rate decreased to 1% effective April 1, 1998. The Group applied to the tax authorities for refund of road users tax paid 1998-2000. In 2003 the court obliged the tax authorities to reimburse the road users tax overpayment for 1998-2000. The tax authorities accepted refund of taxes overpayment for 1998 but due to change of tax inspectorate the reimbursement of taxes overpayment for 1999-2000 was not accepted. The maximum amount of the refund is approximately 652.7 million of Russian rubles (approximately USD 22.2 million at 2003 year-end exchange rate).

30. Subsequent events

Moscow Sheremetyevo Airport management

On January 28, 2004 OJSC Alfa-Sheremetyevo was awarded management rights of Moscow Sheremetyevo Airport. Currently, Sheremetyevo Airport is the main hub of the Group's operations. Changes in the operational management of the airport could impact the financial performance of the Group.

Joining SkyTeam

On May 24, 2004 the Company signed an agreement to join the SkyTeam global alliance within the next 12 months. This commitment imposes certain operational standards which will require the Company to upgrade and improve its infrastructure. Management believe the Company may also benefit from the global alliance.

31. Related party transactions

The consolidated financial statements of the Group include the following balances:

	December 31, 2003	December 31, 2002
	USD millions	USD millions
Amounts receivable from related parties	8.3	1.8
Amounts payable to related parties	4.1	1.2

The consolidated financial statements include the following transactions with related parties of the Group:

	December 31, 2003	December 31, 2002
	USD millions	USD millions
Sales to related parties	3.6	3.4
Purchases from related parties	47.4	41.5

Management believes that the pricing of the transactions with related parties was based on normal business conditions.

Information for shareholders and nvestors

Corporate governance system

In accordance with the Federal Law "On Joint Stock Companies", the general shareholders meeting is the company's highest governing body. It falls within the scope of the general shareholders meeting to elect the company's Board of Directors, Audit Commission and approve the auditor.

Board of Directors

> The Board of Directors of OJSC Aeroflot performs general management of the company's operations. The scope of powers held by the Board of Directors includes election of the General Director, determination of the number of Executive Board members, appointment of the Executive Board members and approval of candidates to act as deputy general directors upon submission by the General Director.

> The activities of the Board of Directors of OJSC Aeroflot are regulated by the Federal Law "On Joint Stock Companies", the Charter, the Regulation on the Board of Directors of OJSC Aeroflot and other internal documents.

> Based on a majority of votes cast by the total number of members of the Board of Directors the Board elects the Chairman of the Board of Directors or the relieved Chairman of the Board of Directors/the President. The Chairman of the Board of Directors organizes the work of the Board of Directors and chairs the general shareholders meeting.

> Eleven members of the Board of Directors are elected by the general shareholders meeting.

> Three committees operate under the Board of Directors, i.e. those in charge of strategy, audit, HR and compensation. Each committee, consisting of at least six members, is headed by a member of the Board of Directors. In performing their functions the committees are governed by the company's Charter, decisions by the Board of Directors and regulations of the respective committee. Members of the committees are appointed by the Board of Directors.

Executive bodies

> The company's day-to-day activities are managed by the General Director, the sole executive body, and the Executive Board, the panel of the executive body. The executive bodies are accountable to the Board of Directors and the general shareholders meeting.

> The General Director manages the company's day-to-day activities, appoints deputy general directors after their approval by the Board of Directors, distributes functions between them, determines their authority, and being the Chairman of the Executive Board manages its activities, convenes Executive Board meetings and sets the agenda of each meeting.

Internal Audit Service

> The Internal Audit Service was formed in accordance with Decision dated October 25, 1999 by the Board of Directors and Order #319 dated 4 November 1999 by the General Director.

> The Internal Audit Service monitors completeness, accuracy and timeliness of the accounting reports and operating documentation and information provided to the management and third parties. The internal audit service checks whether the company's divisions and employees observe the requirements of the Charter and other statutory documents.

> The Internal Audit Service acts in cooperation with the Board Committee in charge of audit and the company's Audit Commission. Interaction with external auditors is carried out under the Rules (standards) for auditing activities "Examination and Use of Internal Audit Data".

Audit Commission

The Audit Commission of OJSC Aeroflot is accountable to the general shareholders meeting of the company. The Audit Commission is elected by the general shareholders meeting. The Audit Commission is elected for a term until the next annual general shareholders meeting. Board members, Executive Board members, the General Director, and the Counting Board members may not be members of the Audit Commission.

> The Audit Commission monitors the company's financial and business activities. Special attention is devoted to ascertaining the reliability of accounting and financial reports and determining efficiency and compliance of business and financial operations with statutory acts of the Russian Federation, as well as decisions by the general shareholders meeting and the Board of Directors.

> The Audit Commission acts in cooperation with the management of OJSC Aeroflot, the Internal Audit Service, the Accounting Department and other units of the company.

> There are five members of the company's Audit Commission.

> The Audit Commission is accountable to and elected by the general shareholders meeting.

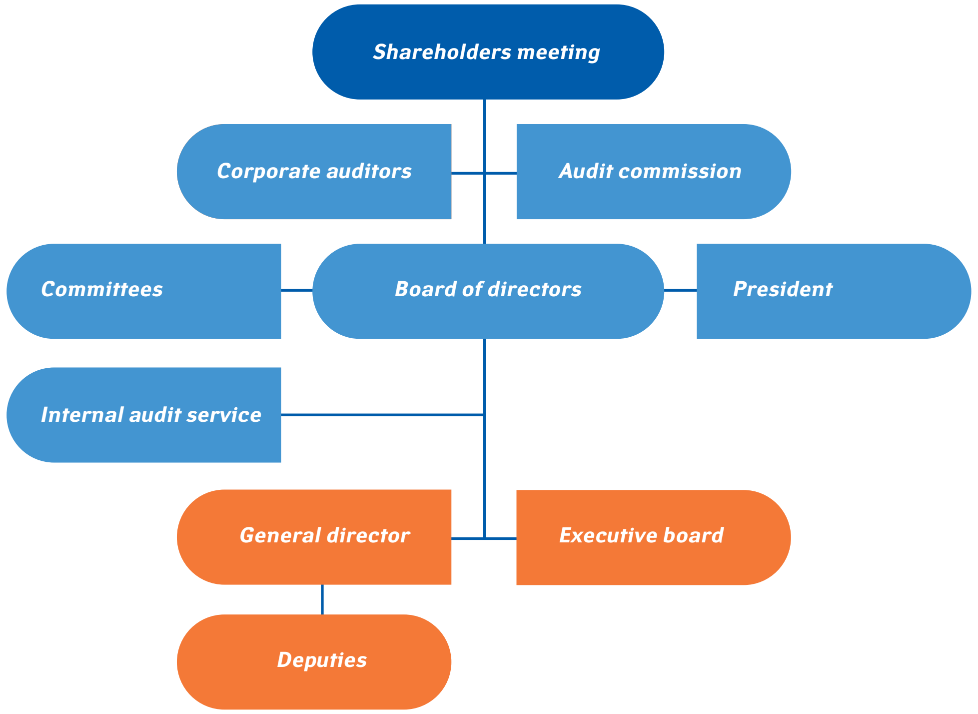
External auditors

Vneshaudit and Deloitte and Touche were approved as external auditors of OJSC Aeroflot in 2003.

Disclosure of information

Aeroflot fully complies with the regulations and standards for disclosure of information set by the Russian legislation, requirements of the Federal Commission for Securities Market and takes into account best world practice on disclosure of information.

In disclosing information on its operations Aeroflot is guided by the desire to ensure that all interested parties exercise equal and timely access to such information within the requirements of the laws and taking into account the need to safeguard the commercial secrets of Aeroflot.



