



**OPEN JOINT STOCK COMPANY  
AEROFLOT – RUSSIAN AIRLINES**

**Consolidated Financial Statements**  
as at and for the year ended 31 December 2010

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

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2010, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").


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

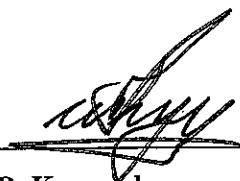
- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been complied with, subject to any material departures being disclosed and explained in the consolidated financial statements; and
-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

Management is also responsible for:

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

The consolidated financial statements as at and for the year ended 31 December 2010 were approved on 20 May 2011 by:

  
\_\_\_\_\_  
**V. G. Saveliev**  
General Director

  
\_\_\_\_\_  
**Sh. R. Kurmashov**  
Deputy General Director  
Finance and Investment



**ZAO KPMG**  
10 Presnenskaya Naberezhnaya  
Moscow, Russia 123317

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

## **Independent Auditors' Report**

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

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Aeroflot – Russian Airlines (the “Company”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

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

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



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

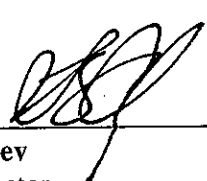
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20 May 2011

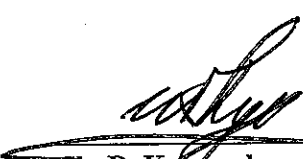
**OJSC AEROFLOT – RUSSIAN AIRLINES**

Consolidated Statement of Income  
for the year ended 31 December 2010  
(All amounts in millions of US dollars)



	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Traffic revenue	5	3,700.0	2,818.7
Other revenue	6	619.3	527.2
<b>Revenue</b>		<b><u>4,319.3</u></b>	<b><u>3,345.9</u></b>
Operating costs	7	(2,949.1)	(2,383.9)
Staff costs	8	(686.5)	(538.9)
Depreciation and amortisation	22, 23	(184.3)	(145.3)
<b>Operating costs</b>		<b><u>(3,819.9)</u></b>	<b><u>(3,068.1)</u></b>
<b>Operating profit</b>		<b><u>499.4</u></b>	<b><u>277.8</u></b>
Finance income	9	20.8	2.8
Finance costs	9	(159.5)	(53.1)
Share of results of equity accounted investments	18	11.1	6.9
Other non-operating expenses, net	10	(18.3)	(28.6)
<b>Profit before income tax</b>		<b><u>353.5</u></b>	<b><u>205.8</u></b>
Income tax	11	(100.3)	(120.0)
<b>Profit for the year</b>		<b><u>253.2</u></b>	<b><u>85.8</u></b>
<i>Attributable to:</i>			
Shareholders of the Company		278.4	89.2
Non-controlling interest		(25.2)	(3.4)
		<b><u>253.2</u></b>	<b><u>85.8</u></b>
<b>Earnings per share, basic and diluted (US cents)</b>		<b><u>27.0</u></b>	<b><u>8.1</u></b>
<b>Weighted average number of shares outstanding (millions)</b>		<b><u>1,029.6</u></b>	<b><u>1,094.5</u></b>

  
\_\_\_\_\_  
V. G. Saveliev  
General Director

  
\_\_\_\_\_  
Sh. R. Kumashov  
Deputy General Director  
Finance and Investment

The consolidated statement of income should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 48.

**OJSC AEROFLOT – RUSSIAN AIRLINES**  
 Consolidated Statement of Comprehensive Income  
 for the year ended 31 December 2010  
 (All amounts in millions of US dollars)



	Note	2010	2009
<b>Profit for the year</b>		253.2	85.8
<i>Other comprehensive income:</i>			
Net change in fair value of available –for-sales financial assets transferred to profit and loss		(8.1)	(2.3)
Deferred tax related to the net change in fair value of available–for-sales financial assets transferred to profit and loss	11	1.7	0.4
Exchange differences on translating to presentation currency		(10.7)	(24.3)
Loss on hedge instrument	24	(6.7)	-
Deferred tax related to the loss on hedge instrument	11	2.4	-
<b>Other comprehensive income for the year</b>		<u>(21.4)</u>	<u>(26.2)</u>
<b>Total comprehensive income for the year</b>		<u>231.8</u>	<u>59.6</u>
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Company		257.6	64.7
Non-controlling interest		(25.8)	(5.1)

The consolidated statement of comprehensive income should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 48.

**OJSC AEROFLOT – RUSSIAN AIRLINES**

Consolidated Statement of Financial Position

as at 31 December 2010

(All amounts in millions of US dollars)



	Notes	2010	2009
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	12	660.4	121.1
Short-term investments	13	5.4	10.4
Accounts receivable and prepayments	14	924.0	943.8
Aircraft lease deposits		0.4	-
Expendable spare parts and inventories	15	87.1	70.0
Assets of disposal group classified as held for sale	17	71.5	27.3
		<u>1,748.8</u>	<u>1,172.6</u>
<b>Non-current assets</b>			
Equity accounted investments	18	27.6	24.5
Long-term investments	19	3.7	15.6
Aircraft lease deposits		1.8	7.3
Deferred tax assets	11	32.3	19.0
Other non-current assets	20	240.7	401.5
Prepayments for aircraft	21	235.9	156.3
Property, plant and equipment	22	2,188.0	2,167.8
Intangible assets	23	40.6	20.7
Goodwill	16	6.5	-
		<u>2,777.1</u>	<u>2,812.7</u>
<b>TOTAL ASSETS</b>		<u><b>4,525.9</b></u>	<u><b>3,985.3</b></u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	25	708.5	674.5
Unearned transportation revenue	26	225.9	186.1
Deferred revenue related to frequent flyer programme, current	27	8.0	9.0
Provisions	28	10.0	0.8
Short-term borrowings	29	62.4	156.4
Finance lease liabilities	30	103.8	111.2
Liabilities associated with assets of a disposal group classified as held for sale	17	112.6	-
		<u>1,231.2</u>	<u>1,138.0</u>
<b>Non-current liabilities</b>			
Long-term borrowings	31	1,250.8	819.7
Finance lease liabilities	30	630.1	623.5
Provisions	28	5.2	1.6
Deferred tax liabilities	11	54.0	50.0
Deferred revenue related to frequent flyer programme, non-current	27	31.3	30.7
Derivative instruments	24	11.8	-
Other non-current liabilities	32	156.6	316.0
		<u>2,139.8</u>	<u>1,841.5</u>
<b>Equity</b>			
Share capital	33	51.6	51.6
Treasury stock	33	(107.1)	(14.6)
Accumulated gain on disposal of treasury shares		28.0	27.9
Investment revaluation reserve		-	6.4
Cumulative translation reserve		(155.8)	(145.7)
Hedge reserve	24	(4.3)	-
Share based payment reserve	33	12.7	-
Retained earnings		1,302.5	1,037.0
<b>Equity attributable to shareholders of the Company</b>		<u><b>1,127.6</b></u>	<u><b>962.6</b></u>
Non-controlling interest		27.3	43.2
<b>Total equity</b>		<u><b>1,154.9</b></u>	<u><b>1,005.8</b></u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>4,525.9</b></u>	<u><b>3,985.3</b></u>

The consolidated statement of financial position should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 48.



**OJSC AEROFLOT – RUSSIAN AIRLINES**

Consolidated Statement of Cash Flows  
for the year ended 31 December 2010  
(All amounts in millions of US dollars)



	Notes	2010	2009
<b>Cash flows from operating activities:</b>			
Profit before income tax		353.5	205.8
<i>Adjustments to reconcile profit before taxation to net cash provided by operating activities:</i>			
Depreciation and amortisation	22, 23	184.3	145.3
Change in impairment allowance for bad and doubtful debts	14	13.0	7.1
Accounts receivable write off	14	7.5	2.4
Impairment allowance for obsolete inventory	15	(3.2)	(3.2)
Impairment of property, plant and equipment		(0.8)	(7.4)
Loss on disposal of property, plant and equipment		6.7	12.5
Change in other provisions and other assets impairments		-	0.8
Accounts payable write off	10	(0.3)	(0.7)
Share of results in equity accounted investments	18	(11.1)	(6.9)
Gain on disposal of investments	9	(6.6)	(0.1)
Change in provisions	28	12.9	(21.5)
Impairment expense on assets held for sale		-	20.1
Loss on disposal of assets held for sale	10	16.8	-
Interest expense	9	139.8	41.1
Unrealised foreign exchange loss	9	19.7	12.0
VAT write off	10	63.3	21.4
Other non-cash income		(4.7)	(1.2)
Share based payment reserve	33	12.7	-
<b>Operating profit before working capital changes</b>		<b>803.5</b>	<b>427.5</b>
Change in accounts receivable and prepayments and other non-current assets		(10.1)	(217.4)
Change in expendable spare parts and inventories		(5.7)	5.7
Change in accounts payable and accrued liabilities		(28.9)	17.2
		<b>758.8</b>	<b>233.0</b>
Income tax paid		(20.1)	(9.4)
Income tax received		0.6	4.9
<b>Net cash flows from operating activities</b>		<b>739.3</b>	<b>228.5</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sale of investments		36.5	20.9
Proceeds from sale of property, plant and equipment		10.7	5.6
Return of aircraft advances		10.5	78.9
Dividends received		3.7	3.2
Decrease in aircraft lease deposits		(0.5)	(1.4)
Purchases of investments		(28.9)	(23.3)
Purchase of subsidiary company, net		(12.9)	-
Lease prepayments		(95.3)	-
Purchases of property, plant and equipment and intangible assets		(117.3)	(383.2)
<b>Net cash flows to investing activities</b>		<b>(193.5)</b>	<b>(299.3)</b>

The consolidated statement of cash flows should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 48

**OJSC AEROFLOT – RUSSIAN AIRLINES**

Consolidated Statement of Cash Flows  
for the year ended 31 December 2010  
(All amounts in millions of US dollars)



	<u>Note</u>	<u>2010</u>	<u>2009</u>
<i>Cash flows from financing activities:</i>			
Proceeds from borrowings		1,105.3	647.0
Sale of treasury stock		0.4	18.8
Purchases of treasury stock		(93.7)	-
Repayment of borrowing		(738.7)	(399.3)
Repayment of the principal element of finance lease liabilities		(113.4)	(101.5)
Interest paid		(135.6)	(107.8)
Dividends paid		(15.6)	(8.9)
Derivative instruments		5.2	-
<b>Net cash flows from financing activities</b>		<b>13.9</b>	<b>48.3</b>
Effect of exchange rate fluctuations		(7.0)	(3.2)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>552.7</b>	<b>(25.7)</b>
Cash and cash equivalents at the beginning of the year		121.1	146.8
<b>Cash and cash equivalents at the end of the year</b>	<b>12</b>	<b>673.8 *</b>	<b>121.1</b>
<i>Supplemental cash flow information:</i>			
Interest received	9	14.2	2.7
<i>Non-cash investing and financing activities:</i>			
Property, plant and equipment acquired under finance leases		138.1	321.4

\* Includes USD 13.4 million related to assets classified as held for sale (Note 17).

