



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

**Condensed Consolidated Interim Financial Statements**  
as at and for the three- and nine-month periods ended 30 September 2011

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## OJSC AEROFLOT – RUSSIAN AIRLINES

Statement of Management's Responsibilities for the Preparation  
and Approval of the Condensed Consolidated Interim Financial Statements  
as at and for the three- and nine-month periods ended 30 September 2011



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

Management is responsible for the preparation of condensed consolidated interim financial statements in accordance with IAS 34 *Interim Financial Reporting*.

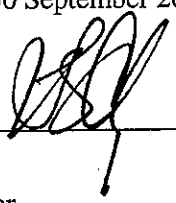
In preparing the condensed consolidated interim financial statements, management is responsible for:

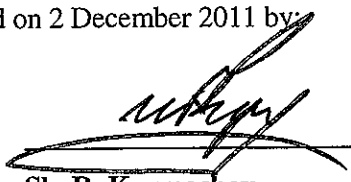
- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been complied with, subject to any material departures being disclosed and explained in the condensed consolidated interim financial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

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the condensed consolidated interim financial statements of the Group are prepared in accordance with IAS 34 *Interim Financial Reporting*;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The condensed consolidated interim financial statements as at and for the three- and nine-month periods ended 30 September 2011 were approved on 2 December 2011 by:

  
V. G. Saveliev  
General Director

  
Sh. R. Kurmashov  
Deputy General Director  
Finance and Investment



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## **Independent Auditors' Report**

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

### ***Introduction***

We have reviewed the accompanying condensed consolidated interim statement of financial position of Open Joint Stock Company Aeroflot – Russian Airlines (the “Company”) and its subsidiaries (the “Group”) as at 30 September 2011, and the related condensed consolidated interim statements of income and comprehensive income for the three- and nine-month periods then ended, condensed consolidated interim statements of changes in equity and cash flows for the nine-month period then ended (the “condensed consolidated interim financial information”). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### ***Scope of Review***

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information as at 30 September 2011 and for the three- and nine-month periods then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

**ZAO KPMG**

ZAO KPMG  
2 December 2011

**OJSC AEROFLOT – RUSSIAN AIRLINES**

Condensed Consolidated Interim Statements of Income  
for the three- and nine-month periods ended 30 September 2011  
(All amounts in millions of US dollars)



|                                                                 | Notes | Three-month period ended<br>30 September |                | Nine-month period ended<br>30 September |                  |
|-----------------------------------------------------------------|-------|------------------------------------------|----------------|-----------------------------------------|------------------|
|                                                                 |       | 2011                                     | 2010           | 2011                                    | 2010             |
| Traffic revenue                                                 | 5     | 1,338.0                                  | 1,141.5        | 3,266.3                                 | 2,731.5          |
| Other revenue                                                   | 6     | 237.5                                    | 164.0          | 653.1                                   | 428.3            |
| <b>Revenue</b>                                                  |       | <b>1,575.5</b>                           | <b>1,305.5</b> | <b>3,919.4</b>                          | <b>3,159.8</b>   |
| Operating costs                                                 | 7     | (1,059.1)                                | (815.8)        | (2,780.4)                               | (2,105.2)        |
| Staff costs                                                     | 8     | (210.5)                                  | (169.1)        | (631.3)                                 | (477.1)          |
| Depreciation and amortisation                                   | 16,17 | (57.6)                                   | (45.3)         | (164.5)                                 | (136.6)          |
| Other income/(expenses), net                                    | 10    | 11.1                                     | 33.4           | 120.9                                   | 26.9             |
| <b>Operating costs</b>                                          |       | <b>(1,316.1)</b>                         | <b>(996.8)</b> | <b>(3,455.3)</b>                        | <b>(2,692.0)</b> |
| <b>Operating profit</b>                                         |       | <b>259.4</b>                             | <b>308.7</b>   | <b>464.1</b>                            | <b>467.8</b>     |
| Finance income                                                  | 9     | 2.9                                      | 9.5            | 208.1                                   | 13.8             |
| Finance costs                                                   | 9     | (219.8)                                  | 6.7            | (189.1)                                 | (117.8)          |
| Share of results of equity accounted investments                |       | 1.0                                      | 6.7            | 0.8                                     | 10.0             |
| <b>Profit before income tax</b>                                 |       | <b>43.5</b>                              | <b>331.6</b>   | <b>483.9</b>                            | <b>373.8</b>     |
| Income tax                                                      | 11    | (36.6)                                   | (68.2)         | (100.2)                                 | (92.9)           |
| <b>Profit for the period</b>                                    |       | <b>6.9</b>                               | <b>263.4</b>   | <b>383.7</b>                            | <b>280.9</b>     |
| <i>Attributable to:</i>                                         |       |                                          |                |                                         |                  |
| Shareholders of the Company                                     |       | 38.0                                     | 251.3          | 395.6                                   | 301.9            |
| Non-controlling interest                                        |       | (31.1)                                   | 12.1           | (11.9)                                  | (21.0)           |
|                                                                 |       | <b>6.9</b>                               | <b>263.4</b>   | <b>383.7</b>                            | <b>280.9</b>     |
| <b>Basic earnings per share (US cents)</b>                      |       | <b>3.8</b>                               | <b>24.4</b>    | <b>39.5</b>                             | <b>29.3</b>      |
| <b>Diluted earnings per share</b>                               |       | <b>3.7</b>                               | <b>24.4</b>    | <b>38.8</b>                             | <b>29.3</b>      |
| <b>Weighted average number of shares outstanding (millions)</b> |       | <b>1,002.4</b>                           | <b>1,029.6</b> | <b>1,000.9</b>                          | <b>1,029.6</b>   |

  
V. G. Saveliev  
General Director

  
Sh. R. Kurmashov  
Deputy General Director  
Finance and Investment

The condensed consolidated interim statements of income should be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 37.

**OJSC AEROFLOT – RUSSIAN AIRLINES**

Condensed Consolidated Interim Statements of Comprehensive Income  
for the three- and nine-month periods ended 30 September 2011

(All amounts in millions of US dollars)



|                                                                 | Notes | Three-month period ended<br>30 September |               | Nine-month period ended<br>30 September |               |
|-----------------------------------------------------------------|-------|------------------------------------------|---------------|-----------------------------------------|---------------|
|                                                                 |       | 2011                                     | 2010          | 2011                                    | 2010          |
| <b>Profit for the period</b>                                    |       | <b>6.9</b>                               | <b>263.4</b>  | <b>383.7</b>                            | <b>280.9</b>  |
| <b>Other comprehensive income:</b>                              |       |                                          |               |                                         |               |
| Loss on revaluation of available-<br>for-sale investments       |       | -                                        | (6.4)         | -                                       | (8.6)         |
| Exchange differences on<br>translating to presentation currency |       | (201.6)                                  | 25.3          | (92.8)                                  | (8.5)         |
| Deferred tax benefit                                            | 11    | 8.5                                      | 11.0          | 6.8                                     | 7.7           |
| Loss on hedge instrument                                        | 18    | (44.7)                                   | (48.7)        | (28.0)                                  | (30.1)        |
| <b>Other comprehensive<br/>income/(loss) for the period</b>     |       | <b>(237.8)</b>                           | <b>(18.8)</b> | <b>(114.0)</b>                          | <b>(39.5)</b> |
| <b>Total comprehensive<br/>income/(loss) for the period</b>     |       | <b>(230.9)</b>                           | <b>244.6</b>  | <b>269.7</b>                            | <b>241.4</b>  |
| <b>Total comprehensive income<br/>attributable to:</b>          |       |                                          |               |                                         |               |
| Shareholders of the Company                                     |       | (197.0)                                  | 232.4         | 281.0                                   | 263.0         |
| Non-controlling interest                                        |       | (33.9)                                   | 12.2          | (11.3)                                  | (21.6)        |

The condensed consolidated interim statements of comprehensive income should be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 37.

**OJSC AEROFLOT – RUSSIAN AIRLINES**

Condensed Consolidated Interim Statement of Financial Position  
as at 30 September 2011

(All amounts in millions of US dollars)



|                                                                                    | Notes | 30 September<br>2011 | 31 December<br>2010 |
|------------------------------------------------------------------------------------|-------|----------------------|---------------------|
| <b>ASSETS</b>                                                                      |       |                      |                     |
| <b>Current assets</b>                                                              |       |                      |                     |
| Cash and cash equivalents                                                          |       | 545.4                | 660.4               |
| Short-term investments                                                             |       | 13.8                 | 5.4                 |
| Accounts receivable and prepayments                                                | 12    | 1,328.1              | 924.0               |
| Aircraft lease deposits                                                            |       | -                    | 0.4                 |
| Expendable spare parts and inventories                                             | 13    | 86.2                 | 87.1                |
| Assets of disposal group classified as held for sale                               |       | -                    | 71.5                |
|                                                                                    |       | <u>1,973.5</u>       | <u>1,748.8</u>      |
| <b>Non-current assets</b>                                                          |       |                      |                     |
| Equity accounted investments                                                       |       | 7.4                  | 27.6                |
| Long-term investments                                                              |       | 3.9                  | 3.7                 |
| Aircraft lease deposits                                                            |       | 1.8                  | 1.8                 |
| Deferred tax assets                                                                | 11    | 42.1                 | 32.3                |
| Other non-current assets                                                           | 14    | 158.5                | 240.7               |
| Prepayments for aircraft                                                           | 15    | 405.4                | 235.9               |
| Property, plant and equipment                                                      | 16    | 2,165.7              | 2,188.0             |
| Intangible assets                                                                  | 17    | 44.2                 | 40.6                |
| Goodwill                                                                           |       | 6.2                  | 6.5                 |
|                                                                                    |       | <u>2,835.2</u>       | <u>2,777.1</u>      |
| <b>TOTAL ASSETS</b>                                                                |       | <u>4,808.7</u>       | <u>4,525.9</u>      |
| <b>LIABILITIES AND EQUITY</b>                                                      |       |                      |                     |
| <b>Current liabilities</b>                                                         |       |                      |                     |
| Accounts payable and accrued liabilities                                           | 19    | 821.6                | 708.5               |
| Unearned transportation revenue                                                    |       | 245.6                | 225.9               |
| Deferred revenue related to frequent flyer programme                               | 20    | 8.9                  | 8.0                 |
| Provisions                                                                         |       | 10.1                 | 10.0                |
| Short-term borrowings                                                              | 21    | 134.3                | 62.4                |
| Finance lease liabilities                                                          | 23    | 125.2                | 103.8               |
| Liabilities associated with assets of a disposal group classified as held for sale |       | -                    | 112.6               |
|                                                                                    |       | <u>1,345.7</u>       | <u>1,231.2</u>      |
| <b>Non-current liabilities</b>                                                     |       |                      |                     |
| Long-term borrowings                                                               | 22    | 1,237.5              | 1,250.8             |
| Finance lease liabilities                                                          | 23    | 715.0                | 630.1               |
| Provisions                                                                         |       | 4.7                  | 5.2                 |
| Deferred tax liabilities                                                           | 11    | 31.5                 | 54.0                |
| Deferred revenue related to frequent flyer programme                               | 20    | 31.7                 | 31.3                |
| Derivative instruments                                                             |       | 48.9                 | 11.8                |
| Other non-current liabilities                                                      | 24    | 77.1                 | 156.6               |
|                                                                                    |       | <u>2,146.4</u>       | <u>2,139.8</u>      |
| <b>Equity</b>                                                                      |       |                      |                     |
| Share capital                                                                      | 25    | 51.6                 | 51.6                |
| Treasury stock                                                                     | 25    | (183.5)              | (107.1)             |
| Accumulated gain on disposal of treasury shares                                    |       | 34.7                 | 28.0                |
| Cumulative translation reserve                                                     |       | (249.2)              | (155.8)             |
| Hedge reserve                                                                      |       | (25.5)               | (4.3)               |
| Share based payment reserve                                                        |       | 10.7                 | 12.7                |
| Retained earnings                                                                  |       | 1,661.8              | 1,302.5             |
| <b>Equity attributable to shareholders of the Company</b>                          |       | <u>1,300.6</u>       | <u>1,127.6</u>      |
| Non-controlling interest                                                           |       | 16.0                 | 27.3                |
| <b>Total equity</b>                                                                |       | <u>1,316.6</u>       | <u>1,154.9</u>      |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                                |       | <u>4,808.7</u>       | <u>4,525.9</u>      |

The condensed consolidated interim statement of financial position should be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 37.

