

ANNUAL REPORT

VOLGA-DNEPR GROUP

2011



a new dimension
of the freight business

VOLGA-DNEPR GROUP

ВОЛГА  ДНЕПР

A new dimension of the freight business

Annual report
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THE VOLGA-DNEPR GROUP IS

WORLD LEADER

in the oversize and heavy cargo market



11 PLACE

among major airfreight carriers of the world in terms of its income from airfreight transportation

\$1,685.2 MN

1 PLACE

among Russian airlines both in terms of cargo carried

347,646 T,

in terms of cargo turnover

2,756,617 THOU T/KM

See COMPANY PROFILE for more information

Volga River (Russia)

Credit: Jacques Desloires, MODIS Rapid Response Team, NASA/GSFC
<http://visibleearth.nasa.gov/view.php?id=66586>

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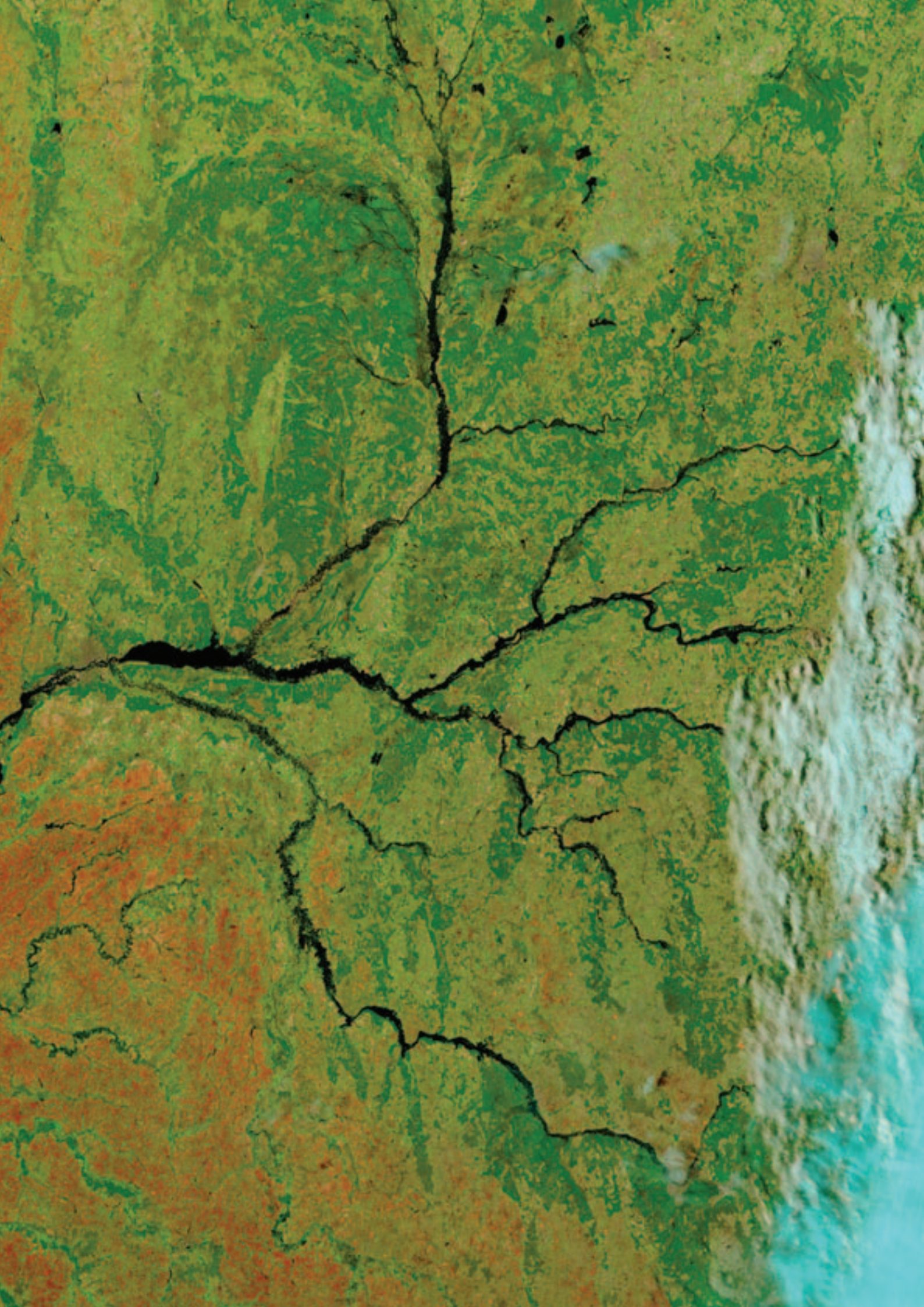
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Dnieper River Delta (Ukraine)

Credit: Jacques Desloires, MODIS Rapid Response Team, NASA/GSFC
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COMPANY PROFILE

The Volga-Dnepr Group of Companies is an international corporation, a major Russian airfreight carrier, and one of the world's top 15 international airfreight companies. According to its 2011 results, Volga-Dnepr was ranked 11th among major airfreight carriers of the world in terms of its income from airfreight transportation (US\$1,685.2 mn). The Group has been the world leader in the oversize and heavy cargo market for many years. Last year, Volga-Dnepr was ranked first among Russian airlines both in terms of cargo carried (347,646 t), and in terms of cargo turnover (2,557,175 thou t/km).