The consolidated statement of cash flows should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 48

**OJSC AEROFLOT – RUSSIAN AIRLINES**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

(All amounts in millions of US dollars)



	Share capital	Treasury stock	Investment revaluation reserve	Cumulative translation reserve	Hedge reserve	Share based payment reserve	Retained earnings	Attributable to shareholders of the Company	Non-controlling interest	Total
<b>1 January 2009</b>	<b>51.6</b>	<b>(9.1)</b>	<b>8.3</b>	<b>(123.1)</b>	-	-	<b>956.6</b>	<b>884.3</b>	<b>53.0</b>	<b>937.3</b>
Profit/(loss) for the year	-	-	-	-	-	-	89.2	89.2	(3.4)	85.8
Foreign currency translation for the year	-	-	-	(22.6)	-	-	-	(22.6)	(1.7)	(24.3)
Loss on investments available-for-sale	-	-	(1.9)	-	-	-	-	(1.9)	-	(1.9)
<b>Total comprehensive income</b>								<b>64.7</b>	<b>(5.1)</b>	<b>59.6</b>
Gain on disposal of treasury stock	-	(4.0)	-	-	-	-	-	(4.0)	-	(4.0)
Sale of treasury stock	-	26.4	-	-	-	-	-	26.4	-	26.4
Dividends	-	-	-	-	-	-	(8.8)	(8.8)	(4.7)	(13.5)
<b>31 December 2009</b>	<b>51.6</b>	<b>13.3</b>	<b>6.4</b>	<b>(145.7)</b>	-	-	<b>1,037.0</b>	<b>962.6</b>	<b>43.2</b>	<b>1,005.8</b>
<b>1 January 2010</b>	<b>51.6</b>	<b>13.3</b>	<b>6.4</b>	<b>(145.7)</b>	-	-	<b>1,037.0</b>	<b>962.6</b>	<b>43.2</b>	<b>1,005.8</b>
Profit/(loss) for the year	-	-	-	-	-	-	278.4	278.4	(25.2)	253.2
Foreign currency translation for the year	-	-	-	(10.1)	-	-	-	(10.1)	(0.6)	(10.7)
Loss on investments available-for-sale	-	-	(6.4)	-	-	-	-	(6.4)	-	(6.4)
Loss on hedging instrument	-	-	-	-	(4.3)	-	-	(4.3)	-	(4.3)
<b>Total comprehensive income</b>								<b>257.6</b>	<b>(25.8)</b>	<b>231.8</b>
Acquisition of subsidiary	-	-	-	-	-	-	-	-	9.9	9.9
Share based compensation	-	-	-	-	-	12.7	-	12.7	-	12.7
Gain on disposal of treasury stock	-	0.1	-	-	-	-	-	0.1	-	0.1
Purchases of treasury stock	-	(92.5)	-	-	-	-	-	(92.5)	-	(92.5)
Dividends	-	-	-	-	-	-	(12.9)	(12.9)	-	(12.9)
<b>31 December 2010</b>	<b>51.6</b>	<b>(79.1)</b>	-	<b>(155.8)</b>	<b>(4.3)</b>	<b>12.7</b>	<b>1,302.5</b>	<b>1,127.6</b>	<b>27.3</b>	<b>1,154.9</b>

The consolidated statement of changes in equity should be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 48

**OJSC AEROFLOT – RUSSIAN AIRLINES**

Notes to the Consolidated Financial Statements  
as at and for the year ended 31 December 2010  
(All amounts in millions of US dollars)

**1. NATURE OF THE BUSINESS**

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

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

As at 31 December 2010 and 2009 the Government of the Russian Federation owned 51% of the Company. The Company’s headquarters are located in Moscow at 10 Arbat Street.

The principal subsidiary companies are:

<b>Company name</b>	<b>Place of incorporation and operation</b>	<b>Activity</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
CJSC Sherotel	Moscow region	Hotel	100.00%	100.00%
OJSC Insurance company				
Moscow	Moscow	Captive insurance services	100.00%	100.00%
OJSC Donavia	Rostov-on-Don	Airline	100.00%	100.00%
CJSC Aeroflot-Cargo	Moscow	Cargo transportation services	100.00%	100.00%
CJSC Nordavia	Arkhangelsk	Airline	100.00%	51.00%
LLC Aeroflot-Finance	Moscow	Finance services	100.00%	-
OJSC Terminal	Moscow region	Airport business	52.82%	52.82%
CJSC Aeromar	Moscow region	Catering	51.00%	51.00%
CJSC Aerofirst	Moscow region	Trading	66.67%	33.33%

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

<b>Company name</b>	<b>Place of incorporation and operation</b>	<b>Activity</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
LLC Airport Moscow	Moscow region	Cargo handling	50.00%	50.00%
CJSC AeroMASH – AB	Moscow region	Aviation security	45.00%	45.00%
CJSC TZK Sheremetyevo	Moscow region	Fuel trading company	31.00%	31.00%
CJSC Jetalliance East*	Moscow	Airline	49.00%	100.00%

\* Previously CJSC Aeroflot Plus

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

The table below provides information on the Group's aircraft fleet as at 31 December 2010:

<b>Type of aircraft</b>	<b>Ownership</b>	<b>Aeroflot - Russian Airlines (number)</b>	<b>Donavia (number)</b>	<b>Nordavia* (number)</b>	<b>Group total (number)</b>
Ilyushin Il-96-300	Owned	6	-	-	6
Ilyushin Il-86	Owned	2	-	-	2
Tupolev Tu-154	Owned	1	3	-	4
Tupolev Tu-134	Owned	-	-	8	8
Antonov An-24	Owned	-	-	2	2
<b>Total owned</b>		<b>9</b>	<b>3</b>	<b>10</b>	<b>22</b>
Airbus A-319	Finance lease	4	-	-	4
Airbus A-320	Finance lease	1	-	-	1
Airbus A-321	Finance lease	18	-	-	18
Boeing 737	Finance lease	-	5	2	7
<b>Total finance lease</b>		<b>23</b>	<b>5</b>	<b>2</b>	<b>30</b>
Antonov An-24	Operating lease	-	-	3	3
Antonov An-26	Operating lease	-	-	1	1
Ilyushin Il-86	Operating lease	-	1	-	1
Airbus A-319	Operating lease	11	-	-	11
Airbus A-320	Operating lease	34	-	-	34
Airbus A-330	Operating lease	10	-	-	10
Boeing B-737	Operating lease	-	5	13	18
Boeing B-767	Operating lease	10	-	-	10
McDonnell Douglas MD-11	Operating lease	3	-	-	3
<b>Total operating lease</b>		<b>68</b>	<b>6</b>	<b>17</b>	<b>91</b>
<b>Total fleet</b>		<b>100</b>	<b>14</b>	<b>29</b>	<b>143</b>

\* As at 31 December 2010 CJSC Nordavia classified as assets held for sale (Note 17).

## 2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

**Functional and presentation currency** – Since 1 January 2007 the functional currency of the Company is the Russian rouble. These consolidated financial statements are presented in US dollar for the convenience of foreign users, including the major lessors.

The assets and liabilities, both monetary and non-monetary, have been translated at the closing rate at

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the date of each consolidated statement of financial position presented in accordance with International Accounting Standard ("IAS") 21 *The Effect of Changes in Foreign Exchange Rates*. Income and expense items for all periods presented have been translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates. All exchange differences resulting from translation have been classified as other comprehensive income and transferred to the Group's translation reserve.

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

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

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

	<u>Exchange rate</u>
As at 31 December 2010	30.48
Average rate in 2010	30.37
As at 31 December 2009	30.24
Average rate in 2009	31.72
As at 31 December 2008	29.38

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. There have been no significant changes to accounting policies.

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

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

All intra-group transactions, balances and unrealised surpluses and deficits on transactions between Group companies are eliminated on consolidation. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders is stated at the non-controlling proportion of the fair values of the assets and liabilities acquired adjusted by subsequent changes in the carrying value of net assets of those entities. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interests to have a deficit balance.

**Business combinations** – Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus  
the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

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

**Purchases of non-controlling interests** – From 1 January 2010 the Group has applied IAS 27 *Consolidated and Separate Financial Statements* (2008) in accounting for acquisitions of non-controlling interest.

Under the new accounting policy, acquisition of non-controlling interests is accounted for as transactions with owners in their capacity, as owners and therefore no goodwill is recognised as a result of such transaction.

The adjustments to non-controlling interest are based on a proportionate amount of the net assets of the subsidiary.

**Investments in associates** – Associates in which the Group has significant influence but not a controlling interest are accounted for using the equity method of accounting. Significant influence is usually demonstrated by the Group's owning, directly or indirectly, between 20% and 50% of the voting share capital or by exerting significant influence through other means.

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

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

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

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

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

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

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

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

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

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

**Other revenue:** Revenue from bilateral airline agreements is recognised when earned with reference to the terms of each agreement. Hotel accommodation revenue is recognised when the services are provided. Sales of goods and other services are recognised as revenue when the goods are delivered or the service is rendered. Revenue from airport and traffic services is recognised in profit and loss when services are rendered to customers in accordance with the relevant service agreements.

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

**Operating segments** – The Group determines and present operating segments based on the information that internally is provided to the General Director, who is the Group's chief operating decision maker.



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An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the General Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the General Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

### (a) Fleet

- (i) **Owned aircraft and engines** – Aircraft and engines owned by the Group as at 31 December 1995 were stated at depreciated replacement cost based upon external valuations denominated in US dollars. Airclaims, an international firm of aircraft appraisers, conducted the valuation. The Group has chosen not to revalue these assets subsequent to 1995. Subsequent purchases are recorded at cost.
- (ii) **Finance leased aircraft and engines** – Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding obligation, reduced by the capital portion of lease payments made, is included in payables. Custom duties, legal fees and other initial direct costs are added to the amount recognised as an asset. The interest element of lease payments made is included in interest expense in the consolidated statement of income.
- (iii) **Capitalised maintenance costs** – The valuation of aircraft and engines as at 31 December 1995 reflected their maintenance condition, as measured on the basis of previous expenditure on major overhauls and estimated usage since the previous major overhaul. Subsequent expenditure incurred on modernisation and improvements projects that are significant in size (mainly aircraft modifications involving installation of replacement parts) are separately capitalised in the consolidated statement of financial position. The carrying amount of those parts that are replaced is derecognised from the consolidated statement of financial position and included in gain or loss on disposals of property, plant and equipment in the Group's consolidated statement of income. Capitalised costs of aircraft checks and major modernisation and improvements projects are depreciated on a straight-line basis to the projected date of the next check or based on estimates of their useful lives. Ordinary repair and maintenance costs are expensed as incurred.
- (iv) **Depreciation** – The Group depreciates fleet assets owned or held under finance leases on a straight-line basis to the end of their estimated useful life. The airframe, engines and interior of an aircraft are depreciated separately over their respective estimated useful lives. The salvage value for airframes of the foreign fleet is estimated at 5% of historical cost, while the salvage value for Russian aircraft is zero. Engines are depreciated on a straight-line basis to the end of the useful life of the related type of aircraft.