**OJSC AEROFLOT – RUSSIAN AIRLINES**

Condensed Consolidated Interim Statement of Cash Flows  
for the nine-month period ended 30 September 2011  
(All amounts in millions of US dollars)



|                                                                                                      | Notes | Nine-month<br>period ended<br>30 September<br>2011 | Nine-month<br>period ended<br>30 September<br>2010 |
|------------------------------------------------------------------------------------------------------|-------|----------------------------------------------------|----------------------------------------------------|
| <b>Cash flows from operating activities:</b>                                                         |       |                                                    |                                                    |
| Profit before income tax                                                                             |       | 483.9                                              | 373.8                                              |
| <i>Adjustments to reconcile profit before taxation to net cash provided by operating activities:</i> |       |                                                    |                                                    |
| Depreciation and amortisation                                                                        | 16,17 | 164.5                                              | 136.6                                              |
| Change in impairment allowance for doubtful debts                                                    | 12    | (0.9)                                              | (1.6)                                              |
| Accounts receivable write off                                                                        |       | 2.0                                                | 1.2                                                |
| Change in impairment allowance for obsolete inventory                                                |       | 1.1                                                | (4.3)                                              |
| Change in impairment of property, plant and equipment                                                |       | (2.2)                                              | (0.7)                                              |
| Loss related to assets held for sale                                                                 |       | 19.5                                               | -                                                  |
| Loss on disposal of property, plant and equipment                                                    |       | 5.7                                                | 1.6                                                |
| Loss on disposal of assets held for sale                                                             |       | -                                                  | 22.2                                               |
| Share of results in equity accounted investments                                                     |       | (0.8)                                              | (10.0)                                             |
| Gain on disposal of investments                                                                      | 9     | (199.3)                                            | (5.6)                                              |
| Change in tax and legal provisions                                                                   |       | (0.3)                                              | (1.2)                                              |
| Change in impairment on assets held for sale                                                         |       | -                                                  | (15.7)                                             |
| Interest expense                                                                                     | 9     | 97.1                                               | 108.0                                              |
| Net change in fair value of hedge instruments                                                        |       | 3.6                                                | -                                                  |
| Unrealised foreign exchange loss                                                                     | 9     | 88.4                                               | 9.8                                                |
| VAT write off                                                                                        | 10    | 0.6                                                | 12.9                                               |
| VAT recovery                                                                                         | 10    | (53.6)                                             | -                                                  |
| Share based payment reserve                                                                          | 28    | 4.5                                                | -                                                  |
| Custom duty recovery                                                                                 | 10    | (39.7)                                             | -                                                  |
| Other non-cash income                                                                                |       | (0.8)                                              | (0.8)                                              |
| <b>Operating profit before working capital changes</b>                                               |       | <b>573.3</b>                                       | <b>626.2</b>                                       |
| Change in accounts receivable and prepayments and other non-current assets                           |       | (254.3)                                            | (153.5)                                            |
| Change in expendable spare parts and inventories                                                     |       | (4.4)                                              | (1.5)                                              |
| Change in accounts payable and accrued liabilities                                                   |       | 275.9                                              | 116.1                                              |
|                                                                                                      |       | <b>590.5</b>                                       | <b>587.3</b>                                       |
| Income tax paid                                                                                      |       | (76.3)                                             | (7.7)                                              |
| Income tax received                                                                                  |       | -                                                  | 0.6                                                |
| <b>Net cash flows from operating activities</b>                                                      |       | <b>514.2</b>                                       | <b>580.2</b>                                       |
| <b>Cash flows from investing activities:</b>                                                         |       |                                                    |                                                    |
| Proceeds from sale of property, plant and equipment                                                  |       | 1.3                                                | 9.4                                                |
| Dividends received                                                                                   |       | 0.9                                                | 3.4                                                |
| Proceeds/(purchases) from sale of investments, net                                                   |       | (10.6)                                             | 8.6                                                |
| Proceeds from sale of subsidiary company net                                                         |       | 13.9                                               | -                                                  |
| Proceeds from sale of equity accounted investments                                                   |       | 80.6                                               | -                                                  |
| Predelivery lease (prepayments)/returns, net                                                         |       | (407.1)                                            | (66.1)                                             |
| Purchases of property, plant and equipment and intangible assets                                     |       | (67.3)                                             | (98.3)                                             |
| <b>Net cash flows used in investing activities</b>                                                   |       | <b>(388.3)</b>                                     | <b>(143.0)</b>                                     |

The condensed consolidated interim statement of cash flows should be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 37.

**OJSC AEROFLOT – RUSSIAN AIRLINES**Condensed Consolidated Interim Statement of Cash Flows  
for the nine-month period ended 30 September 2011*(All amounts in millions of US dollars)*

|                                                                 | Notes | Nine-month<br>period ended<br>30 September<br>2011 | Nine-month<br>period ended<br>30 September<br>2010 |
|-----------------------------------------------------------------|-------|----------------------------------------------------|----------------------------------------------------|
| <b><i>Cash flows from financing activities:</i></b>             |       |                                                    |                                                    |
| Proceeds from borrowings                                        |       | 257.8                                              | 1,064.4                                            |
| Sale of treasury stock                                          |       | 16.6                                               | 0.4                                                |
| Purchases of treasury stock                                     |       | (105.1)                                            | (95.2)                                             |
| Repayment of borrowing                                          |       | (195.6)                                            | (699.9)                                            |
| Repayment of the principal element of finance lease liabilities |       | (87.7)                                             | (82.9)                                             |
| Interest paid                                                   |       | (71.4)                                             | (96.9)                                             |
| Dividends paid                                                  |       | (36.2)                                             | (15.6)                                             |
| Settlement of a derivative instrument                           |       | 6.8                                                | -                                                  |
| <b>Net cash flows (used in)/from financing activities</b>       |       | <b>(214.8)</b>                                     | <b>74.3</b>                                        |
| Effect of exchange rate fluctuations                            |       | (26.1)                                             | (0.4)                                              |
| <b>Net (decrease)/increase in cash and cash equivalents</b>     |       | <b>(115.0)</b>                                     | <b>511.1</b>                                       |
| Cash and cash equivalents at the beginning of the period        |       | 660.4                                              | 121.1                                              |
| <b>Cash and cash equivalents at the end of the period</b>       |       | <b>545.4</b>                                       | <b>632.2</b>                                       |
| <b><i>Supplemental cash flow information:</i></b>               |       |                                                    |                                                    |
| Interest received                                               | 9     | 8.8                                                | 8.2                                                |
| <b><i>Non-cash investing and financing activities:</i></b>      |       |                                                    |                                                    |
| Property, plant and equipment acquired under finance leases     |       | 191.0                                              | -                                                  |

The condensed consolidated interim statement of cash flows should be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 37.

**OJSC AEROFLOT – RUSSIAN AIRLINES**

Condensed Consolidated Interim Statement of Changes in Equity  
for the nine-month period ended 30 September 2011  
(All amounts in millions of US dollars)



|                                             | Share capital | Treasury stock | Investment revaluation reserve | Cumulative translation reserve | Hedge accounting reserve | Share based payment reserve | Retained earnings | Attributable to shareholders of the Company | Non-controlling interest | Total          |
|---------------------------------------------|---------------|----------------|--------------------------------|--------------------------------|--------------------------|-----------------------------|-------------------|---------------------------------------------|--------------------------|----------------|
| <b>1 January 2010</b>                       | <b>51.6</b>   | <b>13.3</b>    | <b>6.4</b>                     | <b>(145.7)</b>                 | <b>-</b>                 | <b>-</b>                    | <b>1,037.0</b>    | <b>962.6</b>                                | <b>43.2</b>              | <b>1,005.8</b> |
| Profit/(loss) for the period                | -             | -              | -                              | -                              | -                        | -                           | 301.9             | 301.9                                       | (21.0)                   | 280.9          |
| Foreign currency translation for the period | -             | -              | -                              | (7.9)                          | -                        | -                           | -                 | (7.9)                                       | (0.6)                    | (8.5)          |
| Loss on investments available-for-sale      | -             | -              | (6.9)                          | -                              | -                        | -                           | -                 | (6.9)                                       | -                        | (6.9)          |
| Loss on hedging instrument                  | -             | -              | -                              | -                              | (24.1)                   | -                           | -                 | (24.1)                                      | -                        | (24.1)         |
| <b>Total comprehensive income</b>           |               |                |                                |                                |                          |                             |                   | <b>263.0</b>                                | <b>(21.6)</b>            | <b>241.4</b>   |
| Purchases of treasury stock                 | -             | (92.6)         | -                              | -                              | -                        | -                           | -                 | (92.6)                                      | -                        | (92.6)         |
| Dividends                                   | -             | -              | -                              | -                              | -                        | -                           | (12.9)            | (12.9)                                      | -                        | (12.9)         |
| <b>30 September 2010</b>                    | <b>51.6</b>   | <b>(79.3)</b>  | <b>(0.5)</b>                   | <b>(153.6)</b>                 | <b>(24.1)</b>            | <b>-</b>                    | <b>1,326.0</b>    | <b>1,120.1</b>                              | <b>21.6</b>              | <b>1,141.7</b> |
| <b>1 January 2011</b>                       | <b>51.6</b>   | <b>(79.1)</b>  | <b>-</b>                       | <b>(155.8)</b>                 | <b>(4.3)</b>             | <b>12.7</b>                 | <b>1,302.5</b>    | <b>1,127.6</b>                              | <b>27.3</b>              | <b>1,154.9</b> |
| Profit/(loss) for the period                | -             | -              | -                              | -                              | -                        | -                           | 395.6             | 395.6                                       | (11.9)                   | 383.7          |
| Foreign currency translation for the period | -             | -              | -                              | (93.4)                         | -                        | -                           | -                 | (93.4)                                      | 0.6                      | (92.8)         |
| Loss on hedging instrument                  | -             | -              | -                              | -                              | (21.2)                   | -                           | -                 | (21.2)                                      | -                        | (21.2)         |
| <b>Total comprehensive income</b>           |               |                |                                |                                |                          |                             |                   | <b>281.0</b>                                | <b>(11.3)</b>            | <b>269.7</b>   |
| Share based compensation                    | -             | -              | -                              | -                              | -                        | (1.5)                       | -                 | (1.5)                                       | -                        | (1.5)          |
| Gain on disposal of treasury stock          | -             | 6.7            | -                              | -                              | -                        | -                           | -                 | 6.7                                         | -                        | 6.7            |
| Purchases of treasury stock                 | -             | (79.9)         | -                              | -                              | -                        | -                           | -                 | (79.9)                                      | -                        | (79.9)         |
| Foreign currency translation for the period | -             | 3.5            | -                              | -                              | -                        | (0.5)                       | -                 | 3.0                                         | -                        | 3.0            |
| Dividends                                   | -             | -              | -                              | -                              | -                        | -                           | (36.3)            | (36.3)                                      | -                        | (36.3)         |
| <b>30 September 2011</b>                    | <b>51.6</b>   | <b>(148.8)</b> | <b>-</b>                       | <b>(249.2)</b>                 | <b>(25.5)</b>            | <b>10.7</b>                 | <b>1,661.8</b>    | <b>1,300.6</b>                              | <b>16.0</b>              | <b>1,316.6</b> |

