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CEO's Letter to Shareholders

Welcome to Aeroflot

Dear Shareholders,

Aeroflot strengthened its positions on the international air carrying market and significantly improved financial performance during 2002 despite the global downturn in the airline industry. This was achieved by improvements in management system efficiency and labor productivity, and by implementation of a cost saving program.

Company strategy in 2002 remained centered on three key components: reliability, profitability and service, which will enable Aeroflot to achieve a new level of product quality, increase return of investments, and sharpen its image among customers and the international business community.

Profitability Improvements

The fleet restructuring program initiated in 2001 is crucial for improving Company profitability. This is a unique project: no other airline as carried out fleet replacement on such a large scale and within such a short timeframe. The restructuring will give annual savings of US$ 90 million.

The key issue for management and employees in 2002 was improvement of Company operating profitability through focus on cost reduction. Each cost line item was carefully defined in the budget, ways of reducing each spending item were identified, and individual incentive schemes were devised to lock the targets. These measures encouraged individual responsibility and market-oriented thinking, and as a result overall profitability and labor productivity were improved.

Improved use of fuel-efficient aircraft enabled 19.5 percent fuel cost reductions in 2002 compared with 2001. This was the single biggest cost saving.

Closure of unprofitable routes in favor of those offering higher returns led to better route network efficiency. Aeroflot strengthened its presence in Europe and increased network connection ratio.

The Company expanded code sharing arrangements with international partners and signed binding agreements with LOT, MALEV, Air France and Lufthansa. A total 16 airlines are now partners of Aeroflot under code sharing agreements and the Company is eager to further increase this form of co-operation. The agreement with LOT, which resulted in load factor increase with growth of passengers by 30% and sales by 50%, is a good example of the benefits of code sharing.

Safety is Top Priority

Safety of our passengers was, is and will remain the top priority for Aeroflot. The Company's flight safety ratio is in the range of 99.94–99.98 percent, which is well above the average for both Russian and international civil aviation. Such a result was made possible by the high-quality pilot training system, developed in the Company. There was not a single accident registered in the course of Aeroflot operations last year.

Aeroflot is equally attentive to in-flight security, as confirmed by ISO 9001-2000 certification awarded in August 2002 to the quality management system used by our in-flight security service. The ISO certification will undoubtedly increase confidence in Aeroflot on the part of passengers and business partners, and will enhance the Company's reputation.

Improving Service Quality

Success on the world market requires more than isolated strengths. It depends on competence and competitive edge across the whole spectrum of services provided by the Company. Aeroflot has set an ambitious goal: to be among the top 10 airlines in the world for service quality both in the air and on the ground.

Aeroflot has developed and introduced a new service concept, which has been tested on the Moscow–New York–Moscow route since December 2002. The key idea is to improve the quality of catering and entertainment for passengers, offering a range of products for children and adults (video program, etc.), to ensure that their stay with Aeroflot is as enjoyable as possible. The goal of joining the top 10 service providers worldwide will require a major efforts to improve quality of the whole product chain.

Aeroflot Invests in People

Investments in people are no less important than investments in production assets. Understanding that a contented workforce is the key to commercial success, Aeroflot pays special attention to well-being of its employees. The Company offers a competitive payroll, good working conditions, professional development and career opportunities, as well as a social package, including retirement and pension arrangements.

In November 2002 Aeroflot was among the first Russian corporates to sign a Labor Agreement, valid for 2002 and 2003. This agreement lays a foundation for social partnership between employer and employee, setting out a framework for Company social policy. A balanced social package was developed during negotiation of the Labor Agreement.

Aeroflot Prepares for the Future

The key to commercial success for any company is ability to predict and plan for the future. Aeroflot has shown understanding of this point in work with its aircraft fleet, which has included upgrade of TU-154 aircraft to allow continuation of flights to European destinations without any limitations until 2008.

An important part of Aeroflot strategy is restructuring to improve quality of management across the Company and its subsidiaries. The restructuring program envisages administrative cost reduction, empowering of top managers and increase of the financial responsibility of business units.

This restructuring will improve the quality of products and services provided by Aeroflot business units to other companies. Business units will be able to use greater autonomy to enlarge third-party sales and thus increase Aeroflot's overall revenue stream.

The program of Aeroflot's brand enhancement announced last year is also a challenge for the future. It encompasses visualization of the changes taking place inside the Company, putting an edge on Aeroflot's image by addition of new, up-to-date and attractive features. Aeroflot's goal is to mirror its corporate values which are: customer care, reliability and the best aspects of the Russian national character.

Yours sincerely,

Chief Executing Officer
Valeriy Okulov

Main Events in 2002

February

February 6 The Company celebrates 30 years since the start of regular flights between Moscow and Frankfurt-on-Main. This is now one of Aeroflot's busiest routes, with 18 flights per week on B737 and A310 aircraft.

February 4–11 The 2002 Aeroflot Open Chess Tournament, with prize money of $150,000, is held in Moscow with backing from Aeroflot, the Association of Chess Federations and the Tourism Committee of the Moscow City Government.

February 26 Top officials of Aeroflot and Belavia sign a memorandum on integration of their operations. The Russian and Belarussian carriers plans to create a single air transport network.

February 27 The Russian Federal Commission for the Securities Market (FCSM) registeres issue by Aeroflot of one million bearer bonds in document form with face value of 1000 rubles. The coupon bonds have serial number 02 and state registration number 4-02-00010-A, and are subject to centralized depository holding. The issue is underwritten by Raiffeisenbank Austria.

February 27 Aeroflot starts to use the CBT computerized learning system for training of flight personnel and engineering and technical personnel.

March

March 1 GDR trading of Aeroflot shares begins on the Frankfurt Stock Exchange.

March 14–17 The Aeroflot Volleyball Team wins the international air carrier tournament, CSA VOLLEYBALL CUP 2002, held in Prague with 14 teams from eight countries taking part.

March 26 The 70th anniversary of the Aeroflot brand. On this day 70 years earlier the Main Directorate of the Civil Air Fleet was renamed "Aeroflot". The name has since joined those of the Bolshoi Theater and Moscow Kremlin as one of the symbols of Russia.

March 31 Aeroflot becomes a no-smoking airline, with smoking banned on all routes. The decision was prompted by health considerations, desire of most passengers to travel on non-smoking flights, and global tendencies in service provision.

April

April 1 Aeroflot sub-divisions based in Moscow region (outside Moscow city) start paying taxes to local budgets at their local address instead of at Aeroflot headquarters.

April 3 Aeroflot CEO, Valeriy Okulov, and the CEO of MALEV Hungarian Airlines, Jozsef Varadi, sign a code sharing agreement. The agreement calls for efforts to improve quality of joint products of the two companies, as well as tariff co-operation and co-operation on route networks to ensure convenient connections for passengers.

April 11 Aeroflot CEO, Valeriy Okulov, and the CEO of Belarus air carrier, Belavia, Anatoly Gusarov, sign a code sharing agreement. The agreement calls for efforts to improve quality of joint products of the two companies, as well as tariff co-operation and co-operation on route networks to ensure convenient connections for passengers.

April 17 The 35th anniversary of regular flights between Moscow and Tokyo. Commencement of regular flights between Russia and Japan was a major event for Soviet and international civil aviation and was Aeroflot's first step towards intercontinental flights.

May

May 6 A code sharing agreement is signed with the company Cubana for the Moscow–Havana–Moscow route on Aeroflot aircraft. The agreement should increase sales volumes and bring extra revenue by attracting transit passengers via Moscow to cities in Russia and abroad.

The Russian Financial Press Club (FPK) awards Aeroflot a special diploma "For overcoming the crisis of confidence".

May 21 Aeroflot and Russian Standard Bank begin issue of the Aeroflot-Master Card.

May 25 The Aeroflot Annual General Meeting approves the annual report, balance sheet, profit and loss statement, and BoD proposals for 2001 profit distribution. The Meeting also elects a new Board of Directors and Audit Committee, appoints the auditor and ratifies new drafts of the five main documents of the Company: the Company Charter, Resolution on the Board of Directors, Resolution on the Audit Committee, Resolution on Conduct of the Annual General Meeting, and (for the first time) Resolution on the Aeroflot Board of Management.

The Company provides aircraft to carry over 3000 war veterans from various parts of Russia to reunions with old comrades-in-arms as part of Victory Day celebrations in early May.

June

June 21 Aeroflot is awarded a new six-year license as authorized carrier for Russian customs authorities. Aeroflot has been the authorized carrier for Russian customs since April 26, 1999, and has earned a reputation for reliability in transport of air cargo under supervision of the customs authorities. The Company carried over 300 tonnes of cargo under customs supervision in 2001.

Aeroflot is also the official carrier for ambassadors of the European Union on their journeys inside Russia.

July

July 9 Aeroflot signs a code sharing agreement with Lufthansa for Lufthansa flights on the Frankfurt-Moscow-Frankfurt route. The agreement will boost revenue from passenger travel between the two cities thanks to provision of additional scheduled flights and attraction of transit passengers from Russia.

July 11 Aeroflot celebrates 35 years of in-flight service.

July 15 The BoD approves plans for restructuring of the Company's fleet of foreign-made aircraft to make it consist of nine B767s and 18 A320s.

July 23 Aeroflot signes a code sharing agreement with Air France, which will boost passenger numbers through provision of additional scheduled flights on Moscow-Paris-Moscow routes and attraction of transit passengers from Russia.

August

August 6 Aeroflot begins regular flights between Moscow and Norilsk.

August 15 Klaus Thies, director of RW TÜV and official representative of the international certification organization TÜV CERT, presents Aeroflot CEO Valeriy Okulov with a certificate attesting that the Company's quality control system meets the ISO 9001-2000 international standard.

August 22 Aeroflot signs an agreement with GECAS on deliveries of B767 and A320 aircraft on leasing terms.

August 26 Aeroflot celebrates the 50th anniversary of its 63rd crew group, which was created for service of international routes.

September

September 3 Aeroflot and Sberbank of Russia begin issue of a new product, the Visa Aeroflot international bank card.

Aeroflot sponsores the concert "1000 world cities"

September 10 Aeroflot signs an agreement with Airbus for delivery of aircraft from the A320 family.

September 14 An Extraordinary Meeting of the Company's shareholders votes against early termination of the authority of the Board of Directors, which was elected by a vote of the regular Annual Shareholders Meeting on May 25.

October

October 1 As part of the code sharing agreement of June 23, Aeroflot and Air France begin joint operation of six daily flights between Moscow (Sheremetevo Airport) and Paris (Roissy-Charles de Gaulle Airport) to replace the three flights which each company had previously operated separately.

October 28 Aeroflot sportsmen take part in the PASSAROLA CUP 2000 tournament (the 18th of its kind), winning volleyball and tennis cups to secure two outings for the Russian national anthem.

The international sports organization, Interline Sports Club of Portugal, holds a volleyball and tennis tournament.

November

November 4 A technical conference at the Company's Center for Training of Aviation Personnel discusses issues related to operating of IL-96-300 aircraft , with a focus on flight safety and efficiency maximization in use of these aircraft.

Aeroflot presents the Comstar Kremlin Cup tennis tournament and acts as official carrier for tournament participants.

December

December 11 Aeroflot wins two awards at the competition "Russian organization with high social efficiency", sponsored by the Federal Government, the Economy Ministry and the Labor Ministry.

The awards were "For achievements in organization of additional pension provisions" and for "Salaries and social payments". Over 1000 organizations from 80 regions and 41 sectors of the economy took part in the competition.

December 23 At Aeroflot's suggestion, the Council of Managers of IATA agrees to hold its 2004 annual general conference in Moscow. Aeroflot will host the conference.

December 27 The corporate governance rating service of the international rating agency Standard & Poor's raises Aeroflot's corporate governance rating from 4.6 to 5.2 points.

December 27 Completion of an Extraordinary General Shareholders Meeting of the company, which was carried out by post. The sole item on the agenda was "Approval of a major transaction concerning restructuring of the Company's feet of foreign-made aircraft, amounting to over 50 percent of the value of balance-sheet assets."

Shareholders approved the transaction for restructuring of Aeroflot's foreign aircraft fleet.

The Air Transport Market

The events of September 11, 2001 had major impact on development of the world air transport market. Passenger traffic from Europe to North America fell by 40 percent after September 11, traffic to Central Asia by 25 percent, to the Far East by 10 percent and within Europe by 5 percent. Available capacity also shrank as up to 13 percent of the international aircraft fleet was withdrawn from use. There was some recovery of demand towards the end of the year, but still no return to pre-crisis levels.

The international airline industry ended the year with huge losses, totaling $7.5 billion in the US and $1.4 billion in Europe. Several leading international airlines found themselves on the edge of bankruptcy. The only companies, which escaped the trend, were low-cost airlines such as SouthWest and JetBlue in the US, and Ryanair and EasyJet in Europe. These companies showed steady growth of carrying and revenues.

The global industry crisis had almost zero effect on Aeroflot's major market, which is carriage to and from Russia. Aeroflot and other Russian airlines increased total passenger traffic by 5.8 percent and cargo volumes by 2.1 percent in 2002, carrying 26.5 million passengers and 627,200 tonnes of cargo. International passenger traffic increased by 10.3 percent and cargo volumes by 5.4 percent on international routes. On domestic routes passenger traffic grew by 2.8 percent while cargoes fell by 2.1 percent.

In 2002 Russian carriers showed significant increase of load factor, with seat occupancy rising from 66.4 to 68.7 percent and the overall load factor up from 58.3 to 59.9 percent.

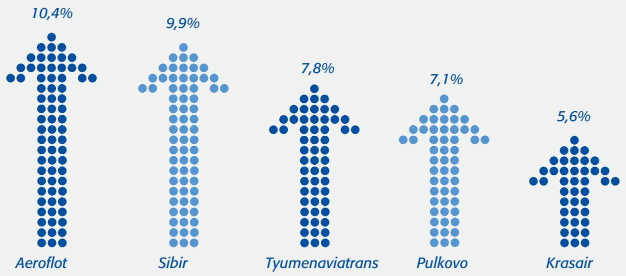
The main growth drivers for the Russian air transportation industry were increase of GDP (by 4.3 percent), increase of real personal incomes (by 8.9 percent), and increase of business activity.

Aeroflot accounted for 21 percent of total passenger traffic carried by Russian airlines in 2002. The Company's share on international routes was 35.1 percent (42 percent in 2001) and its share of domestic passenger carrying was 10.4 percent (11 percent in 2001).

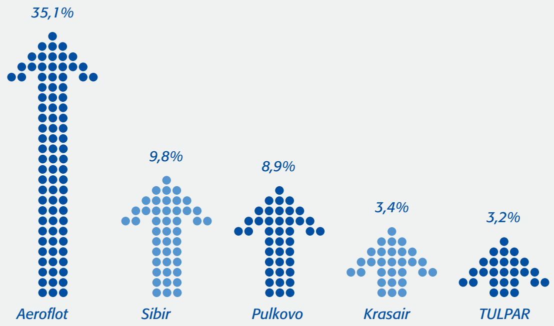
Reduction of Aeroflot's market share was due to a conscious decision to improve profitability. The Company almost entirely wrote off inefficient IL-62s and significantly reduced operations using IL-86s and IL-76s. There was also a reduction of Aeroflot's presence on low-margin routes, particularly charter routes.

While keeping a high passenger load factor on domestic routes (73 percent) the Company achieved significant growth of seat occupancy on international routes (from 64.3 percent to 67.3 percent).

The Company's financial performance was improved significantly as a result of the measures taken.



Aeroflot's share of the domestic passenger transportation market



Aeroflot's share of the international passenger transportation market

- *Implementing the Strategy Concept: Priorities and Results in 2002*
- *Results in 2002*
- *Information for Shareholders and Investors*

Implementing the Strategy Concept: Priorities and Results in 2002

Aeroflot's main strategic goal is to build an international-class airline by strengthening the Company's leading position in Russian civil aviation, achieving high-level operational and financial performance, providing high-quality service, building an extensive route network, and building an efficient management system within the Company.

In 2002 the Company focused on improving operational and management efficiency. A cost saving program was developed and implemented through identification of the main cost drivers, establishment of production targets for each business unit, and introduction of a new incentive system, which linked staff compensation to results achieved. Thanks to this program, fleet operating costs were reduced by 5.8 percent, and tonne-kilometer costs by 3.8 percent. Aeroflot's variable operating costs correspond to average international levels and are better than those of leading European air carriers.

Business processes and organizational structures in the Company's main operating business units were optimized as part of the management upgrading program, and quality management control was brought into line with international standards. A Strategic Planning Committee, chaired by the Aeroflot CEO, was established to provide a new strategic tool for control within the Company. The main objective of the Committee is to develop and monitor implementation of Aeroflot's strategic development plan and its adjustment to the fast-changing environment as well as to set priorities for strategic project development.

Route network development was focused on the most profitable and promising market segments, which are European and domestic routes. These measures enabled 4.2 percent increase of the revenue rate per RPK to 6 cents/RPK. Aeroflot is now in line with the industry average for international airlines, although it still lags top European carriers. Growth potential of revenue rate is limited by low disposable income per capita inside Russia compared with western countries.