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

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

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

(b) *Land and buildings, plant and equipment*

Property, plant and equipment is stated at the historical US dollar cost recalculated at the exchange rate on 1 January 2007, the date of the change of the functional currency of the Company from the US dollar to the Russian rouble. Provision is made for the depreciation of property, plant and equipment based upon expected useful lives or, in the case of leasehold properties, over the duration of the leases using a straight-line basis. These useful lives range from 3 to 50 years. Land is not depreciated.

(c) *Capital expenditure*

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

(d) *Gain or loss on disposal*

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

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

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

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

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

**Lease deposits** – Lease deposits represent amounts paid to the lessors of foreign aircraft, which are held as security deposits by lessors in accordance with the provisions of finance and operating lease agreements. These deposits are returned to the Group at the end of the lease period. Lease deposits relating to operating lease agreements are presented as assets in the consolidated statement of financial position. A

portion of these deposits is interest-free. Interest-free deposits are recorded at amortised cost using an average market yield of 5.3%. Lease deposits that are part of finance lease arrangements are presented net as part of the finance lease liability.

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

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

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

(a) *Credit risks*

The sale of passenger and freight transportation is largely processed through agencies that are normally linked to country specific clearing systems for the settlement of passenger and freight sales. Clearing centres check individual agents operating outside of the Russian Federation. Individual agents operating within the Russian Federation are checked in-house.

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

(b) *Fair value*

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

(c) *Foreign exchange risk*

In 2010 the Group mostly managed its foreign exchange risk by matching its assets and liabilities in the different currencies to limit exposure. However, a portion of its foreign exchange risk was managed through the use of hedging instruments (Note 24).

(d) *Interest rate risk*

The Group’s main exposure to interest rate risk is from its finance lease liabilities and short-term borrowings. In 2010 the Group did not use financial hedging instruments to hedge its exposure to the changes in interest rates, as they are not generally available on the Russian market. The Group constantly monitors changes in interest rates to minimise the level of its exposure and to identify any need for hedging activities.

(e) *Non-financial risks – fuel hedging activities*

The results of Group’s operations can be significantly impacted by changes in the price of aircraft fuel. In 2010 the Group engaged in fuel hedging activities to hedge a portion of its non-financial risk related to fuel (Note 24). The Group does not use derivative instruments for speculative purposes.

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

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

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

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

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

In 2010 the Group held corporate and Government financial instruments primarily comprising shares and bonds. These are disclosed as held-for-trading investments in Note 13. Gains and losses arising from changes in fair value of held-for-trading investments are recognised in the consolidated statement of income.

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

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

expenses.

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

**Short-term borrowings** – Short-term borrowings comprise:

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

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

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

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

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

**Frequent flyer programme** – Since 1999 the Group operates a frequent flyer programme referred to as Aeroflot Bonus. Subject to the programme’s terms and condition, the miles earned entitle members to a number of benefits such as free flights and flight class upgrades.

In accordance with IFRIC 13 *Customer Loyalty Programmes* accumulated but as yet unused bonus miles are deferred using the deferred revenue method to the extent that they are likely to be used on flights of Aeroflot Group. The fair value of miles accumulated on the Group’s own flights is recognised under deferred revenue (Note 27) and the miles collected from third parties as well as promotional miles are recognised under other liabilities (Note 25 and Note 32).

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

**Income tax** – The income tax rate for industrial enterprises in Russia is 20%.

**Deferred income taxes** – Deferred tax assets and liabilities are calculated in respect of temporary differences in accordance with IAS 12 *Income Taxes*. IAS 12 requires the application of the balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the asset is to be realised or the liability settled, based on tax rates that have been enacted or substantively enacted as at the reporting date. As at 31 December 2010 deferred tax assets and liabilities have been measured at 20%. Deferred tax is charged or credited to the consolidated statement of income, except when it relates to items credited or charged directly to other comprehensive income, in which case the deferred tax is dealt with in equity.

**Employee benefits** – The Group makes certain payments to employees on retirement or when they otherwise leave the employment of the Group. These obligations, which are unfunded, represent obligations under a defined benefit pension plan. For such plans the pension accounting costs are assessed using the projected unit credit method. Under this method the cost of providing pensions is charged to the consolidated statement of income in order to spread the regular cost over the average service lives of employees. Actuarial gains and losses are recognised in the consolidated statement of income immediately. The pension payments may be increased upon the retirement of an employee based on the decision of management. The pension liability for non-retired employees is calculated based on a minimum annual pension payment and do not include increases, if any, to be made by management in the future. Where such post-employment employee benefits fall due more than twenty months after the reporting date they are discounted using a discount rate determined by reference to the average government bond yields at the reporting date.

The Group also participates in a defined contribution plan, under which the Group has committed to contribute a certain percentage (15% to 20% in 2010) of the contribution made by employees choosing to participate in the plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred. Contributions are also made to the Government Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

**Share-based payment transactions** – The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

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

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

**Earnings per share** – Earnings per share are calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The Group does not have any potentially dilutive equity instruments.

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

### 3. SIGNIFICANT ESTIMATES

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

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

**Useful lives of property, plant and equipment** – In reporting property, plant and equipment and intangible assets an assessment of the useful economic life is made at least once a year.

**Frequent flyer programme** – The Group has estimated the liability pertaining to air miles earned by Aeroflot Bonus programme (Note 2) members. The estimate has been made based on the statistical information available to the Group and reflects the expected air mile utilisation pattern after the reporting date multiplied by their assessed fair value.

**Compliance with tax legislation** – As discussed further in Note 40 compliance with tax legislation, particularly in the Russian Federation, is subject to a significant degree of interpretation and can be routinely challenged by the tax authorities. The management records a provision in respect of its best estimate of likely additional tax payments and related penalties which may be payable if the Group's tax compliance is challenged by the relevant tax authorities.

### 4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures (2010)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010. The amendment is expected to have no impact on the Group's consolidated financial statements.

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- Amended IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.



**5. TRAFFIC REVENUE**

	<u>2010</u>	<u>2009</u>
Scheduled passenger flights	3,330.7	2,512.4
Cargo	285.6	211.3
Charter passenger flights	83.7	95.0
	<u><b>3,700.0</b></u>	<u><b>2,818.7</b></u>

**6. OTHER REVENUE**

	<u>2010</u>	<u>2009</u>
Airline revenue agreements	404.3	388.2
Refuelling services	32.4	29.1
Ground handling and maintenance	17.3	20.3
Hotel revenue	12.2	15.1
Catering services	8.5	9.9
Other revenue	144.6	64.6
	<u><b>619.3</b></u>	<u><b>527.2</b></u>

**7. OPERATING COSTS**

	<u>2010</u>	<u>2009</u>
Aircraft and traffic servicing	585.0	506.5
Operating lease expenses	337.7	286.7
Maintenance	294.7	270.7
Sales and marketing	198.7	138.7
Administration and general expenses	150.5	126.7
Passenger services	146.7	114.5
Communication expenses	91.6	62.5
Customs duties	43.7	37.6
Insurance expenses	25.3	19.8
Other expenses	132.2	94.8
<b>Operating cost excluding aircraft fuel</b>	<u><b>2,006.1</b></u>	<u><b>1,658.5</b></u>
Aircraft fuel	943.0	725.4
	<u><b>2,949.1</b></u>	<u><b>2,383.9</b></u>

**8. STAFF COSTS**

	<u>2010</u>	<u>2009</u>
Wages and salaries	591.7	459.4
Pension costs	70.3	60.6
Social security costs	24.5	18.9
	<u><b>686.5</b></u>	<u><b>538.9</b></u>

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

	<u>2010</u>	<u>2009</u>
Payments to the RFPF	67.9	59.7
Defined contribution pension plan	0.7	0.6
Defined benefit pension plan	1.7	0.3
	<u>70.3</u>	<u>60.6</u>

## 9. FINANCE INCOME AND COSTS

	<u>2010</u>	<u>2009</u>
<i>Finance income:</i>		
Interest income on bank deposits	14.2	2.7
Gain on disposal of investments	6.6	0.1
<b>Finance income</b>	<u>20.8</u>	<u>2.8</u>

	<u>2010</u>	<u>2009</u>
<i>Finance costs:</i>		
Interest expense on customs duty discounting	(12.9)	(16.6)
Interest expense on short and long-term borrowings	(115.2)	(15.6)
Foreign exchange loss	(19.7)	(12.0)
Interest expense on finance lease liabilities	(11.7)	(8.9)
<b>Finance costs</b>	<u>(159.5)</u>	<u>(53.1)</u>

## 10. OTHER NON-OPERATING EXPENSES, NET

	<u>2010</u>	<u>2009</u>
Fines and penalties received from suppliers	67.9	7.7
Accounts payable write-off	0.3	0.7
Insurance compensation received	0.2	0.9
Other income/(expense)	0.9	(14.1)
Accounts receivable write-off	(7.5)	(2.4)
Loss on disposal of assets held for sale (Note 17)	(16.8)	-
Non-recoverable VAT write-off	(63.3)	(21.4)
	<u>(18.3)</u>	<u>(28.6)</u>

## 11. INCOME TAX

	<u>2010</u>	<u>2009</u>
Current income tax charge	108.9	99.2
Deferred income tax (benefit)/expense	(8.6)	20.8
	<u>100.3</u>	<u>120.0</u>

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

	<u>2010</u>	<u>2009</u>
Profit before income tax	353.5	205.8
Tax rate	20%	20%
Theoretical tax at rate applicable for each jurisdiction	(70.7)	(41.2)
<i>Tax effect of items which are not deductible or assessable for taxation purposes:</i>		
Non-taxable income	10.7	7.2
Non-deductible expenses	(68.4)	(70.4)
Unrecognised current year tax losses	(11.1)	(7.8)
Over/(under) provided in prior years	39.2	(7.8)
	<u>(100.3)</u>	<u>(120.0)</u>

The Group did not recognise deferred tax assets of USD 31.1 million (2009: USD 28.5 million) related to CJSC Aeroflot Cargo's tax losses as the subsidiary is not expected to earn sufficient taxable profits in the foreseeable future against which the unused tax losses can be utilised by the Group. These tax losses expire between 2017 to 2020.

