

VOLGA-DNEPR GROUP

Волга Днепр

2006  
Annual report

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**CARGO SUPERMARKET**



Volga-Dnepr and Subsidiaries



annual report  
2006

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## 1. Key events in 2006

Volga-Dnepr Group is a dynamic and highly professional international organization providing services in the field of integrated logistics worldwide. In 2006, Volga-Dnepr continued to strengthen its leadership in the global air cargo market owing to the expertise and professionalism of its international team, the advantages of its unique fleet and the application of efficient and up-to-date management processes.

In 2006, Volga-Dnepr Group of Companies became the number one airline group in Russia in terms of the volume of cargo transported. Volga-Dnepr's share of the global market for heavy and outsize cargo services reached 52%. In the scheduled air services sector, AirBridgeCargo - a new airline established as an affiliate of Volga-Dnepr Group - achieved a further milestone in 2006 by receiving its own Air Operator's Certificate.

## Charter operations

### March 2006

Ruslan SALIS Project launched. Ruslan SALIS GmbH was established by Volga-Dnepr and Antonov Airlines for the purpose of providing joint operations for the EU and NATO nations.

### July 2006

Ruslan International commences operations; the one-stop marketing and sales center established in co-operation with Antonov Airlines for air cargo charters using AN-124-100 aircraft.

### June 2006

IL-76TD-90VD, a new upgraded version in the IL-76 family, enters commercial operation with Volga-Dnepr Airlines.

### September 2006

The final decision was made to complete the second IL-76-TD-90VD for delivery in the third quarter of 2007.

### December 2006

Volga-Dnepr Airlines transported Russian Polar explorers and Mi-8 helicopters to South America, from where the well-known Antarctic Expedition to the South Pole set off. The Expedition was led by Arthur Tchilingarov, Vice-Speaker of the State Duma, and the Director of the Russian Federal Security Service, Nikolay Patrushev.

## Scheduled cargo operations

### July 2006

Construction of a new Cargo Terminal was started in Krasnoyarsk-Yemelyanovo International Airport. The new terminal is part of the Russian Hub Construction Project and Krasnoyarsk is to be the first air cargo hub airport in Russia meeting international standards.

### July 2006

The size of AirBridgeCargo's fleet was increased with the addition of a fourth Boeing 747-200F aircraft under the terms of an operational lease. This was the first of three -200F aircraft to be received by AirBridgeCargo from Nippon Cargo Airlines (NCA). AirBridgeCargo and NCA have a long-term co-operation agreement.

### October 2006

AirBridgeCargo Airlines received its Russian Air Operator's Certificate.

### November 2006

AirBridgeCargo launched its first domestic scheduled air service from Moscow (Sheremetyevo) to Krasnoyarsk (Yemelyanovo).

# Performance highlights

In 2006, Volga-Dnepr Group achieved stable growth in all basic areas of its business. Group sales reached US\$660 million, exceeding the previous year's performance by more than 40%. Growth was achieved in both the Group's charter business and scheduled cargo operations, the latter being promoted under the AirBridgeCargo trademark. Based on its performance records, in 2006 Volga-Dnepr transported over 95,388 tons of cargo, achieved 992,390.4 ton-km in traffic and secured first place among Russian airlines.

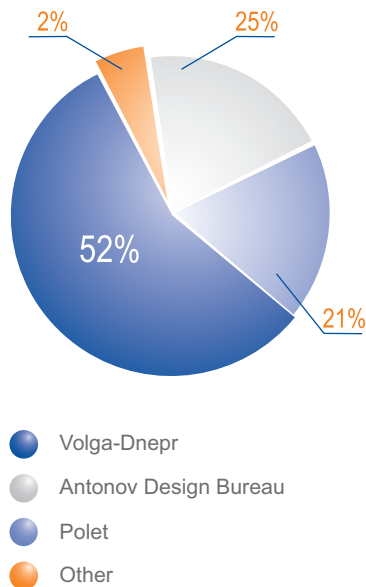
	2003	2004	2005	2006
<b>Sales, millions of US dollars</b>				
<b>Air services</b>				
Cargo charters:	244.3	250.1	339.8	420.8*
Scheduled cargo business:	-	45.8	115.9	227.4
Passenger services	1.3	4.3	5.4	6.2
<b>Other revenues</b>	8.3	8.4	6.7	5.5
<b>Total revenue</b>	<b>253.9</b>	<b>308.6</b>	<b>467.8</b>	<b>659.9</b>
<b>Time flown, h</b>				
Cargo charters	19 035	17 097	18 679	19 354
Scheduled cargo business	-	3 715	8 089	12 929
Passenger services	3 763	4 896	3 355	3 084
<b>Traffic, million ton-km</b>				
Cargo charters	432.751	452.607	421.981	325.576
Scheduled cargo business:	-	145.394	326.463	666.814
<b>Total traffic</b>	<b>432.751</b>	<b>598.001</b>	<b>748.444</b>	<b>992.390</b>
<b>Passenger turnover, thousand pax-km</b>				
	27.291	32.027	25.708	25.339
<b>Fleet</b>				
AN-124-100	9	10	10	10
IL-76	4	4	3	6
Boeing 747	-	2	3	4
Yak-40	6	6	6	6
<b>Staff, persons.</b>	1 325	1 636	1 768	2 174

\* including sales within the framework of the Ruslan International Project



As a result of expanding co-operation with Volga-Dnepr's long-term partner, Antonov Design Bureau, and following the success of the airlines' joint project SALIS, in 2006 the partner airlines established Ruslan International, a company primarily involved in marketing and sales of cargo capacities offered by both airlines. Ruslan International's goal is to further improve service quality for customers and economic efficiency of service through more flexible aircraft availability and planning. The establishment of a single marketing center will not only enhance efficiency of the unique AN-124-100 freighter's utilization but is also expected to subsequently contribute to the resumed serial production of the AN-124 aircraft.