The main ways in which information is disclosed on the operations of Aeroflot are as follows:

> Internet. Statements on current events, presentations by the management, financial reports, internal documents of the company are posted on the corporate web site at www.aeroflot.ru. Information on the company's operations is also posted at www.skrin.ru; www.adr.db.com;

> The annual report. In compiling the annual report the company strives to apply the best international practices. The company's annual reports can be freely accessed on the corporate web site www.aeroflot.ru and also at www.annualreport.ru;

> Regular meetings of management with representatives of the investment community, at which the results of the company's performance and future plans are discussed;

> Ongoing relations with shareholders and investors.

Highlights of the reporting year

Amendments to the Charter and the Rules on the General Shareholders Meeting of OJSC Aeroflot

During the reporting year work continued to improve the legal framework for the company's activity, changes were made to the Charter of OJSC Aeroflot and the Rules on the General Shareholders Meeting of OJSC Aeroflot. Amendments to the Charter of the company, which ensure conformity with the new requirements of the Federal Law "On Joint Stock Companies", were approved at the annual general shareholders meeting. The amendments were aimed at expanding shareholders rights, especially those that guarantee receipt of information about the company's operations, and opportunities to impact decisions adopted by the Board of Directors and the general shareholders meeting of OJSC Aeroflot.

Committees under the Board of Directors

In order to achieve the targets set by the company, the Board of Directors in 2003 formed three committees in charge of strategy, audit, HR and compensation. The work of the committees makes it possible to be well prepared for Board meetings and adopt well-balanced and substantiated decisions by the Board of Directors.

Code of Corporate Conduct

In a bid to enhance corporate governance practices and create the most favorable conditions for the company's long-term development, the Executive Board of OJSC Aeroflot approved the Code of Corporate Conduct in December 2003. The Code of Corporate Conduct is designed to make the interested parties more confident in the company, to secure timely presentation of the company's reports to its shareholders, develop and sustain efficient mutual relations with all parties interested in the company's activities.

Dividend policy

At present, the company is preparing and hopes to approve in 2004 a document (Rules on the Dividend Policy) which regulates the amounts designated for dividend payouts, as well as procedures for determining the minimum amount of net income to be paid out as dividends.

Board of Directors and Executive Board

Members of the Board of Directors

By decision of the extraordinary shareholders meeting dated November 22, 2003 the following officials were elected members of the Board of Directors of OJSC Aeroflot:

1. Vladimir Nikolaevich Antonov (born in 1953)
Graduated from the Moscow Institute of Railroad Transport in 1975, specialized in electrification of railroad transport. 1997-2002 – Deputy General Director for aviation and corporate security of OJSC Aeroflot. 2002-pres. – First Deputy General Director for operations of OJSC Aeroflot.

2. Alexander Arnoldovich Braverman (born in 1954)
Graduated from the Kharkov Engineering and Economic Institute in 1976, specialized in economics and administration of the chemical industry. 1997-1999 – First Deputy of the RF State Property Minister. 2000-pres. – First Deputy of the RF Property Relations Minister, member of the Board of Directors of OJSC Aeroflot.

3. Alexander Yurievich Zurabov (born in 1956)
Graduated from the Moscow Ordzhonikidze Management Institute in 1977, specialized in economic cybernetics. Graduated from Foreign Trade Academy in 1989, specialized in foreign trade relations, candidate of economic sciences.1997-1999 – President, Chairman of the Executive Board, Chairman of the Board of Directors of Menatep Bank, Head of working group in charge of reorganization, Chairman of the Board of Directors of CJSC Agrooptorgbank. 1999-2003 – First Deputy General Director for finance, economics and commerce of OJSC Aeroflot. 2001-pres. – member of the Board of Directors of Insurance Company Moscow, a subsidiary. 2003-pres. – President of OJSC Aeroflot.

Stake in the share capital of OJSC Aeroflot – 0.000001 %.

4. Yuri Olegovich Isaev (born in 1972)
Graduated from the Moscow Aviation Institute in 1994, specialized in economics and administration of the machine engineering industry. 1998-2201 – First Deputy Chairman of the Board of OJSC Bank Russian Credit. 2001-2002 – President of LLC Impexbank. 2002-pres. – Deputy of the RF Economic Development and Trade Minister.

5. Georgy Viktoroich Kornilov (born in 1953)
Graduated from the Odessa Navy Engineering Institute, specialized in ship engineering mechanics. 1980-pres. – officer in federal security agencies. Deputy Head of Department of the RF Federal Security Service.

6. Alexander Vasilievich Neradko (born in 1961)
Graduated from the Moscow Institute of Civil Aviation Engineers in 1984, specialized in operation of aircraft and aviation engines. 1997-pres. – Head of Department of State Supervision of Flight Safety of the RF Federal Aviation Service, reorganized in 1999 into the State Civil Aviation Service. 2000-pres. – First Deputy of the RF Transport Minister, Head of the State Civil Aviation Service, member of the Board of OJSC Aeroflot.

7. Valery Mikhailovich Okulov (born in 1952)
Graduated from the Civil Aviation Academy in 1975, specialized in air transport operation, engineer-navigator. 1996-1997 – First Deputy General Director for production organization and administration of OJSC Aeroflot. 1997-pres. – General Director of OJSC Aeroflot, member of the Board of OJSC Aeroflot.

Stake in the share capital of OJSC Aeroflot – 0.0025 %.

8. Evgeny Ivanovich Shaposhnikov (born in 1942)
Graduated from the Kharkov Higher Military Aviation School, Gagarin Air Force Academy, General Staff Military Academy. 1994 – representative of the RF President in state-owned company Rosvooruzheniye. 1995-1997 – General Director of OJSC Aeroflot. 1987-pres. – RF President aide, member of the Board of OJSC Aeroflot.

9. Anatoly Antonovich Danilitsky (born in 1952)
Graduated from Moscow State Institute for International Relations. 1999-pres. – member of the National Investment Council (non-profit organization). 1998-2001 – member of the Board of Urasko Bank AG, Zurich, Switzerland. Currently First Deputy Chairman of the Board of National Reserve Bank.

10. Leonid Alexeevich Dushatin (born in 1960)
Graduated from the Moscow Financial Institute (Financial Academy under the RF government), the external economic relations faculty, specialized in international foreign currency and credit relations. 1996-2002 – Vice-President, Head of Energy Complex Department. Currently Deputy Chairman of the Board of National Reserve Bank.

11. Alexander Evgenievich Lebedev (born in 1959)
1999-pres. – Head of the National Investment Council (non-profit organization). Before 2004 – President, Chairman of the Board of National Reserve Bank. Currently the RF State Duma deputy.

By decision of the extraordinary shareholders meeting of OJSC Aeroflot dated November 22, 2003 the following officials who were elected to the Board by the general shareholders meeting dated April 6, 2004 were expelled from the Board of Directors of OJSC Aeroflot

1. Sergey Yurievich Vyazalov (born in 1956)
Первый заместитель министра финансов Российской Федерации.

2. Gennady Yurievich Moshkov (born in 1946)
Deputy of the RF Transport Minister.

3. Grigory Moiseevich Finger (born in 1966)
Executive Director of the Moscow representative office of NCH Advisors, Inc.

Performance of the Board of Directors in 2003

In 2003 the Board of Directors held 14 meetings, at which 94 issues were addressed, related to the company's daily operations and implementation of future development plans. Most issues tackled by the Board were initiated by the company's executive bodies – the Executive Board and the General Director.

The Board was largely focused on key aspects of the company's operations, such as providing a high level of flight safety, enhancing quality of passenger service, forming budget policy, ensuring efficient control over financial and economic operations, raising the company's revenue and its market capitalization.