During the year the Group revised the deductibility of certain expenses related to the three-year period ended 31 December 2009. Consequently, the resulting tax saving has been used to reduce the current year's tax liability.

	<u>2010</u>	<u>Move- ment for year</u>	<u>2009</u>	<u>Move- ment for year</u>	<u>2008</u>
<i>Tax effects of temporary differences:</i>					
Tax loss carry-forwards (i)	59.6	14.1	45.5	19.1	26.4
Accounts receivable	1.3	(2.9)	4.2	(0.2)	4.4
Property, plant and equipment	1.8	(1.1)	2.9	(0.1)	3.0
Accounts payable	25.0	10.1	14.9	(11.6)	26.5
Financial instrument	2.4	2.4	-	-	-
<b>Deferred tax assets before tax set off</b>	<b>90.1</b>	<b>22.6</b>	<b>67.5</b>	<b>7.2</b>	<b>60.3</b>
Tax set off	(57.8)	(9.3)	(48.5)	(2.9)	(45.6)
<b>Deferred tax assets after tax set off</b>	<b>32.3</b>	<b>13.3</b>	<b>19.0</b>	<b>4.3</b>	<b>14.7</b>
Property, plant and equipment	(72.4)	(3.6)	(68.8)	(14.0)	(54.8)
Customs duties related to aircraft operation leases	(29.0)	(8.1)	(20.9)	(10.3)	(10.6)
Long-term investments	(5.2)	(1.2)	(4.0)	0.1	(4.1)
Accounts receivable	(4.8)	(0.3)	(4.5)	(4.5)	-
Accounts payable	(0.4)	(0.1)	(0.3)	0.5	(0.8)
<b>Deferred tax liabilities before tax set off</b>	<b>(111.8)</b>	<b>(13.3)</b>	<b>(98.5)</b>	<b>(28.2)</b>	<b>(70.3)</b>
Tax set off	57.8	9.3	48.5	2.9	45.6
<b>Deferred tax liabilities after tax set off</b>	<b>(54.0)</b>	<b>(4.0)</b>	<b>(50.0)</b>	<b>(25.3)</b>	<b>(24.7)</b>

	<u>2010</u>	Move- ment for year	<u>2009</u>	Move- ment for year	<u>2008</u>
Movement for the year, net		9.3		(21.0)	
Less: Deferred tax recognised directly in equity (ii) (iii)		4.1		(0.4)	
Assets classified as held for sale (iv)		(4.2)		-	
Effect of translation to presentation currency		(0.6)		0.6	
<b>Deferred tax benefit/(expense) for the year</b>		<u><b>8.6</b></u>		<u><b>(20.8)</b></u>	

- (i) Tax losses carried forward expire between 2017 to 2020;
- (ii) The Group sold shares in France Telecom, which were classified as long-term investments available-for-sale. Gains and losses arising from changes in fair value of the France Telecom shares were recognised directly in the consolidated statement of other comprehensive income, net of deferred tax of USD 1.7 million;
- (iii) Deferred tax asset in respect of the change in the fair value of the hedge of USD 2.4 million has been recognised in these consolidated financial statements;
- (iv) In 2010 the Group decided to sell subsidiaries OJSC Insurance Company Moscow and CJSC Nordavia (Note 17). In 2010 deferred tax expense related to these subsidiaries amounted to USD 4.2 million;

A deferred tax liability in relation to temporary differences of USD 21.3 million (31 December 2009: deferred tax assets of USD 21.4 million) relating to investments in subsidiaries has not been recognised in the consolidated financial statements as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

## 12. CASH AND CASH EQUIVALENTS

	<u>2010</u>	<u>2009</u>
Bank deposits denominated in Russian roubles	138.6	5.6
Bank deposits denominated in US dollars	370.0	1.5
Bank deposits denominated in Euros	-	1.4
Bank accounts denominated in Russian roubles	77.4	32.1
Bank accounts denominated in US dollars	35.5	47.6
Bank accounts denominated in Euros	13.6	8.5
Bank accounts denominated in other currencies	22.7	24.0
Cash in transit	2.6	0.4
	<u><b>660.4</b></u>	<u><b>121.1</b></u>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 36. Most of the funds are held at state owned Russian banks such as Sberbank of the Russian Federation, Vneshtogbank and Vnesheconombank and well known multinational banks such as the Royal Bank of Scotland, JP Morgan, BSGV, Natixis Bank. All funds are accessible by the Group.

### 13. SHORT-TERM INVESTMENTS

	<u>2010</u>	<u>2009</u>
<i>Held-for-trading investments:</i>		
Corporate and government bonds	3.6	1.8
Corporate shares	-	1.8
	<u>3.6</u>	<u>3.6</u>
<i>Other short-term investments:</i>		
Bank deposits with original maturities exceeding 90 days	1.7	5.5
Promissory notes from third parties	0.1	0.3
Other short-term investments	-	1.0
	<u>1.8</u>	<u>6.8</u>
	<u>5.4</u>	<u>10.4</u>

Corporate and government bonds represent bonds denominated in Russian roubles issued by the Government of the Russian Federation and major Russian companies with yield to maturity rates of 5.5% to 16.4% per annum as at 31 December 2010.

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

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

As at 31 December 2010 the interest rates on bank deposits denominated in Russian roubles, with original maturities exceeding 90 days, were from 2.0% to 3.8% per annum (31 December 2009: from 3.1% to 14.0% per annum).

### 14. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<u>2010</u>	<u>2009</u>
Trade accounts receivable	399.6	344.7
VAT and other taxes recoverable	270.4	410.6
Prepayments to suppliers	107.2	76.2
Income tax prepaid	56.9	21.9
Deferred customs duties related to aircraft operating leases	38.8	44.5
Other receivables	87.4	72.4
<b>Accounts receivable and prepayments, gross</b>	<u>960.3</u>	<u>970.3</u>
Impairment allowance for bad and doubtful accounts	(36.3)	(26.5)
	<u>924.0</u>	<u>943.8</u>

Deferred customs duties of USD 38.8 million (31 December 2009: USD 44.5 million) relate to the current portion of customs duties incurred on importation of aircraft under operating leases. These customs duties are expensed in the consolidated statement of income over the term of the operating lease. The non-current portion of the deferred customs duties is disclosed in Note 20.

As at 31 December 2010 sufficient impairment allowance has been made against accounts receivable and prepayments.

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

	<b>Impairment allowance</b>
<b>As at 1 January 2009</b>	<u>22.7</u>
Increase in impairment allowance for bad and doubtful accounts	7.1
Accounts receivable written off during the year as uncollectible	(2.4)
Foreign currency translation	(0.9)
<b>As at 31 December 2009</b>	<u>26.5</u>
Increase in impairment allowance for bad and doubtful accounts	13.0
Accounts receivable written off during the year as uncollectible	(7.5)
Foreign currency translation	4.3
<b>As at 31 December 2010</b>	<u>36.3</u>

## 15. EXPENDABLE SPARE PARTS AND INVENTORIES

	<u>2010</u>	<u>2009</u>
Expendable spare parts	41.1	48.3
Fuel	12.3	9.8
Other inventories	34.0	15.4
<b>Expendable spare parts and inventories, gross</b>	<u>87.4</u>	<u>73.5</u>
Impairment allowance for obsolete inventories	(0.3)	(3.5)
	<u>87.1</u>	<u>70.0</u>

## 16. BUSINESS COMBINATION

On 31 December 2010 the Company acquired an additional 33.33% ownership interest in CJSC Aerofirst, a duty-free goods retailer, for a total cash consideration of approximately USD 16.4 million increasing its total ownership interest to 66.67%.

If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue would have been USD 4,403.2 million, and consolidated profit for the year would have been USD 256.8 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

The identifiable assets acquired and the liabilities assumed on the date of acquisition were as follows:

	<u>2010</u>
Cash and cash equivalents	3.5
Trade receivables	1.6
Other receivables	0.5
Inventories	16.1
Property, plant and equipment	19.0
<b>Total assets</b>	<u>40.7</u>
Trade payables	9.1
Other payables and accruals	1.5
Deferred tax liability	0.2
<b>Total liabilities</b>	<u>10.8</u>
<b>Net fair value of identifiable assets</b>	<u>29.9</u>

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This acquisition was accounted using the purchase method in accordance with IFRS 3 *Business Combinations*. The fair value of the acquired property, plant and equipment was determined based on the results of an independent valuation by professional appraisers. The acquired business contribution to the Group's consolidated income during the year ended 31 December 2010 is negligible.

**Goodwill**

Goodwill was recognised as a result of the acquisition as follows:

	<u>2010</u>
Total consideration transferred	16.4
Fair value of interest in acquiree before acquisition	10.0
Less: Fair value of 66.67 % share identifiable net assets	<u>(19.9)</u>
<b>Goodwill</b>	<b><u>6.5</u></b>

The remeasurement to fair value of the Group's existing 33.33% ownership interest in the acquiree resulted in a gain of USD 4.4 million (USD 10.0 million less USD 5.6 million carrying value of equity-accounted investment at acquisition date), which has been recognised as finance income in the consolidated statement of income.

The goodwill is attributable mainly to the synergies expected to be achieved from integrating the company into the Group's existing business. None of the goodwill recognised is expected to be deductible for income tax purposes.

**17. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE**

	<u>2010</u>			<u>2009</u>
	<u>CJSC Nordavia</u>	<u>OJSC Insurance Company Moscow</u>	<u>Total</u>	<u>Tupolev fleet</u>
Property, plant and equipment	14.3 *	0.2	14.5	23.6
Inventory	6.9	-	6.9	3.7
Foreign currency translation related to reserve	-	-	-	-
Accounts receivable and prepayments	14.5	4.7	19.2	-
Aircraft lease deposits	2.3	-	2.3	-
Deferred tax assets	3.2	0.3	3.5	-
Other assets	4.1	21.0	25.1	-
<b>Total assets of disposal group held for sale</b>	<b><u>45.3</u></b>	<b><u>26.2</u></b>	<b><u>71.5</u></b>	<b><u>27.3</u></b>
Accounts payable and accrued liabilities	(31.6)	(17.7)	(49.3)	-
Unearned transportation revenue	(22.9)	-	(22.9)	-
Borrowings	(34.1)	-	(34.1)	-
Other liabilities	(6.3)	-	(6.3)	-
<b>Total liabilities of disposal group held for sale</b>	<b><u>(94.9)</u></b>	<b><u>(17.7)</u></b>	<b><u>(112.6)</u></b>	<b><u>-</u></b>
<b>Net assets/(liabilities) of disposal group held for sale</b>	<b><u>(49.6)</u></b>	<b><u>8.5</u></b>	<b><u>(41.1)</u></b>	<b><u>27.3</u></b>

\* Includes Tupolev fleet of CJSC Nordavia of USD 1.3 million.

