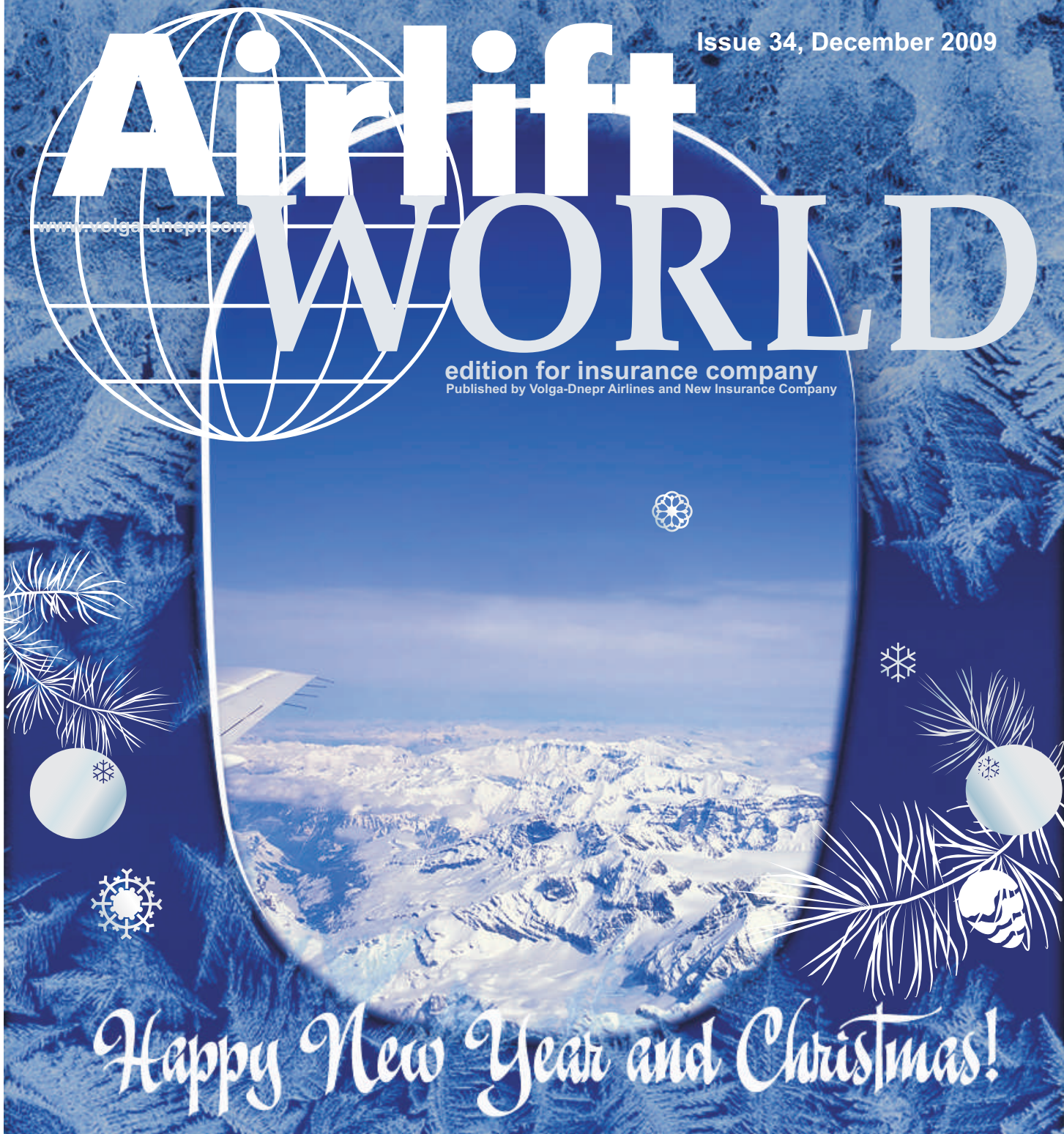


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# Airlift WORLD

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Happy New Year and Christmas!

*Dear colleague!*

*Please receive my congratulations on the coming Christmas and New Year holidays!*

*We wish you stability and success.*

*Let all your expectations come true.*

*Be you and your family healthy and wealthy.*



*Yours sincerely, Vyacheslav Sivota  
general director.*

## During one of pre-New Year meetings with employees, president of Volga-Dnepr Group Alexey Isaikin congratulated project teams and summarized performance of Volga-Dnepr projects in 2009.



As was noted by him: "The 2009 was remarkable for our projects". This year's main achievement was the success of AN-124 resumed production efforts, which were supported by Russia's president Dmitry Medvedev. A historical decision was made at the highest level for the government's order of 20 new Antonov 124 aircraft, thus actually giving the green light to launching the project, now moving up from feasibility-proving and lobbying to the phase of practical production steps. No need to mention that this is decisive for the future of our company as the project is vital for the very existence and prosperity of Volga-Dnepr Airlines for many years to come.

The 'quiet' IL-76TD-90VD project stumbled through certain obstacles in 2009 as the market shrunk. However, thanks to additional efforts, all doubts in demand for the aircraft were cast aside with a decision to go for completion of the third new IL-76 for Volga-Dnepr's fleet in current challenging market conditions.