The major focus of the Board of Directors in 2003 was adopting decisions intended to strengthen Aeroflot's position on the domestic and international markets, to satisfy increasing demand for passenger and cargo transportation, improve the company's operating base mainly by restructuring the aircraft fleet operated by the company, providing steady growth of revenues and cost-containment and boosting economic efficiency of operations.

In 2003 the Board adopted a number of major decisions related to improving flight operations, the quality of budget policy, business, financial and economic transactions, the management structure of the company and implementation of its development strategy.

These decisions will make it possible, as in previous years, to raise dividend payouts to shareholders.

As a result of implementation of the Board's decisions by executive bodies, the company managed to meet its 2003 targets, achieved a high level of flight safety and aircraft serviceability rate, as well as enhanced quality of passenger service.

Compensation for members of the Board of Directors

In accordance with Article 64.2 of the Federal Law "On Joint Stock Companies", by decision of the general shareholders meetings, compensations and (or) indemnification for expenses incurred may be paid during the term of the official duties exercised by Board members.

In 2003, as in previous years, wages and compensation were not paid to members of the Board of Directors of OJSC Aeroflot.

Members of the Executive Board

1. Vasily Nikolaevich Avilov (born in 1954)

1997-pres. – Head of Administration of OJSC Aeroflot.

No stake in share capital. No stake in subsidiaries/affiliates of OJSC Aeroflot.

2. Vladimir Nikolaevich Antonov (born in 1953)

1997-2002 – Deputy General Director for aviation and corporate security of OJSC Aeroflot. 2002-pres. – First Deputy General Director for operations of OJSC Aeroflot.

No stake in share capital. No stake in subsidiaries/affiliates of OJSC Aeroflot.

3. Yevgeny Viktorovich Bachurin (born in 1964)

1996-1997 – Sales Representative, Marketing Manager of state-owned company Inpredkadry (KLM airlines). 1999 - 2000 – advisor of First Deputy General Director for finance, economics and commerce of OJSC Aeroflot. 2000-2001 – Head of Revenue Management Department of OJSC Aeroflot. 2001-pres. – Commercial Director of OJSC Aeroflot. 2002-pres. – member of the Board of Directors (steering committee) of OJSC Alt Reiseburo. 2003-pres. – member of the Board of Directors (steering committee) as elected official of CJSC Aeromar.

No stake in share capital. No stake in subsidiaries/affiliates of OJSC Aeroflot.

4. Yury Iljich Belykh (born in 1941)

1997-2001 – Deputy General Director for technical performance of Transaero airlines. 2001-pres. – Technical Director of OJSC Aeroflot.

No stake in share capital. No stake in subsidiaries/affiliates of OJSC Aeroflot.

5. Anatoly Ivanovich Volymerets (born in 1951)

1999-2002 – First Deputy General Director for operations of OJSC Aeroflot. 2002-2003 – Deputy Director of Flight Personnel Training Center of OJSC Aeroflot. 2003-pres. – Head of Ilyushin Il-62/Il-68 flight team of Flight Operations Center.

Stake in share capital – 0.0026%. No stake in subsidiaries/affiliates of OJSC Aeroflot.

6. Vladimir Vladislavovich Gerasimov (born in 1957)

1997-1999 – Deputy Head of Economic Department of OJSC Aeroflot. 1999-pres. – Deputy General Director for supplies and logistics of OJSC Aeroflot. 200-pres. – member of the Board of Directors of CJSC TZK, an affiliated company.

Stake in share capital – 0.0025%. No stake in subsidiaries/affiliates of OJSC Aeroflot.

7. Boris Petrovich Eliseev (born in 1957)

1997-1999 – advisor, Deputy Head of Department of the RF Presidential Administration. 1999-pres. – Deputy Head of Legal Department of OJSC Aeroflot. 1999-pres. – Head of Legal Department of OJSC Aeroflot.

Stake in share capital – 0.000001%. No stake in subsidiaries/affiliates of OJSC Aeroflot.

8. Alexander Alexandrovich Koldunov (born in 1952)

1995-2001 – captain of Ilyushin Il-86, Il-96-300 aircraft of OJSC Aeroflot. 2001-pres. – Head of Flight Safety Inspectorate of OJSC Aeroflot. 2003-pres. – Deputy General Director – Head of Flight Safety Inspectorate of OJSC Aeroflot

Stake in share capital – 0.0025%. No stake in subsidiaries/affiliates of OJSC Aeroflot.

9. Valery Mikhailovich Okulov (born in 1952)

1997-pres. General Director of OJSC Aeroflot.

Stake in share capital – 0.0025%. No stake in subsidiaries/affiliates of OJSC Aeroflot.

10. Oleg Mikhailovich Osobenkov (born in 1946)

1997-1999 – officer of the RF Federal Security Service. 1999-pres. – Deputy General Director – Head of Human Resources Department of OJSC Aeroflot. 2000-pres. – member of the Board of Directors of CJSC TZK, an affiliated company. 2002-pres. – Executive Director of the Social Programs Foundation.

No stake in share capital. No stake in subsidiaries/affiliates of OJSC Aeroflot.

11. Victor Ivanovich Perepelitsa (born in 1946)

1997-1999 – Deputy General Director for flight operations – Flight Director, Vice President – Flight Director of OJSC Aerolfot. 1998-pres. – member of the Board of Directors of CJSC Sherotel, a subsidiary. 1999-pres. – Deputy General Director for flight operations – Director of Flight Operations Center of OJSC Aeroflot.

Stake in share capital - 0.0025%. No stake in subsidiaries/affiliates of OJSC Aeroflot.

12. Mikhail Igorevich Poluboyarinov (born in 1966)

1997-1999 – Financial Director – Chief Accountant of JSC Avtoimport. 1999 – Executive Director of LLC Technical Center Avtoimport. 1999-2003 – Chief Accountant of OJSC Aeroflot. 2003-pres. – Deputy General Director for finance and planning of OJSC Aeroflot.

No stake in share capital. No stake in subsidiaries/affiliates of OJSC Aeroflot.

13. Vladimir Mikhailovich Smirnov (born in 1959)

1997-pres – Deputy General Director – Director of Ground Operations Center of OJSC Aeroflot. 1997-pres. – member of the Board of Directors (the supervisory board) as elected official of CJSC Sherotel, a subsidiary. 1998-pres. – member of the Board of Directors of CJSC Deit, a subsidiary. 2001-pres. – member of the Board of Directors of JV CJSC Airport Moscow, a subsidiary. 2002-pres. – member of the Board of Directors of CJSC Aeromar.

Stake in share capital – 0.0026%. No stake in subsidiaries/affiliates of OJSC Aeroflot.

By decision of the Board of Directors of OJSC Aeroflot in 2003 the following officials were dismissed from the Executive Board of OJSC Aeroflot due to transfer to other positions:

31.03.2003	U.I. Matorin;
31.03.2003	N. Kuznetsov;
06.08.2003	U. Zurabov;
02.09.2003	N.V.Egorov.

The Audit Commission

Members of the Audit Commission

1. Irina Leonidovna Bogacheva

Head of Section of the RF Property Relations Ministry.

Graduated from the Moscow Raspletin Electronics Vocational school in 1999, specialized in programming for high-speed computers. Graduated from the Ordzhonikidze State Management Academy in 1995, specialized in mathematical operations in economy. Attended lectures at the Japanese Educational Management Center of the Moscow International Higher Business School (MIRBIS) in 1998, with coursework in business planning. Retrained in the Russian Academy of Public Service under the RF President in 2001, course name "State financial, fiscal and credit policy".

No stake in share capital. No stake in subsidiaries/affiliates of OJSC "Aeroflot".

2. Zinaida Nikolaevna Dunaikina (Head of the Audit Commission)

Head of Information and Analytics Section of the Corporate Security Department of OJSC Aeroflot. Graduated from the Moscow State Institute for International Relations in 1977. 1989-1998 worked as economist of Central International Agency Aeroflot. 1998-2001 – expert of Information and Analytics Section of the Corporate Security Department of OJSC Aeroflot, 2001-pres. – Head of the Section.