Volga-Dnepr Group has developed four primary business areas:

- 1** Charter operations (the parent company is Volga-Dnepr Airlines Ltd)
- 2** Scheduled operations (the parent company is AirBridgeCargo Airlines Ltd)
- 3** Aerotechnics maintenance and repair (the parent company is Volga-Dnepr Technics Moscow Ltd)
- 4** Small Freight Aviation project (the parent company is Atran Ltd).

The international staff of Volga-Dnepr Group consists of over

3,000
employees worldwide.

It has representative offices and subsidiaries in

9
countries.

Volga-Dnepr Group is the largest commercial operator of the unique An-124-100 Ruslan ramp cargo aircraft. It is also a leading operator of Boeing 747 freighters in Central and Eastern Europe.

10

An-124-100;

4

IL-76TD-90VD;

11B747 (eight
B747-400F/400ERF,
three B747-200/300F);**3**

An-12.

As of December 2011, the fleet of the Group includes 28 aircraft

Volga-Dnepr aircraft have performed charter flights to

1,140

airports in

180

countries.

The route network of AirBridgeCargo Airlines includes over

20

destinations in

12

countries.

An-124-100 and IL-76TD-90VD ramp aircraft (Volga-Dnepr Airlines Ltd), scheduled airfreight services using by Boeing 747 family aircraft (AirBridgeCargo Airlines Ltd), and freight deliveries by smaller An-12 aircraft (Atran Ltd). The synergy of the three main businesses represents a complementary combination of charter and scheduled operations, as well as a package of comprehensive logistics services. This makes it possible for every customer to select the most convenient, cost efficient and timely method of delivery for all air cargo shipments.

The customers of Volga-Dnepr Group are public and commercial companies operating in sectors such as the oil and gas, power, heavy machine building, automobile manufacture, construction, aerospace, agriculture, telecommunications and emergency recovery industries.

Volga-Dnepr Group's strategy is based on its "cargo supermarket" business model. According to the model customers are offered air cargo charter services using



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Lake Baikal (Russia)

Credit: Jacques Desloires, MODIS Rapid Response Team, NASA/GSFC
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2

KEY PERFORMANCE INDICATORS OF THE COMPANY

Sales volume in 2011
increased by

6.2%

Charter
operations

899.7
mn USD

Scheduled
operations

767.5
mn USD

The volume of the cargo
carried grew by

7%

Charter
operations

62,618
t

Scheduled
operations

285,028
t

Cargo turnover grew by

8%

Charter
operations

384,472
thou t/km

Scheduled
operations

2,372,145
thou t/km



Dynamics of the Volga-Dnepr Group key indicators, 2007-2011

	2007	2008	2009	2010	2011
Sales volumes, mn USD					
Airfreight					
Charter operations	681.8	1,004.6	865	905.2	899.7
Scheduled operations	304.1	451	369	672.7	767.5
Other income	19.6	22	11.7	9.4	18
Total income	1,005.5	1,477.7	1,245.8	1,587.4	1,685.2
Cargo turnover, thou t/km					
Charter operations	538,017	618,807	481,108	499,292	384,472
Scheduled operations	859,153	1,103,607	1,318,652	2,057,883	2,372,145
Total cargo turnover	1,397,170	1,722,414	1,799,760	2,557,175	2,756,617
Cargo carried, t					
Charter operations	111,015	136,611	83,894	85,372	62,618
Scheduled operations	95,323	122,558	149,109	240,220	285,028
Total cargo carried	206,338	259,169	233,003	325,592	347,646
Fleet (as of the year end)					
An-124-100	10	10	10	10	10
IL-76TD-90VD	2	2	2	3	4
Boeing 747	6	7	7	11	11
An-12					3
Staff, persons	2,410	2,849	2,649	2,878	3,270



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Kitakami River (Japan)

Credit: NASA image by Jesse Allen and Robert Simmon, using ALI data from the EO-1 team. Caption by Adam Voiland.
<http://visibleearth.nasa.gov/view.php?id=77343>



3 VOLGA-DNEPR GROUP AIRCRAFT FLEET



Volga-Dnepr Group's aircraft fleet includes 10 An-124-100 Ruslan, four IL-76TD-90VD, 11 B747 (three B747-200/300F and eight B747-400F, five of which being 747-400ERF), and three An-12.



Boeing 747-400F/ERF x 8

The maximum take-off weight

412.8 t

The maximum load up to

112 t

The main deck volume

607.7 m³

The lower deck volume

158.5 m³

The total number of pallets

39

Boeing 747-200/300F x 3

The maximum take-off weight

377.8 t

The maximum load up to

105 t

The main deck volume

585.7 m³

The lower deck volume

148.6 m³

The total number of pallets

38



An-124-100 x 10

The maximum take-off weight

392 t

The maximum load up to

120 t

The full-load range up to

4,500 km

Freight compartment size:

6.4x4.4x36.5 m



IL-76TD-90VD x 4

The maximum take-off weight

195 t

The maximum load up to

50 t

The full-load range up to

4,000 km

Freight compartment size:

3.4x3.4x20 m



An-12 x 3

The maximum take-off weight

61 t

The maximum load up to

15 t

The full-load range up to

3,600 km

Freight compartment size:

3.6x2.5x13.5 m

4 MAIN EVENTS OF 2011

Group Development

- In May, Volga-Dnepr Group purchased Atran Ltd, a Russian airline.