Aeroflot places high importance on product development in highly competitive markets, and a key element of this product is flight safety. Aeroflot is among the safest airlines in the world. The Company has also devoted much effort to raising its level of passenger service, particularly for high yield passengers. New service standards and technologies have been introduced on several international routes, including improvements to aircraft interiors, in-flight catering and the passenger registration procedure. Aeroflot is encouraging passenger loyalty by active development of its Aeroflot Bonus scheme for frequent flyers, and has also started work on rebranding and sharpening the Company's image.

A program for restructuring the Company's foreign-made aircraft fleet has been set in motion as part of overall fleet development strategy. The main aims are significant cost reduction and changeover to modern, fuel-efficient aircraft with improved levels of passenger comfort. A new fleet, meeting the highest international standards, will assure an extra competitive advantage for Aeroflot.

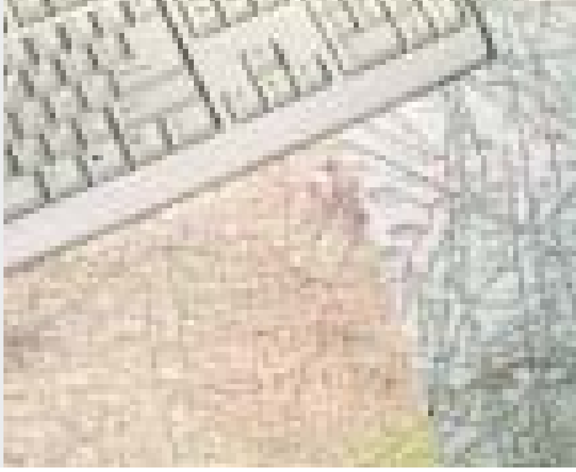
The priority tasks for Aeroflot in 2003 are:

➔ completion of the aircraft fleet and engine renewal program, including various preparatory measures and full observance of the aircraft replacement schedule;

➔ further improvement of operating productivity and financial profitability;

➔ consolidating quality of the Company's main product elements, which are safety, punctuality and the level of service;

➔ assuring link and feed back between strategic and operational planning, development of a complex incentive system, and achievement of strategic goals.



Schedule Optimization Program

Aeroflot flew to 54 countries in 2002, with 78 destinations in the CIS and the rest of the world, and 25 destinations in Russia.

Efforts to optimize the route network were based on the following:

1. More frequent flights on high-margin routes with significant passenger flows in order to generate extra revenue and capture a larger share of the air transport market. These routes include Western Europe, Russia, and South-East Asia. This policy brought major results during operation of the Summer 2002 timetable. For example, the increase in frequency on the Moscow-London-Moscow route was 4 percent, growth in passenger numbers was 9.1 percent and revenue growth was 28.4 percent.

2. Increase in convenient connections as an important factor in attracting passengers to Aeroflot flights. Russia-Europe connections were increased by 9 percent in 2002, and Europe-Russia connections were increased by 1.5 percent. However, the number of Aeroflot connections on such routes as Europe-South East Asia, Europe-Africa, and Europe-South America was reduced due to unforeseen route network and timetable changes, carried out after the events of September 11, 2001. Transit passenger flows were undiminished from 2001 despite the changes, exceeding 380,000.

3. Termination of loss-making and unpromising routes. Such measures raised the average contribution of each route to covering of fixed costs from $2.1 to $3 million, or by more than 40 percent.

4. Aeroflot made further code sharing agreements with other airlines in 2002 for joint operation of routes. Joint flights between Moscow and Budapest began on the basis of a code sharing agreement with MALEV, Shannon/Dublin-Amsterdam-Moscow routes were put under joint operation with SkyNet airline, a code sharing agreement with Lufthansa was implemented between Frankfurt and Moscow, and, in October, with Air France on the Moscow-Paris-Moscow route.

The number of passengers travelling in higher fare classes increased by 5.9 percent across the entire Company network during the summer 2002 timetable period, and the increase for Aeroflot's priority region (Europe) was 16.7 percent.

The priorities for schedule optimization in 2003 are:

➔ further increase in efficiency of the overall route network;

➔ increase of flight frequencies on high-income routes in order to raise market share;

➔ increased partnership activity, by adding routes operated jointly with partner airlines;

➔ increase in the number of optimal connections, giving a 10 percent rise in the connection coefficient of the network (including routes operated under code sharing agreements);

➔ co-ordination between regular and charter routes, with emphasis on regular routes;

➔ more efficient use of the aircraft fleet, taking account of forthcoming fleet renewal.

Fleet Restructuring Program

Aeroflot's fleet restructuring program is essential for route network development and cost reduction, and is particularly timely in view of current favorable conditions on the global aircraft market.

Aeroflot began its restructuring program for the non-Russian aircraft fleet in 2002, following approval by the Board of Directors in December 2001. In July 2002 the Board officially approved a schedule, proposed by Company management, which envisages replacement of 27 foreign-made passenger aircraft, accounting for 60 percent of the Company's passenger turnover, by new, up-to-date foreign-made aircraft. Once the program is executed the number of foreign-made aircraft types in operation will be reduced from four to two, enabling significant operating and maintenance cost savings, as well as a better fit with the Company's network schedule.

Intensive negotiations have been held with the biggest foreign producers of aircraft and aircraft engines, and also with leasing companies, and contracts have been signed, on favorable terms for Aeroflot, for withdrawal of craft and their replacement with new craft in 2003–2004.

The deal structure entails early return of 11 A310 aircraft, two of which to GECAS and eleven to Airbus. In return, Aeroflot receives twelve aircraft of the A320 family, eight of which through financial leases and four through operating leases from GECAS under leaseback arrangements. Commercial loans backing financial leases will be provided by a consortium of western banks under

export credit agencies (ECA) guarantee. Under the leaseback arrangements, Aeroflot will transfer 10 B737 aircraft from financial to operating leases for a period of 18 months, after which they will be replaced with six A320s and three B767s provided by GECAS on an operating lease basis.

By the end of 2004, Aeroflot's foreign-made aircraft fleet will consist of 18 medium-haul aircraft of the A320 family and nine long-haul B767s, thus making it one of the youngest in the world. All of the B767s were built in 1999–2000 and the A320s will be built during 2003–2004.

The financial effect of the fleet restructuring will be a $90 million annual saving thanks to reduction of leasing payments and maintenance costs, and improved operating efficiency.

The Company is also working to optimize its Russian-made aircraft fleet. Outdated IL-62s were withdrawn in 2002 and use of IL-86s was limited. Aeroflot plans to replace these aircraft with modern IL-96-300s.

Restructuring plan for foreign-made aircraft fleet

November–December 2002	**Contract signing** **Transfer of B737-400s to operating lease**
June 2003	**Withdrawal of first A310** **Deployment of first additional B767**
October 2003	**Withdrawal of first B737-400** **Deployment of first A320**
December 2004	**Withdrawal of last A310 and B737-400** **Introduction of last B767-300 and A320** **Completion of restructuring**

Technical Service Development

Efficient organization of technical service is essential for maximum flight safety, regularity and punctuality, and minimizing costs.

Aeroflot continued improvements to its technical and repair services during 2002, raising the professional level of technical staff, increasing co-operation between the Company's Aviation-Technical Center and other business units, as well as maintaining cost control.

The Company made significant changes to organization of its technical services, imposing clear division between those responsible for placing orders and those responsible for their execution (both under overall supervision of the Company's Technical Director). A new planning system for production and procurement of spare parts was developed and introduced, and key business processes at the Aviation-Technical Center were audited, described and redesigned. Most of the Company's technical personnel has undergone further training, in some cases abroad. Additional highly qualified personnel were assigned to workshops, to provide full servicing of the Company's foreign-made aircraft fleet.

Thanks to these measures, incidents due to technical faults were reduced by 21 percent, take-off punctuality was raised by 17 percent, time needed for major checks on A310 aircraft was reduced by 15 days, and availability of spare parts was raised by 10 percent.

There was some increase in costs of technical service and repair of aircraft in 2002 due to additional investments in maintenance of Russian-made aircraft and increased maintenance costs of foreign-made aircraft.

Flight Safety

Safety of Aeroflot flights remains on a high level. The safety ratio has been in the range 99.94–99.98 percent over the last three years, which merits rating as "good" under IATA classification. The number of incidents fell by 31 percent in 2002 compared with 2001, and frequency of incident occurrence fell by 22 percent. In November 2002 the Russian State Civil Aviation Service carried out a detailed check of the Company in respect of flight safety, as a result of which the Company's operating certificate was renewed for two years.

Targeting further safety improvements, Aeroflot continued efforts to improve professionalism of flight personnel, technical personnel and ground staff, as well as to increase co-operation between business units. Some important steps were taken to improve operations at the Aviation-Technical Center, which is directly responsible for the aircraft fleet status. The Company also continued to work closely with representatives of foreign aviation authorities and airports.

Special attention was paid in 2002 to preparation of Company personnel and technical services ahead of the planned large-scale replacement of foreign-made aircraft. Radical renewal of the aircraft fleet will not be detrimental to the Company's safety record.

Plans for 2003 include a new organizational structure for the Company's flight and technical branches, organizational and procedural measures connected with launch of new aircraft, strengthening of logistics, improvements in training systems for flight and technical personnel, and raising standards for selection of new staff.

Flight Security

Aeroflot tolerates no compromise in giving absolute priority to flight security. Importance of this factor has increased dramatically after the events of September 11, 2001 in the US.

The Company raised flight security levels in 2002. New measures include checking of all baggage with the help of dog teams, in-flight presence of Company security staff on high-risk routes, a complex system to ensure security of infrastructure facilities, measures to prevent illegal migration, strict control of carrying documents, and additional hiring of highly qualified staff. Thanks to these measures no incident threatening passenger security occurred during 2002.

The security system applied by Aeroflot includes the following sub-systems: access control (designed to avoid unsanctioned access to Company facilities); video surveillance (in force round-the-clock, and providing video tracking and recording of the situation at Company premises), and security and fire alarm systems (allowing control and surveillance of fire safety conditions at Company premises).

Each member of staff is fully aware of his or her responsibility for meeting security requirements and doing everything necessary to avert incidents, thus offering a security guarantee to Aeroflot passengers.

Quality Control

Building an international-class airline depends on good organization of business processes to assure a high-quality, competitive product. Installation of a complete system of quality management, carried out by Aeroflot in 2002, helps to achieve this goal.

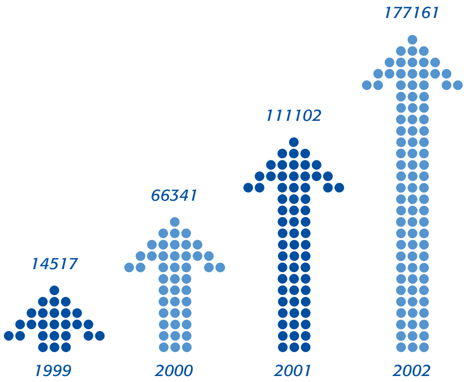
Transfer to quality management based on ISO standards will enable Aeroflot to optimize its operating processes, reduce costs and raise the quality of services provided, while also making the Company's operations more "transparent" for customers and for business partners.

In August 2002 the authorized organization, TÜV CERT, certified the quality management systems used in three Company business units as matching international standards. The business units in question were the Flight Control Center, Flight Security Service and Aviation Personnel Training Center.

Work to extend ISO standards throughout the Company will be continued in 2003. The next stage will be certification of the Flight Complex, In-flight Service Division, Aviation-Technical Center, Ground Control Complex, and Procurement Department.

Service

Improvement of passenger service quality is of key importance to Aeroflot, since it determines competitiveness. The Company's marketing strategy aims to win and retain the high-yield passenger segment by offering a product that meets international standards. Company managers have set the ambitious goal of putting



Number of participants in the Aeroflot Bonus program

Aeroflot among the world's top 10 airlines for service over the next few years.

Two major projects, named "Welcome!" and "Take-off", were implemented in 2002 as part of this long-term strategy.

The "Welcome!" project aims to improve the standard of preparation of aircraft for passengers ahead of flights. A working group carried out daily monitoring of passenger cabins and cabin equipment as well as procedures for pre-flight preparation of aircraft. Resulting improvements will ensure a high level of flight readiness in the future.

The aim of the "Take-off" project is fundamental improvement of in-flight service. A new concept for Aeroflot service has been developed, incorporating the best that is offered by other international carriers, enriched by the best traditions and specialties of Russian culture. This approach has been used in devising meal menus, cabin design and cabin staff etiquette, which should be based on traditional Russian cordiality and hospitality. We expect that launch of the new service concept will make Aeroflot stand out from its competitors and will have a positive effect on the image of the Company. The new service standards have been in use since December 2002 for passengers travelling in higher-class seats on flights to New York, and will be extended to other routes in the future, with priority routes being the first to benefit.

The Company's image is also being sharpened by a brand development program, which was started in 2002 and targets consistent improvement in perceptions of the Aeroflot brand by passengers and shareholders, as well as transformation of the brand into a genuine Company asset. Various possibilities for new emblems, color range, interior design of cabins, and staff uniforms have been prepared and submitted for approval.

As well as developing completely new service items, Aeroflot has also improved current services. The passenger registration procedure and processing of baggage at Sheremetevo-1 were improved last year, a group was set up to provide information for passengers, the in-flight menu was made more varied and child meals were introduced. Smoking was forbidden on all Aeroflot flights in 2002.

Aeroflot Bonus

Market research surveys show that the Aeroflot Bonus scheme for frequent flyers was one of the main factors making Aeroflot attractive to passengers in 2002. Numbers of those taking part rose by 66,000 last year to 177,000.

The profile of the scheme was boosted in 2002 by integration with analogous schemes of partner companies: Visa Aeroflot cards were issued jointly with Sberbank of Russia, and an Aeroflot Mastercard was offered in association with Russian Standard Bank. Several major hotels joined the program, including the Astoria, Angleterre, Katerina, and Volna, as well as the car-hire company, SIXT.

Real-time internet sign-up for the Aeroflot Bonus scheme was made possible in 2002. A forum on the Company's site is used for communication with participants.

Opening of Aeroflot Bonus branches in the US and in Russian regions is scheduled for 2002, as well as development of information services to participants of the scheme (including internet services) and creation of relationships with new partners.

Procurement optimization program

Procurement has direct importance for smooth running of Company's operations and for cost cutting. Much work was done to improve the procurement system and reduce costs associated with materials and equipment in 2002.

The biggest cost line item is aviation fuel and lubricants, which represents 20% of total operating costs. Main steps in 2002 to optimize fuel and lubricant purchases were as follows:

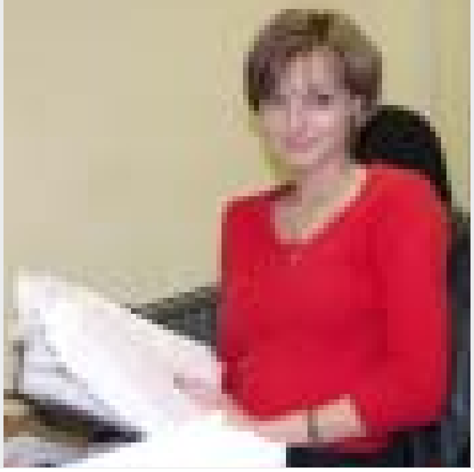
➔ concentration of purchasing activity. Aeroflot supplemented its own fuel supplier tenders by joint tenders with Air France.

➔ increase in the share of direct deliveries. Strategic agreements were reached with Russian oil companies, YUKOS and LUKOIL, improving stability of fuel supplies and making it possible to do without the services of intermediaries for refueling at Sheremetevo Airport and several other destinations inside Russia;

➔ tankering (use of price differences for aviation fuel at arrival and departure points);

➔ hedging (forward contracts with British Petroleum for supplies of aviation fuel allowed price risk reduction and significant costs savings);

Rationalization of fuel purchases gave a saving of $11.2 million. Aeroflot's weighted-average fuel costs were 8–10 percent lower than the market level at the Moscow air traffic hub, and 3 percent lower in other Russian regions.



The second largest cost line item is "air property", consisting of aircraft spare parts and equipment. The procurement management system was significantly improved in 2002. In particular, the SAP-R/3 Management Information System (MIS) was introduced, raising internal accounting of purchases to a new level and facilitating decision-making process. Positive results of the new information technology will be seen in the near future.

Assuring Financial Stability

The following measures were taken during 2002:

1. Financial planning quality improvements.

The Company significantly improved the accuracy of its financial plans and increased discipline in their implementation. Divergence of the cash revenue forecast from actual revenue was 1.11 percent compared with 1.63 percent in 2001, and the share of unforeseen payments on the spending side of the payment balance fell from 7.83 percent to 4.77 percent.