Stake in share capital – 0.00009%. No stake in subsidiaries/affiliates of OJSC Aeroflot.

3. Vadim Anatolievich Zakharov

Head of Audit and Inspector Department of the RF Transport Ministry. Graduated from the Nakhimov Black Sea Higher Naval School in 1993. Graduated from the St. Petersburg State Engineering and Economics Academy in 1998, specialized in ship armament and production administration. 1999-2001 – Head of IAS Consolidated Financials Section of the Accounting Department, Deputy Head of the Accounting Department (Deputy Chief Accountant) of UES, Moscow. 2001-2002 – advisor of General Director of LLC Top Audit, Moscow.

No stake in share capital. No stake in subsidiaries/affiliates of OJSC Aeroflot.

4. Valery Leonidovich Tyukalov

Vice President of National Reserve Bank. Graduated from the Moscow Financial Institute, the military financial and economics department, specialized in military economic and tactical financial service. 1999-2002 – acting advisor of General Director, Deputy General Director – Chief Accountant, First Deputy General Director for finance and accounting – Chief Accountant, First Deputy General Director for economics and finance – Chief Accountant of state enterprise Russian Aircraft Corporation MiG. 2002-advisor of General Director of state enterprise Institute of microeconomics.

No stake in share capital. No stake in subsidiaries/affiliates of OJSC "Aeroflot".

5. Andei Nikolaevich Khvostunkov

Chief of Transport Tariff Control Department of the RF Federal Energy Commission. Graduated from Moscow Institute of Civil Aviation Engineers, specialized in radio engineering. Graduated from the Russian Academy of Public Service, specialized in law. 1998-1999 – Head of Airport Section of the Federal Transport Tariff Control Service. 1999-2002 – Head of Airport Section, Deputy Head of Transport Tariff Control Department of the Anti-Monopoly Ministry.

No stake in share capital. No stake in subsidiaries/affiliates of OJSC Aeroflot.

2003 Report of the Audit Commission

In 2003 the Commission held seven meetings which addressed issues relating to the company's daily operations and economic activities. The Audit Commission was largely focused on approving accuracy of accounting and financial records, compliance of the company's economic and financial operations with statutory acts of the Russian Federation, decisions of the general shareholders meeting and the Board of Directors of the company.

The Audit Commission acted in cooperation with management of OJSC Aeroflot, the Internal Audit Service, the Accounting Department and other units of the company, which facilitated the adoption of specific measures aimed at improving the company's accounting records.

While reviewing the quarterly results of Aeroflot's operations the Audit Commission noted positive developments in the structure of the balance sheet. Total assets showed a steady rise on the back of current and fixed assets. The company gained more financial independence by reducing the share of borrowed funds on the liabilities side of the balance sheet.

In 2003 the company's divisions took measures to enhance the quality of claims activity, decreasing receivables and payables. As a result, the share of accounts receivable in the company's current assets decreased and accounts payable considerably contracted. These facts highlight improvements in financial discipline and have enabled the company to increase the accuracy of its accounting records.

Team work and constructive efforts by the Audit Commission during the whole reporting period resulted in proper control over operational and financial activities of the company.

Compensation for members of the Audit Commission

There was no provision for paying wages or providing any other forms of material compensation to members of the Audit Commission in 2003.

Shareholders meetings in 2003

The procedure for holding a general meeting of Aeroflot's shareholders is governed by the Rules on the General Shareholders Meeting of OJSC Aeroflot.

The company is working to provide equal participation of all shareholders at the meeting, their timely notification of the meeting with prompt and complete provision of information required to adopt decisions concerning items on the agenda.

On April 26, 2003 an annual general meeting of Aeroflot shareholders was held. Shareholders and their representatives in attendance at the meeting held a total of 1,003,782,247 votes, which is 90.39% of the total number of voting shares of the company. The meeting addressed and adopted decisions regarding 10 items on the agenda. The shareholders approved the company's annual report, balance sheet, income statement, and proposals by the Board of Directors on distributing profits of OJSC Aeroflot. The meeting elected the Board of Directors and the Audit Commission, while Vneshaudit and Deloitte and Touche were appointed the company's auditors. Newspapers "Rossiyskaya Gazeta" and "My Aeroflot" as well as Interfax news agency were picked as the media channels to be used in publishing information for shareholders of OJSC Aeroflot.

In addition, the shareholders approved the new version of the Charter of OJSC Aeroflot. Amendments made to the company's internal documents were motivated by the company's aspiration to be in compliance with the latest provisions of the legislation of the Russian Federation and statutory acts of FCSM in terms of expanding shareholders rights, and adherence to recommendations of the Code of Corporate Conduct by FCSM.

Based on recommendations of the Board of Directors shareholders decided to pay out 0.29 Russian rubles per share in cash as FY 2002 dividends.

On November 22, 2003 an extraordinary general meeting of Aeroflot shareholders was held. The meeting was convened at the request of the majority shareholder – National Reserve Bank – in order to install its nominees on the Board of Directors, who represent the interests of the bank as a shareholder of OJSC Aeroflot.

The meeting was attended by shareholders and their representatives who own a total 1,012,762,571 votes, which is 91.19% of the total number of voting shares of the company. The shareholders at the meeting elected a new Board of Directors and the Audit Commission of the company.

Large transactions

In 2003 Aeroflot executed no transactions with a value equal to or in excess of 10% of the company's assets.

There were no transactions defined in accordance with the Federal Law "On Joint Stock Companies" as related-party transactions.

Compliance with the FCSM Code of Corporate Conduct

Members of the Board of Directors and executive bodies of OJSC Aeroflot greatly appreciate the value of recommendations concerning the Code of Corporate Conduct by FCSM and will strive to improve corporate governance practices, taking measures to bring the company's corporate governance practices in line with best world practice. At present, Aeroflot's corporate governance practice is largely compliant with the Code's provisions. In the near future, Aeroflot plans to adopt Rules on the Company's Information Policy.

The company's dividend history

Accrued dividends on ordinary shares

Dividend period	Cut-off date	Total accrued amount, USD	Number of shares at cut-off date	Dividend per share, US cents	Method of payout	Year of IAS records
1998	28.04.99	441,019.56	1,110,616,299	0.040	Cash	1998
1999	26.04.00	441,339.37	1,110,616,299	0.040	Cash	1999
2000	20.03.01	1,183,184.98	1,110,616,299	0.107	Cash	2001
2001	05.04.02	2,210,914.99	1,110,616,299	0.199	Cash	2002
2002	07.03.03	10,133,210.02	1,110,460,578*	0.913	Cash	2003

* At the cut-off date 155,721 shares were on the issuer's client account and dividends on these shares were not accrued.

Shareholder data

State registration data
21.06.1994
Legal address
Building 9, 37 Leningradsky prospect, 125167, Moscow
Tel. +7 (095) 155 66 43
Fax. +7 (095) 155 66 47
URL: http://www.aeroflot.ru
Personnel (year average)
17,423
Paid-in capital
RUR 1,110,616,299
Number of ordinary shares
Authorized shares: 1,110,616,299
Number of shareholders (as of December 31, 2003)
11,595

Bonds

On February 27, 2002 the RF FCSM performed the state registration of documentary coupon bonds of OJSC Aeroflot. The issue prospectus envisaged four coupons, with maturity of 728 days. The issue was worth 1 billion of Russian rubles. A total of 1 million bonds was issued with par value of 1,000 Russian rubles each.

The first coupon was redeemed on September 16, 2002 for 79,049,793.86 Russian rubles (87.26 Russian rubles per bond).