The condensed consolidated interim statement of changes in equity should be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 37.

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### 1. NATURE OF THE BUSINESS

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

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

As at 30 September 2011 and 31 December 2010 the Government of the Russian Federation owned 51% of the Company. The Company’s headquarters are located in Moscow at 10 Arbat Street, 119002, Russian Federation.

The principal subsidiary companies are:

| Company name           | Place of incorporation and operation | Activity                      | 30 September 2011 | 31 December 2010 |
|------------------------|--------------------------------------|-------------------------------|-------------------|------------------|
| CJSC Sherotel          | Moscow region                        | Hotel                         | 100.00%           | 100.00%          |
| OJSC Insurance company |                                      |                               |                   |                  |
| Moscow                 | Moscow                               | Captive insurance services    | -                 | 100.00%          |
| OJSC Donavia           | Rostov-on-Don                        | Airline                       | 100.00%           | 100.00%          |
| CJSC Aeroflot-Cargo    | Moscow                               | Cargo transportation services | 100.00%           | 100.00%          |
| CJSC Nordavia          | Arkhangelsk                          | Airline                       | -                 | 100.00%          |
| LLC Aeroflot-Finance   | Moscow                               | Finance services              | 100.00%           | 100.00%          |
| OJSC Terminal          | Moscow region                        | Airport business              | 52.82%            | 52.82%           |
| CJSC Aeromar           | Moscow region                        | Catering                      | 51.00%            | 51.00%           |
| CJSC Aerofirst         | Moscow region                        | Trading                       | 66.67%            | 66.67%           |

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

| Company name          | Place of incorporation and operation | Activity             | 30 September 2011 | 31 December 2010 |
|-----------------------|--------------------------------------|----------------------|-------------------|------------------|
| LLC Airport Moscow    | Moscow region                        | Cargo handling       | 50.00%            | 50.00%           |
| CJSC AeroMASH – AB    | Moscow region                        | Aviation security    | 45.00%            | 45.00%           |
| CJSC TZK Sheremetyevo | Moscow region                        | Fuel trading company | -                 | 31.00%           |
| CJSC Jetalliance East | Moscow                               | Airline              | 49.00%            | 49.00%           |

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

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The table below provides information on the Group's aircraft fleet as at 30 September 2011:

| Type of aircraft             | Ownership       | Aeroflot -<br>Russian Airlines<br>(number) | Donavia<br>(number) | Group total<br>(number) |
|------------------------------|-----------------|--------------------------------------------|---------------------|-------------------------|
| Ilyushin Il-96-300           | Owned           | 6                                          | -                   | 6                       |
| Ilyushin Il-86               | Owned           | 1                                          | -                   | 1                       |
| Tupolev Tu-154               | Owned           | -                                          | 1                   | 1                       |
| <b>Total owned</b>           |                 | <b>7</b>                                   | <b>1</b>            | <b>8</b>                |
| Airbus A-319                 | Finance lease   | 4                                          | -                   | 4                       |
| Airbus A-320                 | Finance lease   | 1                                          | -                   | 1                       |
| Airbus A-321                 | Finance lease   | 18                                         | -                   | 18                      |
| Airbus A-330                 | Finance lease   | 2                                          | -                   | 2                       |
| Boeing 737                   | Finance lease   | -                                          | 5                   | 5                       |
| <b>Total finance lease</b>   |                 | <b>25</b>                                  | <b>5</b>            | <b>30</b>               |
| Sukhoi Superjet 100          | Operating lease | 2                                          | -                   | 2                       |
| Airbus A-319                 | Operating lease | 11                                         | -                   | 11                      |
| Airbus A-320                 | Operating lease | 42                                         | -                   | 42                      |
| Airbus A-330                 | Operating lease | 10                                         | -                   | 10                      |
| Boeing B-737                 | Operating lease | -                                          | 5                   | 5                       |
| Boeing B-767                 | Operating lease | 9                                          | -                   | 9                       |
| McDonnell Douglas MD-11      | Operating lease | 3                                          | -                   | 3                       |
| <b>Total operating lease</b> |                 | <b>77</b>                                  | <b>5</b>            | <b>82</b>               |
| <b>Total fleet</b>           |                 | <b>109</b>                                 | <b>11</b>           | <b>120</b>              |

## 2. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2010.

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

**Basis of presentation** – The condensed consolidated interim financial statements of the Group are prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements are presented in millions of US dollars ("USD"), except where specifically noted otherwise.

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

The Group maintains its accounting records in Russian roubles ("RUB") and in accordance with Russian accounting legislation and regulations. The accompanying condensed consolidated interim financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with International Financial Reporting Standards ("IFRS").

**Functional and presentation currency** – Since 1 January 2007 the functional currency of the Company is the Russian rouble. These condensed consolidated interim financial statements are

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presented in US dollar for the convenience of foreign users, including the major lessors.

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

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

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

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

|                                            | <u>Exchange rate</u> |
|--------------------------------------------|----------------------|
| As at 30 September 2011                    | 31.88                |
| Average: nine months to 30 September 2011  | 28.77                |
| As at 31 December 2010                     | 30.48                |
| Average: twelve months to 31 December 2010 | 30.37                |
| As at 30 September 2010                    | 30.40                |
| Average: nine months to 30 September 2010  | 30.25                |

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

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

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

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

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

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currently are exercisable.

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

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

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

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

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

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

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

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

**Foreign currency translation** – Transactions in currencies other than the functional currency are

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

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

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

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

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

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

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

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

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

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

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

An operating segment is a component of the Group that engages in business activities from which it

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

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

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

### (a) Fleet

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

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

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

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

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

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

(c) *Capital expenditure*

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

(d) *Gain or loss on disposal*

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

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

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

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

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

**Lease deposits** – Lease deposits represent amounts paid to the lessors of foreign aircraft, which are held as security deposits by lessors in accordance with the provisions of finance and operating lease agreements. These deposits are returned to the Group at the end of the lease period. Lease deposits relating to operating lease agreements are presented as assets in the consolidated statement of financial position. A portion of these deposits is interest-free. Interest-free deposits are recorded at amortised cost using an average market yield of 5.3%. Lease deposits that are part of finance lease arrangements are presented net as part of the finance lease liability.

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

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

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

(a) *Credit risks*

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

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

(b) *Fair value*

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

(c) *Foreign exchange risk*

In 2011 the Group mostly managed its foreign exchange risk by matching its assets and liabilities in the different currencies to limit exposure. However, a portion of its foreign exchange risk was managed through the use of hedging instruments (Note 18).

(d) *Interest rate risk*

The Group's main exposure to interest rate risk is from its finance lease liabilities and short-term borrowings. In 2011 the Group engaged in interest rate hedging activities to hedge its exposure to the changes in interest rates. The Group constantly monitors changes in interest rates to minimise the level of its exposure (Note 18).

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

The results of Group's operations can be significantly impacted by changes in the price of aircraft fuel. In 2010 the Group engaged in fuel hedging activities to hedge a portion of its non-financial risk related to fuel (Note 18). The Group does not use derivative instruments for speculative purposes.

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

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

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

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

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

In 2011 the Group held corporate and Government financial instruments primarily comprising shares and bonds. These are classified as held-for-trading investments. Gains and losses arising from changes in fair value of held-for-trading investments are recognised in the consolidated statement of income.

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

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

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

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

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

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

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

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

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

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

In accordance with IFRIC 13 *Customer Loyalty Programmes* accumulated but as yet unused bonus miles are deferred using the deferred revenue method to the extent that they are likely to be used on flights of Aeroflot Group. The fair value of miles accumulated on the Group's own flights is recognised under deferred revenue (Note 20), and the miles collected from third parties as well as promotional miles are recognised as other liabilities (Note 19 and Note 24).

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the asset is to be realised or the liability settled, based on tax rates that have been enacted or substantively enacted as at the reporting date. As at 30 September 2011 deferred tax assets and liabilities have been measured at 20%. Deferred tax is charged or credited to the consolidated statement of income, except when it relates to items credited or charged directly to other comprehensive income, in which case the deferred tax is dealt with in equity.

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

The Group also participates in a defined contribution plan, under which the Group has committed to contribute a certain percentage (15% to 20% in 2011) of the contribution made by employees choosing to participate in the plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred. Contributions are also made to the Government Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

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

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

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

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

**Earnings per share** – Earnings per share are calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

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

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**4. SIGNIFICANT ESTIMATES**

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

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

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

**Frequent flyer programme** – The Group has estimated the liability pertaining to air miles earned by Aeroflot Bonus programme (Note 3) members. The estimate has been made based on the statistical information available to the Group and reflects the expected air mile utilisation pattern after the reporting date multiplied by their assessed fair value.