2. Cash flow consolidation and payments optimization.

Aeroflot secured a 39 percent increase in cash receivables from representative offices in 2002. This result was achieved due to the following:

➔ offices in Norilsk, Nizhnevartovsk and Astrakhan were connected to Sberbank's unified settlement network, and all Russian representative offices were serviced by Sberbank branches at unified rates;

➔ cash flows of offices in Germany were consolidated at Commerzbank;

➔ accounts of 22 foreign representative offices, representing 62.7 percent of total revenues of Aeroflot offices outside Russia, were connected to the JP Morgan Chase Insight system;

➔ sales of air tickets through the BSP/ARC system in 40 countries were connected to the IATA currency clearing system (ICCS). The volume of the Company's financial flows through ICCS grew by 42.2 percent in 2002 to $108 million;

In May 2002 cash flows from BSP/ARC sales using VISA and MC/EC cards were centralized (centralized acquiring). Shortening of the period for receipt of sales revenues and unification of the commission rate for the bank acquirer gave savings of $254,800. Revenues credited to accounts in Moscow from foreign air ticket sales by BSP/ARC systems, starting from May 2002, were $24.122 million. Revenue from BSP/ARC sales using VISA and MC/EC credit cards rose by 24.4 percent compared with 2001 and totaled $32.4 million.

3. Lower borrowing costs.

Interest rates on ruble borrowings fell by more than 1 percent per annum, and borrowings in foreign currency (US dollars) fell from 8.06 percent to 7.75 percent.

4. Increase of mutual settlements through the IATA clearing house (ICH).

Switch to clearing through ICH helped to facilitate settlements with foreign airlines and other companies. As of December 1, 2002 accounts receivable and payable with ICH member airlines had been reduced by more than two times compared with a year earlier.

Risk Management and Insurance

Risk management efforts led by the Company in 2002 were concentrated on management of credit risk, monitoring of agency sales inside Russia and abroad, limitation of liability risks under code sharing and bilateral commercial agreements, and reduction of risks associated with the tense environment to which the airline industry was exposed in 2002.

Losses due to failure of fund transfer from agents fell by $341,600 in 2002 compared with 2001 despite increase of sales, and even though the credit risk level remained unchanged. The Company also collected $924,200 thanks to work on reduction of accounts payable by agents.

Risk audits were carried out on flag agreements, Interline agreements and code sharing agreements. As a result of analysis of earlier flag agreements, invoices were issued and 1.4 million rubles were received. Procedures were put in place for assessment and minimization of risks to Aeroflot from liabilities to third parties under such agreements.

Work continued on design of efficient management systems for crisis situations. The Company's Center for Management of Crises and Irregular Situations developed an action plan to be the basic document coordinating inter-company actions in crisis situations.

Aeroflot was successful in keeping its insurance rates unchanged in 2002, despite significant increase in the cost of insurance on international markets following the events of September 11, 2001. The

Company thus reduced its distance from the group of international airlines with most favorable insurance rates.

The Company applied intensive pressure last year to reduce risks without additional financing in the framework of an overall strategy for reduction of expenses. Much work was done to secure Russian Government guarantees and as part of the ICAO program for reduction of military risks, which gave the Company an additional saving of $4.5 million.

Development of Cargo Operations

The main drivers for development of the international air freight market are growth and globalization of the world economy. Demand for cargo carrying is expected to triple by 2017, with 35% growth in the next five years. The Russian air cargo market is expected to grow by 5–8 percent per annum.

Aeroflot's cargo business developed successfully in 2002. Total freight and mail rose by 7.7 percent compared with 2001 to 105,300 tonnes of cargo and 4300 tonnes of mail.

The main cargo routes (over 70 percent of total volumes) coincide with the world's main markets (Asia-Europe, Asia-North America). Aeroflot combines the potential offered by cargo and passenger aircraft networks, providing wide geographical coverage for deliveries. Routes of cargo planes have been modified to increase economic efficiency, with 10 new routes opened in 2002 and leasing of two new DC-10 cargo aircraft.

Cargo carrying on passenger aircraft has become a significant part of the Company's total cargo transport operation over the last three years. Annual growth rates of revenue from cargo carrying on passenger aircraft have exceeded 25 percent.

Aeroflot has expanded its range of services in order to compete with the world's leading cargo carriers. The Company now offers transfer under customs supervision, courier and express deliveries, and combined transportation. The Company's license as a carrier of customs cargo was renewed for a further six years in 2002.

New technologies for management of cargo transport have been adopted by the Company, including the global automated SITA SUPER CARGO system, which will be fully launched in 2003. The technical procedure for cargo bookings underwent qualitative improvement last year.

Aeroflot has set up a hub at Hahn Airport to assist penetration of cargo markets. The advantages of Hahn are its convenient location and relatively low cost of cargo processing on the ground. Use of the hub helps to maximize the load factor on cargo flights, assuring profitability. In addition, transfers via the hub allow "fill up" loading onto a large network of passenger routes and expansion of delivery reach. Aeroflot has opened its first ever representative office specialized in cargo in order to manage operations at Hahn.

Plans for 2003 include further increase of cargo volumes, focus on increased profitability of cargo flights and maximum use of cargo capacities on regular passenger flights.

Fare Policy

Aeroflot tariff policy in 2002 was aimed at a decisive increase in revenues to support the Company's financial stability. Steps to achieve this included the following:

➔ the Company's market fares were transferred to a regime of public fares. In global systems of air ticket booking and sales. This enabled broadening of the actual number of participants in sales of passenger tickets, boosting Company revenues;

➔ raising of first-class and business fares, particularly for transit carrying, and price increases for economy-class tickets on routes with high and consistent demand;

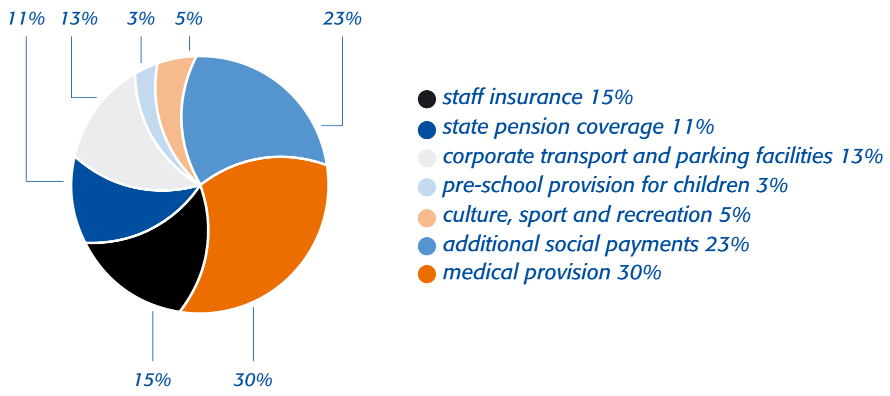
➔ re-negotiation of agreements with Russian and foreign partners in order to increase revenues from markets, which are not directly served by Aeroflot fights;

➔ installation of the SABRE AirPrice prgram to monitor fares of competitors, enabling adequate counter measures in response to fare innovations by competitors.

Sales Management

Aeroflot sales are organized through its representative offices, agent network and the Central International Agency.

Aeroflot is currently implementing a program to improve efficiency of its sales channels. The main initiatives of the program are increase in the share of its own sales, optimization of staff numbers at the Central Agency, increase of corporate customers, concentration of agent sales, change in the commission system for agents, and development of sales through BSP/ARC.



Sales through the Central Agency grew by 2.3 percent in 2002 to $71 million. Sales through Aeroflot representative offices abroad grew by 3 percent to $90 million, and offices inside Russia showed sales of 424 million rubles.

The number of Aeroflot agents in Russia rose by 10 percent in 2002 to 189. The number of agents abroad fell from 541 to 495, which was due to shift of a part of agent sales to BSP/ARC.

The volume of agent sales abroad was $487 million dollars, and average agent commission was reduced from 12.6 to 10.7 percent, giving increase of $7.2 million in net sales.

BSP/ARC sales grew by $40 million dollars, or by 29 percent compared with 2001.

Plans for 2003 include further expansion and optimization of the agent network, increase of BSP/ARC sales, development of corporate sales, organization of air tickets sales via the internet in Germany, US and Japan, and development of combined ticket sales (air travel plus travel by ground or sea transport). The Company is targeting a 15 percent increase of revenues from foreign representative offices in 2003.

Aeroflot business decisions regarding schedule and sales are supported by analytical information, compiled with extensive use of economic and mathematical methodologies and models.

The Company pursued several initiatives connected with sales in 2002, of which the most notable were:

➔ development and installation of new automated technology for sales budget preparation and control over its implementation;

➔ installation of the PROFECY information and analysis system, which is widely used at present by leading international airlines for analysis and control of transport volumes and the revenues, which they generate;

➔ development and implementation of a method for assessing efficiency of marketing (fare and advertising) actions;

➔ development and installation of automated information systems.

Development of informational and analytical support for business decisions in areas discussed in this section is already aiding speed and accuracy in preparation and implementation of sales plans, giving 2–3 percent annual growth of Company revenues.

Information Technology

Use of the latest information technologies and communication systems is crucial for development and competitiveness of a modern airline.

Aeroflot took a number of steps in 2002 to optimize spendings on information technology and communications:

➔ computer equipment in Aeroflot representative offices was modernized;

➔ new technologies were put in place for accessing resources of ASB Gabriel, and most connections to the SITATEX data transfer system, which used telex, were canceled, as were 1024 and X.25 channels (reduced from 2100 to 92 lines);

➔ spending on services of global distributive systems was reduced.

These measures enabled reduction of spending on maintenance of information technology and communication channels by more than $6 million per year without negative effect on quality.

Aeroflot is improving its management accounting by installation of the SAP/R3 logistics management system. The Company has also automated its Central Accounts Department, and the accounts sections of its Ground Control Complex and Procurement Department. Automated inventory accounting has been installed in both of the latter. In 2003 the Company plans to introduce inventory management at its Aviation-Technical Center as well as accounting processes at each business unit.

A corporate document management system was fully launched in 2002, with 233 users in 44 business units, allowing acceleration and systematization of document flows.

Aeroflot continued to expand and improve the role of information technology in its business during 2002. Further stages of the SABRE AirPrice and AirMax programs were installed, helping to organize fare policy and the load factor. The SABRE FAM and APM programs for optimization of the route network were used in test mode, ahead of full launch this year. They will enable construction of passenger flow forecasts and calculation of network profitability. Potential economic effect from use of APM is estimated at $10–12 million per year.

Staff

The goals of Aeroflot staff policy are to offer genuine scope for professional

development, competitive salaries, career growth, satisfactory work conditions, and social protection, including retirement arrangements.

Careful work on social policy principles in recent years has enabled a balance of interests between staff interests and the Company's financial capacities. Signing of a new Labor Agreement confirms the success of social partnership at Aeroflot.

The structure of the social package defined by the new Labor Agreement is shown in the diagram on page 17.

Spending by the airline on social provisions in 2002 rose by 1.5 times to 427 million rubles.

The Company's social policy has been highly commended by society and by the Government. A competition on the theme of "Russian organization with high social efficiency", sponsored by the Federal Government, the Economy Ministry and the Labor Ministry, gave Aeroflot awards for "Achievements in organization of additional pension provisions" and for "Salaries and social payments".

The average number of Aeroflot staff in December 2002 was 14,802, down by 824 from December 2001. The staff reduction was due to withdrawal of several Russian-made aircraft (IL-62, IL-76 and IL-86) as well as offers of one-off payments and additional pensions to encourage voluntary early retirement.

Payroll rose by 17 percent in 2002 compared with 2001 to 4074.5 million rubles, and the average monthly salary rose by 19.4 percent to 19,500 rubles.

Labor productivity in 2002 was almost unchanged from 2001 measured in tonne-kilometers per employee, and rose by 10.6 percent in cash terms to 3.009 million rubles per employee.

The average age of Aeroflot staff is 41.

Professional Training and Education

Aeroflot's Training Center for Aviation Personnel worked hard in 2002 to improve the quality of air personnel training. The Center held 800 study sessions with participation of 12,000 students. Flight crew spent over 13,000 flying hours in 7000 training events, while cabin crew spent 18,500 flying hours in 8700 training events.

The Training Center installed a quality management system last year, which merited ISO 9001-2000 certification.

The Center was also involved in joint activities with training centers of companies such as British Airways, Lufthansa and Air France.

Agreements were reached in 2002 with the Center for further training of air transport personnel at Moscow State Technical University, an agreement with the Institute for Aviation Managers and Specialists was extended and work began on organization of training and further training courses of staff in Aeroflot representative offices.

Use of the Company's own Center ensures high quality of personnel training and allows major savings, since the Company has no need to hire outside specialists and pay for the use of training aerodromes. Savings from the latter source alone were about 10 million rubles in 2002.

The Aeroflot Training Center also offer services for training of aviation specialists for other companies and organizations.

Protecting the Environment

Aeroflot sees protection of the environment as an important part of its responsibility to society, and the Company strictly observes Russian laws on nature conservation, as well as ecological requirements of countries, to which the Company carries out flights. Such requirements concern utilization of waste products, reduction of harmful atmospheric emissions, and observance of noise limitations for aircraft.

The Company carries out constant checks to ensure that it meets standards for environment protection, develops and applies measures for conservation of soil and water resources, controls and supervises temporary storage and accumulation of waste, carries out regular instrumental control and adjustment of aircraft fuel systems to ensure that emissions do not exceed norms for smoke, carbon monoxide, and hydrocarbon content. Ecological certification of aircraft was renewed in 2002, and part of the air fleet was replaced by less polluting craft.

The Company also carried out regular conservation measures in 2002 and tracked its observance of norms for atmospheric emissions from stationary sources, as well as renewing and re-registering technical approvals for its gas purification facilities.

Carrying Volumes

The Company's aircraft flew to 54 countries in 2002, making landings at 78 destinations in the CIS and other foreign countries, and 25 cities in Russia.

Aeroflot thus made a total 59,849 standard flights, carrying 5.489 million passengers, and 109,500 tonnes of freight and mail. That added up to 17.645,2 million passenger-kilometers and 2151.2 million tonne-kilometers.

Despite reduction of available transport capacity by 10 percent from 2001, due to route network optimization and the start of gradual withdrawal of IL-62, IL-86 and IL-76 aircraft, rational use of aircraft resources made it possible to limit the average reduction of carrying to 5 percent. Freight and mail volumes even grew thanks to increased use of passenger aircraft for cargoes. Carrying volumes compared with 2001 were as follows:

TOTAL	
passenger turnover	
–6.9%	*(–1,298.2 million pkm)*
tonne-kilometers	
–4.8%	*(–107.7 million tkm)*
passenger numbers	
–5.9%	*(–341,400 passengers)*
mail	
+9.6%	*(+372,500 tonnes)*
freight	
+7.7%	*(+7,520,200 tonnes)*

Structure of Carrying

The share of international routes, including CIS and Baltic countries, in total passenger carrying by Aeroflot in 2002 was 70.8 percent, and the share of domestic routes was 29.2 percent. The share of domestic routes in total carrying thus grew by 1.3 percent from 2001.

Changes in carrying indicators for international and domestic routes from 2001 to 2002 were as follows:

International routes	*Domestic routes*
passenger turnover	
–8.5% (–1,284.1 million pkm)	*–0.4% (–14.1 million pkm)*
tonne-kilometers	
–4.7% (–86.5 million tkm)	*–4.9% (–21.2 million tkm)*
passenger numbers	
–7.6% (–319,800 passengers)	*–1.3% (–21,600 passengers)*
mail	
+1.4% (+44 tonnes)	*+49.5% (+328.5 tonnes)*
freight	
+7.7% (+6,430.8 tonnes)	*+7.7% (+1,089.4 tonnes)*

Passenger traffic on regular flights fell by 2.7 percent from the level in 2001, and by 70.6 percent on non-regular (charter) flights. Charter flights accounted for only 1.5 percent of total passenger carrying in 2002 compared with 3.2 percent in 2001.