Charter Operations

- In August, during the International Aviation and Space Salon MAKS 2011, Volga-Dnepr Group reached an agreement with the Antonov State Enterprise on modernisation of the first An-124-100 Ruslan aircraft in the Volga-Dnepr Airlines' fleet and its transformation into the advanced An-124-111VD version;
- In September, Volga-Dnepr Airlines opened its own sales office in Japan;
- In December, the company commissioned a fourth IL-76TD-90VD, built according to the IL-76TD aircraft modernisation programme.

Scheduled Operations

- In January, AirBridgeCargo Airlines began performing more frequent flights from Maastricht and Amsterdam (The Netherlands) via Yekaterinburg and Krasnoyarsk (Russia) to the Chinese city of Zhengzhou three times a week;
- In April, AirBridgeCargo Airlines became the first Russian airfreight company to perform scheduled operations between Russia and the USA with the addition of Chicago to its international network, served three times a week by Boeing 747-400 flights.



Maintenance and Repair

- In August, Volga-Dnepr Technics was among the first to receive a certificate of residence in the Port Special Economic Zone (PSEZ) in Ulyanovsk. Representatives of the company and of the Ministry of Economic Development of the Russian Federation signed an agreement for this development during the International Aviation and Space Salon MAKS-2011;
- In August, SuperJet International SpA and Volga-Dnepr Technics signed a memorandum of intentions for maintenance of Sukhoi Superjet 100 aircraft.

Awards

- In March, based on results for 2011, AirBridgeCargo Airlines was chosen as the winner of the Wings of Russia national aviation award.
- In October, Volga-Dnepr won the honorary award of the Baltic Air Charter Association (BACA) in the international organization's BACA Excellence Awards in the category of Best Charter Airfreight Company.
- In December, for the third year in a row, AirBridgeCargo Airlines was recognised as the largest freight carrier by Fraport at Frankfurt Airport (Germany).

Post Balance Sheet Events

- Volga-Dnepr Airlines and AirBridgeCargo Airlines successfully passed the IOSA compliance audit, the operational safety standard of the International Air Transport Association;
- As part of AirBridgeCargo's fleet development, two new Boeing 747-8F were commissioned and entered service with the aircraft. They are part of the five aircraft ordered by the airline from Boeing. AirBridgeCargo Airlines is the only operator in Russia and one of only a handful of global carriers operating this new type of aircraft.



5 ADDRESS BY THE VOLGA-DNEPR GROUP MANAGEMENT

The year 2011 set new challenges before the global airfreight industry. The escalating economic crisis in the Eurozone, dramatic political changes in Middle East, natural disasters, and volatility of global oil prices significantly affected the situation in the industry. All of this forced operators in the airfreight market to concentrate their resources and reduce costs in order to increase business efficiency.

Volga-Dnepr Group achieved a stable and positive result at the end of 2011. The Group's sales increased by 6.2% to \$1,685.2 mn. Net profit of \$70.9 mn exceeded target by 8%. In 2011, Volga-Dnepr carried 347,646 t of cargo, 7% more than in 2010.

In 2010, the management and shareholders of the Group reviewed the strategy for the company's development, setting an ambitious goal to become by 2030 one of the undisputed leaders of the global airfreight industry. According to the strategy adopted, Volga-Dnepr Airlines will be developing as an integrator in the segment of heavy and oversized cargo, AirBridgeCargo Airlines is to become one of the five leading airfreight carriers in the world, and Volga-Dnepr Technics is to become a leader in the area of aerotechnics maintenance and repair.

Until recently, Volga-Dnepr Group has been developing exclusively through organic growth. Last year, we began implementing M&A projects. A first deal of this kind was the purchase of the Atran airfreight company, which operates small capacity cargo aircraft. The purpose of this company integration into the Group structure is to promote development of the small freight aviation industry, to create a network of feeder traffic and to expand the range of services offered to customers.

An important area of the Group's business is the creation as a separate business within the Group and the subsequent active development of Volga-Dnepr Technics, rendering services for aircraft maintenance and repair both to the Group's own airline companies and to external customers. In 2011, Volga-Dnepr Technics opened its own warehouse with a customs post at Moscow's Domodedovo Airport (Russia), introducing new technologies, purchasing equipment and expanding its qualified staff at the international airport. According to the year results, the average downtime of aircraft at the Volga-Dnepr Technics stations was reduced by 20%.

Since April 2011, the company has been performing scheduled freight flights to the USA. Thus the developed Eurasian route network of the airline was supplemented by a promising North American expansion. On 5th March 2012, AirBridgeCargo Airlines performed a first cross-polar cargo flight across the North Pole from Chicago to Krasnoyarsk.

Volga-Dnepr Group was one of the first customers of the new Boeing 747-8F cargo aircraft. During 2011, the company fully implemented its preparation plan

According to a rating by the highly-respected *Airline Business* magazine, based on 2011 results, Volga-Dnepr Group was one of the 15 largest airfreight companies in the world in terms of revenue from airfreight transportation. In Russia, Volga-Dnepr remains the undisputed leader in this market.

to commission the most advanced aircraft in the 747 family, thereby enabling the first Boeing 747-8F to begin performing scheduled flights from Shanghai to Europe in January 2012.

During the reporting period, we developed a modernisation programme for the unique An-124-100 freighter used in global civil aviation, and agreed a plan of work for modernisation of the IL-76TD-90VD fleet up until 2017. Implementation of this work will ensure compliance of this type of aircraft with perspective ICAO requirements.

Further work under the project for modernisation and resumption of An-124 Ruslan aircraft production, the IL76TD-90VD programme, commissioning of Boeing 747-8F, and retro-fitting of the Atran fleet with Boeing 737-400 freighter aircraft will require that we act professionally, demonstrate commitment, adopt a creative approach and work closely as a team.