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

**5. TRAFFIC REVENUE**

|                             | Three -month period ended<br>30 September |                | Nine -month period ended<br>30 September |                |
|-----------------------------|-------------------------------------------|----------------|------------------------------------------|----------------|
|                             | 2011                                      | 2010           | 2011                                     | 2010           |
| Scheduled passenger flights | 1,256.6                                   | 1,046.1        | 3,046.9                                  | 2,515.3        |
| Cargo                       | 68.9                                      | 74.3           | 184.7                                    | 178.4          |
| Charter passenger flights   | 12.5                                      | 21.1           | 34.7                                     | 37.8           |
|                             | <b>1,338.0</b>                            | <b>1,141.5</b> | <b>3,266.3</b>                           | <b>2,731.5</b> |

**6. OTHER REVENUE**

|                                 | Three-month period ended<br>30 September |              | Nine-month period ended<br>30 September |              |
|---------------------------------|------------------------------------------|--------------|-----------------------------------------|--------------|
|                                 | 2011                                     | 2010         | 2011                                    | 2010         |
| Airline revenue agreements      | 114.7                                    | 99.2         | 323.3                                   | 285.2        |
| Sales of duty free goods        | 40.3                                     | -            | 99.7                                    | -            |
| Refuelling services             | 27.8                                     | 9.5          | 52.6                                    | 22.4         |
| Aeroport services               | 22.3                                     | 20.0         | 50.6                                    | 28.3         |
| Catering services               | 7.3                                      | 4.6          | 17.2                                    | 9.5          |
| Ground handling and maintenance | 7.6                                      | 3.9          | 15.0                                    | 9.7          |
| Hotel revenue                   | 7.2                                      | 4.3          | 13.7                                    | 12.2         |
| Other revenue                   | 10.3                                     | 22.5         | 81.0                                    | 61.0         |
|                                 | <b>237.5</b>                             | <b>164.0</b> | <b>653.1</b>                            | <b>428.3</b> |

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**7. OPERATING COSTS**

|                                               | Three-month period ended<br>30 September |              | Nine-month period ended<br>30 September |                |
|-----------------------------------------------|------------------------------------------|--------------|-----------------------------------------|----------------|
|                                               | 2011                                     | 2010         | 2011                                    | 2010           |
| Aircraft and traffic servicing                | 195.6                                    | 167.5        | 525.6                                   | 416.3          |
| Operating lease expenses                      | 89.1                                     | 85.0         | 259.0                                   | 247.6          |
| Maintenance                                   | 73.9                                     | 76.3         | 221.0                                   | 202.3          |
| Sales and marketing                           | 72.0                                     | 56.3         | 167.1                                   | 126.5          |
| Administration and general expenses           | 51.9                                     | 40.9         | 140.0                                   | 102.4          |
| Passenger services                            | 49.5                                     | 50.9         | 127.3                                   | 107.7          |
| Communication expenses                        | 32.0                                     | 20.9         | 79.6                                    | 63.6           |
| Cost of duty free goods sold                  | 16.1                                     | -            | 47.3                                    | -              |
| Customs duties                                | 5.1                                      | 12.3         | 24.4                                    | 36.4           |
| Insurance expenses                            | 6.9                                      | 8.7          | 21.2                                    | 19.1           |
| Other expenses                                | 52.0                                     | 30.4         | 136.4                                   | 86.7           |
| <b>Operating cost excluding aircraft fuel</b> | <b>644.1</b>                             | <b>549.2</b> | <b>1,748.9</b>                          | <b>1,408.6</b> |
| Aircraft fuel                                 | 415.0                                    | 266.6        | 1,031.5                                 | 696.6          |
|                                               | <b>1,059.1</b>                           | <b>815.8</b> | <b>2,780.4</b>                          | <b>2,105.2</b> |

**8. STAFF COSTS**

|                       | Three-month period ended<br>30 September |              | Nine-month period ended<br>30 September |              |
|-----------------------|------------------------------------------|--------------|-----------------------------------------|--------------|
|                       | 2011                                     | 2010         | 2011                                    | 2010         |
| Wages and salaries    | 184.9                                    | 151.1        | 515.4                                   | 401.5        |
| Pension costs         | 19.0                                     | 10.5         | 87.5                                    | 54.7         |
| Social security costs | 6.6                                      | 7.5          | 28.4                                    | 20.9         |
|                       | <b>210.5</b>                             | <b>169.1</b> | <b>631.3</b>                            | <b>477.1</b> |

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

|                                   | Three-month period ended<br>30 September |             | Nine-month period ended<br>30 September |             |
|-----------------------------------|------------------------------------------|-------------|-----------------------------------------|-------------|
|                                   | 2011                                     | 2010        | 2011                                    | 2010        |
| Payments to the RFPPF             | 18.0                                     | 9.9         | 85.8                                    | 53.5        |
| Defined benefit pension plan      | 0.2                                      | 0.5         | 0.7                                     | 1.0         |
| Defined contribution pension plan | 0.8                                      | 0.1         | 1.0                                     | 0.2         |
|                                   | <b>19.0</b>                              | <b>10.5</b> | <b>87.5</b>                             | <b>54.7</b> |

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**9. FINANCE INCOME AND COSTS**

|                                                    | Three-month period ended<br>30 September |            | Nine-month period ended<br>30 September |                |
|----------------------------------------------------|------------------------------------------|------------|-----------------------------------------|----------------|
|                                                    | 2011                                     | 2010       | 2011                                    | 2010           |
| <i>Finance income:</i>                             |                                          |            |                                         |                |
| Interest income on bank deposits                   | 4.0                                      | 4.1        | 8.8                                     | 8.2            |
| Gain/(loss) on disposal of investments             | (1.1)                                    | 5.4        | 199.3                                   | 5.6            |
| <b>Finance income</b>                              | <b>2.9</b>                               | <b>9.5</b> | <b>208.1</b>                            | <b>13.8</b>    |
| <i>Finance costs:</i>                              |                                          |            |                                         |                |
| Interest expense on customs duty discounting       | 1.5                                      | (3.7)      | (0.6)                                   | (13.7)         |
| Loss on hedging instrument                         | (3.6)                                    | -          | (3.6)                                   | -              |
| Interest expense on finance lease liabilities      | (3.0)                                    | (2.7)      | (9.7)                                   | (9.1)          |
| Interest expense on short and long-term borrowings | (28.9)                                   | (28.5)     | (86.8)                                  | (85.2)         |
| Foreign exchange (loss)/gain                       | (185.8)                                  | 41.6       | (88.4)                                  | (9.8)          |
| <b>Finance costs</b>                               | <b>(219.8)</b>                           | <b>6.7</b> | <b>(189.1)</b>                          | <b>(117.8)</b> |

**10. OTHER INCOME/(EXPENSES), NET**

|                                           | Three-month period ended<br>30 September |             | Nine-month period ended<br>30 September |             |
|-------------------------------------------|------------------------------------------|-------------|-----------------------------------------|-------------|
|                                           | 2011                                     | 2010        | 2011                                    | 2010        |
| Reversal of non-recoverable VAT write-off | 0.7                                      | -           | 53.6                                    | -           |
| Custom duty recovery (Note 24)            | (0.2)                                    | -           | 39.7                                    | -           |
| Fines and penalties received              | 15.6                                     | 39.9        | 35.3                                    | 42.5        |
| Insurance compensation received           | 0.2                                      | 0.1         | 0.8                                     | 0.2         |
| Non-recoverable VAT                       | 2.6                                      | (12.5)      | (0.6)                                   | (12.9)      |
| Other income/(expense)                    | (7.8)                                    | 5.9         | (7.9)                                   | (2.9)       |
|                                           | <b>11.1</b>                              | <b>33.4</b> | <b>120.9</b>                            | <b>26.9</b> |

**11. INCOME TAX**

|                                       | Three-month period ended<br>30 September |             | Nine-month period ended<br>30 September |             |
|---------------------------------------|------------------------------------------|-------------|-----------------------------------------|-------------|
|                                       | 2011                                     | 2010        | 2011                                    | 2010        |
| Current income tax charge             | 56.6                                     | 60.0        | 125.4                                   | 101.0       |
| Deferred income tax expense/(benefit) | (20.0)                                   | 8.2         | (25.2)                                  | (8.1)       |
|                                       | <b>36.6</b>                              | <b>68.2</b> | <b>100.2</b>                            | <b>92.9</b> |

The nominal income tax rate for industrial enterprises in Russia is 20%.

The Group's consolidated effective tax rate for the nine months ended 30 September 2011 was 20.7 % (9m 2010: 24.8 %). The change in effective tax rate was caused mainly due to non-taxable income of CJSC Nordavia disposal in June.

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|                                                      |               | Movement<br>for the 3<br>months<br>ended<br>period |                | Movement<br>for the 6<br>months<br>ended<br>period |                |
|------------------------------------------------------|---------------|----------------------------------------------------|----------------|----------------------------------------------------|----------------|
|                                                      | 30/09/2011    | 30/09/2011                                         | 30/06/2011     | 30/06/2010                                         | 31/12/2010     |
| <i>Tax effects of temporary differences:</i>         |               |                                                    |                |                                                    |                |
| Tax loss carry-forwards (i)                          | 68.6          | 12.3                                               | 56.3           | (3.3)                                              | 59.6           |
| Accounts receivable                                  | 1.9           | 0.4                                                | 1.5            | 0.2                                                | 1.3            |
| Property, plant and equipment                        | 2.2           | (1.3)                                              | 3.5            | 1.7                                                | 1.8            |
| Accounts payable                                     | 26.6          | (22.3)                                             | 48.9           | 23.9                                               | 25.0           |
| Financial instrument                                 | 9.8           | 9.1                                                | 0.7            | (1.7)                                              | 2.4            |
| <b>Deferred tax assets before tax set off</b>        | <b>109.1</b>  | <b>(1.8)</b>                                       | <b>110.9</b>   | <b>20.8</b>                                        | <b>90.1</b>    |
| Tax set off                                          | (67.0)        | 11.0                                               | (78.0)         | (20.2)                                             | (57.8)         |
| <b>Deferred tax assets after tax set off</b>         | <b>42.1</b>   | <b>9.2</b>                                         | <b>32.9</b>    | <b>0.6</b>                                         | <b>32.3</b>    |
| Property, plant and equipment                        | (62.4)        | 28.4                                               | (90.8)         | (18.4)                                             | (72.4)         |
| Customs duties related to aircraft operation leases  | (30.0)        | 3.7                                                | (33.7)         | (4.7)                                              | (29.0)         |
| Long-term investments                                | (1.0)         | (0.3)                                              | (0.7)          | 4.5                                                | (5.2)          |
| Accounts receivable                                  | (5.1)         | (1.7)                                              | (3.4)          | 1.4                                                | (4.8)          |
| Accounts payable                                     | -             | -                                                  | -              | 0.4                                                | (0.4)          |
| <b>Deferred tax liabilities</b>                      | <b>(98.5)</b> | <b>30.1</b>                                        | <b>(128.6)</b> | <b>(16.8)</b>                                      | <b>(111.8)</b> |
| Tax set off                                          | 67.0          | (11.0)                                             | 78.0           | 20.2                                               | 57.8           |
| <b>Deferred tax liabilities after tax set off</b>    | <b>(31.5)</b> | <b>19.1</b>                                        | <b>(50.6)</b>  | <b>3.4</b>                                         | <b>(54.0)</b>  |
| Movement for the period, net                         |               | 28.3                                               |                | 4.0                                                |                |
| Deferred tax recognised directly in equity (ii)      |               | (8.5)                                              |                | -1.7                                               |                |
| Effect of translation to presentation currency       |               | 0.2                                                |                | (0.5)                                              |                |
| <b>Deferred tax (expense)/benefit for the period</b> |               | <b>20.0</b>                                        |                | <b>5.2</b>                                         |                |

(i) Tax losses carried forward expire between 2017 to 2020;

(ii) Deferred tax asset in respect of the change in the fair value of the derivative instrument which is recognized in equity of USD 6.8 million has been recognised in these consolidated interim financial statements.