The second coupon was redeemed on March 17, 2003 for 79,049,793.86 Russian rubles (87.26 Russian rubles per bond). The number of early redeemed bonds amounted to 94,089, with 905,911 bonds remaining in circulation.

In accordance with the issue prospectus, OJSC Aeroflot paid out the third coupon on September 15, 2003 for 63,241,646.91 Russian rubles with coupon yield of 69.81 Russian rubles per bond.

On September 15, 2003 Aeroflot called in the issue. The number of early redeemed bonds amounted to 905,911.

Core shareholders

	Stake in share capital
RF Property Relations Ministry	51.17%
Savings Bank of the Russian Federation	26.10%
Lindsell Enterprises Limited	3.67%
CJSC Depositary Clearing Company (nominal shareholder)	2.90%
National Depositary Center NP (nominal shareholder)	2.90%
CJSC ING Bank (Eurasia) (nominal shareholder)	1.16%
LLC Commercial Bank JP Morgan Bank International (nominal shareholder)	0.52%
LLC Deutsche Bank (nominal shareholder)	0.51%
CJSC Brunswick UBS Nominees (nominal shareholder)	0.40%
Pruett Enterprises Limited	0.18%
Total	89.51%

Share price and financial ratios

	2003	2002	2001	2000
Share price (USD)*				
Max	0.28	0.40	0.42	0.69
Min	0.14	0.19	0.27	0.33
P/E				
Max	7.2	9.9	4.6	5.9
Min	3.6	4.6	2.9	2.8
Earnings per share** (USD)	0.8	1.8	8.0	11.4

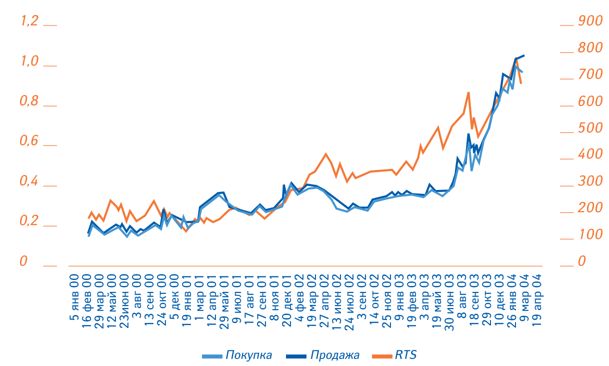
* On RTS
** IAS earnings

Trading venues
Moscow Interbank Currency Exchange
Russian Trading System
Special registrar
CJSC National registration company
Legal address: 6 Veresaeva Street, 121357, Moscow
Tel: 440-31-04.
Auditors
Vneshaudit, Deloitte&Touche

Global Depository Receipts (GDR)
GDR per share: 0.01
Exchange: Frankfurt stock exchange
Technical parameters:

GDR 144A	CUSIP NUMBER: 007771108 ISIN NUMBER: US0077711085
Reg S	CUSIP NUMBER: 007771207 ISIN NUMBER: US0077712075

Share price



Eleven-year operational statistics (OJSC Aeroflot, 1993-2003)

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Aircraft kilometers flown	thousands											
International routes		142,043.6	139,738.6	148,716.2	144,801.1	135,568.9	147,823.0	137,185.6	133,287.6	135,608.8	121,925.0	124,421.9
Domestic routes		0.0	0.0	464.0	6,780.3	12,014.7	25,758.1	32,887.0	37,074.7	42,230.4	39,752.0	40,537.7
Total		142,043.6	139,738.6	149,180.2	151,581.4	147,583.6	173,581.1	170,072.6	170,362.2	177,839.2	161,677.0	164,959.6
Aircraft Departures												
International routes		45,809	45,322	48,383	47,670	45,649	49,265	45,474	44,275	45,777	41,952	42,282
Domestic routes		0	0	223	2,274	3,608	10,160	14,703	17,878	21,541	20,985	21,617
Total		45,809	45,322	48,606	49,944	49,257	59,425	60,177	62,153	67,318	62,937	63,899
Aircraft hours flown												
International routes		179,394	176,577	188,514	184,176	174,140	188,100	174,059	169,421	172,596	154,360	156,670
Domestic routes		0	0	627	8,547	15,260	33,619	43,730	49,983	57,639	54,643	54,845
Total		179,394	176,577	189,141	192,723	189,400	221,719	217,789	219,404	230,235	209,003	211,515
Passengers carried	thousands											
International routes		3,085.8	2,974.5	3,489.6	3,738.8	3,693.4	3,738.0	3,440.2	3,704.6	4,205.1	3,885.4	4,129.8
Domestic routes		0.0	0.0	3.7	73.8	210.7	712.7	1,169.1	1,396.3	1,625.5	1,603.9	1,713.8
Total		3,085.8	2,974.5	3,493.3	3,812.6	3,904.1	4,450.7	4,609.3	5,100.9	5,830.6	5,489.3	5,843.5
Freight and mail tons carried	thousands											
International routes		67.6	65.9	69.8	80.8	84.9	78.1	80.0	95.4	86.8	93.4	95.7
Domestic routes		0.0	0.0	0.7	9.3	7.3	6.5	9.5	12.0	14.8	16.2	18.5
Total		67.6	65.9	70.5	90.1	92.2	84.6	89.5	107.4	101.6	109.6	114.2
Available seat kilometers	millions											
International routes		20,395.2	20,958.5	23,640.1	23,419.4	22,584.3	25,119.3	23,366.1	21,917.7	23,522.6	20,551	20,848.0
Domestic routes		0.0	0.0	41.5	616.8	1,427.8	3,321.7	4,273.1	4,632.9	5,273.5	5,251.5	5,393.1
Total		20,395.2	20,958.5	23,681.6	24,036.2	24,012.1	28,441.0	27,639.2	26,550.6	28,796.1	25,802.5	26,241.1
Revenue passenger kilometers	millions											
International routes		13,294.0	12,183.2	13,940.2	14,352.1	13,717.8	14,260.9	13,240.8	14,068.1	15,110.4	13,826.3	14,163.7
Domestic routes		0.0	0.0	9.5	281.1	893.1	2,188.2	3,164.6	3,366.1	3,833.0	3,818.9	4,038.9
Total		13,294	12,183.2	13,949.7	14,633.2	14,610.9	16,449.1	16,405.4	17,434.2	18,943.4	17,645.2	18,202.6
Passenger load factor	%											
International routes		65.2%	58.1%	59.0%	61.3%	60.7%	56.8%	56.7%	64.2%	64.2%	67.3%	67.9%
Domestic routes		-	-	22.9%	45.6%	62.6%	65.9%	74.1%	72.7%	72.7%	72.7%	74.9%
Total		65.2%	58.1%	58.9%	60.9%	60.8%	57.8%	59.4%	65.7%	65.8%	68.4%	69.4%
Cargo ton kilometers	millions											
International routes		450.0	472.9	497.6	491.5	503.1	473.3	530.8	606.0	462.1	491.3	530.3
Domestic routes		0.0	0.0	1.4	48.1	42.2	39.7	53.7	65.7	91.8	71.8	84.1
Total		450.0	472.9	499.0	539.6	545.3	513.0	584.5	671.7	554.0	563.0	614.4
Available ton kilometers	millions											
International routes		1,646.5	1,566.6	1,752.2	1,783.2	1,737.7	1,756.8	1,722.5	1,872.2	1,822.2	1,735.6	1,805.0
Domestic routes		0.0	0.0	2.3	73.4	122.6	236.6	338.5	368.6	436.7	415.6	447.7
Total		1,646.5	1,566.6	1,754.5	1,856.6	1,860.3	1,993.4	2061	2,240.8	2,258.9	2,151.1	2,252.7
Revenue ton kilometers	millions											
International routes		2,909.3	2,926.7	3,562.3	3,676.8	3,460.1	3,717.3	3,479.0	3,493.8	3,534.5	3,130.1	3,258.8
Domestic routes		0.0	0.0	9.8	175.9	260.3	485.4	581.1	619.6	690.7	684.1	692.3
Total		2,909.3	2,926.7	3,572.1	3,852.7	3,720.4	4,202.7	4,060.1	4,113.4	4,225.2	3,814.2	3,951.1
Weight load factor	%											
International routes		56.6%	53.5%	49.2%	48.5%	50.2%	47.3%	49.5%	53.6%	51.6%	55.4%	55.4%
Domestic routes		-	-	23.5%	41.7%	47.1%	48.7%	58.3%	59.5%	63.2%	60.8%	64.7%
Total		56.6%	53.5%	49.1%	48.2%	50.0%	47.4%	50.8%	54.5%	53.5%	56.4%	57.0%

