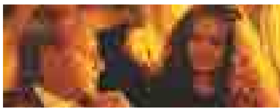
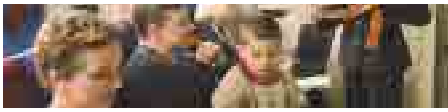
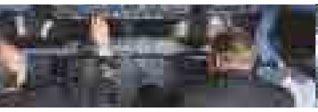
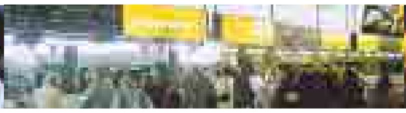
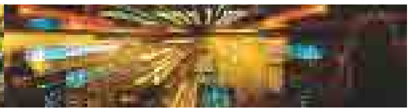




AEROFLOT
Russian Airlines

ANNUAL REPORT 2000

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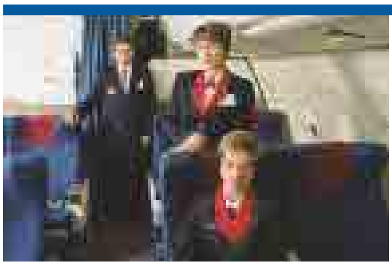


Letter to Shareholders

In setting our goals for 2001, we were first thinking of our passengers. One of Aeroflot's major goals for the year to come is developing an effective system of working with passengers on all phases of communication between the passenger and the Company. To reach this goal we are developing a new corporate culture in our Company, training our personnel, and supporting our employees' initiatives to further improve our service.

The creation of our Frequent Flyer Program involving the best Russian and international companies fulfilled a major portion of our overall goal. Our efforts have already borne fruit: the results of the year 2000 show that more and more people prefer to fly and use Aeroflot's services. We are sure that this is only the beginning.

Dear shareholders

Joint Stock Company "Aeroflot — Russian Airlines" (hereinafter referred to as Aeroflot, the Company, or the Airline) is not only a company with long-term traditions, but it has also made a significant contribution to the development of worldwide civil aviation. We see our future on the global arena, and in 2000 have taken serious measures to fully move in that direction.

Many changes were introduced: we have brought our business in line with international standards, we have developed new technologies and closely studied the needs of our passengers.

One of our major concerns has been to integrate the Company into one of the global alliances of air carriers. Alliances are very important as they significantly increase options available to passengers. Integration into a global alliance requires synchronization of systems and processes of participating airlines, including route networks, frequent flyer programs and information technologies. In 2001 Aeroflot will continue moving steadfastly in this direction.

At the same time Aeroflot has been looking for ways to consolidate Russian aviation companies and is deepening its cooperation with CIS aviation companies. Setting up the affiliated "Aeroflot-Don" on the basis of "Donavia" is an example of this type of cooperation. Due to this restructuring, the smaller air carrier was able to modernize its fleet and adopt modern work methods. Aeroflot expanded its domestic markets, and Russian passengers were given better travel options. We believe that consolidations in civil aviation are key for the industry as a whole and that everybody will benefit from their development — people in the aviation industry, and most importantly, our passengers.

We are committed to providing world-class service to our clients and ensuring the safety of our flights. With the use of up-to-date equipment, we are able to accomplish these objectives and remain efficient. We are currently striving to make our fleet conform to standards set by aviation authorities of Western countries. Aeroflot has spent USD 15 million to modernize its fleet in order to meet standards of the European region. We are transitioning from the use of 11 different types of aircraft to a maximum of four types, which provides for higher transportation standards and considerable savings in both material and human resources.

Aeroflot is changing and our financial situation in 2000 attests to our highly competitive potential on both the international and domestic markets.

I am sure that 2001 will be the year in which we strengthen our role in domestic and international airline alliances. I sincerely hope that the Aeroflot shareholders, both Russian and foreign, state and private individuals, having an interest in the stable and dynamic development of the Company, will continue to support us.

General Director of
Joint Stock Company "Aeroflot — Russian Airlines" V. M. Okulov

Main events in 2000

In January
Two new Boeing-767's were added to the Company's fleet, under an operating lease.

February 14
Aeroflot's employees V. D. Barilov, commander of the flight operations unit, and V. N. Sorvin, TU-154 pilot, were awarded the title "Honoured Pilot of the Russian Federation" by Decree #340 issued by the Russian Federation President V. V. Putin.

In February
After a risk survey, Airclaims, Ltd. emphasized that there were significant achievements in all aspects of Aeroflot's activities, testifying to the Company's conformity with international levels of organization and safety operations and positively affecting its development as a whole.

March 15
Aeroflot's Board of Directors adopted the "Strategic Concept of Development" for the Company and asked the Managing Board to begin its implementation. To a great extent, the beginning of the realization of the new strategy determined the pace of development of the Company in 2000.

March 20-21
As a result of negotiations between Aeroflot and Air France, the Managing Committee and other authorities were established in order to begin integration of Aeroflot into the Sky Team global alliance.

March 28
Aeroflot won the All-Russia competition for "Aviation Company Of The Year — carrier in international air lines" and "Aviation Company Of The Year — carrier in domestic air lines in the 1st group" in 1999 and was awarded the prize "Wings Of Russia — 99".

In April
Extending the Company's activities in the Russian air traffic market, in Rostov-on-Don, Aeroflot set up the aviation company Aeroflot-Don, an open joint stock company with 51% of shares owned by Aeroflot.

In April
Aeroflot's brand-new Flight Control Centre was put into service. It is the largest in Eastern Europe by the information content processed, and it is fitted with modern technology and equipment.

May 31
Aeroflot was named official carrier of the Russian Olympic team for the 2000 Olympics in Sydney.

June 15
Aeroflot Board of Directors approved the concept for construction of a new terminal in Sheremetyevo Airport, which will become Aeroflot's main hub in Moscow.

September 1
The Quoting Committee of the non-commercial partnership "Russian Trading System Stock Exchange" included Aeroflot's shares on its first level ratings' list.

In September
The Ministry of Taxes and Levies of the Russian Federation included Aeroflot as one of the two leading companies on the list of "traditional" exporters.

In September
Aeroflot opened a twenty-four-hour reservation and information centre.

September 29
To ensure liquidity and growth of the market value of its shares, Aeroflot's Board of Directors decided to issue Global Depositary Receipts (GDR's) for 20% of the Company's share capital.

In October
The National Association of Stock Market Participants gave Aeroflot the highest rating for its level of transparency and cooperation with shareholders and investors.

In October
During their annual inspection, the U.S. Federal Aviation Administration (FAA) acknowledged that Aeroflot's flights complied with all the standards of aviation safety.

December 18
Aeroflot broke the record of the previous ten years: during 2000 it transported 100,000 tons of cargo. The result was achieved due to higher efficiency in using the cargo capacity of passenger aircraft and more intensive use of cargo aircraft.

December 21
Aeroflot signed an agreement with Deutsche Bank on issuing GDRs, which allowed the Company to place its shares on international stock exchanges.

December 25
The number of passengers for Aeroflot flights in 2000 reached five million.

December 27
Aeroflot's Board of Directors approved criteria for the development of Aeroflot's fleet in the medium-term.

In December
Aeroflot created the tourist agency, "The World of Aeroflot". Its' main aim is to support Aeroflot's efforts to establish an extended system for attracting passengers and providing them with high quality service in the field of tourism and travel.

Aeroflot development strategy: results of the first year

2000 was a year of active changes for Aeroflot in nearly every area of the Company's activities. In March of 2000 the Board of Directors approved the Aeroflot development strategy.

The completely new strategy demanded from Company management and employees a new attitude towards the development of the aviation business, a rethinking of its position on domestic and world markets, and an understanding of the aims, possibilities and current priorities in Aeroflot's activities. Practical implementation of the strategy allowed the Company to start strengthening its team, to involve a significant number of employees in the modernization process and to achieve positive results on a number of key business aspects as early as 2000.

Changing over to new modern methods and approaches to creation and management of the route network is the cornerstone of the Aeroflot Strategic Development Concept. The Company began a three-year program to improve its network and create an optimal balance between passengers' requirements and economic efficiency of its major operational activities. This balance can be achieved by an increased flight frequency to the most popular destinations, scheduling convenient arrival and departure slots, providing convenient connections at Sheremetyevo and foreign airports, and reducing multiple-leg and low frequency flights.

Higher flight frequency has given passengers a wider range of possibilities to choose a convenient travel time and has increased the number of connecting flights on different routes. Drawing up convenient departure and arrival schedules, as well as arranging night flights to Europe, has made it possible to attract business passengers to these routes and to better use the fleet. In 2001, the reduction of low frequency flights is already increasing the economic efficiency of the network. While reducing flights to some destinations, the Company intends to make it possible for passengers to reach their intended destinations with the help of other companies, with whom Aeroflot already has or is developing co-operation.

The Company pays special attention to the development of its domestic flight network. In 2000, it started new flights from Moscow to Ufa, Chelyabinsk, Mineralniye Vody and Perm. Aeroflot's active policy allowed it to increase the Company's share on the domestic traffic market by 50%.

Convenient connections for passengers are one of the most important characteristics of the flight network. The Company had already raised the connection ratio at the Sheremetyevo base airport by 24% as early as the winter of 2000/2001 and the work is still ongoing. By improving connections for passengers flying from America and Europe through Russia to Asia, the Company set a special priority for suitable connections between the Russian and international sections of the flight network.

In June 2000, the Aeroflot Board of Directors approved the concept for constructing a terminal at Sheremetyevo Airport (Sheremetyevo-3) and setting up a fully functional hub there. The necessity for the new terminal was caused by passengers' needs for modern service at the airport and also by Aeroflot's need for an up-to-date management of its connections. The new terminal will have an annual capacity of 8-10 million passengers and will serve all the domestic and international flights of Aeroflot and its partners. The Company has carried out large-scale preliminary work, already making it possible to start construction in 2001. The first phase of construction is to be completed by 2003.

Aeroflot's efforts were also concentrated on financial stability as the basis for the effective development of the Company. Steps in this direction have created an atmosphere of confidence in Aeroflot from the side of its financial partners, as well as its partners in business and financial markets as a whole.

Within the framework of cash management, close control and consolidation of current financial flows of representative offices in Russia were established, under the auspices of the Russian Savings Bank (Sberbank). Work with Chase Manhattan Bank resulted in linking the accounts of the

largest representative offices abroad to the Chase Insight system. By the end of 2000, this program included more than 30% of the proceeds of Aeroflot foreign representatives. In the near future it will allow the Company to completely centralize cash flow management, both transparently and effectively.

Significant work was carried out on improving liquidity management. The Company started to control its balance of payments on-line. Financial management improvements allowed the Company to decrease the cost of borrowing and improve lending conditions.

The agreement was signed to include Aeroflot in the IATA currency clearing system used by the largest airlines operating under BSP/ARC settlement plans. By 2001, the Company is expected to join the IATA Clearing House.

Also important for the Company in 2000 was the application of an integrated approach to risk management. The majority of Company risks have been identified and systemized. This allows the Company to carry out goal-oriented work to prevent possible risks, limit unfavorable events, and should they occur, to minimize the consequences.

In 2000, the Company carried out various projects on the management of various risks. Credit risks related to operations with agents and bank-counteragents were limited with the help of bank guarantees with a limit setting procedure. The total amount of credit risk outstanding was significantly reduced. An initial evaluation of the currency risk was made, and reorganization of the Company's processes has commenced to minimize the consequences of unfavorable events in a crisis situation.

In 2000, OAO Insurance Company "Moscow", a subsidiary of Aeroflot, was reorganized, which enabled Aeroflot to consolidate its insur-

ance operations, reducing the insurance premiums paid, and at the same time improving insurance protection quality. The reorganization made it possible to change the Airline's monitoring system for insurance cases, which allowed the Company to receive insurance indemnity faster and in full, and to analyze insurance cases and their consequences much quicker.