The third major division of the Group – Volga-Dnepr Technics actually took shape this year. Now the existing Charter and Scheduled core businesses would be complemented with the Maintenance arm. This project involves a large portion of employees and is meant to make aircraft maintenance another distinctive competitive advantage of the Group.

The Corporate University initiative was spurred largely this year. It would receive increased attention from the group president next year as the company's development and the new goal to enter the world's top three cargo carriers would be impossible without adequate training of its staff. The CU's main objective would be to minimize any loss of knowledge, and facilitate proficiency and competency of the Group's employees.

AirBridgeCargo continued with gradual steps on the establishment of the first in Russia full-scale cargo hub. The implementation of such project would enable ABC to achieve a new level of improved service. Also of significance would be the introduction in the airline's activity of e-freight solutions with benefits similar to e-ticket applications in the passenger airline business.

Infrastructure projects, namely Volga-Dnepr City and moving to new premises in Moscow would play an important role for the development of the Group. Substantial progress was made in both to account for prospective company growth.

Other promising projects included developments in ABC Fleet Management, Small-size Cargo Services that would result in more opportunities and additional profit for the Group. With new

advancements introduced in AN-124 flight simulator development and Flight Operations Control Center, the company effectively streamlined its processes and brought more efficiency to its operations.

Finally, the project to be singled out is the Volga-Dnepr 20th Anniversary Celebration project awaited in 2010. Undoubtedly, the company's history, the history of its growth is fundamental for the corporate culture and will lead to future success.

Projects are a tool of implementing changes in the company. The fact that lots of people are engaged in our projects means that our company is a live, constantly developing organism. The new global goal of the Group entails new high requirements to the company's competence in general. "To achieve new heights, we will need dozens of new heroes, new leaders," emphasized Alexey Isaikin and called for more active efforts of ambitious employees in pursuing new challenges.

**Last year global financial crisis disrupted airline services market impacting not only passenger airlines but also cargo carriers to even greater extent. According to its leader, President Alexey Isaikin, Volga-Dnepr Group - Russia's largest player in air cargo market - was able to retain its customers by reducing its prices and because, unlike many passenger carriers, it did not just sit around waiting for support from government.**

### — When did the crisis reach global airline industry?

— In October-November 2008. Instead of expected high cargo season for scheduled general cargo services which normally starts in October we saw a considerable decline in volumes and excessive supply over demand, which lead to initial decline in prices and severe competition for every kilogram of load. As we served commodity flow from China to Europe, it was the first sign for us indicating that it was not just a financial but a whole economic crisis. The situation was aggravated between December and February, which lead to a decision to ground aircraft and suspend operations made by major international airlines.

### — When did the dip occur?

— The most drastic fall in scheduled cargo of 23% in general for all carriers was recorded in January and February, with overall for the eight months being 18%. According to IATA experts, since June there has been a move towards agitation of demand and slowdown in the rate of decline. Thus, decline in cargo traffic in July was 11.3%, and August — 9.6%, with expert estimation for the year being 8%. We tend to relate this fact to some seasonal agitation in the market, and we also hope that growth of consumer indexes will continue thus indicating gradual recovery of the economy from crisis. Nonetheless, we all should understand that the crisis of 2008-2009 will be remembered one of the deepest crises for the industry over the recent three decades, and even most optimistic projections show that the market may be able to return to traffic figures of 2007 only in three years. Considering the fact that many enough aircraft will stay on ground, and the tendency toward increase in fares is very unstable, we understand that we are now to fulfill a challenging task of retaining and developing our business in severe competition with airlines from the West.



**— What were your actions in that situation?**

— The main task was to respond to fluctuations in demand promptly, optimize business through flexible management of route network on a daily basis and cost-saving measures. These efforts produced sound results, and for scheduled services we even achieved some growth in load. In August, AirBridgeCargo showed growth of 26.8%, with overall for the first half-year being 5%.

Growth was mainly achieved in traffic flows from China to Europe, where we were able to retain and maintain our key customers and draw a part of load from those competitors who had suspended their operations at the beginning of the year. We also managed to expand our volumes from Europe to China through creation of own sales infrastructure in the region and expansion of coverage area (Spain, Italy and Netherlands).

However, the fares that we applied in selling those volumes resulted in revenue growth rates being considerably below the pre-crisis level. We deliberately maintained normal scope of services for our customers expecting that after recovery of demand in the market and, consequently, increase in fares, our customers would stay with us and would not turn to competitors. Now we already see slight indications that the customer is ready to pay a bit more than in the first half-year. But the fares are still considerably below the last year's.

**— To what extent you had to reduce your fares?**

— The sharpest fall was in European cargo, while for loads generated in China and Asia in general the decline was not that sensible. Fares differ from destination to destination, but on the average decline in the market was 23%, and for certain regions — 30-34%.

**— Was your company ever suspected in price dumping?**

— Everybody seems to have forgotten about price dumping, because everybody generally stays within common trend: all carriers operate within the "minus" zone, and this is a clear indication that services are sold below cost value. Everybody is trying to maintain their core businesses and to secure at least minimum revenues sufficient to retain key personnel and not to return leased aircraft to lessors.