Obviously, these are the qualities Volga-Dnepr Group staff have always been noted for. This is why we believe in our success! We operate to the benefit of our customers, our staff, and our Company.



The tasks set for 2012 provide not only for achievement of the highest performance results but also for active development of new business areas.



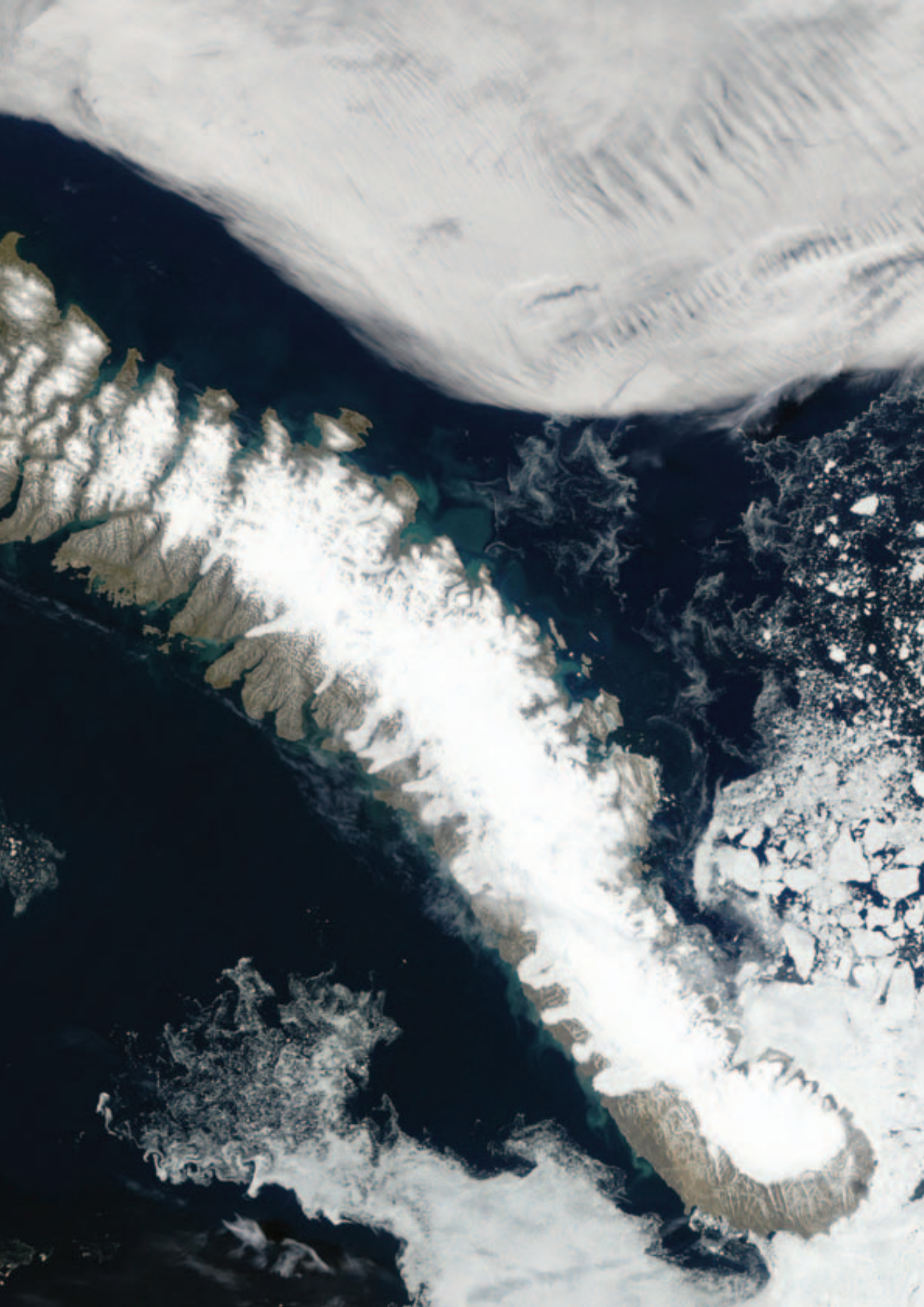
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Novaya Zemlya (Russia)

Credit: Jeff Schmaltz, MODIS Rapid Response Team, NASA/GSFC
<http://visibleearth.nasa.gov/view.php?id=67852>



6 OVERVIEW AND FORECAST OF THE AIRFREIGHT MARKET

- The size of the global airfreight market increased to \$69 bln compared with \$66 bln in 2010;
- Instability of the global economy and growth of fuel prices produced an adverse impact on the market;
- In 2011, Russian airlines carried 981,484 tonnes of cargo and mail, exceeding the 2010 level by 5.9%.

According to the International Air Transport Association (IATA), the volume of the airfreight market in monetary terms increased by \$3 bln as compared with 2010 and amounted to \$69 bln.

The volume of cargo carried increased to 47.7 mn tonnes in absolute terms, which is 0.6% lower than the result of 2010. Cargo turnover decreased slightly by 0.7% and reached 172.1 Bil t/km. In general, the global airfreight market continued to develop amidst the uncertain economic environment that was most obvious in Europe. The expectation of the risks related to a second wave of economic crisis and high oil prices continue to influence the market's development.