## 12. ACCOUNTS RECEIVABLE AND PREPAYMENTS

|                                                              | 30 September<br>2011 | 31 December<br>2010 |
|--------------------------------------------------------------|----------------------|---------------------|
| Trade accounts receivable                                    | 587.2                | 399.6               |
| Prepayments to suppliers                                     | 449.6                | 107.2               |
| VAT and other taxes recoverable                              | 197.9                | 270.4               |
| Deferred customs duties related to aircraft operating leases | 28.0                 | 38.8                |
| Income tax prepaid                                           | 3.6                  | 56.9                |
| Other receivables                                            | 98.0                 | 87.4                |
| <b>Accounts receivable and prepayments, gross</b>            | <b>1,364.3</b>       | <b>960.3</b>        |
| Impairment allowance for bad and doubtful accounts           | (36.2)               | (36.3)              |
|                                                              | <b>1,328.1</b>       | <b>924.0</b>        |

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Deferred customs duties of USD 28.0 million (31 December 2010: USD 38.8 million) relate to the current portion of customs duties incurred on importation of aircraft under operating leases. These customs duties are expensed in the condensed consolidated interim statement of income over the term of the operating lease. The non-current portion of the deferred customs duties is disclosed in Note 14.

As at 30 September 2011 sufficient impairment allowance has been made against accounts receivable and prepayments.

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

|                                                                         | <b>Impairment<br/>allowance</b> |
|-------------------------------------------------------------------------|---------------------------------|
| <b>As at 1 January 2010</b>                                             | <b>26.5</b>                     |
| Foreign currency translation                                            | 4.3                             |
| Increase in impairment allowance for bad and doubtful accounts          | 13.0                            |
| Accounts receivable written off during the nine months as uncollectible | (7.5)                           |
| <b>As at 31 December 2010</b>                                           | <b>36.3</b>                     |
| Foreign currency translation                                            | 2.8                             |
| Decrease in impairment allowance for bad and doubtful accounts          | (0.9)                           |
| Accounts receivable written off during the nine months as uncollectible | (2.0)                           |
| <b>As at 30 September 2011</b>                                          | <b>36.2</b>                     |

**13. EXPENDABLE SPARE PARTS AND INVENTORIES**

|                                                      | <b>30 September<br/>2011</b> | <b>31 December<br/>2010</b> |
|------------------------------------------------------|------------------------------|-----------------------------|
| Expendable spare parts                               | 44.6                         | 41.1                        |
| Fuel                                                 | 4.3                          | 12.3                        |
| Other inventories                                    | 38.6                         | 34.0                        |
| <b>Expendable spare parts and inventories, gross</b> | <b>87.5</b>                  | <b>87.4</b>                 |
| Impairment allowance for obsolete inventory          | (1.3)                        | (0.3)                       |
|                                                      | <b>86.2</b>                  | <b>87.1</b>                 |

**14. OTHER NON-CURRENT ASSETS**

|                                                              | <b>30 September<br/>2011</b> | <b>31 December<br/>2010</b> |
|--------------------------------------------------------------|------------------------------|-----------------------------|
| Deferred customs duties related to aircraft operating leases | 127.7                        | 160.0                       |
| VAT recoverable                                              | 21.1                         | 74.5                        |
| Other                                                        | 9.7                          | 6.2                         |
|                                                              | <b>158.5</b>                 | <b>240.7</b>                |

VAT recoverable primarily includes USD 21.1 million (31 December 2010: USD 74.5 million) related to the acquisition of aircraft.

**15. PREPAYMENTS FOR AIRCRAFT**

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

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**16. PROPERTY, PLANT AND EQUIPMENT**

|                                              | Owned<br>aircraft and<br>engines | Leased<br>aircraft and<br>engines | Land and<br>buildings | Plant,<br>equipment<br>and other | Construction<br>in progress (i) | Total          |
|----------------------------------------------|----------------------------------|-----------------------------------|-----------------------|----------------------------------|---------------------------------|----------------|
| <i>Cost</i>                                  |                                  |                                   |                       |                                  |                                 |                |
| <b>1 January 2010</b>                        | <b>259.4</b>                     | <b>1,088.2</b>                    | <b>266.7</b>          | <b>341.9</b>                     | <b>895.0</b>                    | <b>2,851.2</b> |
| Additions                                    | 12.9                             | 126.8                             | 26.0                  | 27.4                             | 40.2                            | 233.3          |
| Capitalised overhaul costs                   | 0.8                              | 2.2                               | -                     | -                                | -                               | 3.0            |
| Disposals                                    | (58.4)                           | -                                 | (0.5)                 | (15.2)                           | 0.2                             | (73.9)         |
| Transfers                                    | -                                | -                                 | 688.3                 | 184.9                            | (873.2)                         | -              |
| Transfers from leased assets to owned assets | 0.1                              | (0.1)                             | -                     | -                                | -                               | -              |
| Transfers to assets held for sale            | (3.6)                            | (19.9)                            | (5.1)                 | (3.8)                            | (0.4)                           | (32.8)         |
| Foreign currency translation                 | (2.1)                            | (8.6)                             | (5.0)                 | (3.4)                            | (5.3)                           | (24.4)         |
| <b>31 December 2010</b>                      | <b>209.1</b>                     | <b>1,188.6</b>                    | <b>970.4</b>          | <b>531.8</b>                     | <b>56.5</b>                     | <b>2,956.4</b> |
| Additions (i)                                | 7.2                              | 191.0                             | 1.3                   | 8.1                              | 32.6                            | 240.2          |
| Capitalised overhaul costs                   | 1.1                              | -                                 | -                     | -                                | -                               | 1.1            |
| Disposals                                    | (13.4)                           | -                                 | (1.3)                 | (6.0)                            | (3.4)                           | (24.1)         |
| Transfers                                    | -                                | -                                 | 0.9                   | 9.7                              | (10.6)                          | -              |
| Foreign currency translation                 | (8.8)                            | (70.3)                            | (46.4)                | (19.2)                           | (5.0)                           | (149.7)        |
| <b>30 September 2011</b>                     | <b>195.2</b>                     | <b>1,309.3</b>                    | <b>924.9</b>          | <b>524.4</b>                     | <b>70.1</b>                     | <b>3,023.9</b> |
| <i>Accumulated depreciation</i>              |                                  |                                   |                       |                                  |                                 |                |
| <b>1 January 2010</b>                        | <b>(175.8)</b>                   | <b>(248.8)</b>                    | <b>(94.8)</b>         | <b>(160.0)</b>                   | <b>(4.0)</b>                    | <b>(683.4)</b> |
| Charge for the period                        | (22.7)                           | (85.3)                            | (27.5)                | (42.9)                           | -                               | (178.4)        |
| Impairment                                   | 0.1                              | -                                 | -                     | 0.7                              | -                               | 0.8            |
| Disposals                                    | 55.7                             | (0.2)                             | 0.1                   | 11.1                             | -                               | 66.7           |
| Transfers to assets held for sale            | 2.8                              | 13.0                              | 1.2                   | 2.6                              | -                               | 19.6           |
| Foreign currency translation                 | 2.3                              | 2.2                               | 0.9                   | 0.9                              | -                               | 6.3            |
| <b>31 December 2010</b>                      | <b>(137.6)</b>                   | <b>(319.1)</b>                    | <b>(120.1)</b>        | <b>(187.6)</b>                   | <b>(4.0)</b>                    | <b>(768.4)</b> |
| Charge for the period                        | (18.1)                           | (73.9)                            | (22.0)                | (42.2)                           | -                               | (156.2)        |
| Impairment                                   | -                                | -                                 | -                     | (1.0)                            | 3.2                             | 2.2            |
| Disposals                                    | 12.4                             | -                                 | 0.9                   | 3.5                              | -                               | 16.8           |
| Foreign currency translation                 | 6.8                              | 21.3                              | (1.9)                 | 21.3                             | (0.1)                           | 47.4           |
| <b>30 September 2011</b>                     | <b>(136.5)</b>                   | <b>(371.7)</b>                    | <b>(143.1)</b>        | <b>(206.0)</b>                   | <b>(0.9)</b>                    | <b>(858.2)</b> |
| <i>Net book value</i>                        |                                  |                                   |                       |                                  |                                 |                |
| <b>31 December 2010</b>                      | <b>71.5</b>                      | <b>869.5</b>                      | <b>850.3</b>          | <b>344.2</b>                     | <b>52.5</b>                     | <b>2,188.0</b> |
| <b>30 September 2011</b>                     | <b>58.7</b>                      | <b>937.6</b>                      | <b>781.8</b>          | <b>318.4</b>                     | <b>69.2</b>                     | <b>2,165.7</b> |

- (i) The 2011 additions mainly relate to addition of two Airbus A-330 aircrafts with a carrying value of USD 191.0 million received under finance lease agreements.

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**17. INTANGIBLE ASSETS**

|                                 | Software      | Licences     | Development in progress | Total         |
|---------------------------------|---------------|--------------|-------------------------|---------------|
| <i>Cost</i>                     |               |              |                         |               |
| <b>1 January 2010</b>           | <b>12.7</b>   | <b>4.4</b>   | <b>8.6</b>              | <b>25.7</b>   |
| Additions                       | 5.1           | 0.1          | 21.5                    | 26.7          |
| Disposal                        | (0.7)         | -            | -                       | (0.7)         |
| Transfers                       | 0.7           | -            | (0.7)                   | -             |
| Foreign currency translation    | (0.2)         | -            | (0.1)                   | (0.3)         |
| <b>31 December 2010</b>         | <b>17.6</b>   | <b>4.5</b>   | <b>29.3</b>             | <b>51.4</b>   |
| Additions (i)                   | 11.7          | -            | 2.6                     | 14.3          |
| Disposal                        | (3.2)         | -            | -                       | (3.2)         |
| Transfers (ii)                  | 19.8          | -            | (19.8)                  | -             |
| Foreign currency translation    | (3.5)         | (0.2)        | 0.4                     | (3.3)         |
| <b>30 September 2011</b>        | <b>42.4</b>   | <b>4.3</b>   | <b>12.5</b>             | <b>59.2</b>   |
| <i>Accumulated amortisation</i> |               |              |                         |               |
| <b>1 January 2010</b>           | <b>(4.4)</b>  | <b>(0.6)</b> | <b>-</b>                | <b>(5.0)</b>  |
| Charge for the period           | (5.3)         | (0.6)        | -                       | (5.9)         |
| Foreign currency translation    | 0.1           | -            | -                       | 0.1           |
| <b>31 December 2010</b>         | <b>(9.6)</b>  | <b>(1.2)</b> | <b>-</b>                | <b>(10.8)</b> |
| Charge for the period           | (7.8)         | (0.5)        | -                       | (8.3)         |
| Disposal                        | 3.2           | -            | -                       | 3.2           |
| Foreign currency translation    | 0.8           | 0.1          | -                       | 0.9           |
| <b>30 September 2011</b>        | <b>(13.4)</b> | <b>(1.6)</b> | <b>-</b>                | <b>(15.0)</b> |
| <i>Net book value</i>           |               |              |                         |               |
| <b>31 December 2010</b>         | <b>8.0</b>    | <b>3.3</b>   | <b>29.3</b>             | <b>40.6</b>   |
| <b>30 September 2011</b>        | <b>29.0</b>   | <b>2.7</b>   | <b>12.5</b>             | <b>44.2</b>   |

- (i) Additions mainly include expenditures incurred in relation to the purchase of SAP and SIRAX program licenses and implementation costs.
- (ii) Transfer relates to new version of SAP which was put into operation on the 1<sup>st</sup> of June.