**— Now many say that the crisis will soon be over...**

— Some agitation can be felt, but the future is still unclear. This crisis has shown quite clearly that normal laws and dependencies, such as seasonal fluctuations, are inapplicable during this period. We expect that high season to come this time. However, the environment is so volatile that we are hardly able to confirm final diagnosis till mid-October. As we see some agitation in the market, we expect to proceed with optimization of our fleet and add minimum one or two Boeing-747s until the year end so as to reinforce the emerging tendency and benefit from scale effect. But we are still going to keep monitoring the environment so as not to offer market more capacities than can be actually loaded.

**— What is situation like in air charter services market?**

— Claims that we receive from air charter services on ramp aircraft are quite different: prices are high. This may be explained by a number of objective reasons: costs of production and maintenance of aircraft increased along with prices of aircraft spares. So there is a challenge, but we try to maintain balanced

policy. While the market of services for foreign governments remains stable, it is impractical to sell service to a commercial customer at the same price.

According to our records, decline in air charter market is at the level of 21%. But air charter market is to less extent oriented on daily consumption. Operations are split between two major segments: investment projects (many of which are now suspended, but for some development continues) and government orders. Government orders have been growing very rapidly over the recent five years: these refer, first of all, to peace-keeping and counter-terrorist missions initiated by the US and EU nations. This segment shows only minor changes due to crisis, and prices there remain at the same level, which allows us to show good financial figures despite shrinkage in volumes.

**— What is the share of government orders in the company's portfolio?**

— Nearly one half, but we relate this to the period of crisis, where the share of operations for commercial customers is smaller. But we reasonably expect the size of this sector to be maintained and subsequently to grow. We see that most of states, even the US, are now experiencing deficiency of budgetary funds and thus are trying to find more cost-efficient solutions. As it turns out, to build and maintain a fleet of ramp aircraft using state budget funds is much more expensive than to utilize services of commercial carriers.

**— Have you ever applied government for financial assistance, as many passenger carriers do?**

— Volga-Dnepr is a company built from scratch, therefore the company's management do not tend to count in their work on government granted assets or finance injections of any nature. When government funding possibility was first spoken of, we understood clearly that it mostly referred to passenger services business due to its publicity and sensibility in social context. We engaged in initial discussions, but very soon it became clear that cargo business is different - unlike passengers, cargo would not complain and require catering or accommodation, - so if there was to be any support, it would be offered to passenger carriers first. So we from the very beginning abstracted from empty expectations and focused on what we could do ourselves.

As I already mentioned, charter services on Russian build ramp freighters proved to be a "crisis-proof" solution, which now enables us to maintain stable performance throughout the Group. For scheduled business, our main achievement is that we did not fall together with the market. We were able to stabilize our losses soon enough: the losses that we recorded in late fall of 2008 would not increase till early spring despite the decline in volumes. In this sense we touched the bottom of financial performance, from which we are now pushing towards regaining our revenues.

At the same time, we applied Russian and EC aeronavigation authorities regarding possible relief in terms of decreased service fees. As a rule, these government-related entities behave as classical monopolists: notwithstanding crisis, they only maintain or increase their charges. IATA, of which we are members, supports initiatives proposed by carriers. Russian government, in my view, does not necessarily have to spend "live" money to support airlines - at least, it would be beneficial to reduce charges for those services which are government regulated. Of course, doing this they should favor national carriers to help them get by.

**— Were there any other relief measures?**

— We held successful discussions with those lessor payments to whom account for a considerable portion of our overall cost, and soon we should have a reasonable discount from these payments. Our main efforts were aimed at reduction of fuel supply, maintenance and airport services costs. Basically, here we have succeeded only with Western suppliers so far. Generally, we have implemented a set of typical cost-saving measures, including those concerning personnel. Relatively happy period that operators enjoyed during preceding years favored our company too: some activities happened to be oversized in terms of numbers, however, we did not have any significant reductions.

**— Are there any adjustments to your fleet upgrading plans?**

— Here, the set of implemented measures is also pretty much generic. Early in the year we chose to park our aircraft for some time, from several days to several weeks, rather than completely ground our fleet. Due to limited resources, our fleet is composed of aircraft of different quality. We have three classic version Boeing-747-200 aircraft, though relatively fresh in terms of time flown. Issues related with fuel consumption of this equipment showed up during the period of high prices of aviation kerosene. Now we are using aircraft of this type for charter operations, and preliminary results of this use turn out to be quite favorable. But yet there is not enough load to fully utilize such capacities.

We achieve greater efficiency in operation of three newest modification Boeing-747-ERF aircraft, which have been delivered directly by manufacturer, and we are planning on complete transition to uniform fleet in future. Despite the fact that all different versions belong to one and the same type, differences of modifications involve use of different crews and servicing techniques. Keeping our Boeing-747-200s airworthy accounts for more than a half of our total costs. Within the nearest half-year we will try to replace Boeing-747-200s with either Boeing-747-400ERFs or Boeing-747-400Fs.