Priorities for risk management in 2001 include:

- tighter control over the provision of high levels of flight security
- development of additional measures to prevent technical incidents and aviation accidents
- control over credit risks
- introduction of a management risk program for ticket sales abroad.

Aeroflot enjoyed a period of financial stabilization in 2000, which allowed it to pay more attention to upgrading the quality of service and the performance of additional services. The Company decided to refurbish its Russian passenger cabins, including updating the interiors, replacing electrical equipment and installing new seats.

In 2001, a significant number of airplanes with updated cabins have been put into service. The first renovated aircraft have already received high praise from passengers.

In 2000, the Company put into operation its brand-new Reservation and Information Centre. It is the first high-tech telephone centre in Russia created by a Russian company. Technical capabilities of the Centre enable 1500 subscribers in Moscow to receive simultaneous operational information on schedules, arrivals and departures of airplanes and reserve tickets for Company flights. Having started with several telephone calls a day in August, by the end of 2000 the Centre was receiving more than 4000 daily calls. In the first six months, approximately 500,000 people used the Centre. The Centre provides information in Russian, English, German and Spanish.

In 2001, the Company is planning to introduce a common Aeroflot information telephone number to operate across Russia. Work is being done to put into operation a similar call centre in Europe, to guarantee the delivery of reserved tickets to passengers, to enable payment for tickets with credit cards and to provide information on tourist services.

Aeroflot has been actively developing its Frequent Flyer Program called "Aeroflot Bonus." The Unit accumulation principle was simplified and the units per flight scheme was modified so that passengers are able to receive their bonuses quicker. The Company has also installed modern technical equipment and increased staffing which has made it possible to reduce, by three times, passenger check-in time. Along with its partner companies, Aeroflot began developing a joint system of unit accumulation and usage, significantly increasing the benefits of the program for the passengers. Five-fold growth in program participants — to approximately

70,000 by the end of 2000 — makes the Airline believe that passengers have appreciated the Company's efforts.

Business plan of the "Aeroflot Bonus" program for 2001 provides for issuing a joint payment card with a major Russian bank. The plan also strives to ensure greater possibilities for passengers to accumulate units with the help of worldwide leaders of the air transport industry.

Marketing research conducted by Aeroflot at the end of 2000 showed that upgrading service on board must be a priority for the Company. The Airline will focus on this priority in 2001.

In 2000, the Airline introduced significant changes to its sales' system in order to increase profits. An agent bonus system was developed and is being introduced as part of a program to encourage agents and corporate clients to use Aeroflot. Aeroflot signed more than 500 contracts for corporate service activities with large Russian and foreign companies. By the end of 2000 a new Aeroflot undertaking — ticket reservation over the phone — had brought additional revenues. In 2001, Aeroflot is planning to expand its bonus commissions program for agents. It will also work to establish an incentive system for agency personnel and Aeroflot partners, expand growth of contractual relations with corporate clients and develop a corporate and agent network in the Russian regions.

In 2000, Aeroflot's Flight Control Centre, the largest in Eastern Europe, was put into service. Fitted with modern equipment, it

enables Aeroflot to more effectively control its aircraft, accounting for all essential factors and parameters to monitor each of its aircraft's pre-flight preparation and flights all over the world.

The transformation to a new level of decision-making is impossible without the introduction of an integrated resource management system. The SAP/R3 system that was put into service in 2000 has helped to structure financial, economic and administrative information. The introduction of SAP/R3 started with establishing main cost centres to ensure optimization of stock, and to control expenses. A significant amount of work was carried out during the year — from pre-project research to putting separate elements of the system into service.
By the end of 2000, more than 150 workstations had been connected to the system. In 2000, SAP/R3 was functioning in the Ground Handling Complex and trial operations in the logistics department had begun. In 2001, Aeroflot plans to introduce the system in six more divisions of the Airline, and the whole project is to be completed by 2002.

In 2000, all the necessary preliminary work was done in order to choose a modern program and technological solutions to manage network routes and revenue. The solutions chosen were the latest development of the Sabre Company — one of the market leaders in these types of systems. AirPrice and AirMax will make it possible to recreate a new management process for rates, pricing and group air carriage. APM and FAM will maintain the management process for the route network. In 2001, two of the four base systems will be put into operation. All four systems will be fully operational in 2002.

Early in 2000 an automated passenger departure handling system became operational. It controls outgoing flight load and supports passenger check-in to the final destination. The system allowed the Company to introduce new standards of serving passengers during check-in at Sheremetyevo-2. The Company is now ready to distribute the system and in 2001 plans to do so in all Russian airports where Aeroflot flies.

Aeroflot's more intensive activity in 2000 set completely new requirements for the speed of communications within the Company. As the Company now expects greater efficiency of its employees, there is a need for introducing an up-to-date communications system. An ever-increasing number of Aeroflot departments now maintain their own sites on the Company's intranet. Besides general information on the departments' work, these sites efficiently publish news and documents. With the use of the Lotus Notes corporate system, the Company's employees have increased access to the necessary Company databases.

Employee participation was expanded through financial, commercial and technical committees. Their task is developing recommendations for the most important aspects of Aeroflot's activities. This allows different points of view to be expressed and considered during the decision-making process, which we believe enhances this process.

The Company was also working on creating a modern motivation system established in accordance with two principles: consideration of the contribution of employees to the development of the Company and merit-based remuneration.

The participation of the Company's team in the development and realization of Aeroflot's strategic business initiatives (adopted in the middle of 2000) played an important role in the establishment of the motivation system. This initiative enabled the Company to create an open, constructive atmosphere among its employees and to introduce into practice the elements of a new, modern business culture. The Company is planning to introduce this new motivation system in 2001.

The results of 2000 prove that Aeroflot has found the means to overcome its old way of thinking and has developed approaches to solve complex, multifunctional tasks. The efforts of Aeroflot employees and management to carry out the Company's strategy resulted in a significant increase in the Company's market capitalization. The 40% growth in the price of Aeroflot's shares in 2000 testifies to the positive effect of its chosen strategy and rewards the risk taken by investors.

Traffic and operational results in 2000

Overall traffic

In 2000, Aeroflot planes flew to 73 countries around the world with commercial and refuelling landings in 129 cities, including 10 airports in the CIS and Baltic countries, and 25 within the Russian Federation.

In 2000, 55,966 flights were made (or 1,076 flights a week) — 4.4% more than in 1999. 26,550.6 million seat-kilometers were offered, which is 3.9% less than in 1999 due to lower average flight length.

The Company transported 5,100,900 passengers and 107.4 thousand tons of cargo and mail in 2000. Aeroflot flew 17.4 billion passenger-kilometers and 2.2 billion ton-kilometers (see also Tables 1 and 2 on page 10).

Traffic volume was higher than in 1999:

- Passenger turnover — by 6.3% (+1,028.8 million passenger-km),
- Tons per kilometer — by 8.7% (+179.8 million ton km),
- Passenger traffic — by 10.7% (+491,600 passengers),
- Cargo traffic — by 19.8% (+17,300 tons),
- Mail traffic — by 32.0% (+600 tons).

Traffic structure

In 2000, domestic air traffic grew faster than international. The amount of passenger traffic on domestic airlines increased by 2% and reached 27.4% of total passenger traffic. The amount of passenger traffic on international flights (including CIS countries and the Baltic states) decreased and amounted to 72.6% of the total volume of traffic.

Cargo traffic increased both on international (+19.1%) and domestic flights (+25.6%) due to better use of the cargo sections on passenger aircraft of all types.

Though the Company still concentrates its activities on regular passenger flights, it has also taken measures to develop tourist and charter traffic.

Its revenues from irregular passenger traffic have increased by 112.3% in 2000 compared to 1999 with a simultaneous growth in volume by 56%. On the whole, the share of passenger traffic in 2000 on irregular (charter) flights was 5.2% of the total amount of passenger traffic (see Table 2 on page 10).

Qualitative parameters

In 2000, Aeroflot significantly improved efficiency of its operations. The average aircraft load factor on the international and domestic flights compared to 1999 increased by 3.7% and achieved 54.5% (see Table 3a on page 11).

Average passenger load factor reached 65.7% in 2000 and increased by 6.3% compared to 1999. On international flights, passenger load factor amounted to 64.2% (7.5% growth). Domestic passenger load factor decreased by 1.4% due to a considerable increase in traffic volume. However, domestic passenger load factor remained at a relatively high level and reached 72.7%, which again supports the opening of new flights (see Table 3b on page 11).

Utilization/flight hours

The utilization of passenger aircraft of all types remained at the same level of 1999 (-0.2%), and on cargo aircraft it exceeded the level of 1999 by 13.6% (+2,028 hours). At the same time, flight productivity on all aircraft types increased by 8.6% on average compared with 1999.

The largest average daily utilization per listed aircraft was on foreign-produced aircraft:

Boeing 767	12.8 hours
Boeing 777	11.0 hours
Airbus 310	9.4 hours
Boeing 737 and DC 10	8.1 hours

The largest average daily utilization per Russian-produced aircraft was on the Il-96 which was 6.7 hours.

Table 1. Growth in volume of work in comparison with 1999

	International airlines	Domestic airlines
Passenger turnover	+6.2% (+827.3 million passenger/km)	+6.4% (+201.5 million passenger/km)
Tons per kilometer	+8.7% (+149.7 million ton/km)	+8.9% (+30.1 million ton/km)
Passenger traffic	+7.7% (+264,400 passengers)	+19.4% (+227,200 passengers)
Mail and cargo traffic	+19.2% (+15,400 tons)	+26.9% (+2,600 tons)

Table 2. Traffic structure

Regular traffic	1999	2000	by 1999(%)
Passengers	4,438,900	4,835,000	108.9
Cargo and mail (tons)	80,300	99,200	123.5

Irregular traffic	1999	2000	by 1999(%)
Passengers	170,400	265,900	156.0
Cargo and mail (tons)	9,200	8,200	89.1

Table 3a. Aircraft Load Factor

Type of aircraft	1999	2000	+/-
Il-96	44.1	52.0	7.9
Boeing 767	42.3	49.1	6.8
Boeing 737	49.1	54.6	5.5
Boeing 777	45.9	56.2	10.3
Airbus 310	50.6	52.8	2.2
Il-62M	54.0	54.8	0.8
Il-86	48.6	60.5	11.9
Tu-154	48.0	50.7	2.7
Tu-134	46.6	51.7	5.1
Il-76	57.4	59.5	2.1
DC-10-30F	61.3	69.0	7.7
Total	**50.8**	**54.5**	**3.7**
Including international flights	**49.5**	**53.6**	**4.1**
Domestic flights	**58.3**	**59.5**	**1.2**

Table 3b. Passenger Load Factor

Type of aircraft	1999	2000	+/-
Il-96	55.0	65.4	10.4
Boeing 767	47.7	64.2	16.5
Boeing 737	55.8	61.4	5.6
Boeing 777	59.0	71.1	12.1
Airbus 310	61.0	63.5	2.5
Il-62M	76.0	72.4	-3.6
Il-86	56.1	70.6	14.5
Tu-154	59.9	62.1	2.2
Tu-134	59.2	65.5	6.3
Il-76	—	—	—
DC-10-30F	—	—	—
Total	**59.4**	**65.7**	**6.3**
Including international flights	**56.7**	**64.2**	**7.5**
Domestic flights	**74.1**	**72.7**	**-1.4**

Aeroflot’s fleet

The following changes took place in the fleet:

- two Boeing 767’s were acquired on an operating lease;
- two Russian aircraft were written off (one Il-62M and one Il-76)
- two Russian aircraft (Tu-154’s) were contributed to Aeroflot-Don, the newly created subsidiary

Returned at the end of the lease agreement:

– to the firm Aviaenergo — one Il-62M and two Tu-154Ms
– to the firm Kominteravia — two Tu-134s

As of January 1, 2001, the fleet consisted of 109 aircraft — 81 owned by Aeroflot and 28 leased (see Note 1 to the accompanying financial statements).