REGULAR AND CHARTER TRAFFIC

Total carrying	*2001*	*2002*	*% change*
Passengers	*5,830,700*	*5,489,300*	*94.1*
Freight and mail, tonnes	*101,600*	*109,500*	*107.8*

Regular flights	*2001*	*2002*	*% change*
Passengers	*5,558,500*	*5,409,300*	*97.3*
Freight and mail, tonnes	*92,000*	*104,300*	*113.4*

Charter flights	*2001*	*2002*	*% change*
Passengers	*272,100*	*80,000*	*29.4*
Freight and mail, tonnes	*9,600*	*5,300*	*55.2*

Share of regular flights	*2001*	*2002*	*+/–*
Passengers, %	*95.3*	*98.5*	*3.2*
Freight and mail, %	*90.6*	*95.3*	*4.7*

Share of charter flights	*2001*	*2002*	*+/–*
Passengers, %	*4.7*	*1.5*	*–3.2*
Freight and mail, %	*9.4*	*4.7*	*–4.7*

REGULAR TRAFFIC									
	2002			2001			2000		
INDICATORS	International	Domestic	Total	International	Domestic	Total	International	Domestic	Total
Aircraft-kilometers, thousand km	119,075.0	39,312.0	158,387.0	129,605.6	40,990.2	170,595.8	127,369.4	36,254.7	163,624.1
Departures	41,021	20,757	61,778	43,534	21,086	64,620	42,162	17,544	59,706
Flight hours	150,747	54,015	204,762	164,793	55,963	220,756	161,787	48,870	210,657
Passengers carried, thousands	3,808.8	1,600.5	5,409.3	3,938.9	1,619.6	5,558.5	3,444.1	1,390.9	4,835.0
Freight and mail carried, tonnes	88,600	15,700	104,300	77,900	14,100	92,000	87,800	11,400	99,200
Passenger turnover, million pkm	13,526.9	3,808.1	17,335.0	14,236.6	3,820.1	18,056.7	13,202.0	3,354.9	16,556.9
Passenger turnover capacity, million pkm	20,138.7	5,231.5	25,370.2	22,414.6	5,241.6	27,656.2	20,808.4	4,600.7	25,409.1
Seat occupancy, %	67.2	72.8	68.3	63.5	72.9	65,3	63.4	72.9	65.2
Carrying, million tkm:									
a) passengers	1,217.4	342.7	1,560.1	1,281.3	343.8	1,625.1	1,188.2	301.9	1,490.1
b) freight	462.5	67.2	529.8	422.4	60.6	483.0	575.6	53.2	628.8
c) mail	10.2	2.5	12.7	9.4	2.4	11.8	6.6	1.8	8.4
Total	1,690.1	412.5	2,102.6	1,713.1	406.8	2,119.9	1,770.4	356.9	2,127.3
Available capacity, million tkm	3,053.0	678.2	3,731.2	3,348.2	650.0	3,998.2	3,321.0	599.0	3,920.0
Overall load factor, %	55.4	60.8	56.4	51.2	62.6	53,0	53.3	59.6	54.3

CHARTER TRAFFIC

INDICATORS	2002 International	2002 Domestic	2002 Total	2001 International	2001 Domestic	2001 Total	2000 International	2000 Domestic	2000 Total
Aircraft-kilometers, thousand km	2,850.0	440.0	3,290.0	6,003.2	1,240.2	7,243.4	5,918.2	820,0	6,738,1
Departures	931	228	1,159	2,243	455	2,698	2,113	334	2,447
Flight hours	3,613	628	4,241	7,803	1,676	9,479	7,634	1,113	8,747
Passengers carried, thousands	76.6	3.4	80.0	266.2	5.9	272.1	260.5	5,4	265,9
Freight and mail carried, tonnes	4,800	500	5,300	8,900	700	9,600	7,600	600	8,200
Passenger turnover, million pkm	299.4	10.8	310.2	873.8	12.9	886.7	866.1	11,2	877,3
Passenger turnover capacity, million pkm	412.3	20.0	432.3	1,108.0	31.9	1,139.9	1,109.3	32,2	1,141,5
Seat occupancy, %	72.6	53.9	71.8	78.9	40.4	77.8	78.1	34,9	76,9
Carrying, million tkm:									
a) passenger	26.9	1.0	27.9	78.6	1.2	79.8	78.0	1,0	79,0
b) freight	18.5	2.1	20.6	30.5	28.7	59.2	23.8	10,7	34,5
c) mail	–	–	–	–	–	–	–	–	–
Total	45.5	3.1	48.5	109.1	29.9	139.0	101.8	11,7	113,5
Available capacity, million tkm	77.1	5.9	83.0	186.3	40.7	227.0	172.8	20,6	193,4
Overall load factor, %	59.0	51.6	58.5	58.6	73.5	61.2	58.9	56,9	58,7

Quality Indicators

Seat occupancy grew by 2.6 percent to 68.4 percent in 2002. The load factor rose by 2.9 percent to 56.4 percent

Flight Hours

Flight hours were reduced by 9.2 percent (–21,232 hours) compared with 2001 due to route optimization and withdrawal of some aircraft types. Flight hours were down by 90 percent (–19,206 hours) on IL-62Ms, by 58 percent (–7955 hours) on IL-86s, and by 62 percent (–6848 hours) on IL-76 cargo planes. However, flight hours were increased by 11 percent (+4316 hours) on Tu-154s, by 13 percent (+2965 hours) on Tu-134s, by 10 percent (1520 hours) on IL-96s, and doubled (+1919 hours) on DC-10s thanks to introduction of two additional aircraft. B767s showed the highest average daily flying time among Aeroflot's foreign-built aircraft (14 hours), followed by B777s (13.7 hours). The highest average daily flying time on Russian aircraft was shown by the IL-96 (7.9 hours, or 13.5 hours per one technically operational craft).

Flight productivity by aircraft types, measured as the volume of carrying per flight hour, was as follows:

Aircraft	2001, tkm	2002, tkm	2002 as % of 2001
IL-96	13,788	15,400	111.7
B767	12,228	14,751	120.6
B737	5,781	5,789	100.1
B777	19,079	22,196	116.3
A310	11,011	11,860	107.7
IL-62M	8,255	9,380	113.6
IL-86	16,683	16,113	96.6
Tu-154	6,419	6,903	107.5
Tu-134	2,778	2,896	104.3
IL-76	17,823	17,515	98.3
DC-10	30,086	31,691	105.3

Composition of Aeroflot fleet as of January 1, 2003

Aircraft type	Owned	Leased	Total	+/– from 2001
Russian-made				
IL-96	6		6	
IL-62	10		10	–3
IL-86	14		14	–1
Tu-154	20		20	–4
Tu-134	12	3	15	–1
IL-76	10		10	
Foreign-made				
B767		4	4	
B737		10	10	
B777		2	2	
A310		11	11	
DC-10		2	2	+2
Total	72	32	104	–7

Aircraft Fleet

The Company aircraft fleet consisted of 104 aircraft as of January 1, 2003, of which 72 were owned and 32 leased.

Fleet numbers were reduced by seven aircraft in the course of 2002 due to the following:

sale of three IL-62 aircraft;

write-off of four Tu-154-B and one IL-86 aircraft due to full depreciation;

return of two Tu-134 aircraft, rented from the airline KomiInterAvia, due to annulment of the rent contract;

introduction of two DC-10-40F cargo aircraft under a leasing agreement with Ireland Cargo Aircraft, and one Tu-134 (adapted for VIP carrying) under a rent agreement with Torginvest.

Aviation Fuel

In 2002 the Company used 1,054,200 tonnes of aviation kerosene on regular and charter flights, 4800 tonnes on ancillary and training flights, and 2100 tonnes during works at the Aeroflot aviation-technical center. Total aviation kerosene use was 1,061,100 tonnes, down by 17.2 percent or 220,500 tonnes compared with 2001. Lower fuel use was due to reduction of flight hours (216,200 tonnes saved) and reduction of carrying by aircraft with inferior fuel efficiency (4300 tonnes saved).

Information for Shareholders and Investors

General Information

Aeroflot was established under the Russian Government Resolutions No.527 of July 28, 1992, "On measures for organization of international air communications of the Russian Federation", No.267 of April 1, 1993, "On Joint Stock Company Aeroflot-Russian Airlines", and No.314 of April 12, 1994, "On approval of the Charter of Joint Stock Company Aeroflot-Russian Airlines".

The full official name of the Company in Russian is Otkrytoye aktsiyonernoye obshestvo "Aeroflot-rossiyskiye avialinii", and the full official name in English is Joint Stock Company Aeroflot-Russian Airlines. The abbreviated name of the Company in Russian is OAO "Aeroflot", and in English JSC Aeroflot. The Company's legal and postal address is OAO "Aeroflot", 37 Leningradsky Prospect, Building 9, Moscow, 125167, Russia.

Aeroflot received state registration at the Moscow Registration Chamber on June 21, 1994 with certification No. 032.175.

The Company was registered in the Unified State Register of Legal Entities on August 2, 2002, with certification No.007893962 (Series 77).

The Company uses the auditing services of Auditing Company Vneshaudit at legal address: 25-27/2 Bolshaya Yakimanka, Moscow 109180, Russia (telephone 258-1991). Auditing Company Vneshaudit currently operates under license NoE000548, issued with validity for five years on June 25, 2002, on the basis of Order No.123 of the Ministry of Finance of the Russian Federation.

The Company also uses the auditing services of Deloitte & Touche CIS at legal address: 16/2 Ultisa Tverskaya, Building 1, Moscow, Russia (telephone 787-0600). Deloitte & Touche CIS currently operates under license No.004509, issued with validity for three years on February 8, 2000, on the basis of Order No.39 of the Ministry of Finance of the Russian Federation.

Securities

Aeroflot has charter capital of 1,110,616,299 rubles divided into 1,110,616,299 common shares with par value of one ruble.

State registration of the first issue of Aeroflot stock was carried out by the Finance Department of the Moscow Government. The issue was assigned state registration code No.73-1p-5142 on June 22, 1995. State registration of the second issue of Aeroflot stock was carried out by the Federal Commission for the Securities Market (FCSM) and was assigned state registration code No.1-02-00010-A on February 1, 1999.

The Company's specialized share registrar is National Registration Company at legal address:

6 Ulitsa Veresayeva, Moscow, 121357, Russia (telephone 440 3104), acting under license No.10-000-1-00252, issued by the FCSM on March 6, 2002 without a limit on validity.

Global Depository Receipts

Technical details of Aeroflot's global depository receipts (GDRs) are as follows:

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

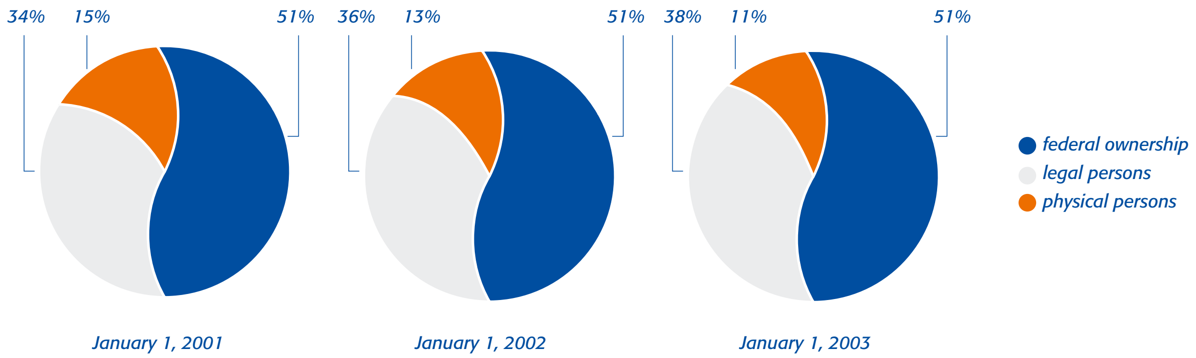
Aeroflot GDRs began to be traded at the third section of the Frankfurt Stock Exchange on March 1, 2002.

Bonds

Series 1 of the Company's ruble-denominated coupon bearer bonds was redeemed on April 1, 2002. The bonds were issued for a period of 374 days with state registration number 4-01-00010-A, and the total issue value was 600,000,000 rubles. The second installment of a 15.06 percent annual coupon was paid simultaneously with the redemption, representing a payment of 79.22 rubles per bond with face value of 1000 rubles. Total value of the second coupon payout was 47,532,000 rubles.

On February 27, 2002, the FCSM carried out state registration of Series 2 of Aeroflot ruble-denominated coupon bearer bonds under registration number 4-02-00010-A. A total 1,000,000 bonds were issued with face value of 1000 rubles each, making overall value of the issue equal to 1,000,000,000 rubles. The bonds were issued for a period of 728 days. Placement was carried out on March 18, 2002. There will be four coupon payments on the bonds, and the first payment was made on September 16, 2002. The annual coupon is 19.85 percent, so that the first payment per bond was 98.98 rubles and the total sum of

Structure of Aeroflot charter capital and changes in the period 2000–2002



the first coupon payout was 98,980,000 rubles. The second coupon payment will be made 364 days after placement of the issue, the third payment 546 days after issue and the fourth payment 728 days after issue.

Main trading floors for Aeroflot securities

The main vehicles for trading of Aeroflot securities are:

1. the Russian Trading System (RTS). The RTS ticker for Aeroflot securities is AFLT. The RTS internet site address is www.rts.ru;

2. the Moscow Interbank Currency Exchange (MICEX). The MICEX internet site address is www.micex.ru.

Share price and trading volumes

The weighted-average price of Aeroflot shares at the close of trading on the RTS on December 31, 2002, was $0.345 per share. Market capitalization of the company on December 31, 2002, was therefore $383,162,623. The highest price for Company shares during the accounting period occurred on March 5, 2002, when they were valued at $0.402, and the lowest price levels were on July 26 and August 15, when the shares were valued at $0.275.

15,852,087 Aeroflot shares were traded on the RTS in 2002 (1.43 percent of total Company shares) and overall value of trading was $5,837,617.

The practice of quarterly briefings for shareholders, investors and the media, at which Company officials clarify business results and development plans, was continued in 2002.

Quarterly financial disclosure for the FCSM and other information concerning Aeroflot's activities can be found on the Company's corporate internet site, at the address www.aeroflot.ru, and also in the system SKRIN Issuer at www.skrin.ru, and at the site www.adr.db.com.

Main market indicators for Aeroflot shares

	2002	2001	2000
Net profit per share, rubles	2.88	1.18	1.11
Share price / Net profit per share	3.8	8.86	5.2
Market capitalization at the end of the year, millions of US dollars	383.2	395.4	227.7

Fall of capitalization in 2002 compared with 2001 can be explained by overall decline of investment in the airline industry and reduction of the Company's free float.

The Annual General Meeting of Shareholders

Aeroflot's Annual General Meeting of Shareholders (AGM) was held on May 25, 2002. Shareholders and shareholder representatives who took part in the meeting controlled 1,008,439,110 votes, or 90.8 percent of total issued and placed voting stock of the Company. The meeting considered and took decisions on 14 agenda items. Shareholders approved the 2001 annual report, balance sheet, profit and loss account, and BoD proposals for distribution of 2001 profit. The meeting also elected a new BoD and Audit Committee, and confirmed the companies Vneshaudit and Deloitte & Touche as external auditors. The newspapers Rossiyskaya Gazeta and Moi Aeroflot, as well as Interfax news agency, were specified as channels for publication of information for shareholders of Aeroflot.

The following documents were approved in new drafts: the Company Charter, Resolution on the Board of Directors, Resolution on the Audit Committee, Resolution on the Board of Management, and Resolution on conduct of the AGM.

The AGM accepted proposals of the BoD to pay annual cash dividends of 0.06 rubles per share from 2001 profits.

An extraordinary meeting of Company shareholders (EGM) was held on September 14, 2002. Shareholders and shareholder representatives who took part in the meeting controlled 1,006,933,418 votes, or 90.66 percent of total votes on issued and placed voting stock of the Company. The EGM elected a new Audit Committee and voted against early termination of authorities of the current BoD.

Another EGM was held on December 27, 2002, by post in absentia. Shareholders and shareholder representatives controlling 909,098,762 votes, or 81.86% of total voting rights on issued and placed Company stock, submitted votes in absentia by 12.00 a.m. on December 27, 2002.

As a result of the voting it was decided:

"To approve a major transaction of the Company with Airbus G.I.E. for acquisition on leasing terms of six A319 aircraft and two A320 aircraft with engines built by

CFMI, to be supplied between September 2003 and December 2004, and whose market value, assessed independently, is not more than $313.6 million, which exceeds 50 percent of the balance sheet value of Aeroflot assets."

The main conditions of the deal are as follows:

➔ the deal price is based on market conditions;

➔ the lease period for each aircraft does not exceed 12 years;

➔ four A319 and six A320 aircraft are taken on operating lease terms from GECAS for a period up to 10 years, and three B767-300 aircraft are taken for a period up to six years;

➔ nine A310 aircraft are returned to Airbus in the period 2003–2004;

➔ two A310 and 10 B737-400 aircraft are returned to GECAS in the period 2003–2004.

A total 66.6 million rubles were reserved for dividend payment for 2001. In 2002 a total 68.6 million rubles were paid out as dividends, of which 58.8 million rubles for 2001 and 9.8 million rubles for previous years.

Largest 10 Aeroflot Shareholders as of January 1, 2003

1. Property Ministry of the Russian Federation (owner)
2. Depository-Clearing Company (nominee)
3. Lindsell Enterprises Limited (owner)
4. National Depository Center (nominee)
5. ZAO ING Bank (Eurasia) (nominee)
6. OOO Deutsche Bank (nominee)
7. ZAO Citibank (nominee)
8. OOO JP Morgan Bank International (owner)
9. Rosbank (nominee)
10. Rossiysky Kredit Bank (nominee)

Corporate Governance

Aeroflot has traditionally shown high levels of corporate governance, and is working steadily to improve its system for protection of the rights of shareholders and financially interested parties, and to raise transparency of company activities and information disclosure.