We associate further development of our fleet with the new modification Boeing-747-8, which is to be reproduced with extensive use of composite technology. In 2007, we signed a firm order for five such aircraft, plus an option for five more. However, in practice this contract turned out to be not so "firm": the US manufacturer faced certain difficulties and notified us that initial aircraft were to be delayed. This was the reason for us to negotiate with them alteration of our initial orders, and recently we expanded our option to five more aircraft. With these, we intend to supplement our scheduled services on Trans-Siberian routes with a Cross-Polar line. Such service can connect China - the world's consumer goods factory - with its key markets in the US. Currently these routes stay unappropriated because of lack of aircraft having suitable operating range, but the "Eight" will enable operations of this kind.

**— During the MAKS Air Show a document was signed regarding approval of technical specifications on the resumed production of AN-124-100 RUSLAN. What meaning will such a decision have?**

— Significance of the decision is that we have come to the next stage of the Project development: practical work. Until this moment we were mainly engaged in advertising, making the Aviation Industry's and Government's Executives believe in the Project viability. Now, at long last, the technical specifications of AN-124 are approved, which declare that we are not going to manufacture an outdated aircraft under obsolete technologies. Instead we will bring to the market a new successful product in a new technological shape. For example, the Airframe will be made under the template technology, however and all the aircraft

equipment and instruments will comply with digital standards. This will allow to use to the maximum possible extent, the equipment of Ulyanovsk Aircraft Factory, and on the other hand, the Aircraft will be capable of meeting current operational requirements during another 15 to 20 years.

**— What next decision should be taken to ensure the progress of the program?**

— My belief is that the next decision should be taken on a Presidential level. This would be the approval of business-plan which is being drafted by us at the moment, and finance arrangements. It is evident that this should be of a mixed type — Governmental and Private. And it is the subject that all the Project participants are working at.



**— Did the Military clarify their position?**

They are yet to do it. But I think that the experience of US Department of Defense should set an example to us. No Nation claiming to be geopolitically active and involved in antiterrorist operations can do without logistics, without a strategic transport aircraft of such class. I am convinced that sooner or later the decision regarding updating of AN-124 fleet will be taken. Our optimism is based on the current condition of this aircraft market: if this segment would fell so dramatically as the whole market, probably we would have refused from such an idea.

**— You mentioned an additional order of Boeings before the year end. Did it become possible after cancellation of customs duties on large freighters?**

— This measure has not yet influenced our plans of the fleet expansion in 2009. We believe that it will be reflected on our economy in 2010-2011 and onwards when we will start taking deliveries of Boeings direct from the factory. Actually, it is a long awaited decision and certainly our estimation is positive. However, to be objective, I must say that the decision is necessary but insufficient. Along with customs duties we have to pay VAT, which is as big as 18 % of the aircraft cost. If you remember that large class aircraft cost above USD 100 million, you will understand how serious such amount is. Removal of VAT will really counterbalance opportunities of Russian, West-European and Asian carriers who have no barriers in using expensive aircraft as opposed to us.

**— Why the VAT is being spoken less often now?**

— This question has been raised more than once, but it stood behind a more politized subject of customs duties. VAT is a part of

National policy: If the state has an intention to develop transit international transport operations it shall have to establish favorable conditions for carriers and airports. The Nations who have set such a priority, they are now maintaining good businesses producing substantial budget revenues. The much spoken examples of Dubai (UAE) or Frankfurt (Germany) hubs are a good proof which testify to fruitfulness of such decisions. In our case the expanded fleet of Boeing-747s will result in increased revenues of Sheremetyevo and other airports where our aircraft are handled. After an appropriate infrastructure is established in Sheremetyevo we could provide a required minimum of cargo operations to ensure creation of a hub there.

— **Is the existing infrastructure insufficient?**

— Actually there is no advanced cargo terminal there, same refers to the equipment and qualified personnel. Cargo handling operations quite often result in damage of aircraft as the small volumes handled in Sheremetyevo do not allow the personnel to gain sufficient skills and qualification and to furnish the airport with necessary equipment.

— **Construction of a new cargo terminal in Sheremetyevo was already declared...**

— It is a step forward but unfortunately this will not occur in one day. We support efforts and plans of Sheremetyevo although we do understand that such large-scale projects need time and significant investments. From this side we see that all transit and import-export traffic of goods goes through Sheremetyevo. But in reality the amount of cargo handled in all Russia is less than that of Frankfurt.

— **Do you think that the situation can be changed?**

— One of our areas of activity is to set up a network of cargo hubs in Russia, starting from Sheremetyevo in Moscow, and further in Krasnoyarsk, Vladivostok or Khabarovsk. According to our calculations that we submitted to the Government, four or five cargo hubs will generate USD25-30 billion per year. This is a great industry. We do hope that upon establishment of such industry national carriers will get certain advantages, but it would be impractical to create those for a single company: no hub would be operational under such conditions. Advent of

Lufthansa or Cargolux would be more than positive. This strategic decision should be taken on the highest level as the infrastructure can not be created in one day: it takes a decade from the day decision is taken to the time it is created.