**18. DERIVATIVE INSTRUMENTS**

The Group has entered into cross-currency interest rate swap agreements with two major banks operating in Russia to hedge some of its euro denominated revenues from potential future RUB/EUR exchange rate fluctuations. The financial instrument has been assessed as being effective for IAS 39 purposes. The change in the fair value of the hedge amounted to a loss of USD 24.1 million and has been reported in other comprehensive income for period of nine months ended 30 September 2011. The change in fair value due to fluctuation of exchange rate amounted to USD 0.2 million. A corresponding deferred tax of USD 6.2 million has been recognized in these condensed consolidated interim financial statements and reported in other comprehensive income. The fair value has been determined using a valuation model with market observable parameters (level 2).

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

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instrument has been assessed as being effective for IAS 39 purposes. The contract is accounted as hedge accounting only when it breaches the maximum or minimum strike prices. Otherwise, the value of the derivative is accounted through profit and loss.

The fair value of the derivative instrument amounted to a loss of USD 3.4 million in nine months 2011 and has been reported in this condensed consolidated interim statement of income. The fair value has been determined using a valuation model with market observable parameters (level 3).

In June 2011 the Group entered into an agreement with a Russian bank to hedge a risk related to increase of Libor which is mainly used for finance lease agreements. In accordance with the terms of the agreement the Group fixes interest payment related to financial lease contracts. The financial instrument has been assessed as being effective for IAS 39 purposes. The fair value of the hedge amounted to a loss of USD 3.9 million and has been reported in other comprehensive income. A corresponding deferred tax of USD 0.6 million has been recognized in these condensed consolidated interim financial statements and reported in other comprehensive income. The fair value has been determined using a valuation model with market observable parameters (level 2).

## 19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

|                                                                 | 30 September<br>2011 | 31 December<br>2010 |
|-----------------------------------------------------------------|----------------------|---------------------|
| Trade accounts payable                                          | 504.6                | 221.2               |
| Staff related liabilities                                       | 90.5                 | 93.7                |
| VAT payable on leased aircraft                                  | 52.4                 | 116.4               |
| Advances received (other than unearned transportation revenue)  | 46.6                 | 54.4                |
| Other taxes payable                                             | 22.2                 | 61.8                |
| Income tax payable                                              | 24.4                 | 17.7                |
| Other liabilities related to frequent flyer programme (Note 20) | 18.5                 | 16.9                |
| Customs duties payable on leased aircraft                       | 3.1                  | 57.7                |
| Merchandise credits                                             | 2.1                  | 2.9                 |
| Dividends payable                                               | 0.6                  | 0.2                 |
| Other payables                                                  | 56.6                 | 65.6                |
|                                                                 | <b>821.6</b>         | <b>708.5</b>        |

As at 30 September 2011 accounts payable and accrued liabilities include the short-term portion of VAT of USD 52.4 million (31 December 2010: USD 116.4 million) and customs duties of USD 3.1 million (31 December 2010: USD 57.7 million) relating to imported leased aircraft, which are payable in equal monthly instalments over a thirty-four-month period from the date these assets were cleared through customs. The long-term portion of VAT payable of USD 18.1 million (31 December 2010: USD 71.4 million) related to the leased aircrafts are disclosed in Note 24.

Staff related payables primarily include salaries and social contribution liabilities of USD 45.2 million (31 December 2010: USD 50.5 million) and the unused vacation accrual of USD 44.3 million (31 December 2010: USD 42.1 million).

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**20. DEFERRED REVENUE RELATED TO FREQUENT FLYER PROGRAMME**

Deferred revenue related to Aeroflot Bonus as at 30 September 2011 has been assessed in accordance with IFRIC 13 *Customer Loyalty Programmes*. The amount represents the number of points earned but unused by the Aeroflot Bonus programme members estimated at fair value (Note 3).

|                                                                             | 30 September<br>2011 | 31 December<br>2010 |
|-----------------------------------------------------------------------------|----------------------|---------------------|
| Deferred revenue related to frequent flyer programme, current               | 8.9                  | 8.0                 |
| Deferred revenue related to frequent flyer programme, non-current           | 31.7                 | 31.3                |
| Other current liabilities related to frequent flyer programme (Note 19)     | 18.5                 | 16.9                |
| Other non-current liabilities related to frequent flyer programme (Note 24) | 45.9                 | 37.9                |
|                                                                             | <b>105.0</b>         | <b>94.1</b>         |

**21. SHORT-TERM BORROWINGS**

|                                                | 30 September<br>2011 | 31 December<br>2010 |
|------------------------------------------------|----------------------|---------------------|
| <i>Loans denominated in US dollars:</i>        |                      |                     |
| Bank Petrocommerce (i)                         | 30.0                 | -                   |
| Vneshtorgbank - short term portion (Note 22)   | 19.6                 | 18.1                |
| Gazprombank (ii)                               | 18.0                 | -                   |
| Vnesheconombank - short term portion (Note 22) | 11.0                 | 17.4                |
| Vozrozhdenie Bank(iii)                         | 6.6                  | -                   |
|                                                | <b>85.2</b>          | <b>35.5</b>         |

|                                                                    |      |     |
|--------------------------------------------------------------------|------|-----|
| Bonds denominated in Russian roubles, short term portion (Note 22) | 13.7 | 7.9 |
|--------------------------------------------------------------------|------|-----|

*Loans denominated in Russian roubles:*

|                                        | 30 September<br>2011 | 31 December<br>2010 |
|----------------------------------------|----------------------|---------------------|
| Gazprombank (iv)                       | 17.0                 | 6.1                 |
| Sberbank of the Russian Federation (v) | 4.7                  | -                   |
| Promsvyazbank (vi)                     | 4.3                  | 4.6                 |
| Transkreditbank (vii)                  | 4.1                  | -                   |
| Bank Petrocommerce (viii)              | 3.8                  | -                   |
| MBRR (ix)                              | 1.5                  | 3.8                 |
| Alfa-bank                              | -                    | 4.5                 |
|                                        | <b>35.4</b>          | <b>19.0</b>         |
|                                        | <b>134.3</b>         | <b>62.4</b>         |

- (i) The balance as at 30 September 2011 represents credit lines of USD 30.0 million issued at an interest rate 0.8 and 1.15% per annum. The tranche was received for a one month period. The credit line is unsecured;
- (ii) The balance as at 30 September 2011 represents loan of USD 18.0 million issued at an interest rate of 1.35% per annum. The tranche received for a one month period. The loan is unsecured;
- (iii) The balance as at 30 September 2011 represents loan of USD 6.6 million issued at an interest rate of 7.0% per annum. The loan is unsecured;
- (iv) The balance as at 30 September 2011 represents loans of USD 17.0 million issued at an interest rate from 7.25% to 8.6% per annum. The loans are unsecured;

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- (v) The balance as at 30 September 2011 relates to a loan of USD 4.7 million borrowed at an interest rate of 7.2% per annum. The loan is unsecured;
- (vi) The balance as at 30 September 2011 represents loan of USD 4.3 million issued at an interest rate of 10.0% per annum. The loan is unsecured;
- (vii) The balance as at 30 September 2011 represents loan of USD 4.1 million issued at an interest rate 9.4% per annum. The loan is unsecured;
- (viii) The balance as at 30 September 2011 represents loan of USD 3.8 million issued at an interest rate 6.5% and 7.5% per annum. Interest rate depend on the maturity of each tranche. The loans are unsecured;
- (ix) The balance as at 30 September 2011 represents loans of USD 1.5 million issued at an interest rate of 10.0% per annum. The loans are unsecured.

**22. LONG-TERM BORROWINGS**

|                                                                  | <u>30 September<br/>2011</u> | <u>31 December<br/>2010</u> |
|------------------------------------------------------------------|------------------------------|-----------------------------|
| <i>Loans denominated in US dollars:</i>                          |                              |                             |
| Vnesheconombank (i)                                              | 460.0                        | 447.7                       |
| Vneshtorgbank (ii)                                               | 209.8                        | 221.2                       |
| Vnesheconombank (iii)                                            | 185.0                        | 182.0                       |
| Accor                                                            | 2.8                          | 2.8                         |
| Other long-term loans                                            | 3.4                          | 3.4                         |
|                                                                  | <u>861.0</u>                 | <u>857.1</u>                |
| <br>Bonds denominated in Russian roubles, long-term portion (iv) | <br>376.5                    | <br>393.7                   |
|                                                                  | <u><u>1,237.5</u></u>        | <u><u>1,250.8</u></u>       |

- (i) The balance as at 30 September 2011 relates to a loan of USD 460.0 million borrowed at an interest rate of 9.0% per annum. The agreed interest rate will be effective until 20 August 2018 after which the interest rate will be LIBOR plus 4% per annum. The amount was borrowed in order to finance the construction of the new Sheremetyevo-3 terminal;
- (ii) The balance as at 30 September 2011 represents an outstanding amount of USD 209.8 million on a credit line issued by Vneshtorgbank at a fixed interest rate of 7.75% per annum. The amount was borrowed in order to finance the construction of the new Sheremetyevo-3 terminal. The property, plant, equipment with a carrying value of USD 749.9 million are pledged;
- (iii) The balance as at 30 September 2011 represents an outstanding balance of USD 185.0 million on a credit line issued by Vnesheconombank at a fixed interest rate of 10.56% per annum. The amount was borrowed in order to finance the construction of the new Sheremetyevo-3 terminal. The property, plant, equipment with a carrying value of USD 749.9 million are pledged;
- (iv) The balance as at 30 September 2011 relates to bonds of USD 376.5 million borrowed at an interest rate of 7.75% per annum. Yield to maturity as at the end of reporting period is 7.4 %. The bonds are unsecured.