OJSC Aeroflot-Don, 2000*-2003

		2000	2001	2002	2003
Aircraft kilometers flown	thousands				
International routes		1,630.2	2,485.1	2,623.0	3,011.1
Domestic routes		4,509.8	7,718.5	6,503.2	7,648.1
Total		6,140.0	10,203.6	9,126.5	10,659.2
Aircraft Departures					
International routes		855	1,276	1,373	1,833
Domestic routes		3,008	5,079	5,235	6,012
Total		3,863	6,355	6,608	7,845
Aircraft hours flown					
International routes		2,160	3,239	3,336	3,939
Domestic routes		6,097	10,523	9,208	10,661
Total		8,257	13,762	12,544	14,600
Passengers carried	thousands				
International routes		63.2	86.5	103.1	129.9
Domestic routes		199.8	313.5	324.3	376.9
Total		263.0	400.0	427.4	506.8
Freight and mail tons carried	thousands				
International routes		0.4	0.3	0.6	0.6
Domestic routes		1.4	1.9	1.8	2.0
Total		1.8	2.2	2.4	2.6
Available seat kilometers	millions				
International routes		189.4	276.9	352.7	382.1
Domestic routes		582.1	812.3	674.3	901.9
Total		771.5	1,089.2	1,027.0	1,284.0
Revenue passenger kilometers	millions				
International routes		122.9	171.1	201.1	216.6
Domestic routes		374.6	527.4	447.2	527.4
Total		497.5	698.5	648.3	744.0
Passenger load factor	%				
International routes		64.9%	61.7%	57.0%	56.6%
Domestic routes		64.4%	65.0%	66.3%	58.5%
Total		64.5%	64.1%	63.1%	57.9%
Cargo ton kilometers	millions				
International routes		0.8	0.6	1.2	1.3
Domestic routes		3.9	4.7	3.4	3.8
Total		4.7	5.3	4.6	5.1
Available ton kilometers	millions				
International routes		11.9	16.0	19.3	20.8
Domestic routes		37.6	52.1	43.7	51.2
Total		49.5	68.1	63.0	72.0
Revenue ton kilometers	millions				
International routes		17.7	27.4	34.3	37.8
Domestic routes		53.7	83.1	70.5	90.5
Total		71.4	110.5	104.8	128.3
Weight load factor	%				
International routes		67.2%	58.3%	56.2%	54.7%
Domestic routes		70.0%	62.8%	61.8%	56.6%
Total		69.3%	61.7%	60.0%	56.0%

* as of the date when the company joined the group (April 13, 2000)

Representative offices of OJSC Aeroflot

Country/City	Code	Telephone	Fax	Address
RUSSIA				
MOSCOW	(7-095)	7535555		4, Frunzenskaya Embankment 8, Frunzenskaya Embankment 7, Korovy Val Street 19, Yeniseyskaya Street 20/1, Petrovka Street 3, Kuznetsky Most Street
ANAPA	(7-86133)	54706	45597	186/188, Krymskaya Street
ARKHANGELSK	(7-8182)	631556, 631425	631460	Pavilion 2, "Talagi" Airport
ASTRAKHAN	(7-8512)	390907	394999	12, Lenin Street
CHELYABINSK	(7-3512)	370231	370917	90, Svobody Street
EKATERINBURG	(7-3432)	611421 615732 612104	645654	56, Belinsky Street GSP-209
IRKUTSK	(7-3952)	211398 211331	255780	Of. 107, 27, S. Razin Street, 664025
KALININGRAD	(7-0112)	954805 954612	956454	4, Pobedy Square, 236000
KHABAROVSK	(7-4212)	327592	306337	50, Pushkin Street, 680000
KRASNODAR	(7-8612)	640010 640017	640004	43, Krasnaya Street
MINERALNYE VODY	(7-87922)	69920 68644 68744	68170	75, Marx Prospect
MURMANSK	(7-8152)	446960 440120	442071	8, Spolokhi Street, office 1
NIZHNEVARTOVSK	(7-3466)	243232	245555	11, Omskaya Street
NIZHNIY NOVGOROD	(7-8312)	344040 345822	394265	6, Gorky Square, 603950
Norilsk	(7-3919)	460769	460769	Of. 167, 17, Lenin Prospect, 663300
NOVOSIBIRSK	(7-3832)	233270 231576	179698	28, Krasny Prospect
OMSK	(7-3812)	251322 251798	247955	14, Ordzhonikidze Street
PERM	(7-3422)	203004 203005	349535	21, Popov Street
PETROPAVLOVSK-K.	(7-4152)	112830 111786	111722	Airport , 7A, Zvezdnaya Street, Elizovo, Kamchatka Region
ROSTOV-ON-DON	(7-8632)	585180	527407	Airways Terminal, 270/1, Sholokhov Prospect, 344066
SAMARA 443041	(7-8462)	760277, 760278, 760279		760280 141, Leninskaya Street,
SOCHI	(7-8622)	534031	944097	3, Tchaikovsky Street
ST.-PETERSBURG	(7-812)	3273872 3273873 1185555	3273870	5, Kazanskaya Street, 191186
VLADIVOSTOK	(7-4232)	226647 208819 205235	209041	143, Svetlanovskaya Street, 690001
VOLGOGRAD	(7-8442)	385480 385479	964608	15, Lenin Prospect
UFA	(7-3472)	516343	516343	5/3, Lenin Street

Country/City	Code	Telephone	Fax	Address
ANGOLA				
LUANDA	(244-2)	339068	330426	114, Avenue 4 de Fevereiro, Luanda
ARMENIA				
YEREVAN	(3741)	522435	532131	12, Amiryan Street, Yerevan
AUSTRALIA				
SYDNEY	(61-2)	92622233	92621821	National Mutual Building, 24th Level, 44 Market Street, NSW, 2000 Sydney
AUSTRIA				
VIENNA	(43-1)	5121501 5121502	512150178	10, Parkring 1010 Wien
AZERBAIJAN				
BAKU	(994-12)	981167/68	981166	34, Khagani Street, Baku
BELARUS				
MINSK	(375–17)	2066895 2272887	2066979	25, J. Kupala Street, Minsk
BELGIUM				
BRUSSELS	(32-2)	5136066 5136428	5122961	58, Rue des Colonies, 1000 Brussells
BULGARIA				
SOFIA	(359-2)	9434489 9434572	9461703	23, Oborishte Street, 1504 Sofia
CANADA				
MONTREAL	(1-514)	2882125	2885973	615, de Maisonneuve Boulevard West Montreal, Quebec H3A 1L8
TORONTO	(1-416)	6421653	6421658	1, Queen Street East, Suite 1908, P.O. Box 61, Toronto, Ontario, M5C2C5
CHINA				
BEIJING	(86-10)	65002412 65002266	65941869	Hotel "Jinglun", N3, Jianguomenwai Street,Beijing, China, 100020
HARBIN	(86-451)	6291111	3633190	Nangang District, Yiyuanjie Street, 2, "Hong Kong Sinoway" Hotel, Room 808, China, Harbin, 50001
HONG KONG	(852)	25372611	25372614	Room 1606, 16 Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong
SHANGNAI	(86-21)	62798033	62798035	Suite 203A, Shanghai Centre, 1376, Nanjingxilu, Shanghai,China, 200040
SHENYANG	(86-24)	23341888	23341506	Hotel Intercontinental (ground floor), 208, Nanjing North Street, Heping Dostrict, Shenyang China, 110001
CROATIA				
ZAGREB	(385-1)	4872055	4872051	13, Var_avska, 10000 Zagreb
CUBA				
HAVANA	(53-7)	333200 333759	333288	Calle 23, No. 64, Esq. Infanta Vedado, Ciudad de La Habana
CYPRUS				
LARNACA	(357-24)	643221	643220	Airport
NICOSIA	(357-22)	669071 677072	678484	32, B&C, Homer Avenue, P.O. Box 22039, 1097 Nicosia