Structure of the global outsize and heavy air cargo market



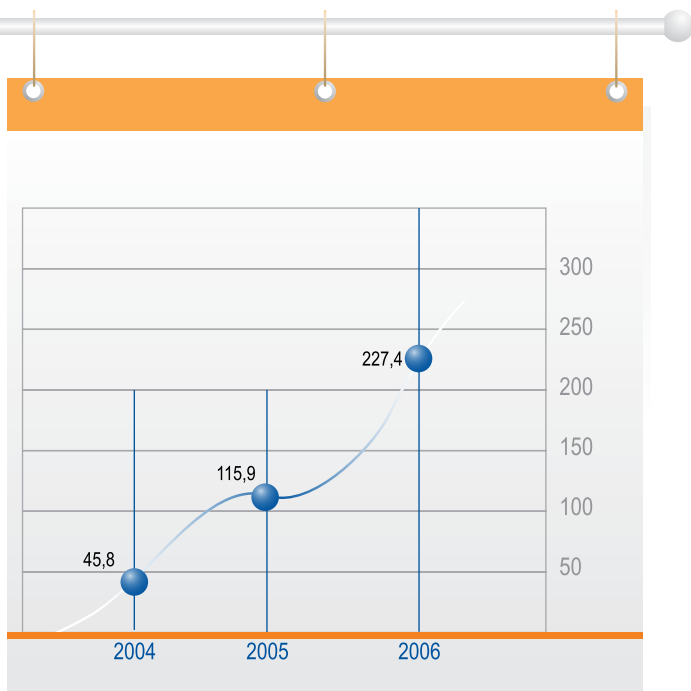
Dynamics of Sales of Outsize and Heavy Charter Services Provided by Volga-Dnepr Airlines





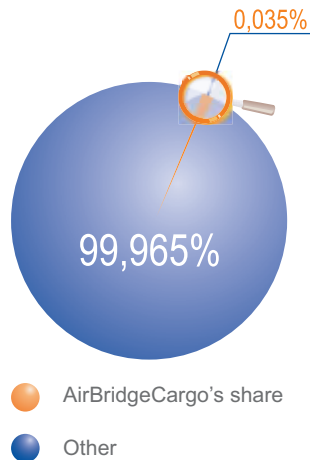
In 2006, AirBridgeCargo's achievement in obtaining its Russian Air Operator's Certificate represented a significant milestone, establishing ABC as an independent airline. The rate of the new airline's development is impressive. This growth is reflected in the airline's fleet of Boeing 747 freighters, in the number of returning customers, and in the expansion of ABC's route network. Scheduled cargo sales achieved over the two and-a-half years of operations – US\$ 227 million – are now comparable with the Group's charter business. The main goal for the near future is to further enhance operational performance and to raise the company's profitability.

### Dynamics of sales of scheduled air cargo services provided by AirBridgeCargo Airlines



● AirBridgeCargo

### Structure of the global scheduled air cargo operations market



In 2006, Volga-Dnepr Group grew its team of personnel with the addition of 406 new employees. AirBridgeCargo increased its team of highly qualified employees at all levels of the organization. AirBridgeCargo's Flight Department staffing was nearly completed as it engaged more pilots and maintenance engineers. Volga-Dnepr Airlines also employed new flight staff, mostly to support the start of operations using the new IL-76TD-90VD.



## 2. Volga-Dnepr Group

## 2.1. Volga-Dnepr Team

### 1. Alexey Isaikin

President, Volga-Dnepr Group



### 2. Sergey Shklyanik

Senior Vice President, Volga-Dnepr Group



### 3. Artem Voskoboinikov

Vice President, Volga-Dnepr Group responsible for Corporate Development



### 4. Stanley Wraight

Vice President, Scheduled Cargo Operations. President, AirBridgeCargo Airlines



### 5. Valery Gabriel

President, Ruslan International.  
Managing Director, Ruslan SALIS

### 6. Tatyana Arslanova

Vice President Strategy and Marketing

### 7. Victor Tolmachev

Technical Director, Volga-Dnepr Group

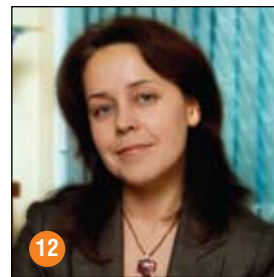
### 8. Gennady Pivovarov

General Director, Volga-Dnepr Airlines

### 9. Eduard Musienko

CFO, Volga-Dnepr Group





**14. Denis Ilyin**  
General Director, AirBridgeCargo Airlines

**15. Yury Malevinsky**  
Director, Department of Accidents Prevention and Quality, Volga-Dnepr Airlines



**16. Dennis Gliznoutsa**  
Commercial Director, Volga-Dnepr Group



**17. Konstantine Vekshin**  
Vice President, Volga-Dnepr Unique Air Cargo



**18. Dmitry Grishin**  
Sales Director, Volga-Dnepr Airlines

**10. Dmitry Obsharov**  
Marketing and Strategy Director, Volga-Dnepr Group

**12. Valeria Ievleva**  
HR Director, Volga-Dnepr Group

**11. Andrey Pakhomov**  
General Director, Volga-Dnepr-Leasing

**13. Konstantin Ivanov**  
General Director, GLA Cargo Aircraft Managing Company

## 2.2. Human Resource and Social Policies

The Volga-Dnepr Group of Companies employs more than 2,000 people of 20 nationalities. The company maintains representative offices across the world and its route network is constantly extending to new regions. The company is able to attain its challenging goals due to the high level of professionalism of its international team.

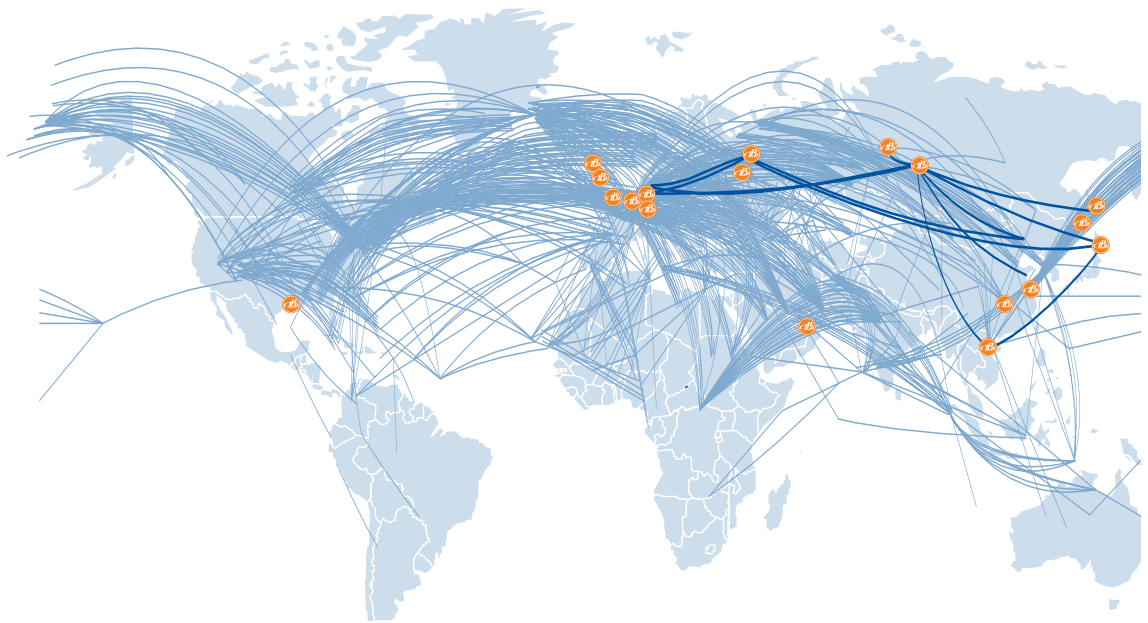
Historically, Volga-Dnepr has employed a strong and well-resourced HR policy. This incorporates training programs for employees, social support and benefits, engagement and professional development of business specialists.