Aircraft fuel

In 2000, Aeroflot, along with the rest of the global aviation community, encountered significantly increased fuel prices both domestically and abroad. To reduce the negative effect on the Company’s profitability and cash flow, a number of measures were taken, the most important of which was an increase in the utilization of modern fuel-efficient aircraft, such as the Boeing 767, Boeing 777, Airbus 310, Boeing 737 and Il-96. Although these represented only 30.6% of the fleet, they provided 60.6% of the passenger turnover and made it possible to decrease the average consumption of fuel by 8.7%

In 2000, the Aeroflot Managing Board made the decision to hedge fuel purchases abroad and developed major plans for this. These plans will be carried out in 2001 under market conditions more favorable for the Company.

Flight safety and regularity

The Company’s flight safety level has been stable for the last three years at 99.90% – 99.98%, well within ICAO standards. But regardless of the high safety level of Aeroflot’s flights, the Company constantly modernizes its technology, processes and equipment, is carrying out permanent close control over procedures to keep its aircraft ready for operation. Safety is also ensured by the Aeroflot flight team’s high level of professional training.

Within the framework of maintaining Aeroflot’s high safety level, in 2000 all Company’s airplanes were equipped with Traffic Collision Avoidance Systems (TCAS), which were required in European air space as of April 1, 2001. New navigation complexes, individual emergency oxygen equipment, and precise navigation equipment have also been installed. Additional work has been performed on the VOR/ILS impulse modulation interference suppression equipment and de-icing technology for protecting the aircraft on the ground.

Overall departure regularity compared to 1999 increased by 1.7% and amounted to 85.2% (taking into account meteorological conditions, it increased by 1.3% and amounted to 87.8%)

Personnel

The average number of personnel in 2000 was 14,801, including 14,316 employees involved in its core activities. Compared to 1999, the average number of personnel increased by 372, mainly in the customer service departments (see Table 4).

The average staff remuneration increased by 2.1% and labor productivity increased by 5.7%.

Professional training and advanced qualifications

Employees received advanced training at the Aviation Personnel Training Centre on 160 programs certified by the Russian State Agency for Civil Aviation. The training process is conducted with computer training and monitoring programs.

In 2000, 10,152 students received training and 804 courses were conducted. A unified refresher training program was drawn up to train flight teams on foreign aircraft. Aeroflot flight teams conducted 6,535 drills and spent 14,534 hours in the air. Construction of the second stage of the training complex was completed.

The foreign language training department created programs and manuals for foreign language studies based on the specific character of flight team activities and the work of flight attendants and technical personnel. All in all 2,610 students had language training in the Centre in 2000.

Protection of the environment

Aeroflot has devoted great attention to environmental protection as required by Russian legislation. In particular, the Company constantly monitors the pollution allowed by stationary and movable sources and supervises the temporary storage and utilization facilities for operational waste.

Table 4. Personnel at year's end

Personnel	2000	1999	1998
Captains and First Officers	1252	1281	1247
Other officers	941	1009	1075
Flight attendants	2882	2919	2761
Maintenance and repair	3190	3062	2958
Sales of tickets, services and advertising	1453	1260	1267
Airport services	2657	2464	1539
Other personnel	2977	2999	3510
Total	**15352**	**14994**	**14384**

Enterprises wholly or partially owned by Aeroflot

Aeroflot wholly or partially owns 52 enterprises.

9 largest subsidiaries and associated undertakings:

Aeroflot-Don
Aeroflot's share in the share capital is 51%. The company is a regional airline.

Aeroimp
Aeroflot's share in the share capital is 25%. LLC Aeroimp was set up in order to manage the four-star Aerostar Hotel.

Airport Moscow
Aeroflot's share in the share capital is 50%. The main activities of the company are related to cargo handling.

Insurance Company "Moscow"
Aeroflot's share in the share capital is 74.5%. The exclusive activity is insurance.

Aeromar
Aeroflot's share in the share capital is 51%. Aeromar's main activity is the production of food and beverages for in-flight catering.

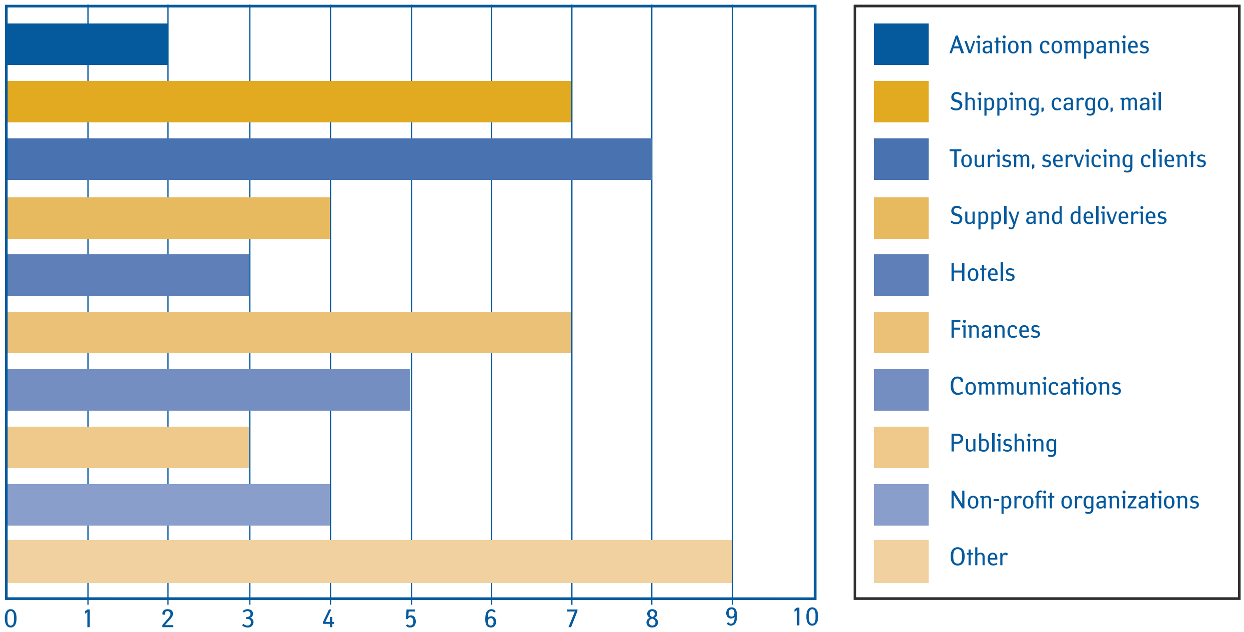
Aerofirst
Aeroflot's share in the share capital is 33%. The main activity of the company is duty-free trade.

ZAO TZK
Aeroflot's share in the share capital is 31%. The company specializes in supply of aviation fuel and airplane refueling.

Sherotel
Aeroflot's share in the share capital is 100%. The main activity is construction and maintenance of hotel and office complexes.

Aeroflot-Garant
Aeroflot's share in the share capital is 81.1%. The fund's exclusive activity is the provision of private pensions for retired participants.

Structure of enterprises by industry sector (a total of 52 enterprises)



Information for investors and shareholders

General information on Aeroflot

Joint Stock Company "Aeroflot — Russian Airlines" was established in accordance with the Russian Federal Government Decrees #527 of July 28, 1992, "On Measures For Organizing the International Airlines of the Russian Federation", #267 of April 1, 1992, "On Joint Stock Company Aeroflot — Russian International Airlines", and #314 of April 12, 1994, "On Approval of the Establishment of the Joint Stock Company Aeroflot — Russian International Airlines".

Aeroflot's registration with the State was conducted by the Moscow registration chamber. Its registration certificate is #032175 of June 21, 1994.

The Russian statutory auditor — Vneshaudit, legal address: 25-27/2, Bolshaya Yakimanka Street, Moscow, 109180, tel. 253-1331. Vneshaudit's license #012998 of February 26, 1998 was issued by the Central Attestation Committee of the Ministry of Finance of the Russian Federation.

The international auditor — Arthur Andersen, legal address: 14, Staraya Basmannaya Street, Moscow, 103064, tel 755-9700. License #006000 of June 28, 2000 was issued by the Ministry of Finance of the Russian Federation.

The specialized registrar — the National Registration Company, private joint stock company, legal address: 22, Baltschug Street, Moscow, 113035, tel. 440-3104. License of the Federal Securities Commission #01014 of March 19, 1996.

Shares

Aeroflot's authorized capital amounts to 1,110,616,299 rubles. The par value of each share is 1 ruble.

The Moscow Government Finance Department conducted the State registration of the first issue of Aeroflot shares. The issue of shares was given the State registration code #73-1 p-5142 of June 22, 1995. State registration of the second issue of Aeroflot shares was conducted by the Federal Commission for the Securities

Market of the Russian Federation. The issue of shares was given the State registration code #1-02-00010-A of February 1, 1999.

The amount of declared shares is 2,056,696,850 ordinary shares with the nominal value of 1(one) ruble each.

The list of the ten largest shareholders as of January 1, 2001

1. Ministry of Property Relations of the Russian Federation (owner)
2. LLC CB Chase Manhattan Bank International (nominee shareholder)
3. ZAO Depositary-Clearing Company (nominee shareholder)
4. ZAO Bank Credit Suisse First Boston JSC (nominee shareholder)
5. ZAO Brunswick Warburg Nominees (nominee shareholder)
6. LLC CB Citibank T/O (nominee shareholder)
7. LLC Latis (owner)
8. Pruett Enterprises Limited (owner)
9. Taft Enterprises Limited (owner)
10. Lindsell Enterprises Limited (owner)

Main trading floors

The Russian Trade System (RTS). The shares are traded on the first level quotation list.

Moscow Inter-Bank Currency Exchange (MMVB). The shares have the status of non-listed securities.

Market value of shares and trade volume

At the close of RTS on December 31, 2000, the weighted average price of Aeroflot shares amounted to USD 0.205 per share. Thus, the market capitalization of the Company as of December 31, 2000, amounted to USD 227,676,341 (see Table 5 on page 17). The Company's market share price increased during 2000 by 41% while the RTS Russian stock exchange index decreased by 19%.

The highest price of the share during 2000 was on October 3 at USD 0.26548 per share and the lowest — on May 24 at USD 0.1452 per share.

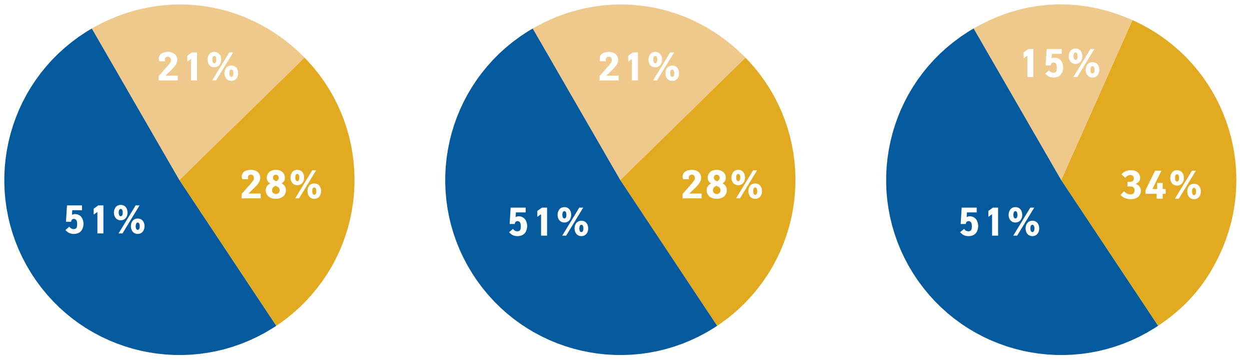
The total volume of traded Aeroflot shares on the RTS in 2000 was 151,920,421 shares (13.68% of the general number of shares) amounting to approximately USD 30 million.