Country/City	Code	Telephone	Fax	Address
CZECH REPUBLIC				
PRAGUE	(420-2)	24812682 24814984	24812683	5, Truhl3rsk3, 11000 Praha 1
DENMARK				
COPENHAGEN	(45-1)	33126338 33125757	3311217	1/3, Vester Farimagsgade, DK-1606 Copenhagen
EGYPT				
CAIRO	(20-2)	3900429 3937409	3900407	18, Al Boustan Street, Commercial Center, Cairo
HURGHADA	(20-65)	440145 440827	440145	7, Al Min Street, AKA Holiday Centre, Hurghada
FINLAND				
HELSINKI	(358-9)	659655	661021	5, Mannerheimintie, FIN – 00100, Helsinki
FRANCE				
NICE	(33-4)	93214482	93214544	AOroport CЩte d'Azur, Terminal 1, 06281 Nice Cedex
PARIS	(33-1)	42251061 43591190	42560480	33, Avenue des Champs ElysOes, 75008
GERMANY				
BERLIN	(49-30)	2269810	22698136	51, Unter den Linden, 10117 Berlin
DUSSELDORF	(49-211)	8644310 8644313	3239416	26, Berliner Allee, 40212 Dusseldorf
FRANKFURT/ M	(49-69)	27300630	252902	41, Wilhelm-Leuschner Strasse, 60329 Frankfurt am Main
HAMBURG	(49-40)	3742883 3742884	3742888	60, AdmiralitKtstrasse, 20459 Hamburg
HAHN	(49-6543)	508602	508606	Gebaude 850, D-55483 Flughafen Hahn
MINICH	(49-89)	288261	2805366	2, Isartorplatz, 80331 MЯnchen
GEORGIA				
TBILISI	(995-32)	943896 943897	943927	76/1, David Agmashenebeli Street 380002, Tbilisi
GREECE				
ATHENS	(30-210)	3220986 3221022	3236375	14, Xenofontos, GR-10557 Athens
HUNGARY				
BUDAPEST	(36-1)	3171734	3171717	4, V3ci utca, 1052 Budapest V.
INDIA				
DELHI	(91-11)	23312843 23316414	23723245	Ground Floor, Tolstoy House, 15-17, Tolstoy Marg, 110001 New Delhi
MUMBAI	(91-22)	2025780 2821682 2821476	2871942	11, Tulsiani Chambers, Ground Floor, Free Press Jornal Marg, Nariman Point, 400021 Mumbai
IRAN				
TEHRAN	(98-21)	8808480 8807495 8807484	8808672	23, Ostad Nejatollahi Street, Tehran
IRELAND				
DUBLIN	(353-1)	8446166	8446349	Link Building, Airport, Dublin
SHANNON	(353-61)	472299	472902	Shannon Airport, Co. Clare

Country/City	Code	Telephone	Fax	Address
ITALIA				
MILAN	(39-02)	66986985 66986987	66984632	19, Via Vittor Pisani 20124 Milano
ROME	(39-06)	4203851	42904923	76, Via Bissolati, 00187 Roma
VENICE	(39-041)	2698484 2698488	2698447	Aeroport Marco Polo, Tessera, Venezia Luigi Broglio street 8, 30030
JAPAN				
OSAKA	(81-06)	62028052	62028048	Imagawa Building, 2-2-17 Imabashi, Chuo-ku, Osaka 541-0042
TOKYO	(81-3)	34349681 34349667 34349680	34349669 34349668	SVAX TT Building, 3-11-15, Toranomon Minato-ku, 105-0001 Tokyo
JORDAN				
AMMAN	(962-6)	5521642 5521643	5533692	"Al-Khairat" Building, Street Mekka P.O. Box 7303, Jabal Amman
KAZAKHSTAN				
ALMATY	(327-2)	629638	399916	109, Zhibek Zholy Street, office 16, 480004 Almaty
KYRGYZSTAN				
BISHKEK	(996-312)	244283 651422	651452	230, Chu Avenue, 720010 Bishkek
DEM. PEOPLES REPUBLIC OF KOREA				
PYONGYANG	(850-2)	3817309 3817310	3817296	11-Dong, Munsu-3 Dong, Taedonggang District, Pyongyang
REPUBLIC OF KOREA				
SEOUL	(82-2)	5693271 5693272 5693273	5693276	RM 404, City Air Terminal Building, 159-6, Samsung-Dong, Kangnam-ku, Seoul
LATVIA				
RIGA	(37-17)	270501 278774	313250	6, Gertrudes Street, Riga LV-1050
LEBANON				
BEIRUT	(961-1)	739596	739597	Gefinor Center, Blok C, 41, Clemenceau Street, Beirut
LIBYA				
TRIPOLY	(218-21)	3334898	4441527	32, Baghdad Street, Bedri Building, P.O. Box 4638, Tripoli
LITHUANIA				
VILNIUS	(370-2)	224189	224189	8/2, Pylimo Street, 2001 Vilnius
MALAYSIA				
KUALA LUMPUR	(6-03)	21616946 21613231	21617294	Level 17, Suite 17.03, Menara Hla, No 3, Jalan Kia Peng, 50450 Kuala Lumpur
MALTA				
VALETTA	(356)	232641 243581	240673	1st Floor, Regency House, Republic Street, Valetta, VLT 04
MONGOLIA				
ULAAN BAATAR	(976-11)	320720	323321	15, Seul Street, Ulaan Baatar

Country/City	Code	Telephone	Fax	Address
NEPAL				
KATHMANDU	(977-1)	227399	226161	Kamaladi, P.O. Box 5640,Kathmandu
NETHERLANDS				
AMSTERDAM	(31-20)	6245715 6254049	6259161	26, Weteringschans, 1017 SG, Amsterdam
NORWAY				
OSLO	(47-2)	22333888 22332886	22332880	6, vre Slottsgt, 0157 Oslo
PAKISTAN				
PANAMA	(507)	2250497 2250587	2250622	Unicentro Bella Vista, Avenue Justo Arosemena y Calle 42, P.O. Box 2642, Balboa Ancon, Panama
PERU				
LIMA	(51-1)	4448716 2411695	4475626	Jr. Martir Olaya 201, of. 340-350, Miraflores, Lima
POLAND				
WARSAW	(48-22)	6281710 6211611	6282557	29, Alleje Jerozolimskie, 00-508 Warszawa
PORTUGAL				
LISBON	(351-1)	213467812 213467427	213422038	36D, Avenida da Liberdade, 1250-145, Lisbon
ROMANIA				
BUCHAREST	(40-21)	3150314 2128684	3125152	29, sector 1 , Strada Biserica Amzei, Bucuresti
SINGAPORE				
SINGAPORE	(65)	3361757	3376352	01-02/ 02-00, 15 Queen Street, Tan Chong Tower, 188537 Singapore
SLOVAKIA				
BRATISLAVA	(421-2)	54435192	54432174	13, Laurinsk3, 81101 Bratislava
SLOVENIA				
LJUBLJANA	(386-1)	4368566 4368568	4368593	21, Dunajska, 1000 Ljubljana
SERBIA AND MONTENEGRO				
BELGRADE	(381-11)	3225814 3226641	3248675	21, Brace Jugovica, 11000 Belgrade
SPAIN				
BARCELONA	(34-93)	4305880 4308741	4199551	41, calle Mallorca, 08029 Barcelona
MADRID	(34-91)	4313706 4314107	4318098	2, C/Jose Ortega y Gasset, 28006 Madrid
SWEDEN				
STOCKHOLM	(46-8)	50565300 50565305	217185	31, SveavKgen, 2 tr, Box 3075, 10361 Stockholm