— **Your company had a Joint Venture with private AiRUnion shareholders for establishing a hub in Krasnoyarsk. What is the current status of the project?**

— We have not communicated with Boris Abramovich (represents private AiRUnion shareholders —"?) for about eighteen months and you know the partner whom you can not socialize with is actually non-existent. I do believe that the Government of Krasnoyarsk Region could be regarded as our new partner within this project. Certainly, disappearance of AiRUnion caused many changes in our plans. They tried to implement a hub-based technology. They managed to gain some success: they consolidated passengers from different locations in one point and trans-boarded them to long-haul destinations. That was one of the reasons why we selected the Krasnoyarsk airport for our purposes. At this time we have no any passenger partner, we should find one. But we do not leave the project. We operate one frequency via Krasnoyarsk but still we can not develop it as well unless they get a carrier with sufficient cargo traffic. One ton per month is too small amount to maintain dozens of personnel employed.

— **You mentioned the need to set up a "civilized" customs environment. What are you dissatisfied with?**

— The issue is critical for all the carriers. In my opinion, the Russian Customs should compete with foreign customs and to ensure that cargo is handled in Russian airports. Now we are in an inexplicable situation where the Russian cargo first goes to Helsinki, Prague or East Germany and therefrom comes back to Russia via trucking companies or foreign air carriers. It happens because the cargo coming in as imported goods from Europe undergoes through simplified customs regulations. For Russian consumers such a logistic scheme is absurd and expensive and Russian airports and air carriers lose profit opportunities. Initially the Customs authorities and their procedures were invented to serve the needs of the trade exchange and to protect its own country, but in reality the situation is quite opposite.

## Volga-Dnepr urges a new vision on its maintenance

**VDT: Pursuant to Volga-Dnepr President's Memorandum, a decision was made to spin off its maintenance services into a separate business unit – Volga-Dnepr Technics (VDT).**

VDT's divisions will be geographically structured to include maintenance facilities in Moscow and Ulyanovsk (Russia), Leipzig (Germany) and Sharjah (UAE). VDT's management structure and control lines are now being developed.

**VDT-M**

VDT-Moscow will concentrate on maintenance of Western-built aircraft. It was the idea to arrange in-house maintenance for the Boeing fleet that pushed us to the decision to go for Volga-Dnepr's own maintenance base. We possess everything necessary for such services and, most importantly, we have confidence that we can do it up to the standard provided by Lufthansa, the maintenance provider we have used until now, especially considering the fact that we already have the experience. It is not a secret that maintenance of Volga-Dnepr Airlines's fleet has been provided internally without any outsourcing and now we aim for the same for ?irBridgeCargo's Boeing 747 fleet.



*Sergey Dyachkov, Executive Director, Volga-Dnepr Technics*



After we ensure that VDT-M is running smoothly, the second phase will be to provide services to outside organizations operating Western-built aircraft.

#### VDT-U

The decision to set up Volga-Dnepr Technics Ulyanovsk was significantly influenced by the project of Special Economic Port Zone (SEPZ) to be developed in Ulyanovsk. Formally, only a company that has no branches may be qualified as a SEPZ resident. As Volga-Dnepr Airlines has a number of branches, it was decided to establish VDT-U and register the new company as a SEPZ resident.

For now SEPZ is a regional project but it is meant to gain the federal status and significance. This was confirmed by Russia's president Dmitry Medvedev during his recent visit to Ulyanovsk. It is assumed that initially VDT-U will have no outside customers and will only serve the internal needs of Volga-Dnepr's fleet, namely AN-124 and IL-76.

Of course, in order to provide services to outside customers, it is first necessary to find one. We work in this direction and already have some ideas. During certification flights of Sukhoi Superjet 100 in Ulyanovsk, we reached a preliminary agreement on setting up a maintenance center for Sukhoi Superjet at VDT-U facilities.

By the way, it is supposed that Volga-Dnepr Technics Moscow will also provide its maintenance services to Western aircraft in Ulyanovsk-based hangars to be built by 2012.

As for our potential clients, our plans contemplate for serving the range of aircraft to be produced by OAK (Russia's United Aircraft Corporation), e.g. Sukhoi Superjet and AN-148. We hope to see among our clients those operators which have no in-house maintenance resources and which actually will have no need to develop their own facilities as it will be easier to fly to us and receive quality service.

#### Personnel and staffing

We search for and hire employees mostly in Ulyanovsk with a focus on young ambitious graduates. There is a number of technical universities and professional colleges in Ulyanovsk and

neighboring Samara, where we draw young specialists. We select personnel and, if necessary, arrange for their additional professional English training in Volga-Dnepr's language center to the required standard. It is obvious that well-prepared experienced professionals have already found their place both in life and work. That is why we train and grow our specialists for B747 internally and step-by-step. To this date, we have a team of 45 people, with 26 of them already trained and duly qualified. The rest now receives English courses, hands-on training on Western aircraft maintenance at ABC's base; a group of engineers is in Singapore for practical experience. There are no problems with staff, when it is well cared for.