In the RTS system, Aeroflot securities have the ticker AFLT.

Program of Global Depository Receipts (GDR's)

On December 21, 2000, Aeroflot and Deutsche Bank signed an agreement on carrying out a GDR program according to point S and Rule 144A of the U.S. Securities and Exchange Commission (SEC) in the amount of 20% of the Company's authorized capital. This allows the Company to place the shares on international stock exchanges.

Structure of Joint Stock Company Aeroflot — Russian Airlines authorized capital and its changes from 1998 to 2000 (%)



As of January 1, 1999 | As of January 1, 2000 | As of January 1, 2001

Federal property | Corporates | Individuals

GDR technical parameters:

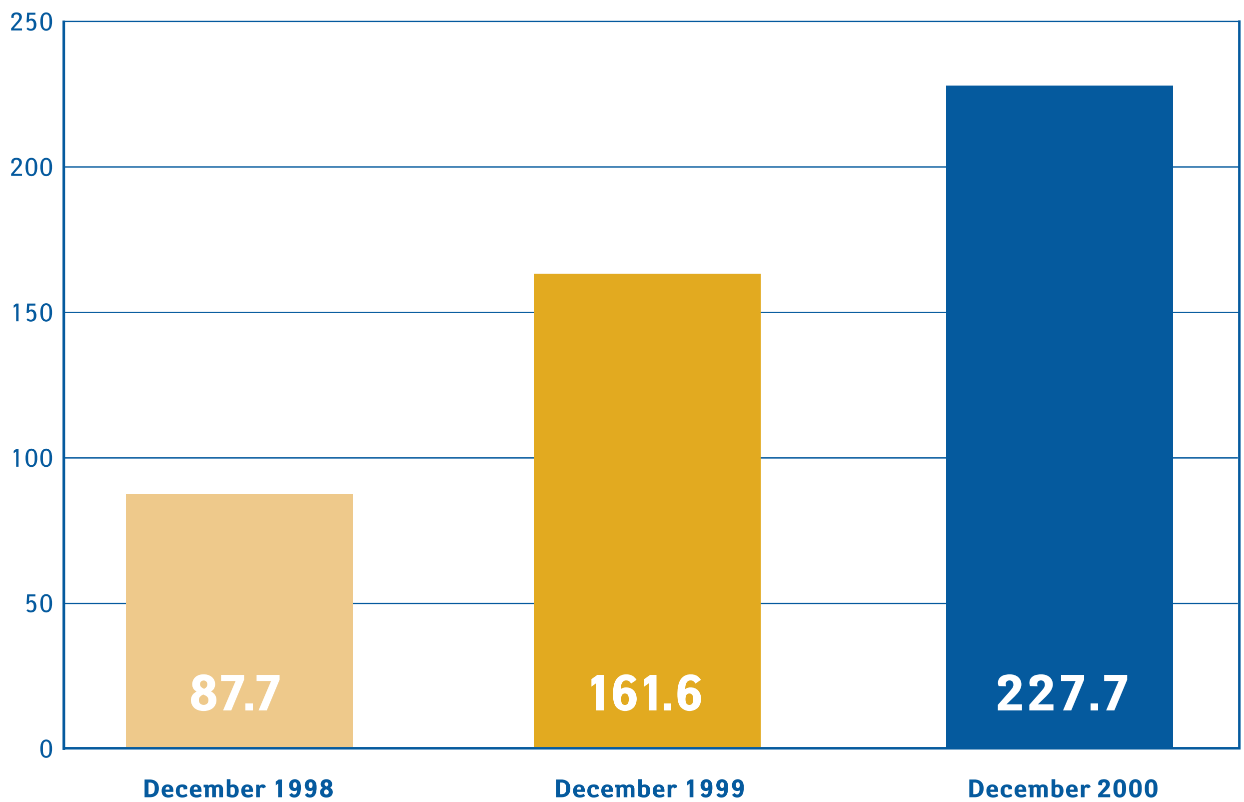
GDR 144A
CUSIP NUMBER: 007771 10 8
ISIN NUMBER: US007771 1085
Reg S
CUSIP NUMBER: 007771 20 7
ISIN NUMBER: US0077712075

The Company is planning to start listing depositary receipts on international exchanges, including NEWEX (Vienna) and the London Stock Exchange.

Board of Directors

In 2000, the Aeroflot Board of Directors held 15 meetings where it considered more than 80 issues concerning the development of the Company and its current activities. They include Aeroflot's strategy development, issues related to improving economic and commercial activity, economic and finan-

Table 5. Capitalization movement of Joint Stock Company Aeroflot — Russian Airlines from 1998–2000, in millions of dollars



cial policies, future network of routes and criteria for development of the Company's fleet. Service issues were also given high priority by the Board of Directors.

During the past year all the main groups of shareholders were represented on the Board of Directors: the State, staff, Russian legal entities and foreign legal entities. Information on decisions taken by the Board of Directors is regularly given to the shareholders and the public.

Information disclosure

Activity related to information disclosure is one of Aeroflot's priorities when working with its shareholders and the investment community.

In addition to the annual financial statements prepared in accordance with International Accounting Standards (IAS), which Aeroflot has been issuing since 1996, the Company is planning to prepare interim standalone IAS financial statements on a semi-annual basis.

The Company strives to provide access to information on a timely basis. Aeroflot maintains its corporate site on the Internet, actively uses e-mail and provides information through information agencies' websites, in quarterly briefings with financial and fund analysts, in personal meetings and press conferences.

It is also possible to receive operational information about the Company's activities using the Aeroflot hot line for shareholders and investors.

The NAUFOR (The National Association of Stock Market Participants) has ranked Aeroflot at the highest level for transparency, testifying to the high quality of the Company's information disclosure.

One can obtain information on Aeroflot's activities from the following Internet sites:

www.aeroflot.ru
(corporate site of Aeroflot)
www.fscm.ru
(site — Federal Committee for Security Market)
www.skrin.ru
(site — Emitent)
www.rts.ru
(Russian trade system)
www.newex.com
(NEWEX — New Europe Stock Exchange)

Board of Directors


1


2


3


4


5


6


7


8


9

1 Sergey O. Frank
Chairman of the Board,
Minister of Transport of the Russian Federation

2 Vladimir S. Goryachev
Director of the Department of Economic Regulation of Civil Aviation, Ministry of Transport of the Russian Federation

3 German O. Gref
Minister of Economic Development and Trade of the Russian Federation

4 Alexander Y. Zurabov
First Deputy General Director — Finance & Commerce of JSC Aeroflot

5 Valery M. Okulov
General Director of JSC Aeroflot

6 Andrey Y. Petrov
Deputy Finance Minister of the Russian Federation

7 Andrey G. Svinarenko
First Deputy Minister of Industry, Science and Technology of the Russian Federation

8 David A. Herne
Fund Manager,
Brunswick Capital Management

9 Evgeny I. Shaposhnikov
Assistant to President of the Russian Federation

Managing Board

Chairman and Chief Executive Officer

Valery M. Okulov
General Director

Deputy Chief Executive Officer

Anatoli I. Volymerets
First Deputy General Director

Members of the Board

Vasily N. Avilov
Administration Head

Vladimir N. Antonov
Deputy General Director for Aviation & Corporate Security

Vladimir V. Gerasimov
Deputy General Director, Contracts & Logistics

Nikolay V. Egorov
Deputy General Director of Information Technology

Boris P. Eliseiev
Director, Legal Department

Alexander Y. Zurabov
First Deputy General Director — Finance & Commerce

Vladimir R. Klimenko
Head of Engineering Service

Nikolai A. Kouznetsov
Deputy General Director — Finance & Planning

Alexander V. Lopukhin
Deputy General Director — Director, Public Relations Department

Yuri I. Matorin
Deputy General Director — Director, Construction and Exploitation

Vladimir D. Mokrinsky
Deputy General Director — Chief of Flight Safety Department

Yuri G. Mnatsakanov
Director of the Department for Commercial and Operational Management Abroad

Oleg M. Osobenkov
Deputy General Director, Personnel

Victor I. Perepelitsa
Deputy General Director — Flight Director

Vladimir V. Smirnov
Deputy General Director — Director, Traffic Ground Support

Vladimir A. Drovosekov
Responsible Secretary

AEROFLOT
Russian Airlines

Aeroflot — Russian Airlines and Subsidiaries consolidated financial statements 31 December 2000

Aeroflot — Russian Airlines and Subsidiaries
Independent auditors' report

To the Shareholders of OAO AEROFLOT — Russian Airlines:

We have audited the accompanying consolidated balance sheet of OAO AEROFLOT — Russian Airlines, an open joint stock company, and its subsidiaries (hereinafter referred to as the "Group"), as of 31 December 2000 and the related consolidated statements of operations, cash flows and shareholders' equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2000, and the results of its operations and cash flows for the year then ended in accordance with Statements of International Accounting Standards issued by the International Accounting Standards Committee.

We draw attention to Notes 2 and 3 in the accompanying consolidated financial statements that provide discussion of the financial condition of the Group and uncertainties regarding the Group's liquidity and financial positions. The Group reported deteriorating working capital deficit position (deficit position as of 31 December 2000 and 1999 of $229.3 million and $153.8 million, respectively). Management has developed plans and is actively addressing these and other financial and operating issues in order to improve profitability and to strengthen the financial and liquidity positions of the Group. The ultimate improvement in operating results and financial condition are dependent on management's success in achieving their established plans and objectives. The accompanying consolidated financial statements have been prepared on the basis of a going concern and do not include any adjustments that might be necessary should management not be able to achieve their planned results.

Moscow, Russia
15 June 2001

Arthur Andersen ZAO

Aeroflot — Russian Airlines and Subsidiaries
Consolidated statements of operations

	Notes	Year ended 31 December 2000	Year ended 31 December 1999
		$ million	$ million
Traffic revenue	5	1,074.2	865.4
Other revenue	6	332.7	300.8
Revenue		**1,406.9**	**1,166.2**
Operating costs	7	1,073.9	887.2
Staff costs	8	146.2	139.7
Depreciation		104.7	132.0
Operating costs		**1,324.8**	**1,158.9**
Operating income		**82.1**	**7.3**
Interest expense	9	(48.7)	(52.2)
Interest income		0.9	0.9
Share of income in associated undertakings	24	7.8	4.6
Foreign exchange and translation loss, net	4	(12.0)	(6.8)
Non-operating income, net	10	9.4	40.1
Income (loss) before taxation and minority interest		**39.5**	**(6.1)**
Taxation	11	28.6	52.2
Income (loss) after taxation		**10.9**	**(58.3)**
Minority interest share of income	21	(2.3)	(1.3)
Income (loss)		**8.6**	**(59.6)**
Income (loss) per share	**4**	**0.008**	**(0.054)**

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

Aeroflot — Russian Airlines and Subsidiaries
Consolidated balance sheets

	Notes	31 December 2000	31 December 1999
		$ million	$ million
Assets			
Current assets			
Cash and cash equivalents	12	30.7	55.1
Short-term investments		1.6	1.9
Accounts receivable and prepayments, net	13	257.9	222.4
Inventories	14	22.6	14.8
		312.8	**294.2**
Long-term assets			
Long-term investments, net	15	16.5	15.0
Aircraft lease deposits		32.3	35.4
Other non-current assets	11, 12	13.8	11.7
Property, plant, and equipment, net	16	801.8	851.0
		864.4	**913.1**
Total assets		**1,177.2**	**1,207.3**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	17	432.8	359.9
Short-term borrowings	18	64.8	45.6
Current portion of finance leases payable	19	44.5	42.5
		542.1	**448.0**
Long-term liabilities			
Long-term borrowings	20	3.2	76.5
Finance leases payable	19	390.5	435.1
Non-current accounts payable and accrued liabilities		69.0	78.9
Deferred tax liability	11	97.1	104.1
		559.8	**694.6**
Minority interest	**21**	**7.0**	**5.0**
Shareholders' equity			
Ordinary shares	22	51.6	51.6
Revaluation reserve		—	17.1
Retained earnings (accumulated deficit)	23	16.7	(9.0)
		68.3	**59.7**
Total liabilities and shareholders' equity		**1,177.2**	**1,207.3**