Volga-Dnepr aspires to create the best environment for the successful professional development of all members of its international team and to secure its employees' future. The company has a multi-level programme of benefits and guarantees for staff.



Special attention is paid to the development of the next generation of high-class business specialists. The Group maintains partnerships with a number of higher education establishments. Long-term agreements with Ulyanovsk School of Civil Aviation, Ulyanovsk State University, and Ulyanovsk State Technical University give the most talented graduates a chance to start their careers with one of Russia's fastest-growing group of companies.

## 2.3. Structure of Volga-Dnepr Group



# Volga-Dnepr Moscow

## Charter cargo operations

Volga-Dnepr Airlines

Volga-Dnepr Ulyanovsk  
 Volga-Dnepr London  
 Volga-Dnepr Sharjah  
 Volga-Dnepr Houston  
 Volga-Dnepr Beijing  
 Volga-Dnepr Shannon  
 Ruslan SALIS  
 Ruslan international

## Infrastructure companies

New Insurance Company  
 Passenger Operations Division  
 International Studies Division  
 Volga-Trucks Division

## Projects

GLA Cargo Aircraft Managing Company - Resumption of AN-124 Serial Production  
 Volga-Dnepr Leasing - Modernization of IL-76  
 Russian Hub Development Project

## Scheduled cargo operations

AirBridgeCargo Airlines

AirBridgeCargo Moscow  
 AirBridgeCargo Krasnoyarsk  
 AirBridgeCargo Khabarovsk  
 AirBridgeCargo Novosibirsk  
 AirBridgeCargo Yuzhno-Sakhalinsk  
 AirBridgeCargo Frankfurt  
 AirBridgeCargo Amsterdam  
 AirBridgeCargo Luxembourg  
 AirBridgeCargo Schenzen  
 AirBridgeCargo Hong Kong  
 AirBridgeCargo Beijing  
 AirBridgeCargo Tokyo





### 3. Volga-Dnepr Group's Development Strategy



### 3.1. Mission

We create reliable air bridges for our business Partners worldwide. With our work we change the concepts of air logistics using our unique opportunities. We are sure that we shall reach our objectives promoting success of each employee, which will eventually lead to success of the Company.

### 3.2. General Objective

Volga-Dnepr Group is a “perpetual” professional organization, rapidly growing and rated among the twenty leaders of the global air cargo industry. Volga-Dnepr’s shares sell with a premium relative to its key competitors.



### 3.3. Strategy of leadership: synergy of the charter and scheduled air cargo businesses



Volga-Dnepr Group of Companies is a recognized leader in the air cargo market. Trying to meet customer demands and needs as closely as possible, we create long-term partnerships in the market. The Group's key expansion goal is to increase efficiency of overall operations as well as its affiliates' businesses. The Group's goal is to become one of the world's top 20 airlines. It is only possible to achieve this goal through the close association of the Group's two key businesses. Today, Volga-Dnepr already offers its customers reliable and efficient cargo delivery services as well as sophisticated engineering solutions which require extensive technical expertise and alterations to the process of cargo preparation for carriage.

The Group always tries to foresee prospective developments in the market and to consciously shape its business to support these changes. The strategy of leadership

in each segment implies development of the fleet of aircraft, ground infrastructure and routing network, bringing costs down through economy of scale savings. Customers will also benefit from the implementation of a single communication program for the two businesses, product and services expansion and the forging of global alliances.

Volga-Dnepr builds long-term relationships not only with its customers but also with other entities in the market. The Group believes that a successful business relationship rests upon ongoing improvements in service quality, accumulating technical expertise and the provision of engineering services, as well as developing projects together with other leading market players.

### 3.3.1. Business strategy for charter services market:

In the charter services market, Volga-Dnepr Group has long been a recognized expert in the field of outsize and heavy cargo transportation. For over 15 years, the company has maintained mutually beneficial long-term business relationships with a wide range of customers. For the company to be able to fulfill its customer obligations for the future, Volga-Dnepr's management realized that the business needs to implement long-term strategic projects:

- resumption of serial production of the AN-124-100 aircraft with a new upgraded version to meet both current and prospective requirements, and addition of these new aircraft to the fleet, starting with one in 2009 to 12 airplanes in 2020;
- production of modernized airplanes of the IL-76TD-90VD series.

### 3.3.2. Business strategy for scheduled services market:

The long-term strategy for the development of the Group's scheduled air cargo business provides for the creation of a global route network to meet customers' requirements. Being a key partner in major international corporations' logistics chains supported by freight forwarders and agents, the Group aims to consistently deliver reliable and predictable services of the highest quality for customers all over the world. To do this, it intends to:

- renew its fleet of aircraft;
- increase aircraft maintenance efficiency through the establishment of maintenance bases in Russia;
- rearrange internal business processes and implement QMS and CRM.





## 4. Volga-Dnepr Cargo Supermarket

Volga-Dnepr Group provides transportation services in two basic business directions; cargo charter services using AN-124 and IL-76 ramp freighters operated by Volga-Dnepr Airlines, and scheduled air cargo services using Boeing 747 freighters flown by AirBridgeCargo Airlines. In 2006, the Group consistently implemented its strategy of developing both its charter and scheduled operations, strengthening its position in the charter market and significantly developing its scheduled operations. In

2006, AirBridgeCargo became more independent operationally and financially within the limits of the Group, having received its own Air Operator's Certificate. Nevertheless, interaction between the businesses continues to receive special attention. The operational resources synergies allow more opportunities for each division in the market and open up new prospects for the development of Volga-Dnepr Group.



Synergy between the Group's two key businesses is achieved through the formation of a common pool of equipment for the Volga-Dnepr and AirBridgeCargo fleets, and opportunities to utilize both fleets as one during peak periods. The design of new, unique cargo delivery services using charter and scheduled flight connection helps Volga-Dnepr Group further

secure its position in the market as a business that is transparent, innovative and highly responsive to change, both internal and external.