Improvement of Aeroflot's corporate governance system was confirmed when the international rating agency Standard & Poor's raised the Company's corporate governance rating from 4.6 to 5.2 points. The report by Standard & Poor's on the occasion of the upgrade noted the Company's high quality of information disclosure to Russian and foreign shareholders, efficient work by the BoD, and a high level of protection of shareholder rights.

Aeroflot's efforts to protect rights of its shareholders are demonstrated by consistent dividend payments and changes in the order of dividend payment in favor of small shareholders. An important development was removal from the Company charter of a point on authorized shares, which had raised concern among potential investors and was seen as one of the main risks to good corporate governance in the Company. Procedures for notification of shareholders meetings meet all requirements of Russian legislation and the highest international standards. Holders of GDRs receive all materials relating to shareholder meetings in

Divident Payment

Type of share	Divident period	Date of shareholder list for dividend entitlement	Total sum credited, rubles	Number of shares as of the list date	Dividends per share, rubles	Payment type
Common	1996	–	–	–	Not paid	–
Common	1997	20.04.98	8,796,334.42	3,164,149	2.78	Cash
Common	1998	28.04.99	9,107,054.00	1,110,616,299	0.0082	Cash
Common	1999	26.04.00	11,106,162.99	1,110,616,299	0.01	Cash
Common	2000	20.03.01	33,318,488.97	1,110,616,299	0.03	Cash
Common	2001	05.04.02	66,636,977.94	1,110,616,299	0.06	Cash

English translation. A new improved procedure for registration of those taking part in shareholder meetings has been in force since September 2002, allowing registration to continue until the start of voting on the meeting agenda.

In 2002 the Company launched an English-language site with a special section addressed to shareholders and investors. Press-releases and articles clarifying events of importance to the Company are published on the site in Russian and English. Disclosure of operating information by the Company meets the highest international standards, and the National Association for Stock Market Participants (NAUFOR) has included Aeroflot in its A+ group for information disclosure over the last few years.

There has been a substantial strengthening of the role of the BoD in decisions of greatest importance to the Company, such as election of the CEO and approval of Company transactions with value exceeding $15 million. The list of large transactions, requiring approval by the BoD, has been extended, and it has been decided to create committees on personnel and compensation, audit, and strategy, which will report to the BoD.

Improvement of corporate governance has been and remains one of Aeroflot's priorities, and the Company has done its utmost to take account of all the recommendations set out in the Code of Corporate Conduct, which was approved by the FCSM in 2002.

Significant Corporate Acts

Transactions by Aeroflot in 2002 with value equal to 10% or more of the value of Company assets

Date of transaction: December 27, 2002.

Object and description of the transaction: Agreement on purchase by Aeroflot from Airbus of eight aircraft of the A320 family (six A319s and two A320s), together with early termination and return of nine A310 aircraft, of which five A310-300s under operating lease and four aircraft under financial lease.

Transaction sum: $313.6 million

Amount spent by the Company on the transaction: 9,950,774,000 rubles.

Amount spent by the Company as a share of total Company assets: 161.4 percent

There are no parties, who can be classed under law of the Russian Federation as interested parties in accomplishment of the given transaction. The decision on accomplishment of the transaction was taken by a General Meeting of Shareholders on December 27, 2002.

Aeroflot did not carry out any transactions in 2002, which could be classed as involving interest under provisions of the federal law "On joint stock companies".

Board of Directors

Members of the Board of Directors

Alexander A. Braverman (born 1954)

1997–1999: First Deputy Minister for State Property of the Russian Federation
2000–present: State Secretary and First Deputy Minister for State Property of the Russian Federation.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

German O. Gref (born 1964)

1997–1998: Deputy Governor of St Petersburg and Chairman of the St Petersburg Committee for Management of Municipal Property.
1998–1999: First Deputy Minister for State Property of the Russian Federation.
2000–present: Minister for Economic Development and Trade of the Russian Federation.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

David L. Davidovich (born 1962)

1997–1998: Director of the Production, Refining and Sales Department of Rosneft oil company.
1998–2000: Head of the Marketing Department of Sibneft oil company.
2000: Deputy CEO of Russian Aluminum Management, with responsibility for production and sales.
2000–2001: Deputy CEO of automotive manufacturer GAZ, with responsibility for production and sales.
2001–present: Managing director of Millhouse Capital UK Limited.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Yury E. Zaostrovtsev (born 1956)

1997–present: Deputy Director of the Federal Security Service of the Russian Federation.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Alexander V. Neradko (born 1961)

1997–2000: Head of the Directorate for State Supervision of Flight Safety, and First Deputy of the Minister of Transport of the Russian Federation.
2000–present: First Deputy Minister of Transport of the Russian Federation.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Valeriy M. Okulov (born 1952)

1997–present: CEO of Aeroflot
Owns 0.0025% of charter capital of Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Andrei A. Osipov (born 1971)

1997–1998: Chief specialist of the Project Finance Department of YUKOS oil company.
1998–2001: Head of the Capital Markets Department of Sibneft oil company.
2001–present: Head of the Mergers & Acquisitions Department of Millhouse Capital UK Limited.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Alexei E. Tuzhiliin (born 1968)

1997–2000: Chief specialist of Sibneft oil company.
2001–present: Head of the Corporate Management Department of the Moscow Representative Office of Millhouse Capital UK Limited.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Sergei O. Frank (Chairman) (born 1960)

1997–1998: First Deputy Minister of Transport of the Russian Federation.
1998–present: Minister of Transport of the Russian Federation.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Vladimir A. Chernukhin (born 1968)

1997–2000: Deputy Head of Section, Deputy Head of Department, Head of Department, Deputy Chairman of Vneshekonombank of Russia.
2000–2002: Deputy Minister of Finance of the Russian Federation.
2002–present: Chairman of Vneshekonombank of Russia.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Yevgeny I. Shaposhnikov (born 1942)

1997–present: Aide of the President of the Russian Federation.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

The level of remuneration for members of the Aeroflot BoD is decided by the General Meeting of Shareholders of the Company. Procedure and schedules for remuneration payment is regulated by the "Resolution on Procedure of Remuneration Payment to Members of the Board of Directors of Aeroflot-Russian Airlines". No remuneration was paid to members of the Aeroflot BoD in 2002.

Report of the Board of Directors on Results of Company Development in Priority Directions

A new draft of the Aeroflot Company Charter was approved by the Annual General Meeting of the Company based on changes to the federal law "On joint stock companies", which came into force in 2002. The changes mainly concerned the competence and authority of the Board of Directors (BoD), whose role was significantly enlarged. The new draft made the BoD responsible for such key issues as election of the CEO, approval of major transactions with value exceeding $15 million, and others. The innovations, aimed at improvement of corporate governance in the Company, have had a positive effect on management efficiency and strengthened the image of Aeroflot as a progressive, free-market company.

The changes contributed to energetic functioning of the BoD in 2002. The BoD held 20 meetings in the course of the year, examining 120 questions of concern for current activity or for implementation of promising development plans. The BoD focused mainly on key aspects of Company operations, which are: ensuring a high level of flight safety, improving passenger service quality, formulation of budget policy, effective control over finances and operations, growth of capitalization, and, naturally, growth of revenues from the Company's core activity, which is air transport.

At the start of 2002 the BoD concentrated on Aeroflot's financial and operating plan and the Company budget. The Board was particularly scrupulous in analysis of the spending side of the budget.

The BoD defined cost reduction as one of the main priorities of the Company in 2002. A program of Company-wide efficiency improvements, prepared for this purpose, introduces personal responsibility of Company officials for meeting spending reduction targets. The BoD approved a proposal of the Board of Management for significant increase of cash to provide incentives for staff at all levels of the Company, and particularly staff who make an immediate contribution to cost saving. The principle of "evening out" of remuneration has thus been rejected. However, it was emphasized that savings must not be allowed to affect cost items, which are essential for maintenance of a high level of flight safety.

The most important issue for the BoD last year was the program of restructuring of the Company's foreign-built aircraft fleet. The issue was considered at BoD meetings on several occasions and in all details. Work on this large-scale program was completed in November-December 2002, and the relevant transaction, with value exceeding 50 percent of balance sheet assets, was approved by the BoD, and then by 99 percent of those who took part in an extraordinary general meeting of shareholders.

The BoD gave scrupulous attention in 2002 to flight safety issues, and a decision on this subject was taken at the first BoD meeting of the year. There was constant BoD supervision of implementation of the program, devised by the Board of Management, to support high levels of safety, and the BoD also tracked implementation of decisions by Company management to raise personal responsibility of managers and of engineering and technical staff for work that has importance for flight safety. Measures were planned and implemented for improving reliability of aircraft engines, and for ensuring availability of parts and aggregates to maintenance staff.

In order to maintain the Company's image and levels of confidence among passengers and business partners, the BoD gave special attention to introduction of Aeroflot's new quality management system. In August 2002 quality management in three Company sub-divisions, the Flight Security Service, Flight Control Center, and Training Center for Aviation Personnel, was audited and certified as meeting the ISO 9001-2000 standard. In October the BoD approved a Board of Management proposal for introduction of the quality management system in five other key sub-divisions of the Company: the Aviation-Technical Center, Flight Complex, Ground Control Complex, In-flight Service Department, and Purchasing Department.

Work by the Board of Management to implement BoD decisions is helping Aeroflot towards achievement in the near future of its main goal, which is to obtain quality certification for the Company as a whole. That will enhance the reputation of Aeroflot on the air transport market, confirming ability of the Company to achieve a new and competitive level of service quality.

In order to improve business efficiency, the BoD has paid special attention to improved organization of passenger sales, and development of a program of practical measures to increase revenue and profit, raise carrying volumes, and increase Aeroflot market capitalization.

Priority tasks, which will be decisive for ensuring revenue and profit growth, include measures developed by the Board of Management and approved by the BoD for optimizing the Company's domestic and international flight network.

Based on the Company's strategic tasks, the Board carried out thorough and complete analysis and approved the Company's operating and financial budget for 2003, which targets full-year profit of $114.8 million.

Board of Management

Vasily N. Avilov (born 1954)

1997–present: Head of the administration of Aeroflot.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Vladimir N. Antonov (born 1953)

1997–2002: Deputy CEO of Aeroflot with responsibility for Aviation and Operational Safety.
2002–present: First Deputy CEO of Aeroflot with responsibility for Operational Safety.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Yevgeny V. Bachurin (born 1964)

1996–1999: Sales Representative and Marketing Manager of Inpredkadri (government-owned subsidiary of KLM).
1999–2001: Advisor to the First Deputy CEO of Aeroflot with responsibility for Finance and Marketing.
2000–2001: Director of the Revenue Management Department of Aeroflot.
2001–present: Member of the BoD of Alt Reisbureau.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Anatoly I. Volymerets (born 1951)

1997–2002: First Deputy CEO of Aeroflot with responsibility for Operations.
2002–present: Deputy Director of the Aeroflot Training Center for Aviation Personnel, with responsibility for Training of Flight and Cabin Crews.
Owns 0.0026% of Aeroflot charter capital.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Vladimir V. Gerasimov (born 1957)

1997–1999: Deputy Director of the Economics Department of Aeroflot.
1999–present: Deputy CEO of Aeroflot with responsibility for Logistics.
2000–present: Member of the BoD of Fuel and Refueling Company (controlled by Aeroflot).
Owns 0.0025% of Aeroflot charter capital.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Nikolai V. Yegorov (born 1963)

1997–1999: Deputy Chairman of the Central Bank of Russia.
1999–present: Deputy CEO of Aeroflot with responsibility for Information Technology.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Boris P. Yeliseyev (born 1957)

1997–1999: Advisor and Deputy Head of the Management Directorate of the Administration of the President of Russia.
1999: Deputy Director of the Legal Department of Aeroflot.
1999–present: Director of the Legal Department of Aeroflot.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Alexander Yu. Zurabov (born 1956)

1997–1999: President, Chairman of the Board of Management, and Chairman of the BoD of MENATEP Bank.
1999: Head of the Working Group for Reorganization of the bank, Agrotorgbank, Chairman of the BoD of Agrotorgbank.
1999–present: First Deputy CEO of Aeroflot with responsibility for Finance and Marketing.
2001–present: Member of the BoD of Moskva insurance company (Aeroflot subsidiary)
Owns 0.000001% of Aeroflot charter capital.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Alexander A. Koldunov (born 1952)

1995–2001: Captain of Aeroflot IL-86 and IL-96-300 aircraft.

2001–present: Head of the Aeroflot Flight Safety Inspectorate.
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Nikolai A. Kuznetsov (born 1964)

1997–1999: Head of Treasury, Executive Vice-President, Member of Board of Management, Acting Chairman of Board of Management of MENATEP Bank.
1999–present: Deputy CEO of Aeroflot with responsibility for Finance and Planning.
2000–present: Member of BoD of Sherotel (Aeroflot subsidiary).
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Valeriy M. Okulov (born 1952)

1997–present: CEO of Aeroflot
Owns 0.0025% of charter capital of Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Oleg M. Osobenkov (born 1946)

1997–1999: Operative of the Federal Security Service of the Russian Federation.
1999–present: Deputy CEO of Aeroflot, Head of Personnel Management Directorate of Aeroflot.
2000–present: Member of BoD of Fuel and Refueling Company (controlled by Aeroflot).
2002–present: Executive Director of Social Programs Fund
Does not own shares in Aeroflot.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Viktor I. Perepelitsa (born 1946)

1997–1999: Deputy CEO of Aeroflot for organization of Flight Operations and Flight Director, Aeroflot Vice President and Flight Director.
1998–present: Member of BoD of Sherotel (Aeroflot subsidiary).
1999–present: Deputy CEO of Aeroflot for organization of Flight Operations, Director of Aeroflot Flight Complex.
Owns 0.0025% of Aeroflot charter capital.
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Vladimir V. Smirnov (born 1959)

1997–present: Deputy CEO of Aeroflot and Director of Aeroflot Ground Control.
1997–present: Elected member of BoD of Sherotel (Aeroflot subsidiary).
1998–present: Member of BoD of Deit (controlled by Aeroflot).
2001–present: Member of BoD of Airport Moscow (Aeroflot subsidiary).
2002–present: Member of BoD of Aeromar
Owns 0.0026% of Aeroflot charter capital
Does not own shares in Aeroflot subsidiaries or companies affiliated with Aeroflot.

Clause 5.8 of article 5 of the Resolution on the Board of Management of Aeroflot, approved by the annual general meeting of shareholders on May 25, 2002, and entitled “Rights, duties and responsibility of members of the Executive Committee”, states that job conditions and remuneration of members of the Board of Management, including benefits and social guarantees, are set in accordance with the post they occupy and in accordance with legal acts of the Russian Federation and Aeroflot, governing work conditions and establishment of size of benefit and social guarantee packages for staff of Aeroflot, and also in accordance with staff registers, and are stipulated in a job contract, which members of the Board of Management sign with Aeroflot. The size of remuneration and compensation to members of the Board of Management of Aeroflot is decided by the BoD of Aeroflot. Remuneration paid to members of the Board of Management in 2002 totaled 8,623,401 rubles.

Aeroflot Subsidiaries and Affiliates

The focus in management of Aeroflot subsidiaries and affiliates during 2002 was on goals and tasks, set out in a Management Concept drawn up by the Board of Management. The most important of these were achievement of investment indicators, raising the level of budget discipline, and ensuring maximum correspondence between price and quality in companies, which are part of Aeroflot's technical supply chain.

Services provided by subsidiary companies are crucial in formation of consolidated service output by Aeroflot. Maximum efforts were therefore employed to establish a quality control system for those parameters, which are decisive for product competitiveness. Modeling and benchmarking was used to set target efficiency indicators for each company, helping to systematize the work of Aeroflot representatives in the management bodies of subsidiary companies.

Work was continued to terminate investments, which have failed to provide required levels of return on invested capital. Shares in 10 companies were sold off. In total, termination of non-efficient investments generated $1.3 million for Aeroflot in 2002.

Much work was done to improve corporate governance, reach accurate valuations and reduce business and corporate risks relating to Aeroflot participation in other companies. Management of companies was based on high standards, which enabled a high level of corporate culture, guaranteeing protection of shareholder interests.

Overall economic effect of Aeroflot stakes in other organizations totaled 484.8 million rubles in 2002, up from 421 million rubles in 2001. Revenue growth was 15 percent in comparable terms.

Main companies in which Aeroflot has stakes

Merger of two companies, Airport Moscow and ZAO Aeroservis, which both work in the cargo handling segment, was completed in 2002. This prevented harmful competition between the two companies, and gave synergy effects from joint technology use, as well as reduction of expenses and increase of shareholder revenues.

