

Issue 28, April 2008

# Airlift WORLD

www.volga-dnepr.com

edition for insurance company

Published by  
Volga-Dnepr Airlines  
and New Insurance Company



## Volga-Dnepr Airlines Receives Its Sixth Wings of Russia Award

Volga-Dnepr Airlines was nominated for Airline of the Year – Cargo Carrier on Domestic and International Air Routes award and won the Wings of Russia 2007. This decision was announced on the eleventh prize ceremony on 24 of March at Chekhov Academic Art Theater in Moscow. This was the sixth victory won by Volga-Dnepr in Wings of Russia contest. Previously the Company received such prestigious prizes in 1997, 1998, 1999, 2004 and 2006.

### Who are the major Group competitors?

Group competitors operate in two different market segments. First, charter transportation of unique cargo by ramp freighters; second, scheduled cargo operations. In charter segment we are the alone-standing giant with largest AN-124-100 and IL-76 fleet. Although, speaking of two aircraft types, the notion of "fleet" sounds rather clumsy, we are going to be the leader in this segment. The major competitors for us are another AN-124-100 Operators. These are Antonov Airlines and Polet Airlines. We have more competitors in IL-76 segment, but our general advantage is the modernizer type of Ilyushin freighters. We work in alliance with Azerbaijan Airlines, another Operator of IL-76 modernised freighters. As the charter market is rather limited and operation criteria are very demanding, the competition proves to be unusual. Then demand is higher than offer, we turn to direct competitor to share the orders for maximum customer satisfaction. That's why we established a Ruslan International joint venture with Antonov Airlines, as an instrument for market coordination and high quality of operations. Scheduled cargo market shows the different situation. The competition is extremely high with major players in the market. We're just the beginners, but we always strive for leadership. Almost all major airlines with cargo transportation departments can be regarded as competitors. Even passenger airlines turn out to be direct competitors due to belly cargo, namely Western and Asian Lufthansa, Nippon, Cargolux and others. This market is a tough one, but we are a daring company and shall make use of our synergy with charter business.

### What is the basic advantage of Group cargo operations?

There are several of them. We operate the larger AN-124-100 fleet and can perform unique transportations. We use our profound expertise and experience in charter operations, such as loading system, cargo allocation system, flight arrangement etc. Such combination of unique aircraft and technologies is our premium advantage. Secondly, we developed the system of cargo supermarket, as we can operate both charter and scheduled operations, even to limited markets. The combination of Russian-made and Western aircraft leads to certain traffic advantage.

Our personnel is our another competitive advantage. Volga-Dnepr is a perfect training base, and we can list a number of domestic and foreign airlines, which employed our former office personnel, pilots and managers. This is a watermark, highly estimated by most companies. Our corporate values, such as customer-oriented approach, readiness, expertise and leadership are efficient for any company. Moreover, our business standards and functions are higher than those of Russian and Western airlines. Such experience alongside with high corporate values serves as perfect recommendation for Volga-Dnepr employees.

### Is there any unexplored market segment for the Group?

Certainly, there's always way to go; most restrictions show up within the company and its employees. Jack Walsh, former GE President used to say that the company always targeted at top or second position in the market. When they did it, it seemed that all objectives were met. Then they took another broad view at the market and determined that the leadership was gone; new horizons appeared. We've got almost same situation: the company is a solid player in unique charter operations. It is now important to expand our service into broad airline logistics solution. Volga-Dnepr will perform airport-to-airport operations as well as truck



Sergey Shklyanik

Senior Vice-President, Volga-Dnepr Group of Companies

transportations, cargo handling and door-to-door delivery. Thus we'll enter another market segment, obtain other competitors and work to be on top. Speaking about scheduled operations, I've mentioned that here's a great work to do from Southeast Asia to Europe via Russian Federation. We plan to expand worldwide, including transpolar routes and flying to other continents.

### Will the Group Strategy change after elections of new president and Government?

As citizens of Russia we had a chance to influence elections' results, voting for the State Duma members and the President. The outcome proves that such political transition will be painless and evolutionary, thus, we need not expect abrupt changes in political strategy and economy. We do not expect serious reasons for changing Group Strategy looking out at the new President. Our business society is evolving step by step for 12 years already, and this is most stable factor for business development. I can firmly say that our Strategy will not be affected by any political changes.