The most significant activity declines were observed in the markets of North America, Europe and Asia-Pacific. Since these three regions account for 86.1% of the total airfreight market, the situation is demonstrative of the whole market in general. Concentration of the business activity in these markets is so high that the USA, China, Japan, Hong Kong and Germany account for over 50% of the total volume of airfreight in monetary terms. Thus any significant changes in these markets result in serious consequences for the global airfreight market.

Despite the fact that the carriers operating in the Asia-Pacific region account for about 40% of the global airfreight market and are most sensitive to market instability, at present they are in an advantageous position due to large volumes of trade flows from Asia dominating the airfreight market. In particular in October 2011, the ratio of loading of airlines operating in the Asia-Pacific region was an average of 58.8%. This is 12.3% more than the average global ratio of 46.5%.

Significant impact on the airfreight market was produced by the consequences of the natural disaster in Japan and political events in the Middle East and North Africa. A wave

Fig. 6.1. Dynamics of the Global Trade and Freight Traffic in 2000-2011



of demonstrations and protests in the Middle East resulted in higher fuel prices. During the summer of 2011, oil prices were fluctuating at around 120 USD per barrel.

In 2011, Russian airlines carried a total of 981,484 tonnes of cargo and mail, thus exceeding the result of 2010 by 5.9%. The total cargo turnover of Russian airlines amounted to 4,926,943 thou t/km, which is 4.5% higher than the result of the previous year. The market leaders in terms of the carried tonnage were AirBridgeCargo Airlines (285,028 t, 18.7% more than in 2010), Aeroflot Russian Airlines (160,596 t, 1.7% below the results of the previous year), Volga-Dnepr Airlines (62,618 t, 26.7% below the previous year), Transaero Airlines (51,348 t, 27.9% more than a year ago). The reduction in cargo tonnage carried by Volga-Dnepr was mainly caused by the scheduled reduction of the carriage volume under contracts for state customers from some countries.

Fig. 6.2. Dynamics of the Cargo Turnover by Regions, mln t/km

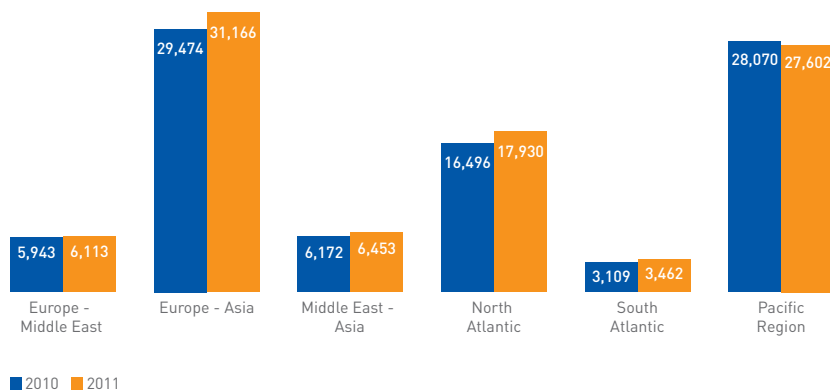
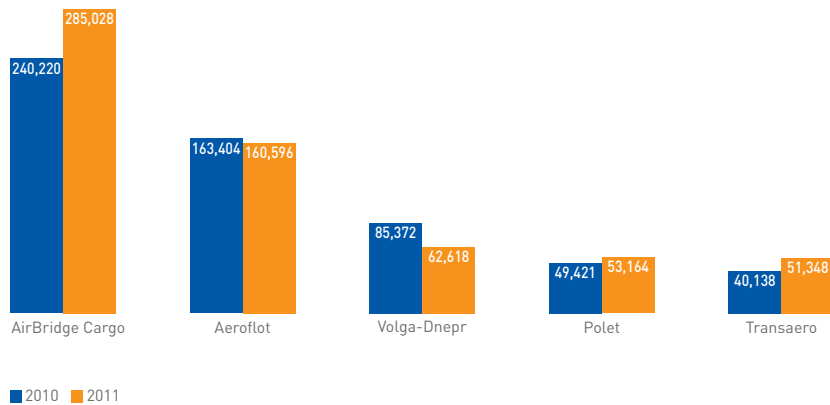


Fig. 6.3. Volume of Airfreight carried by Russian Airlines, 2010-2011



The segment of carriages for the oil and gas industry grew by

62%



The volume of carriages for the aerospace industry increased by

39%



Market of Carriages by An-124-100

In 2011, the volume of carriages by An-124-100 freighters increased by 4% as compared with the similar period of the previous year and amounted to \$1,063.3 mn compared to \$1,019.2 mn a year earlier. After the period during which cargo carriage by An-124-100 aircraft was in low demand during early 2011, cargo volumes carried by this type of aircraft began growing rapidly in the third quarter of the reporting period.

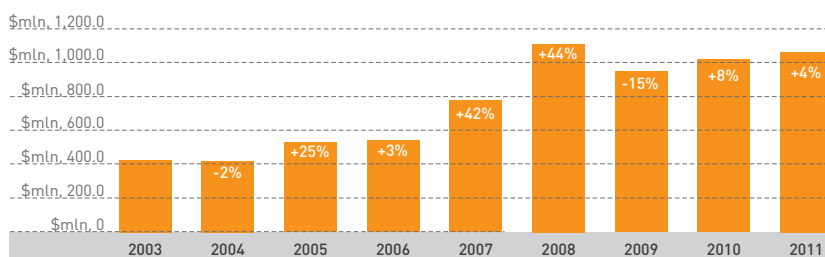
In general, the market of carriages by An-124-100 freighters in 2011 was characterised by tougher pricing competition. In addition, price competition with other types of aircraft (IL-96, Boeing 747) increased in some market segments during the reporting period.