The prime development goal of the Group in the longer term is to structure operations as part of a 'Cargo Supermarket' principle, which proposes not only gate-to-gate delivery of any cargo but also effective solutions in the field of creating and implementing solutions for the whole logistical chain. Today, Volga-Dnepr's customers are offered the whole range of cargo delivery services using both charter flights on ramp AN-124 and IL-76 freighters and scheduled Boeing 747 flights.

AirBridgeCargo's Boeing 747 aircraft are engaged in Volga-Dnepr Airlines' charter operations, while the Group's unique heavy freighters - in particular IL-76s - can be used for scheduled flights to provide the optimum solution for customers. In 2006, the Group completed 34 IL-76 feeder flights to Yuzhno-Sakhalinsk, carrying 1,103 tons of cargo.



At the same time, Boeing 747s from AirBridgeCargo's fleet were used for Volga-Dnepr's charter flights. Within the framework of cooperation with companies including Panalpina, Chapman Freeborn, Sam Trans Service and Sam Air Private, nearly 10 charter operations delivering a total of 477 tons were completed in 2006 using Boeing 747s. As part of Madonna's world music tour, 183 tons of stage equipment were carried for Rock-it Cargo from Moscow to Nagoya, Japan, on board two Boeing 747F flights.

# 4.1. Air charter carriage of heavy and outsize cargoes

## 4.1.1. Volga-Dnepr's place in the global market for heavy and outsize cargo services

Volga-Dnepr Group now holds a 52% share of the international heavy and outsize air charter services market. In the same year, two new companies - Ruslan SALIS GmbH and Ruslan International - were founded and reported good start-up results.

In 2006, the market for air cargo carriage using AN-124-100 freighters continued to grow. The AN-124 aircraft remains irreplaceable in the outsize and heavy cargo market. Its capabilities were widely used during 2006 for the transportation of various cargoes for leading companies in a wide range of sectors, including aerospace, oil and gas, production equipment, humanitarian aid and cargoes for governments around the world.

In 2005, the Ruslan SALIS GmbH joint venture created by Volga-Dnepr Airlines and Antonov Airlines - in competition with Boeing and EADS - won an international tender for logistics support using AN-124-100 services of counter terrorism and humanitarian aid missions and operations lead by 17 nations (countries of Western Europe and Canada). The contract was awarded by the NATO and EU nations participating in the SALIS (Strategic Airlift Interim Solution) Project.

In March, 2006, in Leipzig, Germany, a special ceremony marked the official launch of the Ruslan SALIS GmbH Project. In October, a maintenance operation was set up in Leipzig to provide maintenance and repair services for Russian-built aircraft. Today, services provided by a Russian company to European partners in the sphere of international transportation. The contract was awarded for a three-year period with the possibility of an extension to 2012 and provides for assured access to six AN-124-100 aircraft. By the end of 2006, 220 flights were operated and 13,500 tons of cargo carried. The Ruslan SALIS project is the first example of hi-tech services being rendered by a Russian company to European partners in the sphere of international air transportation on such a wide scale.

In July 2006, Volga-Dnepr Airlines and Antonov Airlines established another joint venture; Ruslan International Ltd., incorporated in the UK. This became the common marketing agent for the AN-124 fleets of both airlines in the international market. Ruslan International's objective is to improve the quality of services provided to customers



and increase the operational efficiency of commercial AN-124 fleet utilization for the customers' benefit. At the same time, both founding airlines continue to operate independent businesses and retain their long-term and government contracts. Together, the airlines operate 17 AN-124s (Volga-Dnepr has 10, and Antonov Airlines has 7). Combining the AN-124 fleets of both airlines allows for a wider range of services to be offered to customers through more flexible flight schedules and co-operation in aircraft maintenance.

Under the project, as of the beginning of 2007, Volga-Dnepr and Antonov Airlines have jointly operated 290 flights and transported 17,200 thousand tons of cargo worldwide.

The establishment of Ruslan International was another success in the joint operations of Volga-Dnepr and Antonov. This broadened

co-operation is also having a positive effect on another joint project to resume serial production of AN-124-100 freighter aircraft at the Ulyanovsk-based Aircraft Production Plant, Aviastar SP.



## 4.1.2. Volga-Dnepr's fleet of ramp aircraft

### 4.1.2.1. AN-124-100

Capable of carrying over 120 tons of cargo, unique AN-124-100 Russian freighters are the core of Volga-Dnepr's fleet. It is the world's largest operator of this aircraft type with a current fleet of 10 AN-124-100s.

The advantageous combination of its dimensions, cargo cabin volume and flight range have secured the AN-124 a unique position in the world's rating of heavy freighters. The AN-124 serves its own market segment, which has emerged exclusively due to the aircraft's specific capabilities for the carriage of outsize and heavy cargoes worldwide.

As part of the Group's fleet modernization program, in 2006 the AN-124-100 aircraft that had been purchased two years earlier was upgraded to a version with 150 tons carrying capacity. This allowed considerable expansion of the AN-124's heavy cargo carriage capabilities.

Volga-Dnepr Group is taking an active part in various programs aimed at extending the service life and resuming serial production of AN-124-100 aircraft. These programs propose to increase the flight range and payload of the aircraft and equip them with new generation avionics.

### 4.1.2.2. IL-76TD

Volga-Dnepr's fleet includes six IL-76TDs, including the first modernized IL-76TD-90VD cargo aircraft. These aircraft can carry both general cargo, including cargo built on pallets, and non-standard consignments and one-piece cargoes of up to 50 tons in weight.

IL-76TD aircraft were banned from flying to many regions for several years due to non-compliance with ICAO's Chapter III and IV aviation





noise standards. Volga-Dnepr subsequently initiated and participated in the program to modernize the IL-76TD aircraft, including the installation of new PS-90A-76 engines and avionics systems, in order to meet both the current and prospective requirements of the International Civil Aviation Organization (ICAO).

The first modernized IL-76TD-90VD aircraft entered commercial operation with Volga-Dnepr Airlines in 2006. The new, modified aircraft has been approved by ICAO for worldwide operations, including to the traditionally strongest markets for the IL-76 in North America, Europe, Japan and Australia. The market for the new IL-76 is currently

estimated to be worth \$110 million per annum. The initial results of IL-76TD-90VD operations provide clear evidence there is a high market demand for the aircraft and this will support its successful future operation. In order to expand its fleet of IL-76TD-90VDs, the Group signed an agreement for the delivery of another aircraft of this type to join its fleet in the third quarter of 2007.



### 4.1.3. Volga-Dnepr Airlines' Customers



Volga-Dnepr performs orders for the movement of outsize and heavy cargoes by air for companies and organizations from a wide cross section of industries, including aerospace, automotive, oil and gas, manufacturing equipment, military property and humanitarian aid as well as for the government agencies of many countries.