Air transport
Aeroflot-Don
Aeroflot-Plus

Logistics
Aeromar
TZK

Agents
Altreiser
Aerotur
Transnautic Aero
Tris Travel SRL

Ground handling
Airport Moscow
Date
Aeromash–Aviation Safety

Information technology
TKP
MTK Sirena
SITA

Hotels
Sherotel
Aeroimp
Sheremetyevo-2

Retail sales
Aerofirst

Training
Aviabusiness

Publishing
Aeroflot Press
Presto-C

Insurance and finance
Insurance Company Moscow
Aeroflot Garant
Aeroflot Leasing

Other
EMS Guarantpost
NITs ASK

Open Joint Stock Company "AEROFLOT – RUSSIAN AIRLINES" and subsidiaries Independent Auditors' Report

Consolidated Financial Statements for the year ended December 31, 2002

Independent Auditors' Report
To the Shareholders of OJSC "AEROFLOT — Russian Airlines":

Deloitte & Touche

We have audited the accompanying consolidated balance sheet of OJSC "AEROFLOT - Russian Airlines", an open joint stock company, and its subsidiaries (the "Group"), as of 31 December 2002 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Group as of 31 December 2001 were audited by another auditor whose report dated 31 May 2002 expressed an unqualified opinion on those financial statements.

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2002, and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 3 in the accompanying consolidated financial statements that provide discussion of the financial condition of the Group and uncertainties regarding the Group's liquidity and financial position. The Group reported a deficit in working capital of $141.5 million as of 31 December 2002. Management has developed plans and is actively addressing these and other financial and operating issues in order to improve profitability and to strengthen the financial position and liquidity of the Group. The ultimate improvement in operating results and financial condition are dependent on management's success in achieving their established plans and objectives. The accompanying consolidated financial statements have been prepared on the basis of a going concern and do not include any adjustments that might be necessary should management not be able to achieve their planned results.

Deloitte & Touche

16 June 2003

Consolidated Income Statement

	Notes	Year ended 31 December 2002	Year ended 31 December 2001
		$ million (except earnings per share amounts)	**$ million** (except earnings per share amounts)
Traffic revenue	5	1,244.3	1,221.1
Other revenue	6	318.7	336.9
Revenue		**1,563.0**	**1,558.0**
Operating costs	7	(1,081.8)	(1,218.3)
Staff costs	8	(215.4)	(195.2)
Depreciation		(107.0)	(104.4)
Operating costs		**(1,404.2)**	**(1,517.9)**
Operating income		**158.8**	**40.1**
Interest expense	9	(34.6)	(44.9)
Interest income		5.2	3.7
Share of income in associated undertakings	24	5.9	6.3
Foreign exchange and translation gain, net		6.6	1.7
Non-operating (loss) income, net	10	(9.0)	3.8
Income before taxation and minority interest		**132.9**	**10.7**
Taxation	11	(41.6)	11.1
Income after taxation		**91.3**	**21.8**
Minority interest share of net income	21	(2.0)	(1.7)
Net Income		**89.3**	**20.1**
Earnings per share		**$ 0.080**	**$ 0.018**

V.M. Okulov
General Director

M.I. Poluboyarinov
Deputy General Director
Finance and Planning

16 June 2003

Consolidated Balance Sheet

	Notes	31 December 2002	31 December 2001
		$ million	**$ million**
Assets			
Current assets			
Cash and cash equivalents	12	32.0	20.2
Short-term aircraft lease deposits		6.5	-
Short-term investments		6.8	5.1
Accounts receivable and prepayments, net	13	243.9	241.9
Inventories	14	31.2	25.4
		320.4	292.6
Long-term assets			
Long-term investments, net	15	27.7	18.3
Aircraft lease deposits		27.4	20.2
Deferred tax asset	11	6.3	5.4
Other non-current assets		3.3	6.9
Prepayment for property, plant and equipment	26	31.5	-
Property, plant and equipment, net	16	468.8	768.8
		565.0	819.6
Total assets		**885.4**	**1,112.2**
Liabilities and shareholders equity			
Current liabilities			
Accounts payable and accrued liabilities	17	330.9	382.0
Short-term borrowings	19	109.7	131.1
Current portion of finance leases payable	20	21.3	49.5
		461.9	562.6
Long-term liabilities			
Long-term borrowings		3.2	3.2
Finance leases payable	20	113.8	339.4
Non-current accounts payable and accrued liabilities	18	97.3	83.3
Deferred tax liabilities	11	36.5	38.4
		250.8	464.3
Minority interest	21	**7.9**	**7.6**
Shareholders' equity			
Share capital	22	51.6	51.6
Retained earnings	23	113.2	26.1
		164.8	77.7
Total liabilities and shareholders' equity		**885.4**	**1,112.2**

V.M. Okulov
General Director

M.I. Poluboyarinov
Deputy General Director
Finance and Planning

16 June 2003

Consolidated Statement of Cash Flows

	Year ended 31 December 2002	Year ended 31 December 2001
	$ million	**$ million**
Cash flows from operating activities:		
Income before taxation and minority interest	132.9	10.7
Adjustments to reconcile income before taxation and minority interest to net cash provided by operating activities:		
Depreciation of property, plant and equipment	107.0	104.4
Loss on disposal of property, plant and equipment	25.5	7.8
Increase in provisions and asset impairments	2.8	22.5
(Decrease) increase in accrued interest payable	(4.7)	2.3
Share of income in associated undertakings	(5.9)	(6.3)
Gain on remeasurement of available for sale investments to fair value	(6.5)	-
Increase in accounts receivable	(38.5)	(104.0)
Increase in inventories	(5.8)	(2.8)
Increase in accounts payable and accrued liabilities	2.5	13.2
Income tax paid	(49.3)	-
Net cash provided by operating activities	160.0	47.8
Cash flows from investing activities:		
Purchases of property, plant and equipment	(89.5)	(80.6)
Proceeds from sale of property, plant and equipment	218.3	1.3
Acquisition of short-term investments, net	(1.7)	(3.5)
Acquisition of long-term investments, net	(1.0)	(3.0)
Dividends received	2.6	5.0
Net cash provided by (used in) investing activities	128.7	(80.8)
Cash flows from financing activities:		
Capital element of finance lease	(252.5)	(46.1)
Dividends paid	(2.8)	(0.3)
(Repayment of) proceeds from borrowings	(21.3)	66.3
Net cash (used in) provided by financing activities	(276.6)	19.9
Change in cash and cash equivalents	**12.1**	**(13.1)**
Beginning of the year	21.2	34.8
Effect of exchange rate change	(0.3)	(0.5)
Cash and cash equivalents	**33.0**	**21.2**

Supplemental cash flow information:		
Interest paid	(39.3)	(42.5)
Interest received	1.4	1.5

Note:
Included in Cash and cash equivalents as of 31 December 2002 and 2001 are $1.0 million of restricted cash held by the Company's representative offices abroad. Restrictions are due to the specific local currency regulations. Restricted cash was classified as "Other non-current assets" in the accompanying consolidated balance sheets.

V.M. Okulov
General Director

M.I. Poluboyarinov
Deputy General Director
Finance and Planning

16 June 2003

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Retained Earnings	Total
	$ million	**$ million**	**$ million**
At 31 December 2000	**51.6**	**16.7**	**68.3**
Effect of IAS 39 initial application (i)	-	(9.6)	(9.6)
Net Income	-	20.1	20.1
Dividends — 2000 (Note 23)	-	(1.1)	(1.1)
At 31 December 2001	**51.6**	**26.1**	**77.7**
Net Income	-	89.3	89.3
Dividends — 2001 (Note 23)	-	(2.2)	(2.2)
At 31 December 2002	**51.6**	**113.2**	**164.8**

i) At 1 January 2001 the Group changed its accounting policy with respect to the measurement of financial instruments in order to comply with IAS 39, "Financial Instruments: Recognition and Measurement". As of 1 January 2001 the Group had lease deposits, which were previously recorded at cost. As of 1 January 2001 the Group re-measured those assets at amortised cost. The adjustment of the previous carrying amount to amortised cost, net of income tax of $5.4 million, is recognised as a prior year adjustment.

V.M. Okulov
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Finance and Planning

1. Nature of the Business

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

At 31 December 2002 and 2001, the Government of the Russian Federation owned 51% of the Company. The Company's headquarters are located in Moscow at Leningradsky Prospect 37.

The average number of employees in the Company during 2002 was approximately 15.0 thousand (15.3 thousand – in 2001).

The table below provides information on the Group's aircraft fleet as of 31 December 2002:

Type of aircraft	Ownership	Aeroflot Russian Airlines (quantity)	Aeroflot-Don (quantity)	Group total (quantity)
Ilyushin IL-96-300	Owned	6	-	6
Ilyushin IL-62M	Owned	10	-	10
Ilyushin IL-86	Owned	14	-	14
Ilyushin IL-76 TD (cargo)	Owned	10	-	10
Tupolev Tu-154	Owned	20	10	30
Tupolev Tu-134	Owned	12	4	16
Antonov An-12	Owned	-	3	3
Airbus A-310	Finance lease	4	-	4
Tupolev Tu-134	Operating lease	3	-	3
Boeing 737-400	Operating lease	10	-	10
Airbus A-310	Operating lease	7	-	7
Boeing 767-36 NER	Operating lease	4	-	4
Boeing 777-2Q8	Operating lease	2	-	2
McDonnell Douglas DC10-40F	Operating lease	2	-	2
		104	**17**	**121**

2. Russian Environment and Economic Conditions

Currency exchange and control

Foreign currencies, in particular the US Dollar, play a significant role in the underlying economics of many business transactions in Russia. Following the 1998 economic crisis, the Ruble's value fell significantly against the US Dollar, falling from a pre-crisis rate of approximately 6 Rubles to 1 US Dollar, to 27 Rubles to 1 US Dollar by the end of 1999. During 2000, 2001 and 2002, the Ruble's value fluctuated between a low of 26.9 and a high of 31.9 to 1 US Dollar. As of 16 June 2003, the exchange rate was 30.51 Rubles to 1 US Dollar.

The following table summarizes the exchange rate of the Ruble to 1 US Dollar for the years ended 31 December 2002, 2001 and 2000.

At December 31 --	Exchange rate
2002	31.78
2001	30.14
2000	28.16

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

The Central Bank of Russia has established strict currency control regulations designed to promote the commercial utilization of the Russian Ruble. Such regulations place restrictions on the conversion of Russian Rubles into foreign currencies and establish requirements for conversion of foreign currency sales to Russian Rubles.

Inflation

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

For the years ended December 31 --	Annual inflation
2002	15.1%
2001	18.8%
2000	20.2%

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

3 Liquidity and Management Plans

At 31 December 2002, the Group had a working capital deficiency of $141.5 million, an improvement of $128.5 million from 31 December 2001. To further improve liquidity, subsequent to 31 December 2002, the Group intends to obtain long-term financing in 2003 from a Russian bank.

To implement a new corporate vision and strategy, the Group continued rescheduling its network. Several new routes expected to be profitable were opened while unprofitable routes were closed in 2002. Frequencies of flights were increased significantly which resulted in improved breadth and depth of the Group's network. Aircraft utilization increased by approximately 2.6 percent in 2002 compared to 2001 and is expected to further increase in 2003. In 2002 the Company commenced a restructuring of its foreign aircraft fleet, which should result in lease expense savings. The fleet will be comprised of aircraft produced after 1999, which should decrease maintenance expenses.

During 2002 the Company continued to expand code-sharing operations with other airlines. Route connections improved by 9 percent in 2002 and are planned to increase further. In 2002 the overall load factor reached 65.3 percent. In 2002 the share of higher classes passengers reached 16.7 percent for European routes. The Group continues a campaign to increase further the share of higher classes passengers.

Management of the Group has developed a cost reduction program to reduce operating costs in 2003 and subsequent years. In particular, increased efficiency of fleet utilization is expected to result in a reduction of fuel costs, which is a major component of the Group's operating expenses. In 2002 the Group took the following cost reduction measures: consolidation of fuel suppliers, increased share of direct supplies and utilization of geographic difference in fuel prices.

Considering the improvement in 2002 performance, actions taken to date and management plans for the future, management believes it is appropriate to prepare the consolidated financial statements on the basis of a going concern.

4. Principal Accounting Policies

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

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements are presented in millions of US Dollars. All significant subsidiaries under legal and/or actual control of the Company are included in the consolidated financial statements. A listing of the Group's principal subsidiaries is set out in Note 30.

The Group maintains its accounting records in accordance with Russian accounting legislation and regulations (RAL) in Russian Rubles. The accompanying consolidated financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with the standards prescribed by the International Accounting Standards Board.

Measurement currency

The majority of revenues are denominated in US Dollars and settled in US Dollars or other foreign currency. The majority of assets, purchases, finance and operating leases, and liabilities are denominated in US Dollars, as is a significant portion of operating expenses. Therefore the US Dollar has been determined as the measurement currency of the Company. Transactions and balances not already measured in US Dollars have been re-measured to US Dollars in accordance with IAS 21, "The Effect of Changes in Foreign Exchange Rates".

Certain subsidiaries of the Company use the Russian Ruble as the measurement currency to comply with SIC 19 "Reporting Currency-Measurement and Presentation of Financial Statements under IAS 21 and IAS 29" and follow IAS 29 "Financial Reporting in Hyperinflationary Economies".

Consolidation

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations are consolidated. Subsidiaries are consolidated from the date on which effective control is obtained by the Group and are no longer consolidated from the date of disposal or loss of control. Where a partly owned subsidiary has a net asset deficiency the deficiency is attributed to the Group in full and no amount is assigned to the minority interest, unless the minority owner had a legally enforceable obligation to contribute additional funds. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between group companies are eliminated.

Investments in associates

Associates in which the Group has significant influence but not a controlling interest are accounted for using the equity method of accounting. Significant influence is usually demonstrated by the Group owning, directly or indirectly, between 20 percent and 50 percent of the voting share capital or by exerting significant influence through other means. The Group's share of the net income or losses of associates is included in the consolidated income statement, and the Group's share of the net assets of associates is included in the consolidated balance sheet. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates and unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. A listing of the Group's principal associated undertakings is shown in Note 30.

Management estimates

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

Revenues

Traffic revenue is recognised when the transportation service is provided. Passenger and cargo sales for which transportation has not yet been provided are shown as deferred revenue.

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

Segment reporting

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

a) Business segments

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

b) Geographical segments

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

i) Geographical analysis of revenue from flights

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

ii) Geographical analysis of net assets

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

Property, plant and equipment

Property, plant and equipment is stated at cost or valuation as described below which do not exceed their estimated net realisable values. Depreciation is calculated so as to amortize the cost or valuation (less estimated salvage value where applicable) over the remaining useful lives of the assets.

a) Fleet

i) Owned aircraft and engines

Aircraft and engines owned by the Group at 31 December 1995 were stated at depreciated replacement cost based upon external valuations denominated in US Dollars. Subsequent purchases are recorded at cost. The valuation was conducted by Airclaims, an international firm of aircraft appraisers. The Group has chosen not to re-value these assets subsequent to 1995. The 1995 revaluation reserve has been utilised to absorb the depreciation of revaluation adjustments made in 1995.

ii) Finance leased aircraft and engines

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

iii) Capitalised maintenance costs

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

iv) Depreciation

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

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

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

Impairment of assets

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

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

Lease deposits

Lease deposits represent amounts in foreign currency paid to the lessors of foreign aircraft, which are held as security deposits by lessors in accordance with the provisions of finance and operating lease agreements. Part of these deposits are interest-free. Interest-free deposits have been recorded at amortized cost using average market yield of 5.9%.

Operating leases

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

Investments

The Group adopted IAS 39, "Financial Instruments: Recognition and Measurement" on 1 January 2001. Accordingly, investments are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale.

The Group had no securities classified as trading securities or held-to-maturity at 31 December 2002 and 2001. Available-for-sale investments are stated at market value determined on an individual investment basis. Investments in equity instruments of other companies that do not have a quoted market price are stated at cost less impairment loss since it is not practicable to determine the fair value of such investments. Unrealized gains and losses are included in the determination of net income. Income from available-for-sale investments is included in other non-operating income in the consolidated statement of operations.

Inventories

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

Accounts receivable

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

Financial instruments

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

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

a) Credit risks

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

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

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

b) Fair value

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

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

c) Foreign exchange risk

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

d) Interest rate risk

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

Foreign currency translation

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

The Russian Ruble is not a freely convertible currency outside the Russian Federation and, accordingly, any conversion of Russian Ruble amounts to US dollars should not be considered as a representation that Russian Ruble amounts have been, could be or will be in the future, converted into US dollars at the exchange rate shown or at any other exchange rate.

Profit tax

The profit tax rate for industrial enterprises in Russia in 2001 was 35%. Commencing 1 January 2002 the rate has been decreased to 24%.

Deferred profit taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences in accordance with IAS 12, "Income Taxes", Revised 1996 ("IAS 12"). IAS 12 requires the use of a balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet. As of 31 December 2002 and 2001 deferred tax assets and liabilities have been measured based on a tax rate of 24%.