#### Safety

I believe that the establishment of own in-house maintenance bases will have a significant effect on improving the quality of airworthiness and safety control. This is logical as managers will pay more attention and have the very insight into improving the quality of service, up-to-date equipment and enhancing qualifications of their employees. And we plan that all pre-maintenance preparations that will remain with the operator will be of high quality with an aircraft coming for a check supplied with all necessary expendables, consumables and components. We are all in one boat together.



## Goliath of the skies takes wing again



Russian President, Dmitry Medvedev, has relaunched production of the world's largest airplane - the An-124 - with key industry players saying it's heavy lifting capacity is demand.

Dmitry Medvedev toured the giant An-124. 36 metres long, it holds a quarter more than U.S. rival the Lockheed C-5. Funding woes stopped production in 1996. Russia's President said if they don't bring back production, other countries will take its place.

"There's a market niche for new large cargo transporters. If we don't seize this opportunity, others will."

124s have been used to transport locomotives, aircraft and consumer goods as well as elephants and whales. The plane's producers say they can save companies money. It is being marketed as a solution for the modern, just-in-time economy. Where other planes have to make several round trips, the new An-124 will carry 150 tonnes, or some 53 family cars, in one journey.

Most heavy goods go by sea. Aleksey Isaikin, President of Volga-Dnepr, the world's top heavy cargo transporter, which owns 10 124s, says they work out much faster and cheaper.

"BP used our 124s to ship oil rigs to a deposit in Colombia. They say it worked out tens of times cheaper than by boat. But we desperately need new planes to fill demand."

With an estimated price tag of \$200 million per plane, Aleksey Fedorov, President of the United Aircraft Corporation, says the government should get a good return on its investment.

"We will manufacture 70 new 124s in the first phase. That will require investment by the government of half a billion dollars."

Manufacturers promise the new model will be better than before, with modern aviation electronics and improved performance. Production is expected to start next year.

(Channel Russia Today 25.11.2009 22:51)

## Be Number One!

Another operating year for our Company is now ending. This year has been remarkable in many respects. It was the year when the global economy was struck by a severe finance crisis. Survivability of all businesses, including our company, this year was put to a test. And now it is clear that our company has passed the test quite successfully. Furthermore, now we can surely state that building on the results achieved during this crisis year we will continue successfully both in the coming year and beyond.

While working hard to overcome difficulties that fell upon us during the time of crisis, we could hardly notice that we fulfilled the main strategic objective that we had set to ourselves for the year 2019: to enter the top twenty, and even better the top ten best air cargo operators. However, when we viewed the global rating of cargo carriers led by Federal Express, we saw that Volga-Dnepr Group would already be around the tenth position. We made it 10 years ahead of planned dates. Initially planned for 2019 and achieved in 2009.

So, what are the changes that allow us to progress and reach the 10th place among world's leading cargo air carriers.

The start of the new millennium was marked by a serious change: we terminated the relationship with our UK partner HeavyLift. Upon that we saw an avalanche-like improvement of results. The company that could not overcome the 100 million sales barrier, now, for the incomplete decade, has increased its Antonov 124 business by almost ten times. This is our award for overcoming ourselves first of all.

Another notable change in our business during the same period related to capricious and delicate launching of a new business – scheduled cargo services on Boeing 747 freighters. And I am delighted to mark out one more outstanding achievement of 2009: AirBridgeCargo and 500 people employed there started to make profits this passing year.

And I cannot refrain from mentioning one more

success. This concerns the key political decision on production of new and, as expressed by President of Russia Dmitry Medvedev, "reprocessed" Antonov 124 aircraft, implying for the aircraft's modern digital design and production processes. A decision was made to place a government order for 20 such aircraft for the Ministry of Defense. This means that the project as a whole contemplating for production of 70 aircraft becomes even more feasible and realistic as it is always important that the government demonstrates its attitude and support towards the project. The decision is made and now there is a new stage ahead of us – a stage of implementation, where we will have to show our ability to consolidate necessary resources to keep up our orders for new Antonovs. Why it is important? Because when our customers have the answer to how long the AN-124 and associated business will exist, they have confidence that far-term relations can be built with us. As of now, after the key decision is voiced out, we can more or less assure our customers and say: "Yes, the Antonov 124 is a renewable asset. This is the service that you can count on for the next decades." No need to mention that we mainly work for long-term planning businesses with long-term requirements - that is why the answer on life of AN-124 is extremely critical for our customers.

It is exactly thanks to synergic result achieved through use of two different businesses – scheduled air cargo operations with Boeing 747 and air cargo charters on Russian build ramp freighters – we have been able to show this year outstanding aggregate figures.

Based on all the above, I would like to note that Volga-Dnepr Group has now reached a new important milestone where we can set ourselves a new target: To become the Number One or at least enter the Top Three cargo carriers in the world, to become a truly global Russian cargo carrier.

*President of Volga-Dnepr Group Alexey Isaikin*

## 01-12-2009 AirBridgeCargo Adds Another Boeing 747-400ERF to Its Fleet

AirBridgeCargo Airlines (ABC), the scheduled cargo subsidiary of Volga-Dnepr Group and Russia's largest international cargo carrier, has added one more Boeing 747-400ER Freighter to its current fleet.