Volga-Dnepr's customer base in the segment of outsize and heavy shipments requiring carriage by air charter includes: Alcatel, Astrium, Bedford Group, The Boeing Company, Bombardier, British Aerospace, British Petroleum, Ericsson Air Crane, Exxon Mobil, General Electric, Hitachi Power & Industrial Systems, Lockheed Martin, Mitsubishi Heavy Industries, Rolls-Royce, Sony, Starsem, Chapman Freeborn, DHL, Expeditors, Panalpina, Kuehne + Nagel, SDV, Schenker as well as the Governments of the US, UK, France, Italy, Spain, Germany and other countries and leading international non-government organizations.



## 4.1.4. Unique technologies developed by the Group

Volga-Dnepr is recognized as the world's leading expert in the development of air logistics technologies for the transportation of outsize and heavy cargoes.

The Group's experts have designed, patented and operated a number of sets of innovative cargo handling equipment that allow loading and carriage of heavy and outsize cargo of any complexity. For example, the unique capabilities of Volga-Dnepr's fleet of aircraft, combined with the Group's proprietary equipment, allow for the transportation of space vehicles without any disassembly and/or additional preparation.

In 2006, the airline's experts designed and modernized special tooling for the air transportation of automobiles. This new, advanced process is unmatched.

The method of craneless loading designed by Volga-Dnepr and first applied in the transportation of oil equipment to N'Djamena in Chad allows cargo to be loaded directly from the platform of a trailer without using ground cranes, improving loading and unloading times. This method is now being patented.

One of the AN-124's significant missions in 2006 was to support the unique Antarctic expedition. On January 2nd, one of Volga-Dnepr's AN-124-100 freighters carrying Russian polar explorers and two Mi-8 helicopters took off for South America, the starting point for the well-known expedition to the South Pole lead by the Vice-speaker of the State Duma, Arthur Tchilingarov, and the Director of the Russian Federal Security Service, Nikolay Patrushev. As a result of the

unprecedented polar flight, two Russian helicopter reached the South Pole for the first time. Never before has a helicopter reached the southernmost point of the planet in the history of Antarctic exploration. On January 13th, members of the expedition returned to Moscow on board a Volga-Dnepr AN-124. Later, by order of Russian President Vladimir Putin, five of the airline's employees who took part in supporting the expedition were decorated with awards and remunerated for the success of the operation.



## 4.2. Scheduled air cargo services

### 4.2.1. AirBridgeCargo Airlines in the scheduled cargo operations market

AirBridgeCargo, an affiliated company of Volga-Dnepr Group, is continuing to develop steadily with strong growth in sales. The volume of cargo transported by the company grew in 2006 by 79.5% in comparison with the previous year. AirBridgeCargo's operations in 2006 achieved considerable expansion of the company's market share, which reached 14% in the China-to-Europe market, 7.2% in the Europe-to-China market, 3.8% in the Japan-to-Europe market, 53% in the Europe-to-Russia, and 6% in the Russia-to-Europe market.



The world market of scheduled cargo operations is characterized by high growth rates (e.g., the volume of goods transported between Europe and China alone grew by 10% in 2006) and the large number of operating companies, many of which have large fleets and transport high volumes of cargo. In this highly competitive environment, AirBridgeCargo is continuously broadening the range of its transportation services and striving to deliver high quality of service.

The large-scale project to enter the international scheduled air cargo services market under the 'AirBridgeCargo' brand was launched by Volga-Dnepr

Group in 2004 when the company commenced scheduled operations between Europe and Asia using Boeing 747 freighters. In 2006, AirBridgeCargo successfully became an independent operator in its own right when the company received its Air Operator's Certificate authorizing it to conduct its own maintenance operations and service its fleet of Boeing 747s.

AirBridgeCargo's long-term objective is to become a leading client-oriented international company in the air logistics industry. To achieve this, it will continue to grow its fleet of aircraft and expand its route network. The airline's primary development



goals are to: achieve financial stability and profitability in the business of scheduled cargo operations; and build and develop a highly efficient customer service team. AirBridgeCargo intends to develop network cargo deliveries in Russia and the CIS and to provide support for growing Russian transport hubs, particularly, in Moscow and Krasnoyarsk. Plans for 2007 include the launch of new feeder flights through both Russian and foreign hubs.

In 2006, AirBridgeCargo conducted a study of the needs and preferences of its customers and subsequently prepared new proposals on how to meet customers' expectations. Forming a loyal customer base is the foundation of the company's further growth and successful development. To facilitate communications with customers, a customer service team was established in 2006, which now covers

all the regions where the airline operates. The head office of the Customer Service network is based in Amsterdam and teams have been established in Moscow, Krasnoyarsk, Frankfurt, Beijing, Shanghai, Hong Kong and Singapore. AirBridgeCargo expects to open further representative offices in 2007 in the cities of Khabarovsk, Yuzhno-Sakhalinsk and St. Petersburg. Local offices ensure a uniform approach to delivering service quality and stimulate business growth in their respective market.

## 4.2.2. AirBridgeCargo's fleet of freighters

AirBridgeCargo Airlines started operations in May 2004 with a single Boeing 747 freighter. Since then, Volga-Dnepr Group's fleet of Boeing aircraft has been constantly expanded; contracts awarded in 2006/7 ensure fleet expansion up to the year 2013.

In August 2006, AirBridgeCargo's fleet was increased with the addition of a fourth Boeing 747 aircraft. The airline took delivery of the freighter under an operational lease for three years from Japan's Nippon Cargo Airlines (NCA). By the end of 2006, the fleet comprised three Boeing 747-200Fs and one Boeing 747-300SF. Strategic co-operation with NCA continued with the conclusion of a finance lease agreement for Boeing 747-200Fs for a 10 year term. The freighters are fitted with brand new equipment (IDAS, GPS, HSI, TCAS) that allows the aircraft to operate without the requirement to have a flight navigator in the flight crew. Such equipment increases flight safety. The new Boeing 747-200F aircraft will join the AirBridgeCargo fleet at the beginning of 2007. Orders for three new Boeing 747-400ER Freighters have also been placed with deliveries to commence in November 2007.

In 2006, a principal understanding was reached with the Boeing Company for five new long-range Boeing 747-8 Freighters,



the most advanced aircraft in their class. Once the contract is signed in 2007, the aircraft will be added to AirBridgeCargo's fleet in 2010-2013.

In the long term, AirBridgeCargo plans to operate a mixed fleet of Boeing 747 aircraft on intercontinental routes and Russian-built Tu-204s and IL-76 cargo aircraft serving regional feeder routes. The Tu-204s will be an important element of the scheduled feeder air cargo services offered by AirBridgeCargo.