Country/City	Code	Telephone	Fax	Address
SWITZERLAND				
GENEVA	(41-22)	9092770	7388312	14-16, Place Cornavin, 1201 GenПve
ZURICH	(41-1)	2114633 2114634	2124046	41, Talacker, 8001 ZЯrich
SYRIA				
DAMASCUS	(963-11)	2317956	2317952	29, May Street, Damascus
THAILAND				
BANGKOK	(66-2)	2553139 2510617	2553138	Mezzanine Floor, Regent House, 183, Rajdamri Road, 10330 Bangkok
TUNISIA				
TUNIS	(216-1)	845831 846379	849413	42, Avenue Hedi Chaker, 1002 Tunis
TURKEY				
ANKARA	(90-312)	4409874 4409875	4409220	114/2, Cinnah Caddesi, Cankaya 06550 Ankara
ANTALYA	(90-242)	3303106	3303477	Bayindir Airport, 07030 Antalya
ISTANBUL	(90-212)	2966725 2966728 2966726	2966737	Cumhuriyet Caddesi 141 D.1 Elmadag, Istanbul
U.A. EMIRATES				
ABU DHABI	(971-2)	6271726 6270342	6270247	P.O. Box 25111, Abu Dhabi
DUBAI	(971-4)	2229800 2222245	2227771	P.O. Box 1020, Al Maktoum Street, Dubai
UKRAINE				
DNEPROPETROVSK	(380-56)	7784938	7784937	72-A, Karl Marx Prospect, Dnepropetrovsk
KIEV	(380-44)	2454359	2454881	112-A, Saksagansky Street, 252032 Kiev
SIMFEROPOL	(380-652)	511516	511517	2a, Pavlenko Street, 95006 Simferopol
UNITED KINGDOM				
LONDON	(44-20)	73552233	73552323	Aeroflot, 70, Piccadilly Street, London, W1V 9HH
USA				
LOS ANGELES	(1-310)	2815300	2815304	9100, Wilshire Blvd., Suite 175, 90212 Beverly Hills, California
NEW YORK	(1-212) (1-888)	3406400	9445200	1384, Broadway, 22 Floor, 10018, New York, New York
SAN FRANCISKO	(1-415)	4342300	4034033	291, Geary Street, Suite 200, 94102 San Francisco, California
SEATTLE	(1-206)	4641005	4640452	1411, 4th Avenue, Suite 420, 98101 Seattle, Washington
WASHINGTON	(1-202), (1-888)	3474305 6864949		1634, Eye Street, N.W., Suite 200, 20006 Washington, D.C.
UZBEKISTAN				
TASHKENT	(998-712)	1523018	1523014	79-A, Nukus Street, 700015, Tashkent
VIETNAM				
HANOI	(84-04)	7718742 7718718	7718522	DAEHA BUSINESS CENTER, 360 Kim Ma, str, Ba Dinh distr., Hanoi
HO CHI MINH	(8-48)	8293489	8290076	4H, Le Loi Street, distr.1, Ho Chi Minh city

OJSC Aeroflot-Don, 2000*-2003

Country/City	Code	Telephone	Fax	Address
RUSSIA				
MOSCOW	(7-095)	4367753 4367691	4367691	27, Airways Terminal, "Vnukovo" Airport, 103027
NERUNGRI	(7-41147)	70444		6, Lenin Street, Nerungri, Republic of Sakha, 678960
ST.-PETERSBURG	(7-812)	1238620	1238620	"Pulkovo-1" Terminal, 18/4, Pilotov Street, 196210
SOCHI	(7-8632)	700231 692228		Of. 232, A-355, Airport, Sochi
TURKEY				
ISTANBUL	(90-212)	6389106 6389107	6389112	291/293, Ordu Gaddesi Laleli Is Merkezi, Istanbul
UZBEKISTAN				
TASHKENT	(10-99871)	1521836		83a, Nukusskaya Street, Mirabadsky District, Tashkent, 700015

Glossary

Passengers carried:

A passenger for whose transportation air carrier receives commercial remuneration.

Cargo tons carried:

All cargo (freight and mail) counted on a point-to-point basis (in metric tons) covered by air waybills for which remuneration is received.

Revenue passenger kilometers (RPKs):

One fare-paying passenger transported one kilometer. RPK's are computed by multiplying the number of passengers by the kilometers they are flown.

Cargo ton kilometers (CTKs):

One ton of revenue cargo transported one kilometer. CTK's are computed by multiplying metric tons of cargo by the kilometers they are flown.

Revenue ton kilometers (RTKs):

One ton of revenue traffic (passengers, baggage, and cargo) transported one kilometer. Revenue ton kilometers are computed by multiplying metric tons of revenue traffic by the kilometers which this traffic is flown.

Available seat kilometers (ASKs):

The total number of seats available for the transportation of revenue passengers multiplied by the number of kilometers which those seats are flown.

Available ton kilometers (ATKs):

The total number of metric tons available for the transportation of passengers and cargo multiplied by the number of kilometers which this capacity is flown.

Passenger load factor:

Revenue passenger kilometers expressed as a percentage of available seat kilometers.

Weight load factor:

Revenue ton kilometers expressed as a percentage of available ton kilometers

Aircraft kilometers flown:

The sum of distances flown by all revenue flights.

Average stage distance:

Aircraft kilometers flown divided by the number of revenue landings.

Aircraft hours flown:

The total number of revenue hours flown "block-to-block". "Block-to-block" time is defined as the total number of hours (and minutes) measured from the time the aircraft moves from the loading point until it stops at the unloading point.

Utilization:

Average hours flown ("block-to-block" basis) per aircraft per day.

Aircraft departures:

The number of landings or flight stages flown.

Punctuality rate:

The number of flights arrived on-time (within 10 minutes of schedule) expressed as a percentage of the total number of flights.

Marketing flights:

Flights where Aeroflot acts as marketing partner.

RF:

Russian Federation

IATA:

International Air Transport Association

AEA:

Association of European Airlines

Group:

OJSC Aeroflot and its subsidiaries

RTS:

Russian Trading System

FCSM:

The RF Federal Commission for Securities Market

Market capitalization:

Total market value of the company's shares

Route network of the Aeroflot Group including marketing flights

AEROFLOT
Russian Airlines

Shareholder contacts:

Building 9, 37 Leningradsky prospect, 125167, Moscow

Hot line for shareholders and investors:

Tel: +7 (095) 258 06 86; 258 06 50
Fax: +7 (095) 258 06 84; 258 06 86
E-mail: kbudaev@aeroflot.ru

www.aeroflot.ru
Section: "Investor relations"

Notice of future development

This annual report apart from real data contains opinions, assumptions and forecasts of the company's management based on currently available information. Due to changes in external factors, such as fluctuating demand for air transportation, price changes, implementation of new technologies, changes in legal environment, fluctuations in exchange rates, to name but a few, the company's actual performance in the future could differ from forecasts represented in this report.