The new aircraft takes to four the total number of extended range Boeing 747-400s in the ABC fleet. It also operates one Boeing 747-300 and two B747-200 cargo aircraft. The additional aircraft will enable ABC to follow its strategy of fleet and network expansion with further

development and improvement of hub operations at Moscow's Sheremetyevo international airport and the provision of further improved services for its customers.

In the first 10 months of 2009, ABC transported 124,835 tonnes of cargo, a 14% increase over the same period of 2008.

Tatyana Arslanova, ABC's Executive Senior Vice President, Strategy, Marketing and Sales, said: "The fact we have taken this additional airplane reflects ABC's commitment to its consistent strategy which includes unification and modernization of its fleet, development of our route network and building of long-term relationships with our customers.

"The continued realization of our plan has enabled AirBridgeCargo to achieve growth and increase the company's performance, even in such challenging economic circumstances as the industry has experienced in 2009."

## 02-12-2009 Management Reserve Training in progress



November 26-27, Ulyanovsk. Corporate University training covered two next Seminars: "Organization Management" and "Finance Management" involving management and finance personnel of the Group. Instructors were Andrei Dyatlov and

Anastasia Martynova, and Sergei Shklyanik, Egor Telpouhovskiy and Danil Shpakhov respectively.

The first Seminar, Organization Management, focused on analysis of functional and process approach essences based on the examples from activities by Volga-Dnepr Airlines' divisions.

The second Seminar, Finance Management, had a significant practical orientation, as the 'survival' issue is the Company's main goal this

year. Special interest was undoubtedly drawn to the participation of Sergei Shklyanik, Group's Senior Vice President, who apart from telling about financing activities, shared his experience in operations of Volga-Dnepr Group. Generally, discussion mode prevailed at both of the Seminars. We would also like to note that all participants featured a proactive attitude while doing practical assignments, which was very useful to everybody.

Corporate University



## 09-12-2009 AirBridgeCargo is the largest cargo performer in Frankfurt airport in 2009

Frankfurt, 03.12.2009 – Fraport Cargo services (FCS) have announced the award winners for "The best cargo performer 2009" in Frankfurt airport.

According to the results of this year AirBridgeCargo took the first place in the category "Most volume in 2009", leaving behind Cathay Pacific and Emirates. 11-month tonnage totaled to 31 040 tonnes, which is 30 % higher compared to the same period of previous year.

"The best cargo performer" reception is held every year with the prize for all the winners being Hessisch Bembel - Jug for famous Hessian beverage – apple wine.

A well-deserved award came as an acknowledgement of hard work performed by Frankfurt team throughout this challenging year for the whole industry.

"We would like to thank Frankfurt team for their contribution to our company's overall success. Significant and stable increase in volume just tells us once again that we have the right people on the right places" – pointed out Wolfgang Meier, Senior Executive vice-president, Sales. Congratulations to Frankfurt team!



Photo from left to right: S.Wulf Director FCS, Ludwig Hamburger and W.Hartmann Director FCS at the ceremony – handing over the prize.



## 19-11-2009 Volga-Dnepr Group unveils Engineering and Logistics Center

Volga-Dnepr Group implements a new initiative dubbed Engineering & Logistics Center (ILC). It focuses on creation of a new business of providing customers with tailored services to support complex transportation logistics projects. The new service contemplates for 'door-to-door' cargo delivery using the company's proprietary engineering and logistics solutions. ILC will specialize in two major logistics areas involving combination of both core and supporting business products of the Group.

The first area – "Charter +" is intended to offer value added services to existing customers. Based on wishes of a customer, ILC will provide optional services, such as autocranes at airports of loading/unloading, cargo pickup from warehouse and/or manufacturer and transport to airport, arrangement and supervision of activities on design and production of special mechanical tooling necessary for cargo loading and transportation. ILC's additional services will also include advising and consultation on various modes of transport, including expert evaluation of cargo packaging for air carriage.

The second area will be provision of a wide range of door-to-door delivery services. Integrated air charter transportation of outsize and project cargo will be arranged on company and outsourced aircraft. Scheduled cargo services will be operated by B747 freighters throughout the route network of AirBridgeCargo and

partner airlines. Moreover, ILC will deal with arranging multimodal logistics packages, including ground and sea transport, as well as providing assistance in customs clearance and insurance of shipments.

Such services will imply the use of all-inclusive logistics and engineering approaches, including in-house unique developments, for full satisfaction of customers' needs. ILC is established as part of the Group's general business development strategy and is called forth by the increasing customer demand all over the world for a comprehensive, integrated service. Meeting of this demand becomes possible with the great suite of advantages possessed by Volga-Dnepr, namely a versatile fleet of mutually complimentary aircraft, in-house trucking services, captive insurance company, outstanding engineering expertise, a customs bonded carrier status and, on top of this, the professional team of specialists. This provides Volga-Dnepr with extensive opportunities to offer customers an exclusive product.

As key markets for integrated logistics services are situated in the USA and Europe, ILC will be based on VDUK facilities in Stansted, UK and led by Vladimir Vyshemirsky. ILC will also concentrate its activities on promotion of the new product in Russia, taking into account the dynamically growing transport needs of the Russian market.