### Will competition increase if several major foreign companies enter the Russian market?

In terms of charter operations, we work internationally and fly to countries worldwide. Nothing will change. As for domestic market, the competition will mostly affect passenger airlines. It is not important for us, our scheduled operations are mostly transit via Russia; we almost do not carry Russian cargo. Such competition in the domestic market will hardly affect overall situation, although additional players in any market increase the competition. We do not fear this factor, as we already have competitors.



Tatyana Arslanova

Vice-President Strategy and Marketing, Volga-Dnepr Group of Companies

**Tatyana, does the Group's plans include purchase of Tu-204?**

One of top-priority goals of our strategy is focused development of the Russian market. It includes network delivery on the territory of Russia, so, from this point Tu-204 aircraft is the best type for feeder services. Thus, we consider the expansion of feeder routes using Tu-204 aircraft since 2010. We can not tell the exact number of the type planned for operations. We suppose that we will need 2 aircraft in the first year and another 2 some time later. In total we are planning to operate 6 aircraft, the exact number will depend on the development rate of the Russian market. We faced the market challenge where Russian market is a bit inertial despite its great potential.

**Does United Aircraft Corporation (OAK) establishment help Volga-Dnepr Group in goals achievement?**

For the moment UAC development strategy includes several directions concerning manufacture of aircrafts for scheduled operations, and we cooperate actively with UAC in such projects as Ilyushin IL-96 Project and Tupolev Tu-204 Project. We have another line of cooperation with UAC in Antonov AN-124 Resumed Production Project.

**So, AN-124 Resumed Production Project is in force?**

Yes, the Project is retained. Now it is divided into three stages: the first stage

includes completion of aircrafts with serial numbers 0804, 0805, that are available in Aviastar plant; the second stage includes resumed production of the aircraft type; the third stage includes development of a new ramp freighter using digital technologies. Our fleet expansion strategy includes purchase of first new AN-124 at the end of 2009, and purchase of 2 aircraft per year since 2010.

**Do the insurance rates influence Group development?**

In fact, one of the main problems of international airlines is the loss ratio. In 2006 IATA members experienced five hundred million dollars losses. In 2007 the situation changed a bit, and airlines even experienced some profit. Nevertheless the trends of outrunning growth of supply

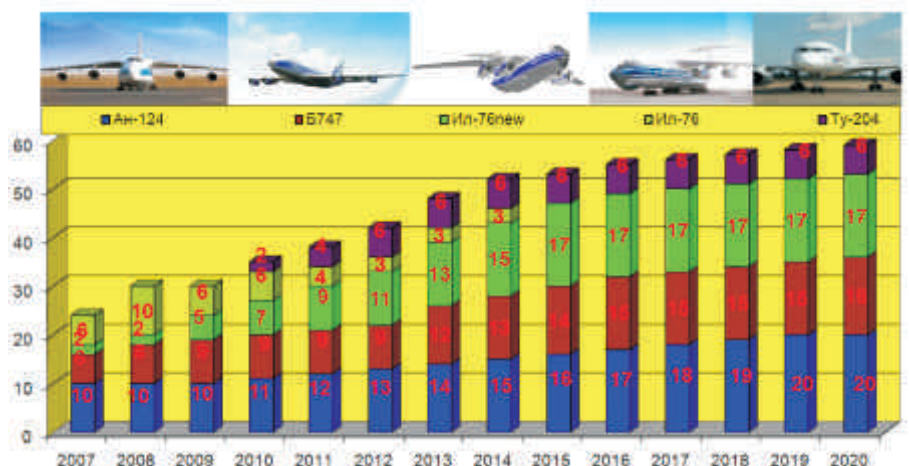
against demand mean that the market shall decrease the average rate. This in turn leads to strengthening of costs control. We compared our business-model with business-models of the world cargo leaders. If we make close consideration of costs items we may draw a conclusion that airworthiness costs and insurance costs become critically important for the Airline's competitiveness. Jet fuel costs are almost the same for all airlines, while concerning insurance rates we came out on the short end. For example, VDA insurance costs are three times higher than that of Cargolux.

**What are your expectations for 2008?**

In whole we plan to develop Cargo Supermarket. In charter business our main strategy includes development of the "turn key" solutions. In the previous year our charter airline changed from airport-to-airport delivery to door-to-door delivery. Therefore the long-term goal in the field is the development of such charter services to transfer to the establishment of the Engineering and Logistics Center as the result of development of synergy of charter business and scheduled business.