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As at 31 December 2009 the Group made a decision to discontinue operating the majority of its Tu-134 and Tu-154 aircraft fleet. In 2010 these assets were sold for USD 9.0 million, resulting in a loss on disposal of USD 16.8 million (comprising loss on disposal of assets USD 27.6 million and release of impairment reserve USD 10.8 million made for this assets in previous years), recognised in the consolidated statement of income (Note 10).

In 2010 the Group's management decided to sell two subsidiaries CJSC Nordavia and OJSC Insurance Company Moscow and classified them as a disposal group held for sale. These are presented separately in the consolidated statement of financial position.

**18. EQUITY ACCOUNTED INVESTMENTS**

	2010		2009	
	Voting rights	Carrying value	Voting rights	Carrying value
LLC Airport Moscow	50.0%	5.4	50.0%	4.3
CJSC Jetalliance East	49.0%	1.7	100.0%	-
CJSC AeroMASH – AB	45.0%	2.0	45.0%	1.6
CJSC Aerofirst	-	-	33.3%	4.8
CJSC TZK Sheremetyevo	31.0%	18.4	31.0%	13.3
Other	Various	0.1	Various	0.5
		<u>27.6</u>		<u>24.5</u>

The summarised financial information in respect of the Group's affiliates accounted for by using the equity method based on their respective financial statements prepared for the years ended 31 December 2010 and 2009 is set out below:

	2010	2009
Total assets	182.4	168.7
Total liabilities	(110.5)	(98.9)
<b>Net assets</b>	<u>71.9</u>	<u>69.8</u>
<b>Group's carrying amount of equity accounted investments</b>	<b>27.6</b>	<b>24.5</b>
	<u>2010</u>	<u>2009</u>
Revenue	400.9	361.6
Profit for the year	27.5	23.5
<b>Group's share of profits for the year in equity accounted investments</b>	<u>11.1</u>	<u>6.9</u>

**19. LONG-TERM INVESTMENTS**

	2010	2009
<i>Available-for-sale investments:</i>		
Shares in France Telecom	-	12.8
Mutual investment funds	0.5	0.8
SITA Investment Certificates	0.5	0.6
	<u>1.0</u>	<u>14.2</u>
<i>Other long-term investments:</i>		
Loans issued and promissory notes from related parties	2.6	-
Loans issued and promissory notes from third parties	0.1	0.7
Other	-	0.7
	<u>2.7</u>	<u>1.4</u>
	<u>3.7</u>	<u>15.6</u>



## 20. OTHER NON-CURRENT ASSETS

	<u>2010</u>	<u>2009</u>
Deferred customs duties related to aircraft operating leases	160.0	211.6
VAT recoverable	74.5	182.9
Other	6.2	7.0
	<u>240.7</u>	<u>401.5</u>

VAT recoverable includes USD 74.5 million (31 December 2009: USD 182.9 million) related to the acquisition of aircraft.

## 21. PREPAYMENTS FOR AIRCRAFT

Prepayments for aircraft relate to cash advances made in relation to twenty-two Boeing B-787 (delivery: 2014 – 2016), twenty-two Airbus A-350 (delivery: 2018 – 2019), twenty Sukhoi Superjet-100 (SSJ) (delivery: 2012 – 2014) aircraft which are expected to be used under operating lease agreements and eight Airbus A-321 (delivery: 2012 – 2013), eight Airbus A-330 (delivery 2012), eight Boeing B-777 (delivery: 2013 – 2016) aircraft which are expected to be used under finance lease agreements.

## 22. PROPERTY, PLANT AND EQUIPMENT

	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Plant, equipment and other	Construction in progress (i)	Total
<i>Cost</i>						
1 January 2009	497.2	778.9	188.6	243.6	857.7	2,566.0
Additions	19.5	320.6	2.2	76.2	349.8	768.3
Capitalised overhaul costs	4.3	-	-	-	-	4.3
Disposals	(241.6)	-	(0.1)	(15.5)	(172.6)	(429.8)
Transfers	1.4	-	77.4	39.9	(118.7)	-
Transfers from leased assets to owned assets	3.3	(3.3)	-	-	-	-
Foreign currency translation	(24.7)	(8.0)	(1.4)	(2.3)	(21.2)	(57.6)
<b>31 December 2009</b>	<u>259.4</u>	<u>1,088.2</u>	<u>266.7</u>	<u>341.9</u>	<u>895.0</u>	<u>2,851.2</u>
Additions (ii)	12.9	126.8	26.0	27.4	40.2	233.3
Capitalised overhaul costs	0.8	2.2	-	-	-	3.0
Disposals (iii)	(58.4)	-	(0.5)	(15.2)	0.2	(73.9)
Transfers (iv)	-	-	688.3	184.9	(873.2)	-
Transfers from leased assets to owned assets	0.1	(0.1)	-	-	-	-
Transfers to assets held for sale (v)	(3.6)	(19.9)	(5.1)	(3.8)	(0.4)	(32.8)
Foreign currency translation	(2.1)	(8.6)	(5.0)	(3.4)	(5.3)	(24.4)
<b>31 December 2010</b>	<u>209.1</u>	<u>1,188.6</u>	<u>970.4</u>	<u>531.8</u>	<u>56.5</u>	<u>2,956.4</u>

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	Owned aircraft and engines	Leased aircraft and engines	Land and buildings	Plant, equipment and other	Construction in progress (i)	Total
<i>Accumulated depreciation</i>						
<b>1 January 2009</b>	<b>(334.9)</b>	<b>(191.3)</b>	<b>(88.1)</b>	<b>(152.9)</b>	<b>(24.5)</b>	<b>(791.7)</b>
Charge for the year	(50.4)	(60.4)	(9.1)	(22.3)	-	(142.2)
Impairment	7.0	-	-	0.4	19.0	26.4
Disposals	186.0	0.4	0.1	11.1	-	197.6
Foreign currency translation	16.5	2.5	2.3	3.7	1.5	26.5
<b>31 December 2009</b>	<b>(175.8)</b>	<b>(248.8)</b>	<b>(94.8)</b>	<b>(160.0)</b>	<b>(4.0)</b>	<b>(683.4)</b>
Charge for the year	(22.7)	(85.3)	(27.5)	(42.9)	-	(178.4)
Impairment	0.1	-	-	0.7	-	0.8
Disposals (iii)	55.7	(0.2)	0.1	11.1	-	66.7
Transfers to assets held for sale (v)	2.8	13.0	1.2	2.6	-	19.6
Foreign currency translation	2.3	2.2	0.9	0.9	-	6.3
<b>31 December 2010</b>	<b>(137.6)</b>	<b>(319.1)</b>	<b>(120.1)</b>	<b>(187.6)</b>	<b>(4.0)</b>	<b>(768.4)</b>
<i>Net book value</i>						
<b>31 December 2009</b>	<b>83.6</b>	<b>839.4</b>	<b>171.9</b>	<b>181.9</b>	<b>891.0</b>	<b>2,167.8</b>
<b>31 December 2010</b>	<b>71.5</b>	<b>869.5</b>	<b>850.3</b>	<b>344.2</b>	<b>52.5</b>	<b>2,188.0</b>

- (i) Construction in progress mainly includes capital expenditure incurred in relation to the construction of the new Sheremetyevo-3 terminal of USD 25.0 million (2009: USD 839.8 million);
- (ii) The 2010 additions mainly relate to addition of two Airbus A-321 aircrafts with a carrying value of USD 126.8 million received under finance lease agreements;
- (iii) The 2010 disposals mainly relate to a disposal of capitalised engine overhauls with a carrying value of USD 0.3 million comprising USD 47 million of historical cost less USD 46.7 million of accumulated depreciation;
- (iv) Transfer from construction in progress mainly includes capital expenditures of USD 827.2 million related to the new Sheremetyevo-3 terminal;
- (v) Transfer to assets held for sale relates to property, plant and equipment of USD 13.2 million of CJSC Nordavia and OJSC Insurance Company Moscow comprising USD 32.8 million of historical cost less USD 19.6 million of accumulated depreciation (Note 17).

The total amount of interest capitalised in 2010 amounted to USD 2.5 million (2009: USD 64.8 million).

## 23. INTANGIBLE ASSETS

	Software	Licences	Development in progress	Total
<i>Cost</i>				
1 January 2009	7.9	4.5	3.4	15.8
Additions	2.2	-	7.6	9.8
Transfers	2.5	-	(2.5)	-
Foreign currency translation	0.1	(0.1)	0.1	0.1
<b>31 December 2009</b>	<b>12.7</b>	<b>4.4</b>	<b>8.6</b>	<b>25.7</b>
Additions	5.1	0.1	21.5	26.7
Disposal	(0.7)	-	-	(0.7)
Transfers	0.7	-	(0.7)	-
Foreign currency translation	(0.2)	-	(0.1)	(0.3)
<b>31 December 2010</b>	<b>17.6</b>	<b>4.5</b>	<b>29.3</b>	<b>51.4</b>
<i>Accumulated amortisation</i>				
1 January 2009	(1.7)	-	-	(1.7)
Charge for the year	(2.5)	(0.6)	-	(3.1)
Foreign currency translation	(0.2)	-	-	(0.2)
<b>31 December 2009</b>	<b>(4.4)</b>	<b>(0.6)</b>	<b>-</b>	<b>(5.0)</b>
Charge for the year	(5.3)	(0.6)	-	(5.9)
Foreign currency translation	0.1	-	-	0.1
<b>31 December 2010</b>	<b>(9.6)</b>	<b>(1.2)</b>	<b>-</b>	<b>(10.8)</b>
<i>Net book value</i>				
<b>31 December 2009</b>	<b>8.3</b>	<b>3.8</b>	<b>8.6</b>	<b>20.7</b>
<b>31 December 2010</b>	<b>8.0</b>	<b>3.3</b>	<b>29.3</b>	<b>40.6</b>

## 24. DERIVATIVE INSTRUMENTS

The Group has entered into cross-currency fixed-to-fixed interest rate swap agreements with two major banks operating in Russia to hedge a portion of its euro denominated revenues from potential future RUB/EUR exchange rate fluctuations. The hedge instrument has been assessed as being effective for IAS 39 purposes. The change in the fair value of the hedge instrument amounted to a loss of USD 6.7 million and has been reported in other comprehensive income. A corresponding deferred tax assets of USD 2.4 million has been recognised in these consolidated financial statements and reported in other comprehensive income. The fair value has been determined using a valuation model with market observable parameters (level 2).