V. M. Okulov
General Director

N. A. Kouznetsov
Deputy General Director
Finance and Planning

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

Aeroflot — Russian Airlines and Subsidiaries
Consolidated statements of cash flows

	Notes	Year ended 31 December 2000	Year ended 31 December 1999
		$ million	$ million
Cash flows from operating activities:			
Income (loss) before profit tax and minority interest		39.5	(6.1)
Adjustments to reconcile loss before profit tax and minority interest to net cash provided by operating activities:			
Depreciation of property, plant and equipment		104.6	132.0
Disposal of property, plant and equipment		4.1	8.8
Decrease in provisions and assets impairments		(49.4)	(20.6)
Accrued interest expense		0.8	2.8
Share of income in associated undertakings		(7.9)	(4.6)
Non-operating income and expenses		—	(37.1)
(Increase) decrease in accounts receivable		(41.7)	1.3
(Increase) decrease in inventories		(8.0)	7.7
Increase (decrease) in accounts payable and accrued liabilities		48.7	(19.0)
Profit tax paid		(4.7)	(5.6)
Net cash provided by operating activities		**86.0**	**59.6**
Cash flows from investing activities:			
Purchases of property, plant & equipment and intangible assets		(72.5)	(69.4)
Proceeds from sale of property, plant & equipment		6.0	1.8
Disposal of short-term investments, net		0.3	6.2
Proceeds from disposal of long-term investments	10	—	50.1
Dividends received		0.5	0.5
Net cash used in investing activities		**(65.7)**	**(10.8)**
Cash flows from financing activities:			
Capital element of finance lease		(42.5)	(38.8)
Dividends paid		(2.5)	(0.8)
Proceeds from (repayment of) borrowings		(4.9)	28.5
Net cash used in financing activities		**(49.9)**	**(11.1)**
Change in cash and cash equivalents		**(29.6)**	**37.7**
Beginning of the year		64.6	28.0
Effect of exchange rate change		(0.2)	(1.1)
Cash and cash equivalents		**34.8**	**64.6**
Supplemental cash flow information:			
Interest paid		(47.9)	(49.4)
Interest received		0.9	0.9

Note:

Included in Cash and cash equivalents as of 31 December 2000 and 1999 are $4.1 million and $9.5 million, respectively, of restricted cash held by the Company's representative offices abroad. Restrictions are due to the specific local currency regulations. Restricted cash was classified as "Other non-current assets" in the accompanying consolidated balance sheets.

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

Aeroflot — Russian Airlines and Subsidiaries
Consolidated statement of shareholders' equity

	Share capital	Revaluation reserve	Retained earnings	Total
	$ million	$ million	$ million	$ million
At 31 December 1998	**2.6**	**42.1**	**75.0**	**119.7**
Transfer	—	(25.0)	25.0	—
Capitalization of retained earnings (Note 22)	49.0	—	(49.0)	—
Loss	—	—	(59.6)	(59.6)
Dividends — 1999 (Note 23)	—	—	(0.4)	(0.4)
At 31 December 1999	**51.6**	**17.1**	**(9.0)**	**59.7**
Transfer	—	(17.1)	17.1	—
Income	—	—	8.6	8.6
Dividends — 2000 (Note 23)	—	—	—	—
At 31 December 2000	**51.6**	**—**	**16.7**	**68.3**

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

1. Nature of the business

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

At 31 December 2000 and 1999, the Government of the Russian Federation owned 51% of the Company. The Company's headquarters are located in Moscow at Leningradsky Prospect 37. The average number of employees in the Company during 2000 was approximately 14.8 thousand.

The table below provides information on the Group's aircraft fleet as of 31 December 2000:

Type of aircraft	Ownership	Aeroflot – Russian Airlines (quantity)	Aeroflot-Don (quantity)	Group total (quantity)
Ilyushin Il-96-300	Owned	6	—	6
Ilyushin Il-62M	Owned	13	—	13
Ilyushin Il-86	Owned	15	—	15
Ilyushin Il-76 TD (cargo)	Owned	11	—	11
Tupolev Tu-154	Owned	24	11	35
Tupolev Tu-134	Owned	12	5	17
Antonov An-12	Owned	—	3	3
Airbus A-310	Finance lease	4	—	4
Boeing 737-400	Finance lease	10	—	10
Airbus A-310	Operating lease	7	—	7
Boeing 767-36 NER	Operating lease	4	—	4
Boeing 777-2Q8	Operating lease	2	—	2
McDonnell Douglas DC-10-30F (cargo)	Operating lease	1	—	1
		109	**19**	**128**

2. Russian environment and economic conditions

General

Russia continues to undergo substantial political, economic and social changes. As an emerging market, Russia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy.

Furthermore, the Russian Government has not yet fully implemented the reforms necessary to create banking, judicial, taxation and regulatory systems that usually exist in more developed markets. As a result, and as reflected in the Government's debt default and Ruble devaluation during August 1998, operations in Russia involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include but are not limited to, a currency that is not freely convertible outside of the country, onerous currency controls, low liquidity levels for debt and equity markets, and continuing high rates of inflation. The Group will continue to be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets, and the ability of the Group to maintain or pay its debts as they mature. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Group's financial statements in the period when they become known and estimable.

Currency exchange and control

Foreign currencies, in particular the US Dollar, play a significant role in the underlying economics of many business transactions in Russia. The following table summarizes the exchange rate of the Ruble to 1 US Dollar for the years ended 31 December 2000, 1999 and 1998.

At 31 December —	Exchange rate
2000	28.16
1999	27.00
1998	20.65

At 15 June 2001, the exchange rate was 29.08 Rubles to 1 US Dollar.

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

The Central Bank of Russia has established strict currency control regulations designed to promote the commercial utilization of the Ruble. Such regulations place restrictions on the conversion of Rubles into foreign currencies and establish requirements for conversion of foreign currency sales to Rubles. See Note 26 for further discussion of risks associated with currency control regulation compliance.

Inflation

The Russian economy has been characterized by high rates of inflation. The following table summarises the annual rate of inflation for each year in the three-year period ended 31 December 2000.

For the year ended 31 December —	Annual inflation
2000	20.2%
1999	36.5%
1998	84.4%

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

3. Management plans

At 31 December 2000, the Group had a working capital deficiency of $229.3 million (1999: $153.8 million). During 2000, the Group's working capital deficiency deteriorated by $75.5 million. Several factors non-related to current operating activities of the Group contributed to this deterioration:

I. as further described in Note 20, during 2000 the management of the Group together with the Ministry of Finance of the Russian Federation agreed a settlement of the long-term debt of $76.5 million and related interest of $2.2 million. Only $25.2 million of cash has been used for repayment of the debt, with the remaining portion of the liability being settled by the transfer of all rights to certain accounts receivable (which were fully provided prior to the settlement) and certain other assets whose recoverability was also problematic. As a result of the transaction, the Group recognized a reduction in its reserves for bad debts ($57 million — see also Note 7) and losses on the disposal of investments ($4.3 million — see also Note 10).

II. the Group purchases spare parts and performs major overhauls of its fleet. During 2000, vendors did not provide long-term financing with respect to such operations, therefore, capital expenditures have been partially financed from working capital.

To improve the current liquidity, subsequent to 31 December 2000, the Group issued bonds with one year maturity (see also Note 27). Management believes that this will allow the Group to properly structure its obligations considering the cyclical nature of its business.

To implement a new corporate vision and strategy developed with the assistance of McKinsey & Co., the Group continued rescheduling its network. Several new profitable routes were opened while approximately 40 unprofitable routes were closed. Frequencies of flights were increased significantly which resulted in improved breadth and depth of the Group's network. Aircraft utilization increased by approximately 22 percent in 2000 compared to 1999 and is expected to further increase in 2001 by approximately 12 percent. Route connections improved by 24 percent in 2000 and are planned to increase further by another 19 percent in 2001. During 2000, overall load factor increased by approximately 10 percent. This trend is expected to continue which will result in a further increase in the Company's load factor by approximately 4 percent during 2001.

The Group also intends to convert and sell the remaining depository certificates of Equant N.V. Market value of the underlying shares of Equant N.V as of 15 June 2001 is approximately $29.2 million (see also Note 10), while carrying value is nil.

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

4. Principal accounting policies

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

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Accounting Standards (IAS). The consolidated financial statements are presented in millions of US Dollars. All significant subsidiaries under legal and/or actual control of the Company are included in the consolidated financial statements. A listing of the Group's principal subsidiaries is set out in Note 29.

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

Reporting currency

The US Dollar has been determined as the reporting currency of the Group on the basis that the majority of revenues are denominated in US Dollars and settled in US Dollars or other foreign currency, the majority of assets and liabilities are denominated in foreign currency, as is a significant portion of operating expenses.

Accordingly, these financial statements are presented in US Dollars. Transactions and balances not already measured in US Dollars have been remeasured to US Dollars in accordance with IAS 21, "The Effect of Changes in Foreign Exchange Rates". Since US Dollars are not the currency of a hyperinflationary economy, the provisions of IAS 29 "Financial Reporting in Hyperinflationary Economies" have not been applied.

Consolidation

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

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

Investments in associates

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Group has between 20% and 50% of voting rights, and over which the Group exercises significant influence, but which it does not control. Provisions are recorded for long-term impairment in value.

Equity accounting involves recognising in the statement of operations the Group's share of the associates' profit or loss for the year. The Group's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate and includes the amortized value of the goodwill recognized on the acquisition.

A listing of the Group's principal associated undertakings is shown in Note 29.

Management estimates

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

Revenues

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

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

Segmental reporting

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

a. Business segments

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

b. Geographical segments

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

I. *Geographical analysis of turnover from flights*

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

II. *Geographical analysis of net assets*

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

Property, plant and equipment

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

a. Fleet

I. *Owned aircraft and engines*

Aircraft and engines owned by the Group at 31 December 1995 were stated at depreciated replacement cost based upon external valuations denominated in US Dollars. Subsequent purchases are recorded at cost. The valuation was conducted by Airclaims, an international firm of aircraft appraisers. The Group has chosen not to 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 sheets as amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding obligation, reduced by the capital portion of lease payments made, is included in payables. The interest element of the lease payments made is included in interest expense in the statement of operations.

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

IV. *Depreciation*
During 2000, the Company revised its fleet depreciation policy based on the analysis of economic pattern of fleet utilization and the benchmark methods used in the industry as a whole. Starting from 1 January 2000, fleet assets owned or held under finance leases are depreciated on a straight-line basis to the end of their estimated useful life. Salvage value for the foreign fleet is estimated as 5% of the historic cost, while salvage value for Russian aircraft is zero. Engines are depreciated on a straight-line basis to the end of the useful life of the related type of aircraft. Operating lives for the Russian fleet range from 11 to 25 years, for the foreign fleet — 16 years to 20 years. These lives will be reviewed periodically. The change in the basis for estimated useful lives has been made prospectively. See also Note 16.

b. Land and buildings, plant and equipment and other assets under construction
Property and equipment is stated at the 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
Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded in income.

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

Investments
Marketable investments and bank promissory notes are recorded at the lower of cost and market value prevailing at balance sheet date on the basis of individual valuation. Where the market value is below cost, changes in market price are reflected in the statement of operations.

Long term equity and loan investments are recorded at cost less provision for any permanent diminution in value. Dividends are recognized as income in the period during which they are declared and paid.

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

Accounts receivable
Accounts receivable are stated net of provisions for bad and doubtful debts. Specific provisions are made against receivables whose recovery has been identified as doubtful. Provisions during the year are included in the statement of operations in addition to general allowances associated with the overall delinquency in customer payments.