In the field of charter operations one of the most important issue is the continuous cooperation with UAC that shall result in dynamic fleet expansion. We experienced lack of capacity in 2007, the same difficulty we face in 2008. So the key stage is expansion of the Group fleet and development of Russian aviation industry. As for ABC business the key objectives shall be reaching break-even point and adjustment of business model in accordance with customers' needs, network optimization, and proper use resources for assurance of high quality services.

Прогноз численности парка ВС до 2020 года





Gennady Pivovarov

Senior Vice President, SCO Operations and General Director of ABC airlines

### **What is the difference between ABC and other Russian companies? What are Company's unique advantages?**

I can steadily state that our main advantage is our unique specialists. Another important advantage is Company's fleet. We operate Boeing-747 aircraft that harmonically fit into the Cargo Supermarket Strategy. This aircraft type is operated by another Russian company – Transaero Airline – in passenger version, thus ABC is the first company operating new B747 aircraft, one of our main advantages. We assure our customers that we are able to render any services in charter or scheduled operations.

### **Which markets are high-priority markets for ABC today? Do you plan to enter new markets and expand your routes?**

The series of three new Boeing 747-400 ERF aircraft and five ordered Boeing 747-8 extended range freighters with delivery in 2010-2013 will replace old Boeing 747-200 aircraft in the Airline's fleet. New aircraft allow us to start scheduled operations between USA and Canada and South-East Asia on the cross-polar route. The route across the North Pole is not operated by Russian and

international airlines though its distance is smaller than that of the traditional routes, so if we consider all flight factors the route distance may be substantially decreased. We are planning to use this free market niche in our business expansion. The place of the technical stop will be Emelyanovo Airport, Krasnoyarsk, the Airport has put into operation the first stage of the cargo terminal with a capacity of 60 thousand tons per year. The lack of modern infrastructure is the most serious difficulty in the development of cargo operations. International cargo was not transported to Russia as there was no place for loading/unloading cargo until the new cargo terminal started operation.

### **What are the plans for ABC IOSA Audit?**

We plan to pass IOSA Audit but we shall agree the terms and assess the effect of the Audit for maintenance development. That is why we shall estimate Audit costs and expected results once more.

How insurance costs impact on ABC development? I can tell that such costs are significant. They are not as expensive as fuel costs, but we anticipate a serious growth of insurance costs in 2008 if the insurance rates remain the same. In my opinion, our safety factor has been improves as new aircraft joined the fleet, so it is reasonable to revise insurance rates and make them lower.



Denis Ilyin

Senior Vice-President Commercial and Strategy of ABC airlines

### **What about ABC performance in 2007? Please, tell us about significant ABC results.**

I shall note the growth of ABC operation in 2007. Now ABC fleet has 7 aircraft. Moreover, at the end of 2007 the business experienced the key event of the year – delivery of the new Boeing 747-400 aircraft; that was the start of the new strategic period – the period of fleet renewal and change to new aircraft more efficient though more expensive.

The 2007 performance is still being assessed; however, we may report stable growth of sales volume with US \$ 300 millions in 2007, thus, taking into account accrued total, the general growth is 50% per annum.

### **What are the strategic goals of ABC in 2008?**

In 2008 we are to revise the sales system in all regions of operations served with the Company's aircrafts, we are to transfer from agency networks to own sales system, though we still make use of agent networks on the routes operated by our partners or trucking companies.

2008 is specific in fleet renewal – old aircraft (the oldest are B747200) will be taken out of service, they will be changed by two new Boeing 747-400 with delivery in February and April.

In conclusion we shall note that 2007 was the final stage of the Company development from the start up to the fast growing business. The 2008 goal is to maintain good performance and draw up a plan of the Company development for the following 5-8 years. It is extremely important in respect of further fleet renewal and delivery of 5 Boeing-747-8 new generation cargo aircraft since 2010. Volga-Dnepr Group signed a direct contract with Boeing Corporation on the delivery of B747-8 in 2007.

Thus, 2008 is the year of providing a foothold in the market, reaching profitable performance of the business and developing of the long-term development strategy.

Today the most important issue of the aviation industry including our company is cost improvement. Our activities in the area include the following: cost effective aircraft operations, jet fuel sales monitoring, and improvement of insurance rates through reasonable evidence of the high level of flight safety in the Company and minimal insurance risks as a consequence.