In December 2010 the Group entered into an agreement with a Russian bank to hedge a portion of its fuel costs (less than 15%) from potential future price increases. In accordance with the terms of the agreement the Group will be compensated by the bank for the excess between the actual price and the ceiling price specified in the agreement, whilst the Group has agreed to compensate the bank the shortfall between the actual prices and the floor price specified in the agreement.

## 25. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2010</u>	<u>2009</u>
Trade accounts payable	221.2	253.4
VAT payable on leased aircraft	116.4	148.8
Staff related liabilities	93.7	65.5
Customs duties payable on leased aircraft	57.7	89.8
Advances received (other than unearned transportation revenue)	54.4	30.2
Other taxes payable	61.8	13.3
Other liabilities related to frequent flyer programme (Note 27)	16.9	8.2
Income tax payable	17.7	4.1
Merchandise credits	2.9	3.8
Dividends payable	0.2	3.7
Other payables	65.6	53.7
	<u>708.5</u>	<u>674.5</u>

As at 31 December 2010 accounts payable and accrued liabilities include the short-term portion of VAT of USD 116.4 million (31 December 2009: USD 148.8 million) and customs duties of USD 57.7 million (31 December 2009: USD 89.8 million) relating to imported leased aircraft, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets were cleared through customs. The long-term portion of VAT payable and customs duties of USD 71.4 million (31 December 2009: USD 179.3 million) and USD 32.9 million (31 December 2009: USD 97.6 million), respectively, relating to the leased aircrafts are disclosed in Note 32.

Staff related payables primarily include salaries and social contribution liabilities of USD 50.5 million (31 December 2009: USD 29.4 million) and the unused vacation accrual of USD 42.1 million (31 December 2009: USD 35.1 million).

The Group's exposure to currency and liquidity risk related to accounts payable and accrued liabilities is disclosed in Note 36.

## 26. UNEARNED TRANSPORTATION REVENUE

As at 31 December 2010 unearned transportation revenue of USD 225.9 million (31 December 2009: USD 186.1 million) comprised passenger transportation revenue of USD 224.7 million (31 December 2009: USD 186.1 million) and cargo transportation revenue of USD 1.2 million (31 December 2009: nil).

## 27. DEFERRED REVENUE RELATED TO FREQUENT FLYER PROGRAMME

Deferred revenue related to Aeroflot Bonus as at 31 December 2010 has been assessed in accordance with IFRIC 13 Customer Loyalty Programmes. The amount represents the number of points earned but unused by the Aeroflot Bonus programme members estimated at fair value (Note 3).

	<u>2010</u>	<u>2009</u>
Deferred revenue related to frequent flyer programme, current	8.0	9.0
Deferred revenue related to frequent flyer programme, non-current	31.3	30.7
Other current liabilities related to frequent flyer programme (Note 25)	16.9	8.2
Other non-current liabilities related to frequent flyer programme (Note 32)	37.9	25.1
	<u>94.1</u>	<u>73.0</u>

## 28. PROVISIONS

	<u>2010</u>	<u>2009</u>
As at 1 January	2.4	25.2
Additional provision	12.9	-
Release of provision	-	(21.5)
Foreign exchange loss, net	(0.1)	(1.3)
<b>As at 31 December</b>	<b><u>15.2</u></b>	<b><u>2.4</u></b>
	<u>2010</u>	<u>2009</u>
<i>Analysed as:</i>		
Current liabilities	10.0	0.8
Non-current liabilities	5.2	1.6
	<b><u>15.2</u></b>	<b><u>2.4</u></b>

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

## 29. SHORT-TERM BORROWING

	<u>2010</u>	<u>2009</u>
<i>Loans denominated in US dollars:</i>		
Vneshtorgbank - short term portion (Note 31)	18.1	15.6
Vnesheconombank - short term portion (Note 31)	17.4	14.6
Natixis (i)	-	15.0
Other short-term bank loans	-	4.1
	<b><u>35.5</u></b>	<b><u>49.3</u></b>
Bonds denominated in Russian roubles, short-term portion (Note 31)	7.9	-
<i>Loans denominated in Russian roubles:</i>		
	<u>2010</u>	<u>2009</u>
Sberbank of the Russian Federation (ii)	-	66.3
Sberbank of the Russian Federation (iii) (Note 17)	-	14.7
Gazprombank (iv)	6.1	11.7
Promsvyazbank (v)	4.6	-
Alfa-bank (vi)	4.5	-
MBRR (vii)	3.8	-
Raiffeisenbank (viii) (Note 17)	-	11.8
Other short-term bank loans	-	2.6
	<b><u>19.0</u></b>	<b><u>107.1</u></b>
	<b><u>62.4</u></b>	<b><u>156.4</u></b>

- (i) The balance as at 31 December 2009 represented a loan of USD 15.0 million issued at an interest rate of LIBOR plus 5.0% per annum. The effective annualised interest rate related to this credit in 2010 was equal to 5.3% per annum. During 2010 this credit line was repaid in full. The loan was unsecured;
- (ii) The balance as at 31 December 2009 represented a credit line of USD 66.3 million issued at an interest rate of 11.5% per annum. The effective annualised interest rate related to this credit line in 2010 was equal to 11.7% per annum. During 2010 this credit line was repaid in full. The loan was unsecured and was from a related party (Note 37);

- (iii) The balance as at 31 December 2010 represents loans which are recognised as liabilities associated with assets held for sale (Note 17). The loans have been issued at interest rates of 11.0% to 12.75% per annum. The effective annualised interest rate on the total outstanding balance in 2010 equalled to 12.5% per annum. The loans are secured by a property, plant, equipment and inventory with a carrying value of USD 3.1 million and are from a related party (Note 37);
- (iv) The balance as at 31 December 2010 represents loans of USD 6.1 million issued at interest rates of between 7.25% to 8.6% per annum. The effective annualised interest rate related to these loans in 2010 was 7.5 % per annum. The loans are unsecured and are from a related party (Note 37);
- (v) The balance as at 31 December 2010 represents a loan of USD 4.6 million issued at an interest rate of 10.0% per annum. The loan is unsecured;
- (vi) The balance as at 31 December 2010 represents a loan of USD 4.5 million issued at an interest rate of 10.0% per annum. The loan is unsecured;
- (vii) The balance as at 31 December 2010 represents loans of USD 3.8 million issued at an interest rate of 10.0% per annum. The loan is unsecured;
- (viii) The balance as at 31 December 2010 represents a loan which is recognised as liabilities associated with assets held for sale (Note 17). The loan has been issued at an interest rate of MosPrime plus 5% per annum. The loan has been borrowed to finance the Group's working capital requirements. The effective annualised interest rate in 2010 was equal to 15.1% per annum. The loan is unsecured.

### 30. FINANCE LEASE LIABILITIES

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

	<u>2010</u>	<u>2009</u>
Total outstanding payments	781.4	784.2
Finance charges	(47.5)	(49.5)
<b>Principal outstanding</b>	<b><u>733.9</u></b>	<b><u>734.7</u></b>
<i>Representing:</i>		
Current lease liabilities	103.8	111.2
Non-current lease liabilities	630.1	623.5
	<b><u>733.9</u></b>	<b><u>734.7</u></b>

	<u>2010</u>			<u>2009</u>		
	<u>Principal</u>	<u>Finance changes</u>	<u>Total payments</u>	<u>Principal</u>	<u>Finance changes</u>	<u>Total payments</u>
<i>Due for repayment:</i>						
On demand or within one year	103.8	10.6	114.4	111.2	11.4	122.6
In two to five years	365.0	25.7	390.7	336.8	25.4	362.2
After five years	265.1	11.2	276.3	286.7	12.7	299.4
	<b><u>733.9</u></b>	<b><u>47.5</u></b>	<b><u>781.4</u></b>	<b><u>734.7</u></b>	<b><u>49.5</u></b>	<b><u>784.2</u></b>

Interest unpaid as at 31 December 2010 amounted to approximately USD 3.0 million (31 December 2009: USD 3.2 million) and is included in other payables (Note 25). In 2010 the effective interest rate on these leases was approximately 1.5% per annum (2009: 1.1% per annum).

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

The Group's aircrafts leased under finance lease agreements are subject to a registered debenture to secure liabilities in relation to their lease. The Group is in compliance with such financial covenants as at 31 December 2010.

### 31. LONG-TERM BORROWINGS

	<u>2010</u>	<u>2009</u>
<i>Loans denominated in US dollars:</i>		
Vnesheconombank (i)	447.7	383.3
Vneshtorgbank (ii)	221.2	238.0
Vnesheconombank (iii)	182.0	190.4
Accor	2.8	2.8
Other long-term loans	3.4	3.3
	<u>857.1</u>	<u>817.8</u>
 Bonds denominated in Russian roubles, long-term portion (Note 29) (iv)	 393.7	 -
 <i>Loans denominated in Russian roubles:</i>		
Other long-term loans	-	1.9
	-	<u>1.9</u>
	<u>1,250.8</u>	<u>819.7</u>

- (i) The balance as at 31 December 2010 relates to a loan of USD 447.7 million borrowed at an interest rate of 9.0% per annum. The agreed interest rate will be effective until 20 August 2018 after which the interest rate will be LIBOR plus 4% per annum. The amount was borrowed in order to finance the construction of the new Sheremetyevo-3 terminal. The sublease of the land is pledged as collateral under a primary loan agreement. The loan is from a related party (Note 37);
- (ii) The balance as at 31 December 2010 represents an outstanding amount of USD 221.2 million on a credit line issued by Vneshtorgbank at a fixed interest rate of 7.75% per annum. The amount was borrowed in order to finance the construction of the new Sheremetyevo-3 terminal. Property, plant and equipment with a carrying value of USD 806.4 million and the sublease of land are pledged as collateral. The loan is from a related party (Note 37);
- (iii) The balance as at 31 December 2010 represents an outstanding balance of USD 182.0 million on a credit line issued by Vnesheconombank at a fixed interest rate of 10.56% per annum. The amount was borrowed in order to finance the construction of the new Sheremetyevo-3 terminal. Property, plant and equipment with a carrying value of USD 806.4 million and the sublease of land are pledged as collateral. The loan is from a related party (Note 37);
- (iv) The balance as at 31 December 2010 relates to debenture bonds of USD 393.7 million borrowed at an interest rate of 7.75% per annum. Yield to maturity as at the year end is 7.44 %. The debenture bonds are unsecured.