### 4.2.3. AirBridgeCargo's Customers

In 2006, AirBridgeCargo continued with the formation of its sales network. A General Sales Agency (GSA) agreement was signed in Europe with Air Cargo Trader. A year earlier, the airline's own sales network in China was launched. AirBridgeCargo's branches in Frankfurt, Amsterdam, Beijing and Shanghai as well as its stations at Sheremetyevo (Moscow) and Yemelyanovo (Krasnoyarsk) are now also operating successfully.

AirBridgeCargo's major customers in China in 2006 were Panalpina ASB, EGL Eagle Global Logistics, DHL Danzas, Kuehne+Nagel K+N, and TNT. Key freight forwarders - and the airline's major European clients - were DHL, K+N, and Panalpina ASB.

In regional markets, AirBridgeCargo co-operates with major local forwarding agents. For instance, major customers in the Russian market in 2006 were Sam Trans Service, Tan Tour M, Instar logistic, TNT Express, Panalpina ASB, DHL Danzas and K+N. Services in the markets of North and South America were offered through partnership with Air Canada, Cargolux, Heavyweight, Platinum and EL AL.

### 4.2.4. Route network

AirBridgeCargo is consistently expanding its route network and is promoting the implementation of several projects aimed at improving the cargo transportation infrastructure in Russia.

In 2006, AirBridgeCargo Airlines increased its number of frequencies on existing routes and opened several new routes. Services to Nagoya, Japan, and Yuzhno-Sakhalinsk were increased. For the first time, the company operated a scheduled, domestic route, between Moscow-Krasnoyarsk. In a further development, the Aviation Authorities of China authorized the airline to increase frequencies to Shanghai to 14 flights per week and to Beijing to five flights a week. AirBridgeCargo was also awarded rights to operate to Guangzhou and Nanjing. In July 2006, a new route to Hong Kong was also launched. With the purchase of new Boeing

freighters, AirBridgeCargo will soon expand its route network. In particular, this will see the opening of a Cross-Polar route from Krasnoyarsk to the USA and Canada.

Today, AirBridgeCargo is the only company operating scheduled cargo flights to Sakhalin. Oil exploration and development projects at the sea shelf of Sakhalin provide the company with orders for transportation of a wide range of oil and gas equipment and essential supplies. In 2006, AirBridgeCargo opened an office in Sakhalin Island and increased flights to the Island to twice weekly. These flights are operated using IL-76 aircraft on the Krasnoyarsk-Sakhalin flight sector while to Krasnoyarsk, cargoes are delivered on board Boeing 747Fs.

In February 2007, AirBridgeCargo launches a weekly cargo flight along the route of Moscow-Krasnoyarsk-Khabarovsk. Local air carriers will ensure the delivery of consignments to further cities in Siberia and the Far East, including Yakutsk, Magadan and Petropavlovsk-Kamchatka.





## 5. Development projects





2006 saw the accomplishment of important stages of Volga-Dnepr's strategic projects both in expansion and modernization of its fleet of aircraft and development of the infrastructure for air cargo services nationwide in Russia. To constantly improve the quality of its services, Volga-Dnepr Group is implementing a number of internal programs, such as the development of a network of maintenance facilities serving all aircraft types and a flight training center.

The Group's unique expertise enables it to not only actively increase internal efficiency of the companies within the Group but also to implement industrial projects and

transport system development projects which benefit the whole industry.

For example, projects to resume serial production of the AN-124 cargo aircraft and to modernize the IL-76 aircraft are to support the development of outsize and heavy cargoes in the mid-term as well as the development of cargo hubs in Russia. This expansion of Russia's air cargo network is necessary to support growth in the country's domestic market and to strengthen opportunities for scheduled cargo operations.

Volga-Dnepr Group believes that mutually advantageous co-operation with other market participants is essential for the successful and continued development of all of the company's businesses. The Group is constantly expanding its business relationships with Russian and foreign organizations through jointly implemented commercial and industrial projects to support its development.

## 5.1. Resumption of AN-124 Serial Production



Owing to its unique cargo carrying characteristics, the AN-124-100 aircraft has created a special niche in the worldwide air cargo market. Modernization of the AN-124 and the resumption of serial production of this unique aircraft are key to Volga-Dnepr Group's strategic priorities.

These propose to equip the new aircraft version – the AN-124-100M-150 - with up-to-date avionics and an upgraded power plant. The new aircraft will offer increased cargo capacity of up to 150 tons. Later, it is planned to start production of the next modification of the aircraft type – the AN-124-300 – with airborne systems and engines integrated with internationally used technologies and a flight range nearly double that of its predecessor.

In late 2006, Volga-Dnepr Airlines together with Motor Sich (Zaporozhye, Ukraine) established the GLA Cargo Aircraft Managing Company. The new company was delegated responsibility to supervise and organize functions to promote resumption of AN-124-100 production. Establishment of the GLA Cargo Aircraft was under the Russian Federal Purpose-Oriented Programme 'Development Russian Aircraft Production Industry in 2002-2010 and till 2015', as regards to manufacture of the AN-124 family of aircraft.

The beginning of project implementation marked a significant stage in Volga-Dnepr Airlines' activity. Ulyanovsk-based manufacturer Aviastar-SP is starting construction

of two AN-124 family aircraft under Volga-Dnepr's order in 2007, which will feature a higher level of modernization than the AN-124-100. The commercial and operational qualities of the new aircraft will meet both current and prospective requirements of ICAO and its technical appearance will be changed considerably. These new AN-124s will act as the prototype for future serial production.

## 5.2. Modernization of IL-76



In 2006, Volga-Dnepr Airlines started operating the first modernized IL-76TD-90VD aircraft, meeting both current and prospective ICAO requirements. Implementation of the IL-76 modernization program enabled the airline to resume cargo operations to North America and Western Europe, Japan and Australia, which had been closed for some time to earlier versions of the IL-76. The demand for IL-76s is evidenced by the fact that in 2006, supported by the commercial

launch of the modernized version, revenues generated by IL-76 operations placed the IL-76 third in the Group's list of highest revenue generating business activities.

A new company, Volga-Dnepr Leasing, was established in 2004 to manage production and operation of the modernized versions of the IL-76. The project's business plan provides for the completion of 15 IL-76TD-90VD aircraft by the year 2015. Even now, the log

of orders for modified IL-76 services is estimated to be worth the equivalent of US\$300 million a year.

As of today, IL-76TD-90VD aircraft have already visited almost all countries previously closed for the type since 2000. Volga-Dnepr Group made the important decision to complete the second IL-76TD-90VD aircraft and a seven year investment loan was obtained from Sberbank to finance the aircraft.