Employee benefits

The Company makes certain payments to employees on retirement, or when they otherwise leave the employment of the Company. These obligations, which are unfunded, represent obligations under a defined benefit pension scheme. For such plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the average service lives of employees. Actuarial gains and losses are recognized in the income statement immediately.Where such post-employment employee benefits fall due more than 12 months after the balance sheet date, they are discounted using a discount rate determined by reference to the average market yields at the balance sheet date.

The Company also participates in a defined contribution plan under which the Company has committed to contribute a certain percentage (from 15% to 30% in 2002) of contribution made by an employee choosing to participate in the plan. Contributions made by the Company on defined contribution plans are charged to expense when incurred. Contributions are additionally made to the Government's social and medical insurance, retirement benefit plans at the statutory rates in force during the year. The costs of these benefits are charged to the income statement as incurred.

Cash and cash equivalents

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

Value Added Taxes

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

Frequent Flyer Program

The Company records an estimated liability for the incremental cost associated with providing free transportation under the "Aeroflot Bonus" program (see also Note 17) when a free travel award is earned. Principal incremental costs include aircraft fuel costs, third-party passenger services (such as catering services) and airport charges. The liability is included in accounts payable and accrued liabilities, and is adjusted periodically based on awards earned, awards redeemed and changes in the "Aeroflot Bonus" program. The costs are included in sales and marketing expenses in the income statement.

Dividends

Dividends are recognized at the date they are declared by the shareholders in general meeting. Retained earnings legally distributable by the Company are based on amounts available for distribution in accordance with applicable legislation and reflected in the statutory financial statements. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Earnings per share

Earnings per share are calculated by dividing the income for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. There are no potentially diluted common stock equivalents.

Borrowing costs

Borrowing costs are expensed as incurred unless relating to loans which fund capital projects. To the extent borrowing costs are directly attributable to qualifying assets they are capitalized with the relevant asset from the date the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred until the related qualifying asset is substantially ready for its intended use and are subsequently charged to the income statement in the period over which the asset is depreciated.

Provisions

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

Subsequent events

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

Contingencies

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

5. Traffic Revenue

By sector	**2002 $ million**	**2001 $ million**
Scheduled flights:		
Passengers	1,092.9	1,071.1
Cargo	97.8	74.5
Charter flights:		
Passengers	27.6	44.6
Cargo	26.0	30.9
	1,244.3	**1,221.1**

By region

a) Scheduled passenger revenue	**2002 $ million**	**2001 $ million**
International flights from Moscow to:		
Europe	229.2	218.9
Asia	106.0	105.9
North America	53.5	51.3
Other	38.6	44.5
International flights to Moscow from:		
Europe	227.3	213.2
Asia	112.2	112.1
North America	49.4	47.0
Other	39.7	46.3
Other international flights	20.1	20.2
Domestic flights	216.9	211.7
	1,092.9	**1,071.1**

b) Scheduled cargo revenue	**2002 $ million**	**2001 $ million**
International flights from Moscow to:		
Europe	10.7	6.1
Asia	4.9	3.2
North America	5.9	3.1
Other	2.8	1.8
International flights to Moscow from:		
Europe	17.9	10.2
Asia	27.0	20.5
North America	3.9	3.2
Other	5.1	3.1
Other international flights	10.0	11.1
Domestic flights	9.6	12.2
	97.8	**74.5**

6. Other Revenue

By sector	2002 $ million	2001 $ million
Airline revenue agreements	259.4	273.5
Ground handling and maintenance	13.2	15.6
Catering services	14.0	14.6
Hotel revenue	9.4	9.1
Re-fuelling services	12.1	10.4
Other revenue	10.6	13.7
	318.7	**336.9**

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

Included in other revenue for 2002 and 2001 is revenue from management services provided by the Company to its associated undertaking Aerofirst in the amount of $2.5 million and $2.3 million, respectively.

7. Operating Costs

	2002 $ million	2001 $ million
Aircraft fuel	274.7	358.7
Aircraft and traffic servicing	244.8	259.3
Maintenance	109.7	112.5
Sales and marketing	103.2	110.7
Operating lease expenses	104.2	99.5
Administration and general expenses	69.5	83.2
Operating taxes	30.6	56.9
Third-party passenger services	32.5	41.5
Communication expenses	35.3	35.9
Increase in provision for bad and doubtful accounts	6.2	5.6
Fines and penalties	16.4	-
Other expenses	54.7	54.5
	1,081.8	**1,218.3**

Sales and marketing expenses include incremental costs associated with providing free transportation under the frequent flyer "Aeroflot Bonus" program related to free travel awards earned during the year. These costs amounted to $1.7 million in 2002 and $4.6 in 2001.

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

8. Staff Costs

	2002 $ million	2001 $ million
Wages and salaries	168.3	152.8
Social security costs	10.7	12.5
Pension costs	36.4	29.9
	215.4	**195.2**

The Company continued participation in a non-government pension fund to provide additional pensions to some of its employees upon their retirement. The pension fund requires contributions from both employees and the Group and is a defined contribution scheme for the employer. In 2002 and 2001, the Company made pension contributions to the fund amounting to $0.4 million and $0.5 million, respectively.

Further, the Company makes payments, on retirement, to employees participating in the plan with three or more years service. These obligations, which are unfunded, represent obligations under a defined benefit pension scheme. As of 31 December 2002 an accrual of $8.2 million, representing the net present value of the future benefits the Company expects to pay, has been included in wages and social contributions payable in the amount of $1.0 million (current portion) and in non-current accounts payable and accrued liabilities in the amount of $7.2 million (long-term portion).

9. Interest Expense

	2002 $ million	2001 $ million
Finance leases	20.1	28.6
Short-term bonds	5.3	3.2
Long-term borrowings	-	0.3
Short-term borrowings	9.2	12.8
	34.6	**44.9**

10. Non-operating (Loss) Income, Net

By income (loss)	**2002 $ million**	**2001 $ million**
Loss on disposal of property, plant and equipment, net (i)	(25.5)	(7.3)
Dividend income	0.7	0.5
Gain from disposal of short-term investments, net (ii)	1.4	-
Gain from disposal of long-term investments, net (iii)	1.0	-
Gain on remeasurement of available for sale securities to fair value (iv)	6.5	-
Other income and expenses, net (v)	6.9	10.6
	(9.0)	**3.8**

i) In 2002 the Company restructured finance leases on ten Boeing 737-400 aircraft into operating leases (refer also to Note 25). Loss on disposal of such aircraft comprised $29.7 million and is shown net of $12.1 million related amortization on security lease deposits.

ii) Included in gain from disposal of short-term investments for 2002 is gain from transactions with promissory notes of third parties (discounts granted to the Company).

iii) Included in gain from disposal of long-tem investments for 2002 is cost of depository certificates representing an economic interest in Class A shares of Equant N. V., a subsidiary of SITA (Societe Internationale de Telecommunications Aeronautiques) (refer also to Note 15).

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

v) Included in other income for 2002 is income from release of provision for long-term investments in amount of $1.8 million and income from fines and penalties received by the Group in amount of $1.4 million.

In September 2001 Ilyushin-86 aircraft was damaged while emergency landing in Dubai, United Arab Emirates. The aircraft was not rehabilitated. Included in other income and expenses for 2001 is insurance compensation received amounting to $6.1 million, net of the carrying value of the aircraft written-off of $0.5 million and costs associated with the accident of $0.7 million.

In 2001 the Company received insurance compensation amounting to $4.5 from the Ministry of Foreign Affairs of the Russian Federation in respect of lost profits in the region of Kuwait as a result of the Iraq invasion in 1990.

11. Taxation

	2002 $ million	2001 $ million
Current income tax charge	(42.9)	(41.9)
Deferred income tax benefit	2.8	56.1
Share of income taxes of associated companies	(1.5)	(3.1)
	(41.6)	**11.1**

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

	2002 $ million	2001 $ million
Income before taxation and minority interest	132.9	10.7
Theoretical tax at statutory rate of 24% for the year ended 31 December 2002 and of 35% for the year ended 31 December 2001	(31.9)	(3.7)
Effect of tax rate decrease from 35% to 24% for 2001	-	15.2
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible foreign exchange losses	(0.2)	(5.3)
Non-deductible expenses	(13.0)	(28.1)
Revaluation of aircraft engines for statutory purposes	-	22.4
Revaluation of hotel building for statutory purposes	-	9.0
Non-taxable income	4.2	2.3
Other non-temporary differences	(0.7)	(0.7)
Taxation	**(41.6)**	**11.1**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. As described in Note 4 starting 1 January 2002 the profit tax rate in Russia has been decreased from 35% to 24%. The tax effect of the movement on these temporary differences is recorded at the rates of 24% for the years ended 31 December 2002 and 2001. The impact of the tax rate decrease on deferred tax liabilities, net as of 31 December 2001 is $15.2 million.

In 2002 the Company restructured certain aircraft finance leases into operating leases (see also Note 10). Accordingly deferred tax liability as of 31 December 2002 decreased.

The Company performed revaluation of owned aircraft engines as of 1 January 2001 for Russian statutory accounting and tax purposes. In addition, one of its subsidiaries, ZAO "Sherotel", performed statutory revaluation of a hotel building as of 1 January 2001. The results of these revaluations did not affect (and will not affect in the future) the carrying value of the assets reflected in the financial statements prepared in accordance with IFRS. These revaluations resulted in an increase of tax base of assets being revalued and, therefore, in the decrease of the difference between the carrying value of the assets reflected in the accompanying balance sheet as of 31 December 2001 and their tax base. Accordingly, deferred tax liability as of 31 December 2001 decreased. Tax effect of the change in the tax base of aircraft engines amounted to $22.4 million and of the change in tax base of the building to $9.0 million.

On 1 January 2001 the Group changed its accounting policy with respect to the measurement of financial instruments in order to comply with IAS 39, "Financial Instruments: Recognition and Measurement". As of 1 January 2001 the Group had interest-free lease deposits which were previously recorded at cost which were re-measured at amortised cost. Remeasurement resulted in a negative difference between the carrying value of lease deposits and their tax base and, accordingly, resulted in a deferred tax asset. The deferred tax effect of the change in carrying value of lease deposits of $5.4 million is recorded as an adjustment of the balance of retained earnings at the beginning of 2001.

	31 December 2002 $ million	Movement for year $ million	31 December 2001 $ million	Movement for year $ million	31 December 2000 $ million
Tax effects of temporary differences:					
Property, plant and equipment	(35.2)	3.2	(38.4)	42.1	(80.5)
Long-term investments	(17.6)	(4.5)	(13.1)	9.3	(22.4)
Accounts receivable	(2.4)	7.3	(9.7)	9.7	(19.4)
Borrowings	5.8	0.2	5.6	5.6	-
Accounts payable	19.2	(3.4)	22.6	(5.2)	27.8
Net deferred tax liabilities	(30.2)	2.8	(33.0)	61.5	(94.5)
Deferred tax assets	**6.3**	**0.9**	**5.4**	**2.8**	**2.6**
Deferred tax liabilities	**(36.5)**	**1.9**	**(38.4)**	**58.7**	**(97.1)**

Deferred tax asset relates to the difference in carrying value of property, plant and equipment and loans payable and their tax base.

12. Cash and Cash Equivalents

	31 December 2002 $ million	31 December 2001 $ million
Ruble bank accounts	9.5	5.3
Currency bank accounts	19.7	12.0
Cash equivalents	2.8	2.9
	32.0	**20.2**

Included in other non-current assets as of 31 December 2002 and 2001 is approximately $1.0 million of restricted cash held by the Group's representative offices abroad. Restrictions are due to specific local currency regulations.

13. Accounts Receivable and Prepaiments, Net

	31 December 2002 $ million	31 December 2001 $ million
Trade receivables	174.6	116.5
Other receivables	13.1	21.3
Prepayments and accrued income	34.3	60.6
Provision for bad and doubtful accounts	(48.9)	(45.9)
	173.1	**152.5**
VAT and other taxes recoverable	70.8	89.4
	243.9	**241.9**

14. Inventories

	31 December 2002 $ million	31 December 2001 $ million
Fuel	4.4	7.3
Other inventory	26.8	18.1
	31.2	**25.4**

15. Long-term Investments, net

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

	Associates Equity $ million	Other equity $ million	Other $ million	Total $ million
1 January 2001	**14.5**	**2.0**	**-**	**16.5**
Additions	-	0.8	2.3	3.1
Share of undistributed income	3.2	-	-	3.2
Dividends received	(4.5)	-	-	(4.5)
31 December 2001	**13.2**	**2.8**	**2.3**	**18.3**
Additions	-	0.8	8.3	9.1
Share of undistributed income	4.5	-	-	4.5
Dividends received	(2.0)	-	-	(2.0)
Disposals	-	-	(2.2)	(2.2)
31 December 2002	**15.7**	**3.6**	**8.4**	**27.7**

As of 31 December 2001, the Company owned 1,123,241 depository certificates representing an economic interest in Class A shares of Equant N. V., a subsidiary of SITA (Societe Internationale de Telecommunications Aeronautiques) providing communication services to various international airlines. The certificates were distributed free of charge to participating airlines proportionally to their use of SITA services during the period 1990 – 1994. The Company reflected its investments in the depository certificates at cost (nil) in the consolidated balance sheet as of 31 December 2001, as those deposits did not have a quoted market price in an active market and their fair value could not be reliably measured.

In 2001 SITA was reorganized by merging with France Telecom. Reorganization provided for an exchange of shares of SITA and its subsidiaries for shares of France Telecom. Under this reorganization, the depository certificates of Equant N.V. were exchanged for 511,992 shares of France Telecom. The Company reflects its investments in France Telecom at fair value (market value) in the consolidated balance sheet. The market value of France Telecom shares as of 31 December 2001 quoted at Paris Stock Exchange was EUR 44.9 per share, or $41.3 and as of 31 December 2002 quoted at Paris Stock Exchange was EUR 14.45 per share, or $ 15.17 . Refer also to Note 10.

In 2002, the Company increased its share from the OAO Insurance company "Moscow" from 14.9% as of 31 December 2001 to 94.9%. OAO Insurance company "Moscow" provides insurance services to the Company.

16. Property, Plant and Equipment, Net

	Owned aircraft and engines $ million	Leased aircraft and engines $ million	Land and buildings $ million	Plant, equipment and other $ million	Assets under construction (i) $ million	Total $ million
Cost or valuation						
31 December 2000	479.2	631.6	143.9	189.9	21.9	1,466.5
Additions	30.6	-	0.2	11.1	15.4	57.3
Capitalised overhaul costs	16.4	8.5	-	-	-	24.9
Transfers	-	-	9.5	0.6	(10.1)	-
Disposals	(20.4)	-	(3.2)	(9.1)	-	(32.7)
31 December 2001	505.8	640.1	150.4	192.5	27.2	1,516.0
Additions	12.6	-	-	1.3	16.5	30.4
Capitalised overhaul costs	12.5	17.5	-	-	-	30.0
Transfers	-	-	6.0	8.9	(14.9)	-
Disposals (ii)	(27.4)	(328.1)	(5.2)	(14.3)	-	(375.0)
31 December 2002	503.5	329.5	151.2	188.4	28.8	1,201.4
Depreciation						
31 December 2000	(313.3)	(223.4)	(33.0)	(95.0)	-	(664.7)
Charge for the year	(46.6)	(31.4)	(6.9)	(19.5)	-	(104.4)
Disposals	14.7	-	0.7	6.5	-	21.9
31 December 2001	(345.2)	(254.8)	(39.2)	(108.0)	-	(747.2)
Charge for the year	(46.0)	(33.8)	(6.7)	(20.5)	-	(107.0)
Disposals (ii)	24.6	81.8	1.2	14.0	-	121.6
31 December 2002	(366.6)	(206.8)	(44.7)	(114.5)	-	(732.6)
Net book amount						
31 December 2002	**136.9**	**122.7**	**106.5**	**73.9**	**28.8**	**468.8**
31 December 2001	**160.6**	**385.3**	**111.2**	**84.5**	**27.2**	**768.8**

As of 31 December 2002 and 2001 fixed assets, principally Russian aircraft and engines, of approximately $11.4 million and $12.3 million, respectively, were pledged as collateral under short-term loan agreements.

i) Assets under construction include capital expenditures made by the Company under Sheremetevo-3 terminal construction project. Capital expenditures as of 31 December 2002 and 2001 amount to $13.2 million and $10.3 million, respectively, and mainly relate to construction site preparation works. Capital expenditures in 2002 related to the project amounted to $2.9 million.

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

17. Acounts Payable and Accrued Liabilities

	31 December 2002 $ million	31 December 2001 $ million
Trade payables and accruals (i)	164.9	179.8
Profit and other taxes payable	48.0	73.7
Deferred revenue	54.9	51.5
Accrued expenses	21.7	19.8
Wages and social contributions payable	15.4	15.8
Other payables	6.3	13.9
Notes payable	2.1	13.0
Advances received	11.0	9.0
Frequent flyer program liability (ii)	6.3	4.6
Dividends payable	0.3	0.9
	330.9	**382.0**

i) As of 31 December 2002 the Group had payables to a Russian creditor in the amount of $56.1 million. This creditor was liquidated in 2000. Another entity was established to perform the functions of the liquidated entity. Part of the amount previously payable to the liquidated entity in the amount of $16.2 million was claimed by the new entity and the relevant agreements with respect to the change of the creditor was signed.