Financial instruments
Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, marketable securities, trade and other

accounts receivable and payable, borrowings, investments, and notes payable. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

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

a. Credit risks

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

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

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

b. Fair value

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

Management does not believe that it is practicable to estimate the fair value of long-term investments. These instruments are not traded on the Russian financial markets and an objective estimate of fair value is not available.

c. Foreign exchange risk

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

d. Interest rate risk

The Group's main exposure to interest rate risk is from its finance lease liabilities and short-term borrowings. The Group does not use financial hedging instruments as they are not currently available on the Russian market. In 2000 the Group managed its interest rates exposure by fixing interest rates on its liabilities under a portion of its aircraft lease agreements.

Foreign currency translation

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

Profit tax

Commencing 1 April 1999, the maximum profit tax rate for industrial enterprises in Russia was reduced from 35% to 30%. Starting from 1 January 2001 the rate has been increased back to 35%.

Deferred profit taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences in accordance with IAS 12, "Income Taxes", Revised 1996 ("IAS 12") which was approved by the Board of the International Accounting Standards Committee in 1997 and was adopted by the Group effective 1 January 1997.

IAS 12 requires the use of a balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet. Therefore as of 31 December 2000 deferred tax assets and liabilities have been measured based on 35% tax rate.

Pension cost

The Group contributes to the Russian Federation state pension schemes, social and medical insurance and employment funds in respect of its employees. The Group's contribution amounts to 28% of employees' gross salaries, and is expensed as incurred.

In 1999 and 2000 in addition to the state pension scheme, the Company continued the establishment of a non-government pension fund. Liabilities are accrued based on the annual contribution required and expensed when incurred. See also Note 8.

Cash and cash equivalents

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

Value added taxes

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

Frequent Flyer Program

The Company records an estimated liability for the incremental cost associated with providing free transportation under "Aeroflot Bonus" program (see also Note 26) when a free travel award is earned. The liability is included in accounts payable and accrued liabilities, and is adjusted periodically based on awards earned, awards redeemed and changes in "Aeroflot Bonus" program.

Earnings per share

Income (loss) per share is calculated by dividing the income (loss) for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

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

Subsequent events

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

Contingencies

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

Reclassifications

Certain reclassifications were made to 1999 balances to conform with the 2000 presentation.

5. Traffic revenue

By sector

	2000 $ million	1999 $ million
Scheduled flights:		
Passengers	920.1	754.4
Cargo	92.4	70.0
Charter flights:		
Passengers	36.3	17.1
Cargo	25.4	23.9
	1,074.2	**865.4**

By region

a. Scheduled passenger revenue	2000 $ million	1999 $ million
International flights from Moscow to:		
Europe	174.8	157.5
Asia	99.5	79.7
North America	50.0	48.6
Other	41.5	35.2
International flights to Moscow from:		
Europe	173.1	158.1
Asia	105.0	83.9
North America	44.7	41.2
Other	42.7	34.4
Other international flights	23.8	33.4
Domestic flights	165.0	82.4
	920.1	**754.4**

b. Scheduled cargo revenue	2000 $ million	1999 $ million
International flights from Moscow to:		
Europe	7.6	6.0
Asia	3.4	2.9
North America	5.3	4.6
Other	2.0	1.9
International flights to Moscow from:		
Europe	7.0	5.3
Asia	26.8	20.5
North America	2.5	2.3
Other	3.4	3.2
Other international flights	23.6	17.5
Domestic flights	10.8	5.8
	92.4	**70.0**

6. Other revenue

	2000	1999
By sector	$ million	$ million
Airline revenue agreements	272.4	237.4
Ground handling and maintenance	14.8	17.3
Catering services	14.2	12.4
Hotel revenue	8.2	9.8
Refuelling services	6.8	9.7
Other revenue	16.3	14.2
	332.7	**300.8**

Airline revenue agreements represent primarily revenue from pooling agreements.

Included in other revenue for 2000 and 1999 is revenue from management services provided by the Company to its associated undertaking Aerofirst in the amount of $2.1 million and $2.3 million, respectively.

7. Operating costs

	2000	1999
	$ million	$ million
Aircraft fuel	335.4	201.2
Aircraft and traffic servicing	240.5	233.8
Operating lease expenses	100.5	85.6
Maintenance	94.1	64.1
Sales and marketing	92.0	69.3
Operating taxes	82.6	64.2
Administration and general expenses	64.0	98.0
Third-party passenger services	34.4	35.0
Communication expenses	32.2	24.6
Release of provision for bad and doubtful accounts	(34.2)	(27.8)
Other expenses	32.4	39.2
	1,073.9	**887.2**

Release of provision for doubtful accounts receivable includes $57.0 million release of provision for accounts receivable which were realized from the repayment of a long-term loan (see also Note 20).

8. Staff costs

	2000	1999
	$ million	$ million
Wages and salaries	111.8	106.8
Social security costs	7.0	9.2
Pension costs	27.4	23.7
	146.2	**139.7**

The Group commenced the establishment of 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 2000 and 1999, the Group made pension contributions to the fund totalling 19.4 million and 1.3 million Russian Rubles, respectively (approximately $690 thousand and $53 thousand, respectively). Total assets of the pension fund as of 31 December 2000 were approximately $1.8 million (Rbl 50,566 million translated at the year-end exchange rate).

9. Interest expense

	2000	1999
	$ million	$ million
Finance leases	37.9	39.6
Long-term borrowings	4.1	7.6
Short-term borrowings	6.7	5.0
	48.7	**52.2**

10. Non-operating income and expense

	2000	1999
By income (expense)	$ million	$ million
Gain from sale of interest in Equant N. V. (I)	—	50.1
Loss on fixed assets disposal, net	(4.0)	(7.0)
Dividend income	0.5	0.5
Gain from long-term investments disposals, net (II)	10.7	—
Loss from short-term investments disposals, net (III)	(11.1)	—
Other income and expenses, net	13.3	(3.5)
	9.4	**40.1**

I. In 1995, the Company received 90,546 depository certificates (subsequently revised to 84,757 certificates) representing an economic interest in Class A shares of the newly established SITA Telecommunications Holdings B. V. (subsequently renamed Equant N.V.), a subsidiary of SITA (Societe Internationale de Telecommunications Aeronautiques) providing communication services to various international airlines. The certificates were distributed free of charge to participating airlines proportionally to their use of SITA services during the period 1990 — 1994.

In 1998 a share split was declared that resulted in 20 new certificates being equal to one original certificate. After the share split, the Company owned 1,695,142 depository certificates. Shares of Equant N. V., the Netherlands-based company, are listed on the New York Stock Exchange and the Bourse de Paris. In December 1999, the Company converted 571,901 of its certificates into shares of Equant N. V. and sold them through a public offering. Proceeds received by the Company from the sale were $50.1 million and are included in non-operating income in the accompanying statement of operations for the year ended 31 December 1999.

As of 31 December 2000 and 1999, the Company owned 1,123,241 depository certificates of Equant N. V., which in the future may be converted to Equant N. V.'s shares. The market value of Equant N. V.'s common shares as of 31 December 2000 was $26 per share ($26 per share as of 15 June 2001). The Company reflects its investments in the depository certificates at cost (nil) in the accompanying consolidated balance sheets.

II. Gain from long-term investments disposals includes $8.0 million of bonds with carrying value of nil which were realized through the repayment of long-term loan (see also Note 20).

III. Loss from short-term investments includes $12.3 million loss resulted from repayment of long-term loan (see also Note 20.)

11. Taxation

	2000	1999
	$ million	$ million
Current income tax charge	(35.1)	(33.2)
Deferred income tax charge	9.6	(17.5)
Share of income taxes of associated companies	(3.1)	(1.5)
	(28.6)	**(52.2)**

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

	2000	1999
	$ million	$ million
Income (loss) before taxation	**39.5**	**(6.1)**
Theoretical tax charge (gain) at statutory rate of 30% for the years ended 31 December 2000 and 1999	11.9	(1.8)
Effect of tax rate reduction from 35% to 30% for 1999 and increase from 30% to 35% for 2000	13.5	(12.4)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible foreign exchange losses	3.1	35.0
Non-deductible expenses	20.2	29.1
Release of provision for doubtful accounts	(15.2)	—
Reduction in accruals	(2.1)	—
Other non-temporary differences	(2.8)	4.7
Change in valuation allowance on net deferred tax asset	—	(2.4)
Taxation	**28.6**	**52.2**

Differences between IAS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. As described in Note 4 starting 1 January 2001 profit tax rate in Russia has been increased from 30% to 35%. The tax effect of the movement on these temporary differences is recorded at the rates of 35% and 30% for the years ended 31 December 2000 and 1999, respectively. The impact of tax rate increase on deferred tax liabilities as of 31 December 2000 is $13.5 million.

As a result of the changes in the Russian tax legislation, a profit tax rate of 30% has been enacted starting from 1 April 1999. As this tax rate was not substantively enacted at 31 December 1998, the effect of the change was reflected in the financial statements for the year ended 31 December 1999. The amount of the decrease in deferred tax liabilities as at 31 December 1998 resulting from reduction in the tax rate is $12.4 million.

The Company performed revaluation of owned engines as of 1 January 2001. The results of this revaluation will be used for statutory tax purposes and will not affect the carrying value of the assets reflected in the financial statements prepared in accordance with IAS. Such revaluation will decrease the difference between the carrying value of the engines and their tax base and, accordingly, will result in a decrease of the deferred tax liability. The estimated deferred tax effect of the change in tax base of engines of approximately $22 million will be recorded in 2001, i. e. in the period when change in tax base occurred, as a deferred tax benefit in the statement of operations.

	2000	Movement	1999	Movement	1998
	$ million	$ million	$ million	$ million	$ million
Tax effects of temporary differences:					
Property, plant & equipment	(80.3)	3.0	(83.3)	19.7	(103.0)
Long-term investments	(22.4)	(0.6)	(21.8)	7.1	(28.9)
Inventories	(0.2)	(2.3)	2.1	4.8	(2.7)
Accounts receivable	(19.4)	3.0	(22.4)	(11.9)	(10.5)
Long-term borrowings	—	—	—	(19.1)	19.1
Accounts payable	27.8	6.5	21.3	(20.5)	41.8
Net deferred tax (liabilities) assets	**(94.5)**	**9.6**	**(104.1)**	**(19.9)**	**(84.2)**
Less valuation allowance	—	—	—	2.4	(2.4)
Total deferred tax assets	**2.6**	**2.6**	—	—	—
Total deferred tax liabilities	**(97.1)**	**7.0**	**(104.1)**	**(17.5)**	**(86.6)**

Deferred tax assets relate to the difference in carrying value of property, plant and equipment and their tax base of the Company's subsidiary. Deferred tax assets are included in other non-current assets in the accompanying balance sheet as of 31 December 2000.

12. Cash and cash equivalents

	2000	1999
	$ million	$ million
Ruble bank accounts	9.1	4.8
Currency bank accounts	19.1	43.7
Cash equivalents	2.5	6.6
	30.7	**55.1**

Included in Other non-current assets as of 31 December 2000 and 1999 are approximately $4.1 million and $9.5 million, respectively, of restricted cash held by the Company's representative offices abroad. Restrictions are due to the specific local currency regulations.

13. Accounts receivable and prepayments

	2000	1999
	$ million	$ million
Trade receivables	118.1	188.9
Other receivables	25.7	28.2
Prepayments and accrued income	53.9	41.1
Provision for bad and doubtful accounts	(40.3)	(98.4)
	157.4	159.8
VAT and other taxes recoverable	100.5	62.6
	257.9	**222.4**

In 2000 the Company transferred accounts receivable of $57 million as part of the settlement of its' debt to the Government of the Russian Federation (refer to Note 20). These accounts receivable were previously fully reserved.