We anticipate the growth of insurance rate due to delivery of new expensive aircraft, and this fact influence the profit making objectives and stable growth objectives. We have accumulated large experience of Boeing-747 operation during last 4 years, nowadays we operate new improved Boeing aircraft with low risks, as a result we expect a decrease of aviation insurance rate per aircraft, in spite of the fleet growth.

## ABC Flight Department

### What does Flight Department need for effective training system?

It would be convenient for pilots to have training base in Moscow. However, our company at the moment can't afford to establish its own training center. Such costs may be affordable for Aeroflot only. So, ABC make use of Lufthansa's training base in Frankfurt, Lufthansa Flight Training, and Alteon Training Center in Seattle. We also use services of Global Atlantic System, Stansted, London, for flight training.

### Is ABC flight staff popular among other employers?

Yes, of course. We have been selecting the best pilots for 4 years. What do we mean under the best pilots? The best pilots are pilots with great experience. We gave preferences to pilots with wide experience of foreign aircraft operations and good knowledge of English. There are few such pilots in the Russian market. These pilots are well trained, loyal and stable pilots. Sure, our pilots are very popular among other employers, such as Transaero Airline, as we operate the same aircraft type.



Andrey Zalyautdinov

Flight Department Director of ABC airlines



Eugeniy Borisov

Deputy Flight Department Director of ABC airlines

### Is there any difference in training programs of AirBridgeCargo Airlines and Volga-Dnepr Airlines?

We use all best practices of Volga-Dnepr Airlines in our training. We have to consider some specific features of scheduled operations. You can form large training groups for flight training and technical training of the personnel in charter business. While in scheduled business we experience lack of personnel that make us develop distance learning practices using feedback through personal computers.

### Is AirBridgeCargo Flight Safety Policy good enough from the point of view of the pilot?

I am sure that our Flight Safety Policy may be used as example for other Russian companies. The companies with developed and implemented Flight Safety Policy can be counted on the fingers of one hand. Aeroflot and S7 Airlines are among them. We inform every pilot about our Flight Safety Policy on the employment stage in order to assure full understanding of principles of the policy that is to find out the cause of the incident to prevent it in the future rather than to find guilty person.

### Can you qualify ABC Flight Department as the Team?

Yes, we have a very good team, new pilots continuously join our team, and it grows and develops. We all feel the building of the team spirit, the same as in Volga-Dnepr Airlines, new pilots feel it very well and in a short time they become a part of the team.

## 2007 Performance. The most significant events of Volga-Dnepr Airlines.

First of all, Volga-Dnepr Airlines has continued to take leadership positions in air cargo market. We have reached high sales volume: \$116 mln. for IL-76, \$23 mln. for modernized IL -76-TD VD, and \$441 mln. for AN-124. Secondly, high safety coefficient has become another significant result of the Company in 2007. For instance, we had 18 incidents in 2006, but in 2007 we had three times less incidents – only 6 incidents. Two of them resulted from human factor causes, and another four resulted from machine factor causes. It is characteristic that IL-76 aircraft were involved in all four incidents, while AN-124 had 100% reliable performance. I shall mention significant efforts of flight department and engineering department in reaching higher safety level in 2007. Major results were achieved through improvement of engine testing procedures, landing gear components checks, and composite materials examination. Thirdly, the Company may be proud of IOSA certification and active participation in the development of qualification rules which shall be used in IOSA audits of cargo air carriers. I would like to add to the list another great achievement of Volga-Dnepr team in 2007 – delivery and entry into service of the second modernized IL-76 aircraft.

## Is it true that increase of sales volumes being achieved through flights to heightened war risks areas?

The sales volumes include contracts of AMC, the Company's military customer. Nevertheless I can't tell that the sales volumes were increased due to such flights only. A series of measures have been developed to increase Company's sales, including increase of flying time. The Company's AN-124 aircraft flew 15 534 flights hours, and IL-76 aircraft flew 8 070 flight hours in 2007 substantially exceeding the performance of the previous years. Also, total AN-124 fleet flying time was increased by 10-15 %. Another substantive factor in increase of sales volume is the fleet availability. The Company reached the best availability level of 8,22 aircraft. It is a very high level.

Furthermore I would like to mention the high quality of our services recognized by market players. Despite rather high costs the Company's sales manager are in position to can well afford to hold high prices on the market due to competitive quality.