## 5.3. Russian Hub Development Project

The construction of hubs is strategically important for the development of the global air cargo industry. According to expert estimates, in the case of the successful implementation of Russian hub development projects, the new hubs would generate over \$95 billion a year in 25 years for the Russian economy and process more than 13 million tons of cargo, 11.1% of the total freight turnover of all of the world's airports.

Russian airspace offers unique advantages for scheduled cargo operations between China, Southeast Asia, Europe and the USA as the shortest intercontinental air routes run across Russian territory. To promote traffic flows both within and across Russia, in 2004 Volga-Dnepr Group, simultaneously with the launch of its Scheduled Cargo Operations Project (2004) and the launch of AirBridgeCargo Airlines, started work to create a network of Russian cargo hubs. This effort is supported by the Russian Government; the Ministry of Transport and Ministry for Economic Development as well as regional authorities. This project was included in the Russian Federal Programme for Transport System Development in 2006.

In 2004/5, Volga-Dnepr, together with its partners – specifically the Russian airline, KrasAir – started construction of a modern cargo hub at Krasnoyarsk-Yemelyanovo airport. Krasnoyarsk airport can be extensively used for the delivery of cargoes to locations in Siberia and the Far East. The advantageous geographical position of the Krasnoyarsk region on the crossing of airways from Europe to China, Japan and Korea, and from Southeast Asia to the USA and Canada, will allow the hub to link the world's major air traffic flows.

In 2006, ERA (Eastern Russia Airport), the management company for the hub, was established under Volga-Dnepr's initiative and with the support of the Government of Krasnoyarsk Region, AirBridgeCargo Airlines, the hub supporter KrasAir and global ground handling organization, Swissport. ERA is the only handling agent present at Yemelyanovo airport and has established business relations with 15 airlines, including AirBridgeCargo. Its key services are management of the ramp and cargo handling as well as network deliveries.

The opening of the new cargo terminal, planned for November 2007, will facilitate the creation of an international cargo hub at Krasnoyarsk to serve both the Trans-Siberian and Cross-Polar routes. The first stone for the foundation of the new cargo complex at the airport was laid in July 2006. The terminal is to become the base for operation of Boeing 747-400ERFs and Boeing 747-8 Freighters by AirBridgeCargo.



AirBridgeCargo's arrival in Krasnoyarsk has not only caused a new product to appear in the air cargo market but also boosted export and import activity in the region and promoted the development of local businesses. The amount of cargo carried from Krasnoyarsk increased five-fold during the first year of AirBridgeCargo's operations. In 2006, regional traffic increased to 2,000 tons and the value of services rendered and accepted by the Krasnoyarsk enterprises in cooperation with AirBridgeCargo amounted to US\$47 million. The airline is now an integral part of logistics chains in the region.

In 2006, the 'Opening new feeder lines to/from AirBridgeCargo hubs' Project was launched. It aims to secure the leadership position for AirBridgeCargo in the Russian scheduled air cargo market.



## 6. Development of infrastructure projects by Volga-Dnepr Group

## 6.1. International network of aircraft maintenance facilities

Volga-Dnepr's global business often necessitates aircraft maintenance while away from the Group's operational base. The Group has therefore developed a system of aircraft maintenance and airworthiness that includes several aircraft maintenance facilities located on crossings of the company's most regular routes. These are Volga-Dnepr Airlines' maintenance base in Ulyanovsk and line maintenance stations at Shannon in Ireland (Volga-Dnepr Ireland) and in Sharjah, United Arab Emirates (Volga-Dnepr Gulf).

Volga-Dnepr's comprehensive airworthiness system completely conforms to the requirements of Russian Federal Air Regulations and to ICAO standards. This is evidenced by the awarding of relevant certificates from both Russian and other countries' Aviation Authorities.

In 2006, Volga-Dnepr Group launched an aircraft maintenance base at Leipzig, Germany, within the framework of the RUSLAN SALIS Project. The base at Leipzig completely corresponds to the Federal Air Regulations applicable to its business, notably that maintenance services on AN-124-100 aircraft are

performed within the scope of all maintenance checks under Maintenance Schedules RO-99 and RO-500.

The launch of this maintenance base marked the completion of an important stage in the implementation of the RUSLAN SALIS Project. In the long term, the base is to expand the scope of maintenance works on AN-124-100 aircraft to offer customers modular repair of engines, performance restoration repair of vendor items and the overhaul of aircraft components. Located in the heart of Europe, the maintenance base will be one of the key aspects of Volga-Dnepr's airworthiness system. Its opening is an important step towards fulfillment of the Group's long-term objectives.

2006 was a successful year for the company's maintenance base in Sharjah (UAE). The base maintained 128 aircraft, including 80 IL-76s. The maintenance base at Sharjah performs maintenance and repairs of both freighter and passenger aircraft of AN-124, AN-12, AN-32, AN-26, IL-76 and Tu-154 types, both for Volga-Dnepr and other aircraft

operators.

Volga-Dnepr Gulf was the first to obtain a license for maintenance of the new IL-76TD-90VD. Furthermore, the company has started to render maintenance services on the new generation AN-74 aircraft. Since March 2006, a further building has been under construction that will provide a facility for modular (unit replacement) repair of aircraft engines by Volga-Dnepr Gulf, Progress DB and Motor Sich.



## 6.2. Training

Volga-Dnepr Group has historically applied great attention and investment to training programs aimed at enhancing its employees' qualifications and skills. For example, in 2006 Volga-Dnepr launched a number of training programs for its aviation staff. During the year, more than 1,500 staff received training at Volga-Dnepr International Training. Attendees of the school of English language are both employees of Volga-Dnepr Airlines and children and students in Ulyanovsk. In 2006, the training facility established an additional group to provide free training for challenged people.

One of the directions of Volga-Dnepr International Training's operations is the development of its Aviation Training Center.

Creating conditions for the high quality training of flight staff is one of Volga-Dnepr's main goals. On August 10, 2006, a rescue training simulator was

finished for pilots operating Boeing aircraft. Volga-Dnepr's Aviation Training Center became the first in Russia to provide emergency and rescue training and retraining for Boeing 747 flight crews. Before that, all similar training on aircraft of this type could only be completed using foreign training providers. The training exercises allow pilots to repeat the full scope of rescue actions and to check their skills for using rescue equipment. In future, the Center intends to introduce rescue programs for pilots of passenger aircraft.

## 6.3. Insurance services

The Joint-Stock Company, NIC Insurance, has operated both in the Russian and international insurance markets since 1995. Today, NIC is one of the leading providers of Russian aviation insurance.

