

# OJSC “AEROFLOT – RUSSIAN AIRLINES”

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006 (Amounts in millions of US Dollars)

### 1. NATURE OF THE BUSINESS

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

The principal activity of the Company is the provision of passenger and cargo air transportation services, both domestically and internationally, and other aviation services from its base at Moscow Sheremetyevo Airport. The Company and its subsidiaries (the “Group”) also conduct activities comprising airline catering, operation of a hotel, and construction of Shremetyevo-3 Terminal. Associated undertakings mainly comprise cargo-handling services, fuelling services and duty-free retail businesses.

As of December 31, 2006 and 2005, the Government of the Russian Federation owned 51% of the Company. The Company’s headquarters are located in Moscow at 37 Leningradsky Prospect.

The principal subsidiary undertakings are:

Company name	Place of incorporation and operation	Activity	Percentage held as of December 31, 2006	Percentage held as of December 31, 2005
CJSC “Sherotel”	Moscow region	Hotel	100.0%	100.0%
OJSC “Terminal”	Moscow region	Project Sheremetyevo-3	100.0%	100.0%
CJSC “Aeroflot Plus”	Moscow region	Airline	100.0%	100.0%
OJSC “Insurance company “Moscow”	Moscow	Captive insurance services	100.0%	100.0%
CJSC “Aeromar”	Moscow region	Catering	51.0%	51.0%
OJSC “Aeroflot-Don”	Rostov-on-Don	Airline	100.0%	51.0%
CJSC “Aeroflot-Nord”	Arkhangelsk	Airline	51.0%	51.0%
CJSC “Aeroflot-Cargo”	Moscow	Cargo transportation services	100.0%	-

In 2006 the Company increased its share in OJSC “Aeroflot-Don” up to 100% by purchasing of minority interests for a total cash consideration of approximately USD 6.6 million. Also during 2006 a new wholly owned entity CJSC “Aeroflot-Cargo” was created. During 2006 all of the cargo operations and the related assets were transferred to this entity.

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

Company name	Place of incorporation and operation	Activity	Percentage held as of December 31, 2006	Percentage held as of December 31, 2005
LLC “Airport Moscow”	Moscow region	Cargo handling	50.0%	50.0%
CJSC “Aerofirst”	Moscow region	Trading	33.3%	33.3%
CJSC “TZK Sheremetyevo”	Moscow region	Fuel trading company	31.0%	31.0%
CJSC “AeroMASH – AB”	Moscow region	Aviation security	45.0%	45.0%

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