Currently, it is uncertain whether other amounts payable to the liquidated entity will be claimed by the newly established entity and in what amount. Management of the Company believes that the new entity is not a legal successor of the liquidated entity. In this case the Company's liabilities mentioned above may be significantly lower than the accounts payable reflected in the consolidated balance sheet as of 31 December 2002. The adjustments (if any) in respect to this uncertainty will be made in the financial statements when the outcome of the issue is known.

The major portion of the above mentioned payables originated before 1999. As of 31 December 2001 the balance outstanding was $59.3 million. Based on the analysis of the situation as of 31 December 2002, management has included payables to the newly established entity of $5.5 million in current trade payables and accruals and the remaining portion of payables amounting to $50.6 million – in non-current accounts payable and accrued liabilities.

ii) The Company introduced a frequent flyer program "Aeroflot Bonus" in 1999. As of 31 December 2002 and 2001 approximately 177,000 and 111,000 of passengers, respectively, participated in the program. Frequent flyer program liability as of 31 December 2002 and 2001 represents incremental costs, which are included in sales and marketing expenses, associated with providing free transportation under "Aeroflot Bonus".

18. Non-current Accounts Payable and Accrued Liabilities

	31 December 2002 $ million	31 December 2001 $ million
Contingent provisions	31.7	32.0
Non-current accounts payable and accrued liabilities	65.6	51.3
	97.3	**83.3**

Included in non-current accounts payable and accrued liabilities as of 31 December 2002 and 2001 is the long-term portion of a payable to a Russian creditor in the amount of $50.6 and $43.1 million, respectively, as described in Note 17 to the consolidated financial statements.

19. Short-term Borrowings

	31 December 2002 $ million	31 December 2001 $ million
Bonds payable in Rubles (i)	28.5	20.0
Loans and credit lines in USD		
Moscow Narodny Bank Ltd. (ii)	50.0	40.0
Syndicated loan provided by Raiffeisenbank Austria, Kommerzbank (Eurasijia) and Citibank (Moscow) (iii)	-	27.7
Savings Bank of the Russian Federation (iv)	17.0	-
Loans and credit lines in Rubles		
Savings Bank of the Russian Federation (v)	10.9	31.5
Trust Investment Bank (vi)	-	5.0
Petrocommerzbank (vii)	-	3.3
Guta Bank (viii)	-	2.1
Other	3.3	1.5
	109.7	**131.1**

i) In March 2002 the Company issued 1,000,000 bonds at a par value of 1,000 Rubles per bond with maturity 728 days. Bonds were traded in the Moscow Interbank Currency Exchange. The Bonds effective interest was 17.9 percent per annum. Interest is payable semi-annually. Bonds are putable to the Company at the coupon payment date at the request of the bondholder. Interest accrued as of 31 December 2002 amounting to $1.5 million is included in accrued expenses.

ii) The balance comprises one credit line and two loans. One credit line amounting to $40 million bears interest at LIBOR + 4.25 percent per annum and two loans amounting to $5 million each bear interest at 7.50 and 7.75 percent per annum, respectively. The credit line effective rate for 2002 was 6.03 percent.

iii) The loan was repaid in August 2002. The effective interest rate for 2002 was 6.55 percent.

iv) The amount represents a balance due under a revolving credit line with a limit of $27 million. The amount due is payable by June 2004 and bears interest at LIBOR + 4 percent per annum. The effective interest rate for 2002 was 5.4 percent. Fixed assets of $11.4 million are pledged as collateral under this loan agreement as disclosed in Note 16.

v) Loan stated as of 31 December 2001 bears interest at 17 percent per annum. The loan was repaid in 2002 on maturity. The balance as of 31 December 2002 consists of one non-revolving secured credit line amounting to $8.4 million (with limit up to $18.4 million) and secured loan amounting to $2.5 million. Credit line and loan bear interest at 17 percent per annum each. Both credit line and loan have been repaid subsequent to year-end on maturity. Fixed assets of $11.4 million are pledged as collateral under these credit line and loan agreements as disclosed in Note 16.

vi) Unsecured loan bearing interest at 20 percent per annum was repaid in 2002 on maturity.

vii) Unsecured loan bearing interest at 20 percent per annum was repaid in 2002 on maturity.

viii) In 2001 the Company was granted an unsecured overdraft loan with a limit of Rbl 100 million ($3.3 million at the exchange rate as of 31 December 2001). As of 31 December 2001, the balance drawn under this facility was $2.1 million payable in 2002 and bearing interest of 15 percent per annum.

20. Finance Leases Payable

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

	31 December 2002 $ million	31 December 2001 $ million
Total outstanding payments	143.1	525.1
Finance charge	(8.0)	(136.2)
Principal outstanding	**135.1**	**388.9**
Representing:		
Short-term lease payable	21.3	49.5
Long-term lease payable	113.8	339.4
Due for repayment (principal and finance charge):		
Within one year	25.6	83.0
Between:		
one and two years	117.5	77.7
two and three years	-	79.2
three and four years	-	63.9
four and five years	-	59.4
five and ten years	-	161.9
after ten years	-	-
	143.1	**525.1**

Interest unpaid at 31 December 2002 and 2001 was approximately $0.4 million and $3.3 million, respectively, and has been included in accrued expenses. In 2002 the effective interest rate on these leases approximated 6%.

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

In December 2002 the Company sold and leased back ten aircraft Boeing 737-400. This resulted in reduction of finance lease payable as of 31 December 2002 as compared to those as of 31 December 2001.

21. Minority Interest

	31 December 2002 $ million	31 December 2001 $ million
Beginning balance	7.6	7.0
Minority interest share of net income	2.0	1.7
Minority interest dividends	(1.7)	(1.1)
	7.9	**7.6**

22. Share Capital

	Number of shares authorised, issued and outstanding	Book amount $ million
Ordinary shares of one Russian Ruble each:		
As of 31 December 2002 and 2001	**1,110,616,299**	**51.6**

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

The Company launched its Level 1 Global Depositary Receipts (GDR) programme in December 2000. The Company signed a depositary agreement with Deutsche Bank Group which allowed the Company's shareholders to swap their shares into GDRs, which trade over-the-counter in US and European markets. The swap ratio was established at 100 shares per GDR, and totalled 20% of the Company's share capital. In 2001, the Company's GDRs were listed on the NEWEX (New Europe Exchange) stock exchange in Vienna. The Company's GDRs were traded at approximately Euro 32.08 (or $37.98 at the exchange rate at that date) as of June 16, 2003.

23. Retained Earnings

The distributable reserves of the Group comprise only the distributable reserves of the parent company. Furthermore, the statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit. For the years ended 31 December 2002 and 2001, the statutory profit for the Company as reported in the published annual statutory financial statements was 3,198 million and 1,314 million Russian Rubles, respectively. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

For the years ended 31 December 2002 and 2001 the shareholders of the Company have approved dividends totalling 322.1 million Russian Rubles ($10.1 million at the 2002 year-end exchange rate) and 66.6 million Russian Rubles (approximately $2.2 million at the 2001 year-end exchange rate), respectively.

In accordance with IAS 10 (revised 1999) "Events after the balance sheet date", dividends for 2002, which were declared and approved subsequently to 31 December 2002, have not been accrued in the consolidated financial statements for the year ended 31 December 2002. They will be recorded in the consolidated statement of shareholders' equity for the year ending 31 December 2003.

24. Segment Information

Reporting format – business segments

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

Year ended 31 December 2001	Airline $ million	Catering $ million	Hotels $ million	Other $ million	Eliminations $ million	Group $ million
External sales	1,534.3	14.5	9.2	-	-	1,558.0
Intra segment sales	0.7	35.5	4.6	-	(40.8)	-
Total revenue	1,535.0	50.0	13.8	-	(40.8)	1,558.0
Operating profit	32.0	7.1	1.0	-	-	40.1
Interest expense	(44.6)	-	(3.4)	-	3.1	(44.9)
Interest income	6.8	-	-	-	(3.1)	3.7
Share of income in associates	-	-	1.0	5.3	-	6.3
Foreign exchange	2.3	(0.1)	(0.5)	-	-	1.7
and translation income (loss), net						
Non-operating income						
(loss), net	8.4	0.1	(0.2)	-	(4.5)	3.8
Income (loss) before tax	4.9	7.1	(2.1)	5.3	(4.5)	10.7
Taxation	1.8	(2.5)	14.6	(2.8)	-	11.1
Income after tax	6.7	4.6	12.5	2.5	(4.5)	21.8
Minority interest						(1.7)
Net income						20.1
Segment assets	1,052.6	11.4	35.0	-	-	1,099.0
Associates	-	-	6.1	7.1	-	13.2
Consolidated total assets						1,112.2
Segment liabilities	1,005.9	10.5	10.5	-	-	1,026.9
Capital expenditure	81.1	0.9	0.2	-	-	82.2
Depreciation	98.1	1.0	5.3	-	-	104.4

The Group is organised into three main segments:

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

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

25. Commitments Under Operating Leases

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

	31 December 2002 $ million	31 December 2001 $ million
Within one year	114.2	95.7
Between:		
one and two years	118.6	91.9
two and three years	111.1	80.4
three and four years	60.2	56.5
four and five years	60.2	48.7
after five years	244.9	29.1
Total minimum payments	**709.2**	**402.3**

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

In December 2002 the Company committed to a restructuring of its fleet (refer also to Note 26). This resulted in an increase in future minimum lease payments under non-cancellable operating leases as of 31 December 2002 as compared to those as of 31 December 2001.

26. Foreign Fleet Restructuring

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

i) In December 2002 the Company sold and leased back ten Boeing 737-400 aircraft . The sale and leaseback resulted in an eighteen-month operating lease.

ii) In December 2002 the Company committed to sell and lease back in July-December 2004 four Airbus A-310 aircraft which are currently under finance lease.

iii) In November 2002 the Company committed to purchase six Airbus A-319 aircraft and two Airbus A-320 aircraft (including engines) in 2003–2004. The purchase price for each Airbus A-319 and Airbus A-320 aircraft (including engines) approximates $36.7 million and $40.7 million, respectively. In December the Company made a prepayment in the amount of $31.5 million. The Company plans to obtain long-term financing from a consortium of foreign banks to fund this acquisition (refer also to Note 28).

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

v) In December 2002 the Company committed to enter into an operating lease in 2004 for six Airbus A-319/320 aircraft for a period of ten years.

vi) In December 2002 the Company committed to enter into an operating lease in August 2003 for three Boeing 767-300 ER aircraft for a period of six years.

As a result of this restructuring by the end of 2004 foreign fleet will consist of eighteen Airbus A-320/319 aircraft and nine Boeing 767 aircraft. The Company will also have purchase rights for up to twenty Airbus A-320/319 aircraft in 2005–2007.

27. Contingent Liabilities

Political environment

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

Taxation

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

Currency control

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

Legal

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

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

ii) The Company was sued by a US-based company which provided consulting services related to the Company's commercial activity in Middle Asia for breach of payment terms for consulting fees due. A decision made by Stockholm Arbitrary Court in November 2002 obliged the Company to pay $17.1 million. The Company has appealed against the court's decision. In May 2003 New York primary court issued an order to allow execution of the decision made by the Stockholm Arbitrary court on the territory of the USA. As a result, was the case not settled by 26 June 2003, the Company's assets located in the USA could be arrested. Management of the Group believes that there is no valid agreement between the Company and the consultant and thus, no basis for settlement. However in the circumstances management has agreed to settle the case and has made provision in full for the amount as of 31 December 2002.

iii) The Group is a defendant in various other legal actions. The maximum extent of the exposure as of 31 December 2002 is approximately $2.7 million. Management has made its best assessment of the likely outcome of the claims outstanding and made a provision amounting to $0.7 million thousand as of 31 December 2002.

iv) In 1997–1998 the Company was charged by the Federal Aviation Service (FAS) for aeronautical services at 50% discount as was agreed by the parties. In 2001 the legal successor of FAS (GOVD) claimed application by FAS of 50% discount in 1997–1998 to be void as contradicting Russian legislation and invoiced the Company for Rubles 200 million (approximately $6.3 million at 2002 year-end exchange rate) for underpaid amounts during 1997–1998 and interest accrued as of 31 December 2002. In the opinion of the management, after taking appropriate legal advise, GOVD arguments are not justifiable until proven in court. Currently GOVD did not take this case to the court. Management believes that it is not likely that any significant settlement will arise and therefore no amount has been accrued in the consolidated financial statements.

28. Subsequent Events

Subsequent to year-end the following events have occurred:

i) In April 2003, the Company sold eight Ilyushin IL-62M aircraft together with sixty-five related engines and fifteen auxiliary units for $3.2 million. The net book value of these aircraft, related engines and auxiliary units as of 31 December 2002 is $3.7 million.

ii) In 2003, there has been an outbreak of Severe Acute Respiratory Syndrome (SARS). At the time of this report, the outbreak has been largely concentrated in Asia, although cases have been confirmed in, among other locations, the United States and Canada. The Company's regular operations in Middle East and South East Asia region were disrupted as a result of the outbreak and regular traffic decreased by 20.7% and international charter traffic decreased by 15.1% in April 2003 comparing to April 2002. At this time SARS would primarily have an adverse impact on the Company's Asia operations; however, the significant spread of SARS beyond Asia could have an adverse impact on all of the Company's operations.

iii) In May 2003 the Company signed a term sheet with Export Credit Agency ("ECA") for long-term financing of the purchase of six Airbus A319-100 and two Airbus A320-200 aircraft each equipped with "CFM" engines (refer also to note 26). The loan will be provided for twelve-year period by consortium of banks: BNP Paribas, Citigroup and WestLandesBank. The loan will bear interest at LIBOR or Euribor plus 0.20% and 0.30% per annum. The total ECA loan amount shall be up to eighty–five percent of the aircraft's cost. The aircraft delivery is scheduled within October 2003 – October 2004.

29. Intra Group Transactions

The financial statements of the Group include the following balances:

	31 December 2002 $ million	31 December 2001 $ million
Amounts receivable from non-consolidated subsidiaries and associated undertakings	1.8	3.2
Amounts payable to non-consolidated subsidiaries and associated undertakings	1.2	2.9

Income statement includes the following transactions with the Group companies:

	31 December 2002 $ million	31 December 2001 $ million
Sales to non-consolidated subsidiaries and associated undertakings	3.4	2.5
Purchases from non-consolidated subsidiaries and associated undertakings	41.5	24.0

Management believes that pricing of the transactions between group companies is based on normal business conditions.

30. Principal Subsidiary and Associated Undertakings

The principal subsidiary undertakings are:

Company name	Activity	Percentage held at 31 December 2002
ZAO "Sherotel"	Hotel	100.0 %
"Aeroflot's World"	Travel agency	99.9 %
OAO Insurance company "Moscow"	Insurance services	94.9 %
"Aeroflot Garant"	Non-governmental pension fund	81.1 %
ZAO "Aeromar"	Catering	51.0 %
ZAO "Aeroflot-Don"	Airline	51.0 %
ZAO "Aeroservice"	Transportation and courier services	51.0 %

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

The principal associated undertakings are:

Company name	Activity	Percentage held at 31 December 2002
ZAO "Airport Moscow"	Cargo handling	50.0 %
ZAO "Aerofirst"	Trading	33.3 %
ZAO "TZK"	Fuel trading company	31.0 %
OOO "Aeroimp"	Hotel	25.0 %

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

All companies listed above are incorporated in the Russian Federation.

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Short Glossary

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Short Glossary of Terms and Abbreviations

Available tonne-kilometers — Measure of work capacity, calculated by multiplying available load capacity (for cargo, mail or passengers) on each stage of a flight by the length of the stage.

BoD — Board of Directors.

FCSM — Federal Commission for the Securities Market (Russian government body with responsibility for securities market regulation).

Free Float — The portion of total stock of an issuer which is regularly bought and sold on the open market.

Global Depository Receipt (GDR) — Certificate of deposition of an issuer's shares, allowing indirect trading of the shares beyond the country where the shares circulate. Creation of GDRs can give an issuer simultaneous access to several major capital markets.

ICAO — International Civil Aviation Organization.

Load factor — Ratio of actual carrying in tonne-kilometers to total available carrying capacity in tonne kilometers.

Market capitalization — Total market value of the shares of a company.

MICEX — Moscow Inter-bank Currency Exchange.

Passenger-kilometer (pkm) — Carrying of one passenger over a distance of one kilometer.

RTS — Russian Trading System.

Seat occupancy — Passengers carried multiplied by the distance flown (actual pkm) as percentage of total seat numbers multiplied by distance flown (maximum possible pkm).

Tonne-kilometer (tkm) — Carrying of one tonne of load (cargo, mail, or passengers, treating one passenger as equivalent to 90 kilograms) over a distance of one kilometer.