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The long-term borrowings are repayable as follows:

|                                                             | 30 September<br>2011 | 31 December<br>2010 |
|-------------------------------------------------------------|----------------------|---------------------|
| On demand or within one year (Note 21)                      | 44.3                 | 43.4                |
| In two to five years                                        | 572.2                | 565.2               |
| After five years                                            | 665.3                | 685.6               |
|                                                             | <b>1,281.8</b>       | <b>1,294.2</b>      |
| Less: amounts due for settlement within 12 months (Note 21) | (44.3)               | (43.4)              |
| <b>Amounts due for settlement after 12 months</b>           | <b>1,237.5</b>       | <b>1,250.8</b>      |

**23. FINANCE LEASE LIABILITIES**

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

|                               | 30 September<br>2011 | 31 December<br>2010 |
|-------------------------------|----------------------|---------------------|
| Total outstanding payments    | 889.0                | 781.4               |
| Finance charges               | (48.8)               | (47.5)              |
| <b>Principal outstanding</b>  | <b>840.2</b>         | <b>733.9</b>        |
| <i>Representing:</i>          |                      |                     |
| Current lease liabilities     | 125.2                | 103.8               |
| Non-current lease liabilities | 715.0                | 630.1               |
|                               | <b>840.2</b>         | <b>733.9</b>        |

|                              | 30 September 2011 |                    |                   | 31 December 2010 |                    |                   |
|------------------------------|-------------------|--------------------|-------------------|------------------|--------------------|-------------------|
|                              | Principal         | Finance<br>changes | Total<br>payments | Principal        | Finance<br>changes | Total<br>payments |
| <i>Due for repayment:</i>    |                   |                    |                   |                  |                    |                   |
| On demand or within one year | 125.2             | 10.8               | 136.0             | 103.8            | 10.6               | 114.4             |
| In two to five years         | 414.5             | 26.5               | 441.0             | 365.0            | 25.7               | 390.7             |
| After five years             | 300.5             | 11.5               | 312.0             | 265.1            | 11.2               | 276.3             |
|                              | <b>840.2</b>      | <b>48.8</b>        | <b>889.0</b>      | <b>733.9</b>     | <b>47.5</b>        | <b>781.4</b>      |

Interest unpaid as at 30 September 2011 amounted to approximately USD 3.0 million (31 December 2010: USD 3.0 million) and is included in accrued expenses. During the nine months of 2011 the effective interest rate on these leases was approximately 2.9% per annum (31 December 2010: 3.5% per annum).

**24. OTHER NON-CURRENT LIABILITIES**

|                                                                 | 30 September<br>2011 | 31 December<br>2010 |
|-----------------------------------------------------------------|----------------------|---------------------|
| VAT payable on leased aircraft                                  | 18.1                 | 71.4                |
| Custom duties payable on leased aircraft                        | -                    | 32.9                |
| Other liabilities related to frequent flyer programme (Note 20) | 45.9                 | 37.9                |
| Defined benefit pension obligation – non-current portion        | 13.1                 | 14.4                |
|                                                                 | <b>77.1</b>          | <b>156.6</b>        |

As at 30 September 2011 other non-current liabilities include the long-term portion of VAT of USD 18.1 million (31 December 2010: USD 71.4 million).

The short-term portion of the VAT payable and the customs duties of USD 52.4 million (31 December 2010: USD 116.4 million) and USD 3.1 million (31 December 2010: USD 3.1 million).

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USD 57.7 million), respectively, relating to the imported leased aircraft are disclosed in Note 19.

During the nine months of 2011, the Group got custom duties and VAT exemptions on certain A-320 and A-330 family aircraft. These exemptions are based on new statutory tariffs of Customs Union Committee. According to these exemptions, the Group has derecognised the custom duty liabilities on its certain aircraft and recognised gain in interim statement of income as described in Note 10.

## 25. SHARE CAPITAL

|                                                    | <u>Number of<br/>shares<br/>authorised and<br/>issued</u> | <u>Number of<br/>treasury shares</u> | <u>Number of<br/>shares<br/>outstanding</u> |
|----------------------------------------------------|-----------------------------------------------------------|--------------------------------------|---------------------------------------------|
| <i>Ordinary shares of one Russian rouble each:</i> |                                                           |                                      |                                             |
| As at 31 December 2010                             | 1,110,616,299                                             | (81,070,997)                         | 1,029,545,302                               |
| As at 30 September 2011                            | 1,110,616,299                                             | (110,343,310)                        | 1,000,272,989                               |

Ordinary shareholders are entitled to one vote per share.

During 2011 the number of treasury shares held by the Group increased by 29,272,313.

The Company's shares are listed on the Russian Trade System ("RTS") and the Moscow Interbank Currency Exchange ("MICEX") and on 30 September 2011 were traded at USD 1.68 per share. On 1 December 2011 were traded at USD 1.63 per share.

The Company launched a Level 1 Global Depositary Receipts (GDR's) programme in December 2000. The Company signed a depositary agreement with Deutsche Bank Group, allowing the Company's shareholders to swap their shares for GDR's, which trade over-the-counter on US and European markets. The swap ratio was established at 100 shares per GDR. In accordance with the depositary agreement the total volume of the GDR's of the Company cannot exceed 20% of the Company's share capital. In 2001 the Company's GDR's were listed on the New Europe Exchange ("NEWEX") in Vienna and after closing of this stock exchange the GDR's were transferred to the third segment of the stock exchange in Frankfurt. On 30 September 2011 and 1 December 2011 the GDR's were traded at USD 159.70 and USD 161.03 each, respectively.

## 26. DIVIDENDS

At the annual shareholders' meeting held on 29 June 2011 the shareholders approved dividends of 1.0851 Russian rubles per share (3.6 US cents at the average exchange rate of the year 2010) totaling to 1,205.1 million Russian roubles (USD 39.7 million at the average exchange rate of the year 2010) in respect of 2010.

## 27. OPERATING SEGMENTS

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

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

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There are also other operating segments. However, none of these segments meets any of the quantitative thresholds for determining reportable segments during the first nine months of 2011 and 2010. Information regarding the results of each reportable segment is included below. Performance is measured based on segment sales revenue and operating profit, as included in the internal management reports that are reviewed by the Group's General Director. Segment sales revenue and operating profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

|                                                 | <u>Airline</u> | <u>Catering</u> | <u>Hotels</u> | <u>Terminal</u> | <u>Other</u> | <u>Elimi-<br/>nations</u> | <u>Total<br/>Group</u> |
|-------------------------------------------------|----------------|-----------------|---------------|-----------------|--------------|---------------------------|------------------------|
| <b>Nine-month period<br/>ended 30 Sep 2011</b>  |                |                 |               |                 |              |                           |                        |
| External sales                                  | 3,739.4        | 18.7            | 16.7          | 44.8            | 99.8         | -                         | 3,919.4                |
| Inter-segment sales                             | -              | 113.7           | 9.4           | 105.0           | 0.6          | (228.7)                   | -                      |
| <b>Total revenue</b>                            | <b>3,739.4</b> | <b>132.4</b>    | <b>26.1</b>   | <b>149.8</b>    | <b>100.4</b> | <b>(228.7)</b>            | <b>3,919.4</b>         |
| Operating profit/(loss)                         | 415.3          | 15.8            | 6.5           | 51.9            | 18.1         | (43.5)                    | 464.1                  |
| Finance income                                  |                |                 |               |                 |              |                           | 208.1                  |
| Finance costs                                   |                |                 |               |                 |              |                           | (189.1)                |
| Share of income in<br>associates                | 0.8            | -               | -             | -               | -            | -                         | 0.8                    |
| <b>Profit before income<br/>tax</b>             |                |                 |               |                 |              |                           | <b>483.9</b>           |
| Income tax                                      |                |                 |               |                 |              |                           | (100.2)                |
| <b>Profit for the period</b>                    |                |                 |               |                 |              |                           | <b>383.7</b>           |
|                                                 |                |                 |               |                 |              |                           |                        |
|                                                 | <u>Airline</u> | <u>Catering</u> | <u>Hotels</u> | <u>Terminal</u> | <u>Other</u> | <u>Elimi-<br/>nations</u> | <u>Total<br/>Group</u> |
| <b>Three-month period<br/>ended 30 Sep 2011</b> |                |                 |               |                 |              |                           |                        |
| External sales                                  | 1,501.9        | 7.9             | 5.2           | 20.1            | 40.4         | -                         | 1,575.5                |
| Inter-segment sales                             | -              | 41.8            | 3.4           | 43.6            | -            | (88.8)                    | -                      |
| <b>Total revenue</b>                            | <b>1,501.9</b> | <b>49.7</b>     | <b>8.6</b>    | <b>63.7</b>     | <b>40.4</b>  | <b>(88.8)</b>             | <b>1,575.5</b>         |
| Operating profit/(loss)                         | 217.5          | 7.8             | 2.8           | 30.7            | 10.9         | (10.3)                    | 259.4                  |
| Finance income                                  |                |                 |               |                 |              |                           | 2.9                    |
| Finance costs                                   |                |                 |               |                 |              |                           | (219.8)                |
| Share of income in<br>associates                | 1.0            | -               | -             | -               | -            | -                         | 1.0                    |
| <b>Profit before income<br/>tax</b>             |                |                 |               |                 |              |                           | <b>43.5</b>            |
| Income tax                                      |                |                 |               |                 |              |                           | (36.6)                 |
| <b>Profit for the period</b>                    |                |                 |               |                 |              |                           | <b>6.9</b>             |

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|                                                | Airline        | Catering     | Hotels      | Terminal    | Other      | Elimi-<br>nations | Total<br>Group |
|------------------------------------------------|----------------|--------------|-------------|-------------|------------|-------------------|----------------|
| <b>Nine-month period<br/>ended 30 Sep 2010</b> |                |              |             |             |            |                   |                |
| External sales                                 | 3,109.4        | 10.6         | 12.2        | 25.2        | 2.4        | -                 | 3,159.8        |
| Inter-segment sales                            | -              | 92.1         | 5.1         | 54.0        | 2.1        | (153.3)           | -              |
| <b>Total revenue</b>                           | <b>3,109.4</b> | <b>102.7</b> | <b>17.3</b> | <b>79.2</b> | <b>4.5</b> | <b>(153.3)</b>    | <b>3,159.8</b> |
| Operating profit/(loss)                        | 474.3          | 14.6         | 4.0         | (8.9)       | 0.6        | (16.8)            | 467.8          |
| Finance income                                 |                |              |             |             |            |                   | 13.8           |
| Finance costs                                  |                |              |             |             |            |                   | (117.8)        |
| Share of income in<br>associates               | 10.0           | -            | -           | -           | -          | -                 | 10.0           |
| <b>Profit before income<br/>tax</b>            |                |              |             |             |            |                   | <b>373.8</b>   |
| Income tax                                     |                |              |             |             |            |                   | (92.9)         |
| <b>Profit for the period</b>                   |                |              |             |             |            |                   | <b>280.9</b>   |