Sergey Dyachkov

General Director of Volga-Dnepr airlines

## Which projects and objectives were extended to 2008 or added?

Strategic goals are long-term objectives, thus most of Company's goals and objectives of the corresponding chart were transferred to 2008. The main objective and strategic goal in flight safety is to maintain and improve flight safety level. Another important project is Renewal of AN-124 production. The Group's Project Team works on the development of the project. We understand that the future of the Company has indefinite future if the project is not successfully realized. IL-76 Modernization Project has been successfully developed: three more IL-76 TD VD modernized aircraft shall be manufactured. Volga-Dnepr Technique Project of creation of Maintenance Organization for maintenance of foreign manufactures aircraft is developed. The Project is to provide maintenance of ABC's Boeing-747 with its own maintenance team. The following decision has been taken concerning this project: in 2008 the construction of the hangar in UAE shall be started, construction works are to be finished in 2009; maintenance personnel for B747 maintenance program has been employed, the staff receive training in the Company. In 2008 we shall provide more than 120 maintenance specialists for B747 maintenance. We have projects, and our main goal is to realize them.

## What does Volga-Dnepr City Projects include?

The Project shall help us to resolve the main problem of the labor market in the country – the lack of qualified personnel. Now we get together here in Ulyanovsk all the specialists who have high qualification in flight work and engineering work. The market is used up. At the time the Company shows growth of operations, flight time and AN-124-100 maintenance works. We experience a serious lack of qualified personnel. We stake on the availability of housing facilities for Ulyanovsk staff, as housing matters are the main difficulties in the hiring of personnel.

## The Charter Business Strategic Session was held recently, were any VDA objectives changed?

The last year objective was profit making, this year objective is opposite but not in conflict with the previous year objective. New objective is to work on Group cost improvement. We have two ways to increase revenue of any business unit – through profit making or cost improvement. 2008 year is named as Cost Improvement Year. We shall analyze jet fuel prices increase, vendor items prices increase, calculate insurance rates, and optimize uniform operation processes using IT-technologies, thus decreasing the number of personnel, and, therefore, improving costs.

## Volga-Dnepr Airlines is the acknowledged cargo market leader. What are the plans?

The goal is stated in the Company's Goals and Objectives Chart: we shall enter Top 20 Air Cargo Carriers by 2019. And in this direction we shall move year after year.

## Please, share your secret of success.

The secret of success in our work is the high quality of services rendered that is reached through careful study of the feedback. This is a usual ISO system approach. The key features are Company's interest in client needs and goodwill together with 100 % compliances with agreements and warranties stated. Everything is the same as in life – we all like to visit places with good service.

### What are the key Flight Safety events in 2007?

In 2007 Volga-Dnepr Airlines managed to pass IOSA. Volga-Dnepr is the first Russian cargo airline to obtain IOSA Certificate. It was a hard task to do. Our professional Flight Safety Team provided fantastic results – two findings out of 700-800 inspected items. We are getting ready for the next audit in two years. We expect that the requirements will be more serious, so we start our preparations right away.

In 2007 we showed significant improvements in Flight Safety Management. The results are impressive since 2000 when we launched the program. The performance is stable and Flight Safety index decreased to 0.59 incidents per 1000 flights.

Moreover, we are implementing our Flight Safety Monitoring System at AirBridge Cargo. ABC updated our procedure: they're monitoring incidents and their precursors. Their system differs from that of the VDA, it is more sophisticated. Same as using the magnifier and digital microscope – same monitoring procedure, but more precise. In 2008 we plan to use different methods in order to make necessary improvements.

In 2007 we were highly evaluated by Flight Safety Non-Commercial Partnership: Volga-Dnepr Airlines obtained the Certificate "For outstanding results in Flight Safety".

Meanwhile, there was an adverse fact – another AN-124-100 overrun in Gander.



Yury Malevinsky

Director, Aviation Accidents Prevention Department, Volga-Dnepr Group of Companies

The first event occurred in 1998. We conducted two different investigations: internal and official one. Recently we received a formal report from Canadian Authorities. We revealed that incident was caused by human factor.