The borrowings are repayable as follows:

	<u>2010</u>	<u>2009</u>
On demand or within one year	43.4	30.2
In two to five years	565.2	151.2
After five years	685.6	668.5
	<u>1,294.2</u>	<u>849.9</u>
Less: amounts due for settlement within 12 months	(43.4)	(30.2)
<b>Amounts due for settlement after 12 months</b>	<u><b>1,250.8</b></u>	<u><b>819.7</b></u>

### 32. OTHER NON-CURRENT LIABILITIES

	<u>2010</u>	<u>2009</u>
VAT payable on leased aircraft	71.4	179.3
Custom duties payable on leased aircraft	32.9	97.6
Other liabilities related to frequent flyer programme (Note 27)	37.9	25.1
Defined benefit pension obligation, non-current portion	14.4	9.0
Other non-current liabilities	-	5.0
	<u>156.6</u>	<u>316.0</u>

As at 31 December 2010 other non-current liabilities include the long-term portion of VAT of USD 71.4 million (31 December 2009: USD 179.3 million) and customs duties of USD 32.9 million (31 December 2009: USD 97.6 million) relating to imported leased aircraft, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets are cleared through customs.

Customs duties payable on leased aircraft have been discounted using a discount rate between 9.0% and 15.0%.

The short-term portion of the VAT payable and the customs duties of USD 116.4 million (31 December 2009: USD 148.8 million) and USD 57.7 million (31 December 2009: USD 89.8 million), respectively, relating to the imported leased aircraft are disclosed in Note 25.

### 33. SHARE CAPITAL

	<u>Number of shares authorised and issued</u>	<u>Number of treasury shares</u>	<u>Number of shares outstanding</u>
<i>Ordinary shares of one Russian rouble each:</i>			
As at 31 December 2009	1,110,616,299	(11,040,970)	1,099,575,329
As at 31 December 2010	1,110,616,299	(81,070,997)	1,029,545,302

Ordinary shareholders are entitled to one vote per share.

During 2010 the number of treasury shares held by the Group increased by 70,030,027.

The Company's shares are listed on the Russian Trade System ("RTS") and the Moscow Interbank Currency Exchange ("MICEX") and on 31 December 2010 were traded at USD 2.61 per share. On 16 May 2011 were traded at USD 2.43 per share.

The Company launched a Level 1 Global Depositary Receipts (GDR's) programme in December 2000. The Company signed a depositary agreement with Deutsche Bank Group, allowing the Company's shareholders to swap their shares for GDR's, which trade over-the-counter on US and European markets. The swap ratio was established at 100 shares per GDR. In accordance with the depositary agreement the total volume of the GDR's of the Company cannot exceed 20% of the Company's share capital. In 2001 the Company's GDR's were listed on the New Europe Exchange ("NEWEX") in Vienna and after closing of this stock exchange the GDR's were transferred to the third segment of the stock exchange in Frankfurt. On 31 December 2010 and 16 May 2011 the GDR's were trading at USD 250.95 and USD 238.76 each, respectively.

During 2010, the Group initiated a share option programme for its key executives and employees. The program will run for three years and will be exercised in three tranches granted over the three-year period from 1 January 2011 through to 31 December 2013. The vesting requirement of the share option programme is the continuous employment of participants during the vesting period. The fair value of services received in return for the share option granted is measured by reference to the fair value of the share option granted. The estimate of the fair value of the services received is determined using the Black-Scholes model. The following variables have been used in the model: the share price at the grant date of USD 1.9, the expected volatility of 40% and a risk free interest rate of



5%. 33,245,889 of ordinary paid-in shares have been allocated to the programme. In 2010 expenses related to the programme amounted to USD 12.7 million. These have been recognised as wages and salaries in the consolidated statement of income (Note 8).

### 34. DIVIDENDS

At the annual shareholders' meeting held in 19 June 2010 the shareholders approved dividends in respect of 2009 in the amount of 0.3497 Russian roubles per ordinary share (1.1 US cent). The outstanding balance of the dividends payable will be transferred as soon as the relevant shareholders' bank details are collected.

### 35. OPERATING SEGMENTS

The Group has four reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's General Director reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Airline – domestic and international passenger and cargo air transport and other airline services;
- Catering – includes preparation of food and beverages for air travel;
- Hotels – includes operating a hotel;
- Airport terminal – includes operating the Sheremetyevo-3 terminal.

There are also other operating segments. However, none of these segments meet any of the quantitative thresholds for determining reportable segments in 2010 and 2009.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment sales revenue and operating profit, as included in the internal management reports that are reviewed by the Group's General Director. Segment sales revenue and operating profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

	Airline	Catering	Hotels	Terminal	Other	Elimi- nations	Total Group
<b>2010</b>							
External sales	4,240.8	14.8	12.2	45.3	6.2	-	4,319.3
Inter-segment sales	-	118.9	8.2	74.8	3.0	(204.9)	-
<b>Total revenue</b>	<b>4,240.8</b>	<b>133.7</b>	<b>20.4</b>	<b>120.1</b>	<b>9.2</b>	<b>(204.9)</b>	<b>4,319.3</b>
Operating profit/(loss)	490.7	11.8	1.2	4.9	(13.0)	3.8	499.4
Finance income							20.8
Finance costs							(159.5)
Share of income in associates	11.1	-	-	-	-	-	11.1
Non-operating expenses, net							(18.3)
<b>Profit before income tax</b>							<b>353.5</b>
Income tax							(100.3)
<b>Profit for the year</b>							<b>253.2</b>

**OJSC AEROFLOT – RUSSIAN AIRLINES**  
Notes to the Consolidated Financial Statements  
as at and for the year ended 31 December 2010  
*(All amounts in millions of US dollars)*



<b>As at 31 December 2010</b>	<b>Airline</b>	<b>Catering</b>	<b>Hotels</b>	<b>Terminal</b>	<b>Other</b>	<b>Elimi- nations</b>	<b>Total Group</b>
Segment assets	3,719.6	35.0	25.5	941.2	421.0	(730.5)	4,411.8
Associates	24.9	-	-	-	-	-	24.9
Unallocated assets							<u>89.2</u>
<b>Consolidated total assets</b>							<b><u>4,525.9</u></b>
Segment liabilities	877.5	20.1	6.7	35.0	57.3	(90.7)	905.9
Unallocated liabilities							<u>2,465.1</u>
<b>Consolidated total liabilities</b>							<b><u>3,371.0</u></b>
Capital expenditure (Note 22)	178.8	3.3	6.9	28.1	19.2	-	236.3
Depreciation and amortisation	145.5	1.3	0.9	36.6	-	-	184.3
Non-recoverable VAT (Note 10)	63.3	-	-	-	-	-	63.3
<b>2009</b>							
External sales	3,312.1	12.2	15.1	0.7	5.8	-	3,345.9
Inter-segment sales	-	76.1	4.8	1.0	2.5	(84.4)	-
<b>Total revenue</b>	<b><u>3,312.1</u></b>	<b><u>88.3</u></b>	<b><u>19.9</u></b>	<b><u>1.7</u></b>	<b><u>8.3</u></b>	<b><u>(84.4)</u></b>	<b><u>3,345.9</u></b>
Operating profit/(loss)	279.5	12.4	3.7	(18.0)	(1.2)	1.4	277.8
Financial income							2.8
Financial expenses							(53.1)
Share of income in associates	6.9	-	-	-	-	-	6.9
Non-operating expenses, net							<u>(28.6)</u>
<b>Profit before income tax</b>							<b><u>205.8</u></b>
Income tax							<u>(120.0)</u>
<b>Profit for the year</b>							<b><u>85.8</u></b>
<b>As at 31 December 2009</b>							
Segment assets	3,141.3	33.8	15.2	964.0	49.9	(277.3)	3,926.9
Associates	17.5	-	-	-	-	-	17.5
Unallocated assets							<u>40.9</u>
<b>Consolidated total assets</b>							<b><u>3,985.3</u></b>
Segment liabilities	616.0	27.8	5.7	33.7	35.7	(53.2)	665.7
Unallocated liabilities							<u>2,313.8</u>
<b>Consolidated total liabilities</b>							<b><u>2,979.5</u></b>
Capital expenditure (Note 21)	499.2	2.6	0.5	270.1	0.2	-	772.6
Depreciation and amortisation	140.0	0.9	3.0	1.3	0.1	-	145.3
Non-recoverable VAT (Note 10)	21.4	-	-	-	-	-	21.4

	<u>2010</u>	<u>2009</u>
<b>Scheduled passenger revenue:</b>		
<i>International flights from Moscow to:</i>		
Europe	565.8	476.4
Asia	285.6	210.9
North America	70.4	48.3
Other	44.4	26.0
	<u>966.2</u>	<u>761.6</u>
<i>International flights to Moscow from:</i>		
Europe	576.8	482.6
Asia	302.4	209.7
North America	71.8	47.1
Other	43.8	24.4
	<u>994.8</u>	<u>763.8</u>
Domestic flights	1,326.5	942.0
Other international flights	43.2	45.0
	<u>3,330.7</u>	<u>2,512.4</u>
<b>Cargo revenue:</b>		
<i>International flights from Moscow to:</i>		
Europe	10.4	13.7
Asia	8.7	9.9
North America	2.2	2.2
Other	0.6	1.2
	<u>21.9</u>	<u>27.0</u>
<i>International flights to Moscow from:</i>		
Europe	18.8	27.1
Asia	85.4	64.5
North America	3.0	3.3
Other	0.1	0.4
	<u>107.3</u>	<u>95.3</u>
Other international flights	81.7	45.0
Domestic flights	74.7	44.0
	<u>285.6</u>	<u>211.3</u>

### 36. RISK CONNECTED WITH FINANCIAL INSTRUMENTS

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

The Group has entered into various agreements with a number of banks in Russia whereby the banks have issued facilities to guarantee the repayment of the Group's commitments related to the existing aircraft lease agreements. As at 31 December 2010 the total value of the guarantees issued amounted to USD 103.1 million (31 December 2009: USD 376.1 million).

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The following are the contractual maturities of financial liabilities, excluding estimated interest payments and the impact of netting agreements:

31 December 2010	Average interest rate		0-12 months	1-2 years	2-5 years	Over 5 years	Total
	Contractual	Effective					
<i>Non-derivative financial liabilities:</i>							
Loans in US dollars	8.9%	8.9%	35.5	34.2	137.3	685.6	892.6
Loans in Russian roubles	9.2%	9.2%	19.0	-	-	-	19.0
Bonds	7.8%	7.4%	7.9	-	393.7	-	401.6
Finance lease liabilities	1.5%	1.5%	103.8	100.6	264.4	265.1	733.9
Customs duties	0%	8.0%	57.7	26.8	6.1	-	90.6
Trade and other payables (excluding customs duties)	0%	0%	383.6	1.8	5.5	7.0	397.9
			<b>607.5</b>	<b>163.4</b>	<b>807.0</b>	<b>957.7</b>	<b>2,535.6</b>
<b>31 December 2009</b>							
<i>Non-derivative financial liabilities:</i>							
Loans in US dollars	8.8%	8.8%	49.3	30.7	118.6	668.5	867.1
Loans in Russian roubles	13.2%	13.2%	107.1	1.9	-	-	109.0
Finance lease liabilities	1.1%	1.1%	111.2	90.5	246.3	286.7	734.7
Customs duties	0%	9.9%	89.8	75.7	21.9	-	187.4
Trade and other payables (excluding customs duties)	0%	0%	380.1	1.0	3.0	5.0	389.1
			<b>737.5</b>	<b>199.8</b>	<b>389.8</b>	<b>960.2</b>	<b>2,287.3</b>

Guarantees are disclosed in Note 37.