In monetary terms, the An-124-100 market showed growth in almost all segments. The commercial segment increased by 15% over 2011. The segment of carriages for the oil and gas industry grew by 62%. The volume of carriages for the aerospace industry increased by 39% due to the growth of volumes of the Russian aviation industry, export products and delivery of satellite equipment to launch site airfields. The segment of carriages for state customers also grew strongly by a total of 35%.

Market of Carriages by IL-76

2011 saw a decrease in the total number of available IL-76 aircraft in the market due to the cancellation of operators' certificates for IL-76 aircraft held by some airlines. Expansion of the EU "black lists" effected airlines from Georgia, Kazakhstan and Kirgizia, as well as aircraft registered

Fig. 6.4. Volume of the An-124 Market



in these countries. However, some Western Europe countries (Sweden, France, Spain, the Netherlands, Denmark) still accept IL-76 (Stage II) aircraft carrying cargo to the Middle East, deeming it a cheaper alternative to IL-76 (Stage IV) aircraft. IL-76 (Stage IV) being unavailable, cargo carriages to Germany were performed by IL-76 (Stage II). Last year IL-76 (Stage II) aircraft were still widely used in multi-modal freight carriages from Western Europe with road transportation to airports in France (Chateauroux, Vatry), Bulgaria (Burgas), Slovakia (Bratislava), Czech Republic (Pardubice), Serbia (Belgrade, Niš), and Romania (Bucharest). An obvious trend in the segment was the withdrawal from the market of operators with small carriage volumes.

The volume of carriages by IL-76 (Stage IV) increased by 57% as compared with 2010. The geographical coverage of flights performed by IL-76 (Stage IV) included mainly flights to/from Europe as well as to the Middle East and Latin America, carrying commercial and government cargo. In 2011, Volga-Dnepr's fleet of IL-76TD-90VD modernised aircraft was supplemented by the arrival of a fourth aircraft in its fleet.

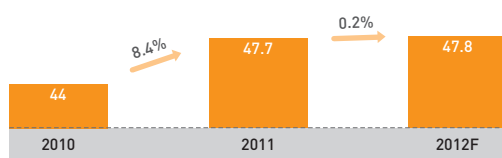
Forecast of the Market Development in 2012

According to the IATA forecast adjusted by post balance sheet events, there will be 47.8 mn tonnes of cargo carried in 2012, which slightly exceeds the result of the last year. This target will be achieved through good performance of carriers from the Middle East. Nevertheless, the rate of the aviation market's development will be rather slow due to high prices for the fuel and the overall instability of the global economy. This will significantly influence the cost effectiveness of carriers. The net profit of airlines is forecast to reach only \$3 bln in 2012, less than in 2011. The margin in the aviation sector will also remain low at 0.5%.

According to the IATA forecast adjusted by post balance sheet events, there will be

47,8
mn tonnes of cargo

Fig. 6.6. The Global Volume of Carriages, mn tonnes



7 MANAGEMENT OF THE VOLGA-DNEPR GROUP

The top management of Volga-Dnepr Group

represents a combination of extensive industrial experience and innovative business approaches, deep understanding of the market operating mechanisms and the ability to generate productive ideas. The Group's managers include specialists in such areas as the aviation industry, air transport, finance, HR management and economics. The team spirit and result-orientated operations allow Volga-Dnepr Group to achieve high results under any conditions.



Alexey I. Isaykin
President, Volga-Dnepr Group



Sergey I. Shklyanik
Senior Vice-President,
Volga-Dnepr Group



Victor I. Tolmachev
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Sergey A. Deryabin
HR Director, Volga-Dnepr
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Charter Operations



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Konstantin A. Zorin
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Ildar R. Ilyasov
Managing Director,
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Financial Director, Volga-
Dnepr Gulf (UAE) FZC