### What are the key factors for Airline's Flight Safety in future?

Flight Safety Fund determined a number

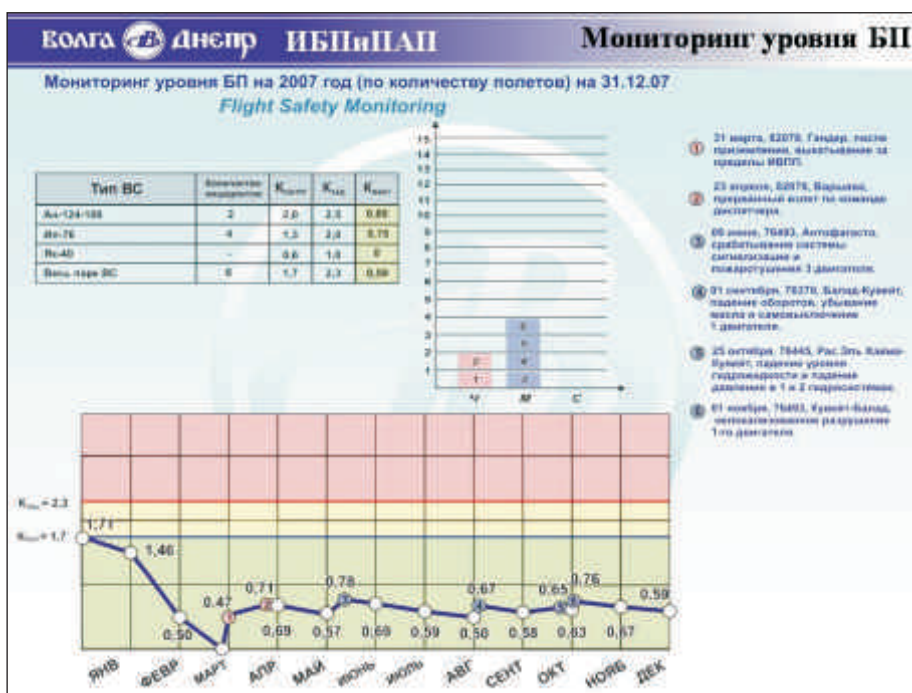
- of new hazardous factors for Flight Safety:
- rapid growth of cargo traffic worldwide;
- lack of qualified personnel;
- lack of political will (Government and Airline's Management);
- Flight Safety Management problems;
- criminal issues during investigation;
- ATC risks;
- runway security.

### Plans for 2008.

We look forward to routine work on Flight Safety Corporate Manual. According to ICAO requirements issued in 2006, each Airline is obliged to implement own Flight Safety Manual by 2009. We are going to develop the standardized document, such as our master Flight Operations Manual. We already drafted most categories. Since 2000 we apply Flight Safety Management System and Decision-making Policy in respect of operations to high risk areas. Several works on probability methods in Accidents Prevention are also available. Only Risk Management Section is not ready, although we've found the right approach.

### What events do you expect in 2008?

Obviously, the Middle East remains the most risky area. We are aware of all types of risks and will be able to handle them due to careful Crew Management and Fleet Continuous Airworthiness.







Vyacheslav Sirota

General Director, New Insurance Company

Considering the results of several recent policy periods we can say that year 2007 was most favourable in terms of insurance. The policy loss ratio was less than 4 per cent. It is not a mere luck, but the results of Accident Prevention and Flight Safety Policy in Volga-Dnepr Group. In 2002 this ratio exceeded 12 per cent, and it was reduced to minimum within 3-year period. The revenue from cargo operations almost doubled and reached the level of USD 1 billion in 2007.

During this period Volga-Dnepr Group extended its operations with AirBridgeCargo Airlines, a scheduled cargo airline using Boeing-747-200 and 747-400 aircraft. According to statistics, the Flight Safety Policy of charter operations was successfully adopted by scheduled cargo business. The methods of management succession within the Group led to perfect results in terms of Flight Safety and Accident prevention.

Another decisive factor shall be the introduction of AN-124-100 simulator in April 2008.

For the last four years the fleet value almost doubled and will be equal to USD 1 billion by July 1, 2008. The Group Management is considering further fleet expansion. We placed a purchase order for five brand-new Boeing-747-8F freighters to be put into operation in 2010-2013 with additional option of another 5 aircraft of the type. Two TU-204 aircraft will be soon delivered, as well as modernized IL-76TD-90VD (3 freighters to be delivered in 2009-2010), and resumed production of AN-124-150 freighters.

Summarizing the opinions of Group Management, I'm proud to say that Volga-Dnepr Group is always attractive for Western insurance players, and we expect the adequate response to market development by Volga-Dnepr Group.

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