14. Inventories

	2000	1999
	$ million	$ million
Fuel	7.0	5.4
Other inventory	15.6	9.4
	22.6	**14.8**

15. Long-term investments

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

	Associates equity	Other equity	Marketable bonds	Other	Total
	$ million	$ million	$ million	$ million	$ million
1 January 1999	12.8	4.5	0.7	1.1	19.1
Additions	—	—	—	—	—
Share of undistributed income	3.1	—	—	—	3.1
Dividends received	(0.6)	—	—	—	(0.6)
Disposals	(2.1)	(3.0)	(0.7)	(0.8)	(6.6)
31 December 1999	**13.2**	**1.5**	—	**0.3**	**15.0**
Additions	—	0.5	—	—	0.5
Share of undistributed income	4.7	—	—	—	4.7
Dividends received	(3.1)	—	—	—	(3.1)
Disposals	(0.3)	—	—	(0.3)	(0.6)
31 December 2000	**14.5**	**2.0**	**—**	**—**	**16.5**

A list of the principal subsidiaries and associates is included in Note 29. Net book value is stated after the following provisions for permanent diminution in the value:

31 December 2000	**0.5**	**2.8**	**—**	**1.0**	**4.3**
31 December 1999	**0.2**	**13.1**	**—**	**1.0**	**14.3**

16. Property, plant and equipment

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Plant, equipment and other	Assets under construction	Total
	$ million	$ million	$ million	$ million	$ million	$ million
Cost or valuation						
31 December 1998	410.5	622.7	140.8	193.0	12.3	1,379.3
Additions	23.7	33.1	0.3	12.7	6.3	76.1
Capitalized overhaul costs	24.0	5.4	—	—	—	29.4
Transfers	34.1	(34.1)	2.5	0.2	(2.7)	—
Disposals	(32.6)	—	(0.1)	(10.2)	(2.2)	(45.1)
31 December 1999	**459.7**	**627.1**	**143.5**	**195.7**	**13.7**	**1,439.7**
Additions	26.7	—	0.4	14.8	9.5	51.4
Capitalized overhaul costs	17.2	4.5	—	—	—	21.7
Transfers	—	—	—	0.3	(0.3)	—
Disposals	(27.2)	—	—	(18.1)	(1.0)	(46.3)
31 December 2000	**476.4**	**631.6**	**143.9**	**192.7**	**21.9**	**1,466.5**
Depreciation						
31 December 1998	(237.0)	(143.0)	(19.0)	(80.3)	—	(479.3)
Charge for the year	(40.0)	(66.5)	(6.9)	(18.6)	—	(132.0)
Disposals	13.3	—	0.1	9.2	—	22.6
Transfers	(18.0)	18.0	—-	—	—	—
31 December 1999	**(281.7)**	**(191.5)**	**(25.8)**	**(89.7)**	**—**	**(588.7)**
Charge for the year	(46.7)	(31.9)	(7.1)	(19.0)	—	(104.7)
Additions (I)	(4.0)	—	(0.1)	—	—	(4.1)
Disposals	19.1	—	—	13.7	—	32.8
31 December 2000	**(313.3)**	**(223.4)**	**(33.0)**	**(95.0)**	**—**	**(664.7)**
Net book amount						
31 December 2000	**163.1**	**408.2**	**110.9**	**97.7**	**21.9**	**801.8**
31 December 1999	**178.0**	**435.6**	**117.7**	**106.0**	**13.7**	**851.0**

As described in Note 4 above, in 2000 the Company revised its fleet depreciation methods. Starting from 1 January 2000 fleet (both owned and leased) is depreciated on a straight-line basis to the end of the aircraft estimated useful lives. As a result of the change of the depreciation method, depreciation charge for 2000 reduced by $13.7 million as compared to the depreciation which would have been charged under the previously used method.

If the depreciation method has changed in 1999, depreciation charge for 1999 would have decreased by $14.8 million as compared to the depreciation method used in 1999. Besides the effect of the change in depreciation method, other factors, such as fleet utilization improvement and network rescheduling (refer also to Note 3), had their impact on the depreciation charge.

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

I. Additions to depreciation represent the opening accumulated depreciation of fixed assets of the consolidated subsidiary (Aeroflot-Don). See also Note 29.

17. Accounts payable and accrued liabilities

	2000	1999
	$ million	$ million
Trade payables and accruals	233.5	216.3
Sales in advance of carriage	46.7	37.7
Profit and other taxes payable	86.8	77.3
Other payables	19.2	4.8
Wages and social contributions payable	13.4	7.7
Notes payable	19.8	6.6
Accrued interest	4.5	5.9
Advances received	8.7	3.1
Dividends payable	0.2	0.5
	432.8	**359.9**

18. Short-term borrowings

	2000	1999
	$ million	$ million
Loans in USD		
Savings Bank of the Russian Federation (I)	22.7	29.3
Moscow Narodny Bank Ltd. (II)	—	10.9
Vnesheconombank (III)	6.0	2.3
Guta Bank (IV)	—	1.3
Alfa Bank (V)	5.0	—
Loans and credit lines in Rubles		
Rosbank (VI)	18.5	—
Alfa Bank (VII)	5.4	—
Moscow Narodny Bank Ltd. (VIII)	5.1	—
Savings Bank of the Russian Federation (IX)	1.3	1.8
Guta Bank (X)	0.8	—
	64.8	**45.6**

Notes:

I. Loan is bearing interest of 13 percent per annum. The loan has been repaid subsequently to year-end as it matured. Fixed assets of $13.3 million pledged as a collateral under this loan agreement are disclosed in Note 16 above.

II. As of 31 December 1999 in addition to loans of $10.9 million, Moscow Narodny Bank Ltd. provided standby letters of credit to the benefit of certain lessors and vendors of the Company totalling $4.6 million. The loan of $10.9 million was repaid subsequently to year-end.

III. Loan is bearing interest of 12 percent per annum and is payable in 2001.

IV. Loan was bearing interest of 10 percent per annum.

V. Loan is bearing interest of 12.25 percent per annum and is payable in 2001.

VI. In 2000, the Company was granted two unsecured overdraft loans with a limit of Rbl 100 million and Rbl 420 million ($3.6 million and $14.9 million, respectively, at the exchange rate as of 31 December 2000). As of 31 December 2000, the balances drawn under these facilities were $3.6 million and $14.9 million, respectively, payable in 2001 and bearing interest of 21 percent per annum and 20.8 percent per annum, respectively. The loan has been repaid subsequently to year-end.

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

VIII. Unsecured loan bearing 18 percent per annum. The loan has been repaid subsequently to year-end.

IX. In 2000, the Company was granted an unsecured overdraft loan with a limit of Rbl 100 million ($3.6 million at the exchange rate as of 31 December 2000). As of 31 December 2000, the balance drawn under this facility was $1.3 million payable in 2001 and bearing interest of 16 percent per annum. The loan has been repaid subsequently to year-end.

X. In 2000, the Company was granted an unsecured overdraft loan with a limit of Rbl 100 million ($3.6 million at the exchange rate as of 31 December 2000). As of 31 December 2000, the balance drawn under this facility was $0.8 million payable in 2001 and bearing interest of 15 percent per annum.

19. Finance leases payable

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

	2000 $ million	1999 $ million
Total outstanding payments	616.5	697.4
Finance charge	(181.5)	(219.8)
Principal outstanding	**435.0**	**477.6**
Representing:		
Short-term lease payable	44.5	42.5
Long-term lease payable	390.5	435.1
Due for repayment (principal and finance charge):		
Within one year	80.1	80.8
Between:		
one and two years	82.5	80.1
two and three years	80.1	82.5
three and four years	81.9	80.1
four and five years	66.0	81.9
five and ten years	225.3	273.1
after ten years	0.6	18.9
	616.5	**697.4**

Interest unpaid at 31 December 2000 and 1999 was approximately $4.2 million and $4.6 million, respectively, and has been included in accounts payable and accrued liabilities. The effective interest rates on these leases range from 7.5% to 8.95%.

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

20. Long-term borrowings

	2000 $ million	1999 $ million
Government of the Russian Federation	—	76.5
Other	3.2	—
	3.2	**76.5**

In December 1998, the Government of the Russian Federation included all of the foreign debts of the Company's subsidiary Sherotel in the Paris Club arrangements. In return, the Company signed a loan agreement with the Ministry of Finance of the Russian Federation for $76.5 million. Under the terms of the agreement, the Company acquired the outstanding obligations of JSC "Sherotel" to the government of the Russian Federation on debts to foreign creditors. This loan was to be repaid in 2001 through 2012 in accordance with the agreed repayment schedule. The loan's contractual interest equaled six month LIBOR plus 13/16 of a percent, due semi-annually.

During 2000, the Company together with the Ministry of Finance of the Russian Federation agreed a settlement of the debt and the loan has been repaid in full during 2000. As part of the settlement agreement the Company transferred old accounts receivable totalling approximately $57 million which were previously fully provided. As a result, the Company reduced its bad debt reserves by $57 million in the accompanying consolidated statement of operations for the year ended 31 December 2000 (see also Note 7). As another part of the settlement agreement, the Company transferred bonds which were recorded at nil carrying value at a profit $8.0 million and short-term investments at a net loss of $12.3 million (see also Note 10).

21. Minority interest

	2000 $ million	1999 $ million
Beginning balance	5.0	4.2
Minority interest at the date of acquisition of a new subsidiary	1.5	—
Share of net profit of subsidiaries	2.3	1.3
Dividends	(1.8)	(0.5)
	7.0	**5.0**

During 2000, the Company acquired interest in a new subsidiary ZAO "Aeroflot-Don" (see also Note 29).

22. Ordinary shares

	Number of shares authorized, issued and outstanding	Book amount
		$ million
Ordinary shares of one Russian Ruble each:		
As of 31 December 2000 and 1999	1,110,616,299	51.6

During 1999, the Company issued 1,107,452,150 of ordinary shares with a par value of 1.00 Ruble each, and the share capital of the Company has been increased up to 1,111 million Rubles as result of the issuance. Share capital has been increased as a result of the statutory revaluation of tangible assets of the Company performed in prior years. New shares have been distributed on a pro-rata basis among all shareholders without any additional consideration.
As a result of this share emission, $49.0 million has been reclassified from retained earnings to share capital in the accompanying statement of shareholders' equity.

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

The Company launched its Level 1 Global Depositary Receipts (GDR) programme in December 2000. The Company signed a depositary agreement with Deutsche Bank Group which allowed the Company's shareholders to swap their shares in GDRs, which trade over-the-counter in US and European markets. The swap ratio was established at 100 shares per GDR, and totalled 20% of the Company's share capital. Subsequently to year-end (refer also to Note 27) the Company's GDRs were listed at NEWEX (New Europe Stock Exchange) Vienna, Austria.

23. Reserves and dividends

The distributable reserves of the Group comprise only the distributable reserves of the parent company. Furthermore, the statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit. For the years ended 31 December 2000 and 1999, the statutory profit for the Company as reported in the published annual statutory reporting forms was 1,238 million and 110 million Russian Rubles, respectively. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

For the years ended 31 December 2000 and 1999 the shareholders of the Company have approved dividends totalling 33.3 million Russian Rubles ($1.2 million at the 2000 year-end exchange rate) and 11.1 million Russian Rubles (approximately $0.4 million at the 1999 year-end exchange rate), respectively.

Dividends for 1999 were accrued in the financial statements for the year ended 31 December 1999. In accordance with IAS 10 (revised 1999) "Events after the balance sheet date" which became operative for annual financial statements covering periods beginning on or after 1 January 2000, dividends for 2000 which were declared and approved subsequently to 31 December 2000, have not been accrued in the accompanying financial statements for the year ended 31 December 2000.

The transfer between revaluation reserve and retained earnings in 2000 and 1999 represents the portion of the depreciation charge in respect of the revaluation increment on property, plant and equipment charged to the statement of operations during the year net of the effect of deferred taxation.