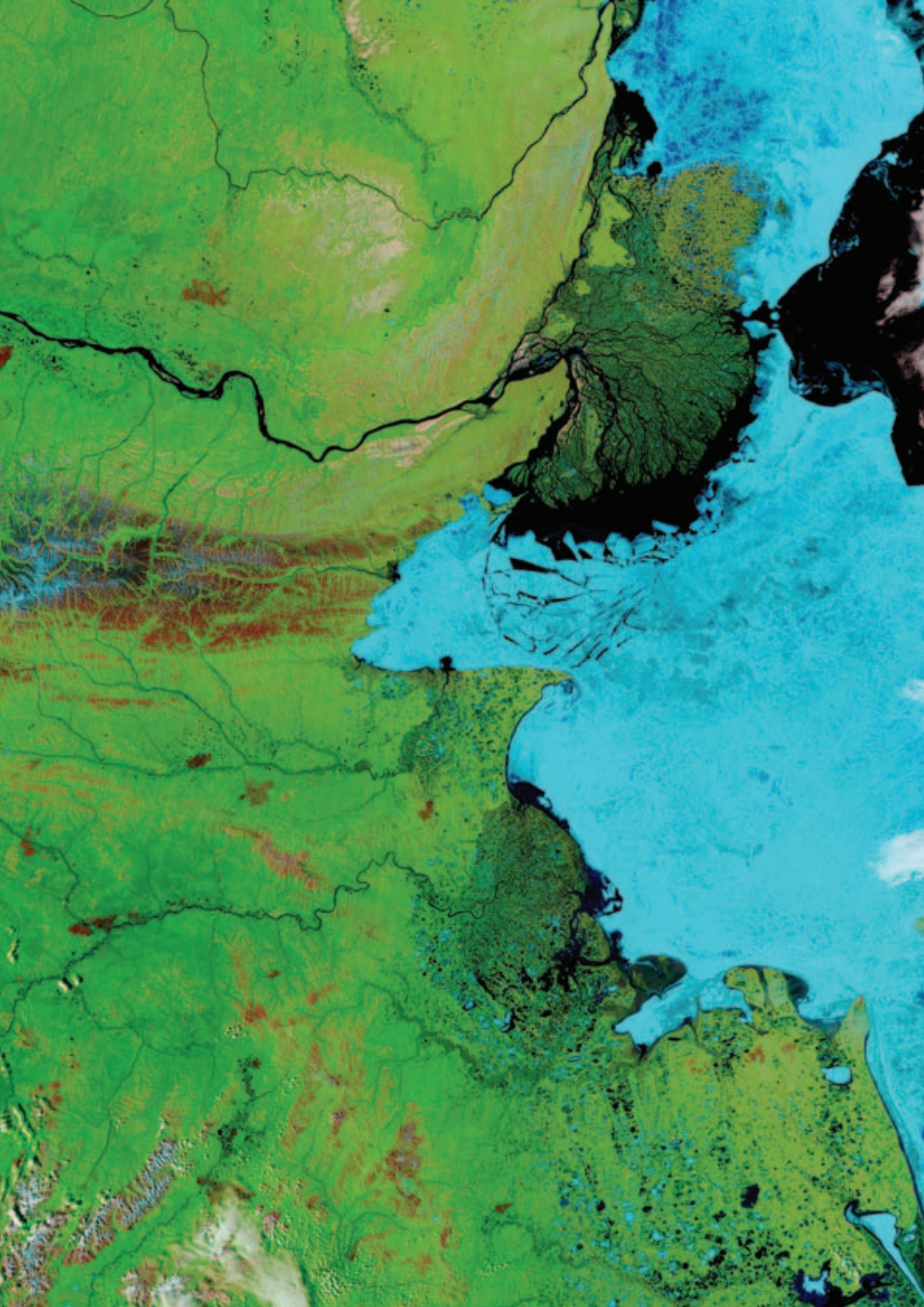
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Lena River (Russia)

Credit: Jacques Descloitres, MODIS Land Rapid Response Team, NASA/GSFC
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8 VOLGA-DNEPR GROUP DEVELOPMENT STRATEGY

According to the 2011 results, Volga-Dnepr Group was recognised as one of the

**15
LARGEST**

airfreight companies in the world in terms of revenue.

Mission and General Objective

The mission of the Volga-Dnepr Group is: We build reliable air bridges for our partners all over the world. We change the perception of the air logistics through our work using our unique capabilities. We believe that we will attain our goal promoting success of each our employee that will secure the overall success of the company.

The general objective for 2030: Volga-Dnepr Group is an "eternal" professional organization, a leader in the area of the global freight aviation industry.

Key Tasks and Results of their Performance in 2011

In 2011, the Group's strategy was aimed at enhancing the efficiency of key production processes, improving labour productivity, development of the marketing and sales system, training, and professional growth and retention of production and management personnel.

One of the main business areas during the reporting period was the work undertaken on the creation of the scenario strategic plan of the Group's development up to 2030, including strategic plans of development of all sub-groups of Volga-Dnepr Group.



In 2011, a major event in the Volga-Dnepr Group's activity was its acquisition of Atran Airlines and the launch of the Small Freight Aviation project.



Charter Operations

Tasks for 2011

- | | |
|---|---|
| <p>1 Modernisation of the existing fleet of An-124-100 and IL-76TD-90VD</p> | <p>Result</p> <p>Terms of reference for modernisation of the existing fleet of An-124-100 were developed, and terms and procedures for the works performance were identified</p> <p>Within the framework of works for modernisation of the IL-76TD-90VD fleet, a work plan up to 2017 was developed and approved.</p> |
| <p>2 Set up of the Air Transport Operations Centre (ATOC) of XXI century</p> | <p>Result</p> <p>We completed construction works in the information centre building, installed information equipment, developed and commissioned the software products required, delivered training and carried out attestation of the ATOC employees. The ATOC was commissioned after the balance sheet date early in 2012.</p> |
| <p>3 Development of the Marketing and Sales System</p> | <p>Result</p> <p>The existing sales system was restructured: we opened a sales office in Japan, expanded the Shanghai representative office, and opened a new sales office in Moscow.</p> |

Scheduled Operations

Tasks for 2011

- | | |
|--|---|
| <p>1 Growth of the Sales Volume</p> | <p>Result</p> <p>The gross profit of AirBridgeCargo Airlines increased by 14% as compared with 2010 and reached \$767.5 mn.</p> <p>Positive dynamics in the operational results were observed: the volume of cargo carried and number of flight hours increased by 18.6% and 18.3% respectively.</p> |
| <p>2 Opening of the USA market</p> | <p>Result</p> <p>In April 2011, AirBridgeCargo Airlines began performing scheduled flights to the USA.</p> |
| <p>3 Preparation for the Boeing 747-8F commissioning and operation</p> | <p>Result</p> <p>We fully implemented the plan of preparation for commissioning of the Boeing 747-8F aircraft. A first aircraft of this type joined the fleet after the balance sheet date in January 2012.</p> |
| <p>4 HR development aimed at achievement of the Company's strategic goals</p> | <p>Result</p> <p>We completed the process of formation of the personnel reserve for the management and flight service. The system for HR motivation, focused on achievement of the company's strategic goals, was improved. The HR development programme approved in 2012 was formalised.</p> |