## 03-11-2009 baltic air charter association votes volga-dnepr airlines as 'best cargo charter airline of the year 2009'



Volga-Dnepr Airlines has been voted 'Best Cargo Charter Airline of the Year 2009' by the Baltic Air Charter Association (BACA).

The award was presented by Graeme Sweeney, Chief Commercial Officer of the sponsor, Infratil Airports Europe, at a special 60th Anniversary BACA Awards luncheon, which took place on 29th October at the prestigious Guildhall in London. This year's event attracted a record audience of 320 senior air charter industry executives.

Dennis Gliznoutsa, Volga-Dnepr group commercial director, said: "It

was a pleasant surprise to be honoured with such a prestigious award from BACA. Despite it being a difficult year, we are proud that as a company we have continued to fulfill our customers' expectations, and this award recognizes the success of our hard-working team"

Dick Gilbert, Chairman of BACA, said: "We are delighted to present Volga-Dnepr with this award, which comes as we celebrate the 60th anniversary of the Baltic Air Charter Association. Our Annual Excellence Awards honours quality and distinguished service within the air charter industry." BACA's membership of some 125 companies - including airbrokers, charter airlines, airports, business aircraft operators, freight forwarders, consultants and others – vote annually to choose the winners of the Association's awards. Categories also include Best Passenger Charter Airline, Best General Aviation Operator, Best Airport and Best Handling Agent. BACA is the successor of



the Airbrokers' Association founded by members of the Baltic Mercantile and Shipping Exchange in March 1949. Its purpose was to bring to aircraft chartering the same standards of integrity and professionalism for which the Baltic Exchange and the Institute of Chartered Shipbrokers have for so long been known and respected.

Earlier this year, AirBridgeCargo Airlines, the scheduled cargo business of Volga-Dnepr Group, won the prestigious 'Wings of Russia Award' for 'Airline of the Year – Cargo Carrier Operating in Domestic and International Air Lines'. The airline won the accolade based on its growth and development in 2008 and the balanced strategy applied to its development by Volga-Dnepr Group.

## 20-10-2009 Volga-Dnepr receives thanks for Silk Way Rally 2009

The management of Silk Way Rally 2009 expressed their thanks to Volga-Dnepr Airlines for the carrier's contribution to the arrangement and overall success of the international rally of Dakar series.

Volga-Dnepr Airlines was responsible for general dispatch of flight operations by a joint flight detachment in support of the motor race. After the rally finished, Volga-Dnepr's aircraft brought vehicles of participants from Ashgabat back home to Leipzig.

In his letter, S.O.Giryra, manager of Silk Way 2009 Executive Directorate, noted: "We sincerely thank all Volga-Dnepr team for participation in this international sports project, for their professional attitude, cooperative assistance and supportive understanding in arranging unusual air support of the rally."

The organizers extended special thanks to Maxim Kuznetsov, Air Information Service and Zamil Khasanov, Flight Operations Control Center. The letter stated that "their efforts were an impressive confirmation of their competence as true professionals capable to accomplish the most challenging projects, including international motor competitions."



## 22-10-2009 Maintenance and Airworthiness Management Personnel Reserve



From 29 September to 8 October, Corporate University accommodated seminar series under Management Personnel Reserve Training Programme covering Volga-Dnepr Group Divisions ensuring aircraft maintenance and continuing airworthiness.

Goals of the training session which took place in Ulyanovsk had been specified by the Customer, A.I. Isaikin, Group President: expediting development potential regarding operations management to ensure consistency and succession of the management culture, and training management reserve for engineering divisions of the Group.

At the beginning of the training session, Alexey Isaikin, Group President, announced prevailing problems existing in the Group, and noted he would like to go forward in the same direction as all other managers here and now for well coordinated work and common cause. According to the

President, "a significant number of maintenance managers are persons with engineering background capable of treating "metal parts". The same way it was 10 years ago, the same way it is now. The problem is due to educational gaps: you haven't had an economic background, and this gap needs to be bridged. Such a deficiency is fraught with a bad progress of the whole Company. It is necessary for each manager (whether an engineer or manager) to know both operations and management methods equally well."

Specifically, the Group President focused on understanding term "Manager", saying a manager must learn continuously. Besides, one should teach others, share experience so as knowledge would be retained and disseminated within the Company. It is necessary to continuously communicate with people and be aware of what happens with the personnel, and what they have in mind. This will help ensure a well coordinated work. Besides, corporate value importance was mentioned once again.

The fifty-hour session assisted the trainees to better understand the essence of the term "Modern-type Manager." The session subjects included company management, finance management, budget and accounts preparation, economic analysis, personnel management, Group standards, working efficiency, personnel motivation, quality management, project management, flight safety management and accident prevention etc. The seminars also included investigation of issues associated with Group strategy and Draft Management Decisions, Maintenance Department cost analysis, and manager's role in efficient personnel selection and induction.

It is worth noting that the training was based on certain examples of actual activities in operations. The session resulted in positive feedback by Corporate University trainees on undoubted benefits of such type of training.

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