|                                                 | Airline        | Catering    | Hotels     | Terminal    | Other       | Elimi-<br>nations | Total<br>Group |
|-------------------------------------------------|----------------|-------------|------------|-------------|-------------|-------------------|----------------|
| <b>Three-month period<br/>ended 30 Sep 2010</b> |                |             |            |             |             |                   |                |
| External sales                                  | 1,277.0        | 5.2         | 4.3        | 18.1        | 0.9         | -                 | 1,305.5        |
| Inter-segment sales                             | -              | 33.7        | 2.7        | 26.0        | 28.7        | (91.1)            | -              |
| <b>Total revenue</b>                            | <b>1,277.0</b> | <b>38.9</b> | <b>7.0</b> | <b>44.1</b> | <b>29.6</b> | <b>(91.1)</b>     | <b>1,305.5</b> |
| Operating profit/(loss)                         | 298.4          | 6.5         | 1.6        | 11.0        | 1.4         | (10.2)            | 308.7          |
| Finance income                                  |                |             |            |             |             |                   | 9.5            |
| Finance costs                                   |                |             |            |             |             |                   | 6.7            |
| Share of income in<br>associates                | 6.7            | -           | -          | -           | -           | -                 | 6.7            |
| <b>Profit before income<br/>tax</b>             |                |             |            |             |             |                   | <b>331.6</b>   |
| Income tax                                      |                |             |            |             |             |                   | (68.2)         |
| <b>Profit for the period</b>                    |                |             |            |             |             |                   | <b>263.4</b>   |

|                                              | Three-month period ended<br>30 September |                | Nine-month period ended<br>30 September |                |
|----------------------------------------------|------------------------------------------|----------------|-----------------------------------------|----------------|
|                                              | 2011                                     | 2010           | 2011                                    | 2010           |
| <b>Scheduled passenger revenue:</b>          |                                          |                |                                         |                |
| <i>International flights from Moscow to:</i> |                                          |                |                                         |                |
| Europe                                       | 228.9                                    | 165.1          | 564.5                                   | 423.2          |
| Asia                                         | 101.7                                    | 89.5           | 263.6                                   | 226.1          |
| North America                                | 26.1                                     | 23.0           | 59.4                                    | 52.0           |
| Other                                        | 12.5                                     | 9.0            | 36.2                                    | 28.4           |
|                                              | <b>369.2</b>                             | <b>286.6</b>   | <b>923.7</b>                            | <b>729.7</b>   |
| <i>International flights to Moscow from:</i> |                                          |                |                                         |                |
| Europe                                       | 247.9                                    | 178.1          | 580.9                                   | 437.2          |
| Asia                                         | 112.2                                    | 84.1           | 300.3                                   | 221.6          |
| North America                                | 23.9                                     | 21.5           | 63.5                                    | 56.0           |
| Other                                        | 12.1                                     | 8.4            | 37.9                                    | 28.8           |
|                                              | <b>396.1</b>                             | <b>292.1</b>   | <b>982.6</b>                            | <b>743.6</b>   |
| Domestic flights                             | 463.6                                    | 464.1          | 1,077.8                                 | 1,010.4        |
| Other international flights                  | 27.7                                     | 3.3            | 62.8                                    | 31.6           |
|                                              | <b>1,256.6</b>                           | <b>1,046.1</b> | <b>3,046.9</b>                          | <b>2,515.3</b> |

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|                                              | Three-month period ended<br>30 September |             | Nine-month period ended<br>30 September |              |
|----------------------------------------------|------------------------------------------|-------------|-----------------------------------------|--------------|
|                                              | 2011                                     | 2010        | 2011                                    | 2010         |
| <b>Cargo revenue:</b>                        |                                          |             |                                         |              |
| <i>International flights from Moscow to:</i> |                                          |             |                                         |              |
| Europe                                       | 2.1                                      | 1.0         | 5.5                                     | 7.8          |
| Asia                                         | 5.5                                      | 2.2         | 12.5                                    | 6.1          |
| North America                                | 0.6                                      | 0.7         | 1.4                                     | 1.8          |
| Other                                        | 0.2                                      | 0.1         | 0.5                                     | 0.3          |
|                                              | <b>8.4</b>                               | <b>4.0</b>  | <b>19.9</b>                             | <b>16.0</b>  |
| <i>International flights to Moscow from:</i> |                                          |             |                                         |              |
| Europe                                       | 5.7                                      | 3.5         | 16.1                                    | 13.0         |
| Asia                                         | 16.7                                     | 25.0        | 46.0                                    | 56.5         |
| North America                                | 1.1                                      | 0.4         | 2.8                                     | 2.2          |
| Other                                        | 0.1                                      | -           | 0.2                                     | 0.1          |
|                                              | <b>23.6</b>                              | <b>28.9</b> | <b>65.1</b>                             | <b>71.8</b>  |
| Other international flights                  | 18.1                                     | 33.7        | 46.0                                    | 39.5         |
| Domestic flights                             | 18.8                                     | 7.7         | 53.7                                    | 51.1         |
|                                              | <b>68.9</b>                              | <b>74.3</b> | <b>184.7</b>                            | <b>178.4</b> |

**28. RELATED PARTY TRANSACTIONS**

The ultimate controlling party of the Company is the Government of the Russian Federation. According to IAS 24 Related party disclosures a reporting entity is exempt from the disclosure requirements in relation to related party transactions and outstanding balance, including commitments, with the government that has control over the reporting entity, or with another entity, controlled by the government since 1 January 2011.

The Condensed Consolidated Interim financial statements of the Group include the following balances and transaction with related parties:

|                                  | 30 September<br>2011 | 31 December<br>2010 |
|----------------------------------|----------------------|---------------------|
| <b>Assets</b>                    |                      |                     |
| Cash and cash equivalents        | 3.1                  | 21.8                |
| Trade and accounts receivable    | 7.5                  | 5.8                 |
|                                  | <b>10.6</b>          | <b>27.6</b>         |
| <b>Liabilities</b>               |                      |                     |
| Long-term borrowings             | 854.8                | 850.9               |
| Short-term borrowings            | 30.6                 | 35.5                |
| Trade and other accounts payable | 3.6                  | 4.3                 |
|                                  | <b>889.0</b>         | <b>890.7</b>        |

|                                | Three-month period ended<br>30 September |      | Nine-month period ended<br>30 September |      |
|--------------------------------|------------------------------------------|------|-----------------------------------------|------|
|                                | 2011                                     | 2010 | 2011                                    | 2010 |
| Sales to related parties       | 2.9                                      | 7.2  | 10.5                                    | 14.8 |
| Purchases from related parties | 10.7                                     | 27.2 | 33.0                                    | 53.9 |

Purchases consists primarily of purchases of aircraft fuel as well as airport services and aviation security services. During the nine months of 2011 and 2010 most of the transactions between the Group and its related parties were based on market prices.

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The amounts outstanding to and from related parties mainly will be settled in cash.

In 2011 total amounts of guarantees given and received relating to associates are nil.

***Compensation of key management personnel***

The remuneration of directors and other members of key management (the members of the Board of Directors and Management Committee as well as key managers of flight and ground personnel who have significant power and responsibilities on key control and planning decisions of the Group) consist of short-term benefits including salary and bonuses as well as short-term compensation for serving on the management bodies of Group companies for the nine months 2011 amounted to approximately USD 15.5 million (9m 2010: USD 12.3 million).

Such amounts are stated before personal income tax but exclude unified social tax. According to Russian legislation, the Group makes contributions to the Russian State pension fund as part of unified social tax for all its employees, including key management personnel.

During 2010, the Group initiated a share option programme for its key executives and employees. The program will run for three years and will be exercised in three tranches granted over the three-year period from 1 January 2011 through to 31 December 2013. The vesting requirement of the share option programme is the continuous employment of participants during the vesting period. The fair value of services received in return for the share option granted is measured by reference to the fair value of the share option granted. The estimate of the fair value of the services received is determined using the Black-Scholes model. The following variables have been used in the model: the market share price at the grant date of USD 1.9, the expected volatility of 40% and a risk free interest rate of 5%. During the nine months ended 30 September 2011 expenses related to the programme amounted to USD 4.5 million. These have been recognised as wages and salaries in the condensed interim consolidated statement of income (Note 8). The outstanding amount of share options at the end of the reporting period is USD 10.7 million (31 December 2010: USD 12.7 million).

**29. COMMITMENTS UNDER OPERATING LEASES**

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

|                              | <u>30 September<br/>2011</u> | <u>31 December<br/>2010</u> |
|------------------------------|------------------------------|-----------------------------|
| On demand or within one year | 373.2                        | 357.0                       |
| In two to five years         | 1,399.2                      | 1,308.0                     |
| After five years             | 1,356.6                      | 1,281.5                     |
| Total minimum payments       | <u>3,129.0</u>               | <u>2,946.5</u>              |

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

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

**30. CAPITAL COMMITMENTS**

The Group's capital commitments in relation to the acquisition of property, plant and equipment and other services as at 30 September 2011 amounted to approximately USD 2,741.4 million (31 December 2010: USD 2,402.6 million). These commitments mainly relate to eight Airbus A-321-200, six Airbus A-330 aircraft, sixteen Boeing B-777 which are expected to be used under finance lease agreements.

**31. RISK CONNECTED WITH FINANCIAL INSTRUMENTS**

Since IAS 34 *Interim Financial Reporting* does not require explicitly the inclusion of information that would be presented in annual financial statements under IFRS 7 *Financial Instruments: Disclosures*, and the Group's financial risk management objectives and policies has not been changed, and any material losses connected with the nature and extent of risks arising from financial instruments for the previous comparative period were presented in annual consolidated financial statements ending 31 December 2010, the Group decided to disclose selective items that are exposed to different types of risks in the condensed interim financial statements.

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

The Group has entered into various agreements with a number of banks in Russia whereby the banks have issued facilities to guarantee the repayment of the Group's commitments related to the existing aircraft lease agreements. As at 30 September 2011 the total value of the guarantees issued amounted to USD 116.5 million (31 December 2010: USD 103.1 million).

As at 30 September 2011 the Group had available USD 242.5 million (31 December 2010: USD 86.4 million) in relation to lines of credit granted to the Group by various lending institutions.

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

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

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

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

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

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

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

|                           | 30 September<br>2011 | 31 December<br>2010 |
|---------------------------|----------------------|---------------------|
| Cash and cash equivalents | 545.4                | 660.4               |
| Short-term investments    | 13.8                 | 5.4                 |
| Trade accounts receivable | 551.0                | 363.3               |
|                           | <b>1,110.2</b>       | <b>1,029.1</b>      |

Most of the amounts in the total credit risk exposure are current.

**32. SUBSEQUENT EVENTS**

In November 2011 the Group acquired controlling shares of five businesses from Rostekhnologii in exchange for 3.55% of Aeroflot shares. The businesses related to shares acquired are as follows:

|                                         |                       |
|-----------------------------------------|-----------------------|
| - Vladivostok Avia                      | - 52.156%             |
| - Saratovskiye avialinii                | - 51%                 |
| - Aviakompaniya Sahalinskiye aviatrassi | - 100%                |
| - Aviakompaniya Rossiya                 | - 75% minus one share |
| - Orenburgskiye avialinii               | - 100%                |

One Sukhoi Superjet 100 was delivered in October 2011 and one Airbus A-330 was delivered in November 2011.