In 2006, NIC continued its purposeful efforts to enhance flight safety and bridge the gap between Volga-Dnepr Airlines' aircraft insurance costs and that of western airlines. One of the company's priorities is cargo insurance. Consignors, consignees and carriers are offered different insurance options.

The financial results of NIC's operations reflect its successful business. The amount of undertaken risk exceeds US\$10 billion and, in 2006, the company received nearly 500 million Russian rubles of insurance premiums, while settlements amounted to 46.5 million Russian rubles. NIC is now the seventh largest provider of aviation insurance

among members of the Russian Association of Aviation and Space Insurers (RAAKS) based on the level of insurance premiums received.

NIC Insurance Company is a member of the Russian Insurers Association, Russian Association of Aerospace Insurers, and the Inter-regional union of health insurers.

In addition to its primary business, the company offers to individuals and other legal entities services for property insurance, automobile insurance, liability insurance, personal accident insurance, and voluntary medical insurance. In recent years, the company has actively developed 'mass' property insurance programs for individuals.

In order to comply with Russian legislative requirements regarding the separation of property and life insurances, NIC's Board of Directors decided in 2006 to establish an affiliated

insurance company named FLAMINGO, LLC and to transfer to that company its rights and responsibilities under life insurance agreements (pension). On December 27th 2006, NIC officially transferred its life insurance portfolio to the newly established insurance company.

### Structure of the company's portfolio by types of insurance Insurance premiums (thousand Russian rubles)

Types of insurance

Types of insurance	2005	2006
<b>Personal insurance</b>		
Life insurance	16454	14345
Voluntary medical insurance	15770	16640
Personal accident and disability insurance	5936	6837
<b>Property insurance</b>		
Personal property insurance	7226	9439
This is to include:		
Personal vehicles insurance	6578	8936
Other personal property insurance	648	503
Property insurance for legal entities	223809	263389
Liability insurance	77573	136543



## 6.4. Passenger Services Branch



The passenger air transportation business, launched in 1996 for the transportation of Volga-Dnepr Airlines' employees, is now successfully developing as a business unit. The Group's Passenger Services Branch specializes in scheduled and charter flights for passengers traveling on domestic air routes. The Passenger Branch operated 1,500 flights in 2006 carrying 34,000 passengers.

In 2006, the Passenger Branch increased the frequency of flights on its main scheduled route from Ulyanovsk–Moscow and continued operating services between Moscow–Nizhniy Novgorod. Among the company's regular customers for charter flights are Russian sports and showbusiness stars. In

2006, many teams from the 1st Division of the Russian Football League and Russian hockey teams chose to use VDA Passenger Services.

A significant increase in charter traffic was achieved in 2006, supported by a consistent and successful marketing policy and long-term service contracts. In particular, the contract with French petroleum company, Total, was successfully performed and renewed for 2007. Volga-Dnepr Airlines purchased an extended flight range Yak-40 aircraft specially to accommodate Total's requirement for a non-stop flight from Moscow to Usinsk, where Total maintains an oil production site. New Yak-40s were purchased in 2006 to replace aircraft operated under lease. One of the aircraft is equipped to fly to the CIS countries and this provides extended flight planning and routing opportunities for the business.

## 6.5. Trucking

Volga Trucks, a subsidiary of Volga-Dnepr Group, provides road transportation for large consignments, mainly across Russia. The company's extensive operational experience enables it to perform various orders, including the organization and carriage of non-standard cargoes.

In September 2006, Volga Trucks began to provide scheduled truck services for AirBridgeCargo Airlines. Consignments are transported from Moscow-Sheremetyevo Airport to cities in the European part of Russia, including Nizhniy Novgorod, Samara and Rostov-on-Don. By the end of 2006, the total amount of cargo delivered in this way reached 14,500 tons. To further develop this project, Volga Trucks is planning to introduce two Mercedes trucks, each with a capacity of six tons, and start offering road transportation to the eastern regions of Russia for cargoes carried by AirBridgeCargo to Krasnoyarsk airport.

Development of the road transportation network will be in parallel to the expansion of AirBridgeCargo's agents network in the regions of Russia. This multi-modal way of transporting cargo, which includes



both air carriage and the opportunity to reach further destinations using road transport, is in accordance with the Group's Cargo Supermarket Concept that allows a customer to enter into a single contract to satisfy their whole logistics chain.

In total, Volga-Trucks performed more than 2006 trips during the year. Revenues rose to 68.3 million Russian rubles and the growth rate over the past year reached 108%.

Volga Trucks performs transportation services between Moscow, St. Petersburg and the European part of Russia, Siberia and the Urals Regions of Russia. Its truck fleet now comprises six Man, 11 Scania, five Mercedes and two Gazelle vehicles. Additionally, the company has signed a lease agreement for three more trucks with DaimlerChrysler Leasing.

Volga Trucks is a member of the International Automobile Transportation Association and has a bonded carrier license enabling it to benefit from Russia's domestic transit customs regime.



## 7. Social Responsibility

Since its very conception, Volga-Dnepr has been a socially responsible company and social support projects and charity have become important parts of the Group's corporate culture. In 2006, Volga-Dnepr paid more than two million rubles of social investments to support a number of organizations and establishments in Ulyanovsk and the Ulyanovsk Region:

- Raduga Orphanage in Cherdakly settlement
- Secondary and higher education establishments: Ulyanovsk State University, Ulyanovsk High School of Civil Aviation, Innovative School Istochnik
- Novye Imena Cultural Foundation
- Ulyanovsk Region Philharmonic Society
- Folk Arts Center
- Ulyanovsk Drama Theatre
- Plastov's Fine Arts Museum
- Regional Gerontological Center



- Municipal Disabled People Support Organization. In 2006, together with Ulyanovsk Municipal Duma, the company launched free English language training at Volga-Dnepr International Training for challenged people.
- Federation of Aviation Sport and Ulyanovsk Municipal Committee for Physical Training and Sport

Operating internationally, the Group of Companies provides social support outside of Russia too. In Sharjah (United Arab Emirates) an orthodox church was built with financial contributions by the employees of Volga-Dnepr's local office.

In 2006, foundation works were completed as part of the construction of the new Istochnik secondary school, financed by Volga-Dnepr. A year earlier, the Group was one of the founders of the innovative Istochnik elementary school in Ulyanovsk. The transformation of Istochnik from an elementary school into a secondary school will provide continuous education and training based on new technologies throughout the whole 10 years of schooling. The school is to open its doors to children on September 1, 2008. Training at this 'live system' school will be based on scientifically designed, advanced psychological and pedagogical technologies. Istochnik is one of Volga-Dnepr Airlines' long-term social projects and will play an important role in the continuity of the Group's corporate culture.