24. Segment information

Reporting format — business segments

Year ended 31 December 2000	Airline $ million	Catering $ million	Hotels $ million	Other $ million	Eliminations $ million	Group $ million
External sales	1,384.5	14.2	8.2	—	—	1,406.9
Intrasegment sales	—	32.1	3.6	—	(35.7)	—
Total revenue	**1,384.5**	**46.3**	**11.8**	**—**	**(35.7)**	**1,406.9**
Operating profit (loss)	79.4	3.2	(0.5)	—	—	82.1
Interest expense	(48.6)	—	(5.9)	—	5.8	(48.7)
Interest income	6.7	—	—	—	(5.8)	0.9
Share of associates	—	—	0.3	7.5	—	7.8
Foreign exchange and translation loss, net	(7.2)	(0.4)	(4.4)	—	—	(12.0)
Net non-operating income	14.5	—	0.5	—	(5.6)	9.4
Income (loss) before tax	**44.8**	**2.8**	**(10.0)**	**7.5**	**(5.6)**	**39.5**
Taxation	(20.3)	(2.5)	(2.9)	(2.9)	—	(28.6)
Income (loss) after tax	**24.5**	**0.3**	**(12.9)**	**4.6**	**(5.6)**	**10.9**
Minority interest						(2.3)
Net income						**8.6**
Segment assets	1,107.3	11.8	43.5	—	—	1,162.6
Associates	—	—	6.5	8.1	—	14.6
Consolidated total assets						**1,177.2**
Segment liabilities	1,065.5	14.0	22.4	—	—	1,101.9
Capital expenditure	71.6	0.9	—	—	—	72.5
Depreciation	98.4	1.0	5.3	—	—	104.7

Reporting format — business segments

Year ended 31 December 1999	Airline $ million	Catering $ million	Hotels $ million	Other $ million	Eliminations $ million	Group $ million
External sales	1,144.0	12.4	9.8	—	—	1,166.2
Intrasegment sales	—	36.1	2.4	—	(38.5)	—
Total revenue	**1,144.0**	**48.5**	**12.2**	**—**	**(38.5)**	**1,166.2**
Operating profit (loss)	5.6	5.9	(0.7)	—	(3.5)	7.3
Interest expense	(52.2)	—	(4.8)	—	4.8	(52.2)
Interest income	5.6	—	0.1	—	(4.8)	0.9
Share of associates	—	—	0.9	3.7	—	4.6
Foreign exchange and translation loss, net	(5.2)	(0.4)	(1.2)	—	—	(6.8)
Net non-operating income	40.8	—	0.3	—	(1.0)	40.1
Income (loss) before tax	**(5.4)**	**5.5**	**(5.4)**	**3.7**	**(4.5)**	**(6.1)**
Taxation	(36.3)	(3.0)	(11.4)	(1.5)	—	(52.2)
(Loss) income after tax	**(41.7)**	**2.5**	**(16.8)**	**2.2**	**(4.5)**	**(58.3)**
Minority interest						(1.3)
Net loss						**(59.6)**
Segment assets	1,134.0	14.0	48.0	—	—	1,196.0
Associates	—	—	6.4	4.9	—	11.3
Consolidated total assets						**1,207.3**
Segment liabilities	1,114.8	13.0	14.8	—	—	1,142.6
Capital expenditure	68.6	0.7	0.1	—	—	69.4
Depreciation	125.6	1.0	5.4	—	—	132.0

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; and
- Hotels — the operation of hotels.

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

25. Commitments under operating leases

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

	2000	1999
	$ million	$ million
Within one year	95.7	94.4
Between:		
one and two years	91.9	91.1
two and three years	80.4	91.1
three and four years	56.5	80.0
four and five years	48.7	59.9
after five years	29.1	76.1
Total minimum payments	**402.3**	**492.6**

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

26. Contingent liabilities

Political environment

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

Taxation

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

Currency control

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

Legal

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

For part of 1997, the company providing treasury services had a director in common with the Company. From May 1997, following a new agreement between the parties restrictions were placed upon the use of the funds by means of a fiduciary clause requiring that all funds provided to the Swiss financial company be deposited with the Union Bank of Switzerland. In the course of providing treasury services the Swiss financial company also effected payments on behalf of the Company. Commissions charged during 1999, 1998 and 1997 totalled $2.5 million, $14.5 million and $10.1 million, respectively. As of 31 December 2000 and 1999, no funds were held by this non-bank Swiss financial company. The operations with the company providing treasury services were ceased in May 1999. During 2000, $0.4 million of finance charges have been billed to the Company on the outstanding liability for the services.

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

In addition, a facility fee was payable for the credit lines. No interest or fees were paid in 2000 and 1999.

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

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

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

III. The Company is being sued for approximately $7.7 million (during 2000 the plaintiff decreased the claim amount from $30 million to $7.7 million) by a US-based company provided consulting services related to the Company's commercial activity in the Middle Asia for breach of the terms of paying the consultant's fees. The management of the Group believes that there was no valid agreement between the Company and the consultant and thus, no basis for settlements. No accrual has been made in the accompanying consolidated financial statements since management does not believe it is likely that a significant settlement will arise.

IV. A subsidiary's treatment of customs duties in relation to past practice has been challenged by the customs authorities. No final resolution has been reached between the parties. The maximum extent of the exposure is approximately $15.4 million. However, management has made the best assessment of the likely outcome associated with this issue and made a provision accordingly amounting to $3.3 million.

V. The Group is a defendant in various other legal actions. In the opinion of the directors, after taking appropriate legal advice, the results of such actions will not have a material effect on the Group's financial position or future results of operations.

Commitments

The Company started its frequent flyer program "Aeroflot Bonus" in 1999. As of 31 December 2000 approximately 66 thousand of passengers participated in the program. As of 31 December 2000, the accrued liability for the incremental cost associated with providing free transportation under "Aeroflot Bonus" program was not recognized as the amount is not material.

27. Subsequent events

Subsequent to year-end the following events have occurred:

I. In March 2001 the Company issued long-term interest bearing bonds totalling 600 million Russian Rubles (approximately $20 million at the exchange rate at the date of issue). Bonds were placed in Russian market. Bonds mature in March 2002.

II. In 2001 the Company's GDRs (see also Note 22) were listed on NEWEX (New Europe Stock Exchange) Vienna, Austria.

III. In 2001, the Group established a subsidiary, travel agency "Aeroflot's World". The Group anticipates the travel agency to become a large commercial partner of the Company which will be fully controlled by the Group.

IV. In April 2001 the Company sold three aircraft Ilyushin Il-76 TD (cargo) at $843 thousand. The aircrafts' net book value as of 31 December 2000 amounted to $548 thousand.

28. Intragroup transactions

The financial statements of the Group include the following balances:

	2000	1999
	$ million	$ million
Amounts receivable from non-consolidated subsidiaries and associated undertakings	1.9	2.3
Amounts payable to non-consolidated subsidiaries and associated undertakings	3.7	2.6

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

	2000	1999
	$ million	$ million
Sales to non-consolidated subsidiaries and associated undertakings	2.9	2.3
Purchases from non-consolidated subsidiaries and associated undertakings	19.6	8.6

Pricing of the transactions between group companies is based on the normal business conditions.

29. Principal subsidiary and associated undertakings

The principal subsidiary undertakings are:

Company name	Activity	Percentage held at 31 December 2000
ZAO "Sherotel"	Hotel	100.0%
"Aeroflot Garant"	Non-governmental pension fund	81.1%
OAO Insurance company "Moscow"	Insurance	74.5%
ZAO "Aeromar"	Catering	51.0%
ZAO "Aeroflot-Don"	Airline	51.0%
ZAO "Aeroservice"	Transportation and courier services	51.0%

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

The principal associated undertakings are:

Company name	Activity	Percentage held at 31 December 2000
ZAO "Airport Moscow"	Cargo handling	50.0%
ZAO "Aerofirst"	Trading	33.3%
ZAO "TZK"	Fuel trading company	31.0%
OOO "Aeroimp"	Hotel	25.0%

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

All companies listed above are incorporated in the Russian Federation.

30. Reconciliation of Russian statutory books to IAS financial statements (unaudited)

The following is a reconciliation of the Company's profit after taxation and before reserves under Russian Accounting Rules to the Group's income (loss) after taxation under IAS. Profit reported in the Russian statutory accounts has been translated to US Dollars at the average exchange rates for the respective years.

	2000 $ million	1999 $ million
Profit as disclosed in the Russian statutory accounts (unaudited)	44.0	4.5
Expenses charged directly to reserves	(40.3)	(43.4)
Effects of consolidating subsidiary undertakings	(13.4)	(25.7)
Effects of equity accounting associated undertakings	1.6	2.5
Changes in investments valuation	10.0	(10.3)
Bad debts provisions	55.4	56.2
Capitalization of repairs and overhauls of aircraft and engines	34.0	44.8
Capital element of lease payments offset against lease liability	44.1	45.7
Incremental depreciation charge	(86.8)	(112.5)
Deferred tax	9.0	(17.5)
Foreign exchange translation and adjustments	(9.5)	28.5
Deferral of revenue and revenue cut-off	(7.0)	(22.3)
Loss on fixed assets disposal	(16.0)	(7.0)
Loss from short-term investments disposal	(28.8)	—
Gain from long-term investments disposal	1.3	—
Effect of expense accruals	8.8	(1.7)
Other adjustments – net	2.2	(1.4)
IAS income (loss)	**8.6**	**(59.6)**

A reconciliation of reported 2000 shareholders' equity of the Company under Russian Accounting Rules to the Group's shareholders' equity under IAS is presented below. Equity reported in the Russian statutory accounts has been translated to US Dollars at the year-end exchange rate.

	2000	1999
	$ million	$ million
Shareholders' equity as disclosed in the Russian statutory accounts (unaudited)	**85.2**	**83.3**
Property, plant and equipment valuation effect	223.1	281.1
Investments valuation effect	3.7	7.3
Provision for bad and doubtful accounts receivable	(38.6)	(98.4)
Recognition of deferred income tax	(83.3)	(104.1)
Effect of accruals	(18.9)	(39.9)
Deferred revenue recognition	(46.7)	(37.7)
Foreign exchange translation and adjustments	(41.0)	(28.1)
Effects of consolidating subsidiary undertakings	(23.4)	(13.2)
Effects of equity accounting associated undertakings	4.8	10.6
Other reconciling items, net	3.4	(1.2)
Shareholders' equity per IAS	**68.3**	**59.7**

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Glossary

Aeroflot Bonus
Aeroflot's Frequent Flyer Program

BSP/ARC
electronic ticket sales systems

CIS
Commonwealth of Independent States

CS
Common share

FAA
Federal Aviation Administration of the U.S.

GDR
Global Depositary Receipts

Hub
term used for a correspondence platform where departures and arrivals are scheduled so as to minimize transfer times

IAS
International Accounting Standards

IATA
International Air Transport Association

ICAO
International Civil Aviation Organization

LLC
limited liability company

market capitalization
total market value of securities issued by a company

NEWEX
New Europe Exchange

NAUFOR
The National Association of Stock Market Participants of Russia

SAP/R3
integrated resource management system

SEC
Securities and Exchange Commission of the U.S.

RTS
The Russian Trading System

TCAS
Traffic Collision Avoidance System

Passenger-kilometers
the sum of the products obtained by multiplying the number of revenue passengers carried on each flight stage by the flight stage distance

Revenue passenger-kilometers (RPK)
revenue passenger kilometers are computed by multiplying the total number of paying passengers by the kilometers they have flown.

Available seat-kilometers (ASK)
total number of seats available for the transportation of paying passengers multiplied by the number of kilometers flown

Passenger load factor
revenue passenger-kilometers (RPK) divided by the number of available seat-kilometers (ASK)

Available ton-kilometers (ATK)
total number of available tones for the transportation of cargo multiplied by the number of kilometers flown.

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