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

As at 31 December 2010 the Group had USD 86.4 million (31 December 2009: USD 81.7 million) available in relation to lines of credit granted to the Group by various lending institutions.

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

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

<i>In millions of USD</i>	2010				2009			
	USD	EUR	Other	Total	USD	EUR	Other	Total
Cash and cash equivalents	405.5	13.6	22.7	441.8	49.1	9.9	24.0	83.0
Accounts receivable and prepayments, net	502.1	56.6	90.9	649.6	379.2	56.9	55.2	491.3
Other non-current assets	41.6	0.1	0.3	42.0	51.0	0.2	0.4	51.6
	<b>949.2</b>	<b>70.3</b>	<b>113.9</b>	<b>1,133.4</b>	<b>479.3</b>	<b>67.0</b>	<b>79.6</b>	<b>625.9</b>
Accounts payable and accrued liabilities	145.9	48.2	33.4	227.5	125.7	45.0	15.4	186.1
Finance lease liabilities (current portion)	103.8	-	-	103.8	110.9	-	-	110.9
Finance lease liabilities (non-current portion)	630.1	-	-	630.1	623.5	-	-	623.5
Short-term borrowings	35.5	-	-	35.5	49.3	-	-	49.3
Long-term borrowings	857.1	-	-	857.1	817.8	-	-	817.8
Other non-current liabilities	-	-	-	-	4.2	0.2	-	4.4
	<b>1,772.4</b>	<b>48.2</b>	<b>33.4</b>	<b>1,854.0</b>	<b>1,731.4</b>	<b>45.2</b>	<b>15.4</b>	<b>1,792.0</b>
<b>Net assets/(liabilities)</b>	<b>(823.2)</b>	<b>22.1</b>	<b>80.5</b>	<b>(720.6)</b>	<b>(1,252.1)</b>	<b>21.8</b>	<b>64.2</b>	<b>(1,166.1)</b>

In addition, payments of approximately USD 8.0 million, USD 8.0 million, USD 8.0 million, USD 8.0 million and USD 420.5 million denominated in euro are expected to be take place in April 2011, October 2011, April 2012, October 2012 and April 2013, respectively, in relation to the hedge instrument described in Note 24.

A 20% strengthening or weakening of the Russian rouble against the following currencies as at 31 December 2010 and 31 December 2009, respectively, would have increased/(decreased) profit before income tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

<i>In millions of USD</i>	2010		2009	
	Percent against RUB	Effect on profit before income tax	Percent against RUB	Effect on profit before income tax
<b>Increase in the rate of exchange to rouble</b>				
USD	20%	(164.6)	20%	(250.4)
Euro	20%	4.4	20%	4.4
Other currencies	20%	16.1	20%	12.8
<b>Decrease in rate of exchange to rouble</b>				
USD	20%	164.7	20%	250.7
Euro	20%	(4.4)	20%	(4.4)
Other currencies	20%	(16.1)	20%	(12.8)

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

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As at 31 December 2010 and 31 December 2009 the interest rate profiles of the Group's interest-bearing financial instruments were:

	Carrying amount	
	2010	2009
<i>Fixed rate instruments</i>		
Financial assets	510.3	14.1
Financial liabilities	(1,334.9)	(977.9)
	<b>(824.6)</b>	<b>(963.8)</b>
<i>Variable rate instruments</i>		
Financial assets	0.5	0.6
Financial liabilities	(712.2)	(733.0)
	<b>(711.7)</b>	<b>(732.4)</b>

During the year some of the Group's loans bore variable interest rates (Note 29 and Note 31). If the variable interest rates on borrowings in 2010 were 30% greater or lower than the actual interest rates for the year, with all other variables held constant, interest expense would not have changed significantly (2009: USD 0.9 million).

The interest component of the Group's finance leases primarily accrues at variable interest rates. If in 2010 those rates were 30% greater or lower than what they actually were, with all other variables held constant, interest expense on finance leases for the year would have been different by USD 0.7 million (2009: USD 1.1 million).

**Fuel risk** – The results of the Group's operations can be significantly impacted by changes in the price of aircraft fuel. In 2010 the Group engaged in fuel hedging activities to hedge a portion of its non-financial risk related to fuel (Note 24).

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

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

Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements.

**Credit risk** is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group conducts transactions with the following major types of counterparties:

- i. The Group has credit risk associated with travel agents and industry settlement organisations. A significant share of the Group's sales takes place via travel agencies. Due to the fact that receivables from agents are diversified the overall credit risk related to agencies is assessed by management as low.
- ii. Receivables from other airlines are carried out through the IATA clearing house. Regular settlements ensure that the exposure to credit risk is mitigated to the greatest extent possible.
- iii. Aircraft suppliers require that security deposits are paid by the Group in relation to the future aircraft deliveries. The Group mitigates this credit risk by performing extensive background checks on suppliers. Only well known and reputable companies are contracted with.
- iv. The Group limits its exposure to credit risk associated with investments by only investing in liquid securities. Management actively monitors the performance and given that the Group only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

The maximum exposure to the credit risk net of impairment allowance is set out in the table below:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	660.4	121.1
Trade accounts receivable	363.3	318.2
Prepayments for aircraft	235.9	156.3
Short-term investments	5.4	10.4
Long-term investments	3.7	15.6
	<u>1,268.7</u>	<u>621.6</u>

Guarantees are disclosed in Note 37.

Aging of past due but not impaired trade receivables:

	<u>2010</u>	<u>2009</u>
Current	85.5	69.5
0 – 90 days	161.4	116.3
90 – 2 years	70.5	46.2
Over 2 years	45.9	86.2
	<u>363.3</u>	<u>318.2</u>

### 37. RELATED PARTY TRANSACTIONS

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

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

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
<i>Russian Government and companies controlled by the Government</i>		
VAT and customs duties capitalised on leased aircraft	386.5	584.3
Cash and cash equivalents	82.1	53.0
Trade and accounts receivable	29.8	57.6
Bank deposits with maturities less than 90 days	-	1.5
Bank deposits with maturity date not exceeding 90 days	3.0	2.8
	<u>501.4</u>	<u>699.2</u>
<i>Associates</i>		
Trade and accounts receivable	5.8	8.3
	<u>507.2</u>	<u>707.5</u>
<b>Liabilities</b>		
<i>Russian Government and companies controlled by the Government</i>		
Long-term borrowings	850.9	813.6
VAT and customs duties payable on leased aircraft	278.4	515.5
Short-term borrowings	41.6	122.9
Trade and other accounts payable	30.9	24.0
	<u>1,201.8</u>	<u>1,476.0</u>
<i>Associates</i>		
Trade and other accounts payable	4.3	10.3
	<u>1,206.1</u>	<u>1,486.3</u>

	<u>2010</u>	<u>2009</u>
Sales to Government and companies controlled by the Government	33.3	41.6
Sales to associates	<u>25.2</u>	<u>9.9</u>
	<u>58.5</u>	<u>51.5</u>
Purchases from associates	75.5	42.0
Purchases from Government and companies controlled by the Government	549.7	617.1
Dividend income received	1.0	0.4

Purchases consist primarily of purchases of aircraft fuel as well as air navigation and airport services. In 2010 and 2009 most of the transactions between the Group and its related parties were based on market prices.

The summary of balances and charges relating to the taxes due to the Government of the Russian Federation for the years 2010 and 2009 is presented below:

	<u>2010</u>	<u>2009</u>
Accounts receivable from tax authorities	210.9	283.6
Accounts payable to tax authorities	81.2	20.7
	<u>2010</u>	<u>2009</u>
Tax refunds received during the year	328.0	291.8
Total amount of taxes settled with tax authorities during the year	356.7	223.6

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

As at 31 December 2010 the total amount of guarantees issued by the Company amounts to USD 150.9 million (31 December 2009: USD 1.1 million).

As at 31 December 2010 the total amount of guarantees received by the Company amounts to USD 0.4 million (31 December 2009: USD 0.3 million).

#### ***Compensation of key management personnel***

The remuneration of directors and other members of key management (the members of the Board of Directors and Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group) consist of short-term benefits including salary and bonuses as well as short- and mid-term compensation for serving on the management bodies of Group companies of 2010 amounted to approximately USD 16.6 million (2009: USD 13.8 million). In addition, during 2010, the Group initiated a share option programme for its key executives and employees. Expenses related to the programme have been recognised as wages and salaries in the consolidated statement of income (Note 33).

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



### 38. COMMITMENTS UNDER OPERATING LEASES

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

	<u>2010</u>	<u>2009</u>
On demand or within one year	357.0	358.6
In two to five years	1,308.0	1,409.7
After five years	1,281.5	1,487.0
Total minimum payments	<u>2,946.5</u>	<u>3,255.3</u>

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

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

### 39. CAPITAL COMMITMENTS

The Group's capital commitments in relation to the acquisition of property, plant and equipment and other services as at 31 December 2010 amounted to approximately USD 2,402.6 million (31 December 2009: USD 665.8 million). These commitments mainly relate to the finance leases of eight Airbus A-321-200, eleven Airbus A-330 aircraft.

### 40. CONTINGENCIES

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

**Business environment** – The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**Taxation** – The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

#### **41. SUBSEQUENT EVENTS**

The Group is considering a possibility of acquiring a number of Russian regional airlines currently controlled by Rostechnologii.

In January 2011 the Group disposed of its 100% ownership interest in OJSC Insurance Company Moscow (Note 17).

In February 2011 the Group disposed of its 31% ownership interest in CJSC TZK Sheremetyevo.

In March 2011 the Group disposed of its 50% ownership interest in CJSC DATE.

In March 2011 the Group signed an agreement to dispose of its 100% ownership interest in CJSC Nordavia. The approval of the Federal Antimonopoly Service of the Russian Federation is currently pending.

Six Airbus A-320 aircraft were delivered to the Group during the period from 1 January 2011 to 20 May 2011. All aircraft will be operated under operating lease agreements.

In February 2011 and May 2011 the Group signed two contracts for the delivery of a total of sixteen new Boeing-777 aircraft.

On 28 April 2011 the Board of Directors made a decision to recommend a dividend of 3.57 US cents per ordinary share (RUB 1.0851). The total amount of dividends to be paid for 2010 amounts to USD 39.7 million and is subject to the shareholders' approval at the annual shareholders' meeting to be held on 29 June 2011.