Aircraft Maintenance and Repair

In 2011, Volga-Dnepr Technics' priority was to create a system for prompt and qualitative maintenance of the AirBridgeCargo aircraft fleet. To perform the task set, Volga-Dnepr Technics hired specialist personnel, and carried out training and certification. The company also strengthened its management structure. Besides, there were regulations of the process of interaction between Volga-Dnepr Technics and AirBridgeCargo

adopted in the course of the linear technical inspection, the company's own customs service was set up in Moscow with a warehouse of spare parts at the Domodedovo airport (Russia).

« In 2011, a major event in the Volga-Dnepr Group's activity was its acquisition of Atran Airlines and the launch of the Small Freight Aviation project. »

Corporate Development

Tasks for 2011

	Result
<p>1 Creation of the strategic plan for the Group's development up to 2030</p>	<p>We analysed the current status and prospects of development of the airfreight market, assessed all types of internal competences and resources of the Group, and developed priority scenarios of each sub-group development.</p> <p>This work included, among other things, development of key functional strategies. Work on this was initiated in 2011 and will be carried out further in 2012.</p>
<p>2 Development of the advanced management technologies</p>	<p>An instruction on managerial solutions production was prepared.</p> <p>Development of the corporate university was continued.</p> <p>Improvements to the quality system were identified and a plan for implementation was developed.</p> <p>A knowledge management centre was set up.</p> <p>Operation of the project office and methods of the project management were improved.</p>
<p>3 Development of the Group's staff through implementation of the selection, motivation, training and development programme</p>	<p>Work commenced to develop the Group's image as the best employer in its segment of Russian civil aviation. Under this framework, a number of actions were carried out in the area of personnel appraisal and development, improvement of the motivation system, and processes to attract employees. A considerable amount of work was performed on cooperation with the leading Russian aviation universities aimed at attracting young specialists.</p>

Key Tasks for 2012

1	<i>Scheduled Operations</i>	<p>Priority</p> <p>Product quality and operating efficiency to secure future development</p>
		<p>Key tasks and KPIs</p> <p>Attainment of the targets for flight reliability (97.9%), punctuality (55%), DAP (delivered as promised) 75%. Commissioning of three B747-8F. Implementation of personnel retention and training aimed at achievement of the year's tasks.</p>
2	<i>Charter Operations</i>	<p>Priority</p> <p>Extension of the competitive advantages through fleet development and optimisation of the main process management</p>
		<p>Key tasks and KPIs</p> <p>Development of the production base in Ulyanovsk. Creation of the management reserve for the charter operations business.</p>
3	<i>Aircraft maintenance and repair</i>	<p>Priority</p> <p>Performance of the agreed order placed by AirBridgeCargo Airlines in compliance with the price and quality level required</p>
		<p>Key tasks and KPIs</p> <p>Approval and implementation of the production facilities creation strategy. Creation of the technical inspection mobile teams to reduce the downtime required for recovery. Implementation of the technical staff training, attraction and retention programme.</p>
4	<i>Corporate Development</i>	<p>Priority</p> <p>Creation of the Group's management company at the new level of quality</p>
		<p>Key tasks and KPIs</p> <p>Provision of the qualitative improvement of the managerial staff through implementation of the selection, motivation, training and development programme. Identification of the management company's role and place in the system of the Group management. Development of the corporate university in line with business requirements.</p>
5	<i>Small freight aviation</i>	<p>Priority</p> <p>Development of the new viable, profitable business within the framework of implementation of the Group's freight supermarket strategy</p>
		<p>Key tasks and KPIs</p> <p>Active development of the marketing and sales function. Formation of the managerial and production staff team through the management of talented and highly qualified specialists. Fleet development on the basis of Boeing 737: commissioning and break-even operation.</p>

GROUP STRUCTURE

The 2011 organisational model of Volga-Dnepr Group provides for singling out the following 4 key business areas: charter operations (CO – Volga-Dnepr Airlines Ltd), regular operations (RO – the parent company is AirBridgeCargo Airlines Ltd), aerotechnics maintenance and repair (AMR – the parent company is Volga-Dnepr Technics Moscow Ltd) and the Small Freight Aviation project (Atran Airlines Ltd).

The key competence of the Volga-Dnepr Group includes airfreight transportation all over the world.

Volga-Dnepr Group performs its activities on the basis of the leadership strategy and “cargo supermarket” marketing concept uniting the following product lines:

- charter operations;
- scheduled operations;
- aircraft maintenance and repair;
- small freight aviation

The four key lines of business are represented by company sub-groups with strategic management effected by the management company. Additional business areas constitute a supporting business sub-group.

Within the Volga-Dnepr Sub-group (charter operations) the activity of the following organisations is coordinated: Volga-Dnepr Airlines Ltd and its representative offices in Beijing (China) and branch in Shanghai (China), Volga-Dnepr UK Ltd., Stansted (UK) and its branch in Tokyo (Japan), Volga Dnepr–Unique Air Cargo, Inc., Houston (USA), Volga Dnepr (Ireland) Airlines Limited, Shannon (Ireland) and Volga-Dnepr Gulf (UAE) FZC, Sharjah (UAE).

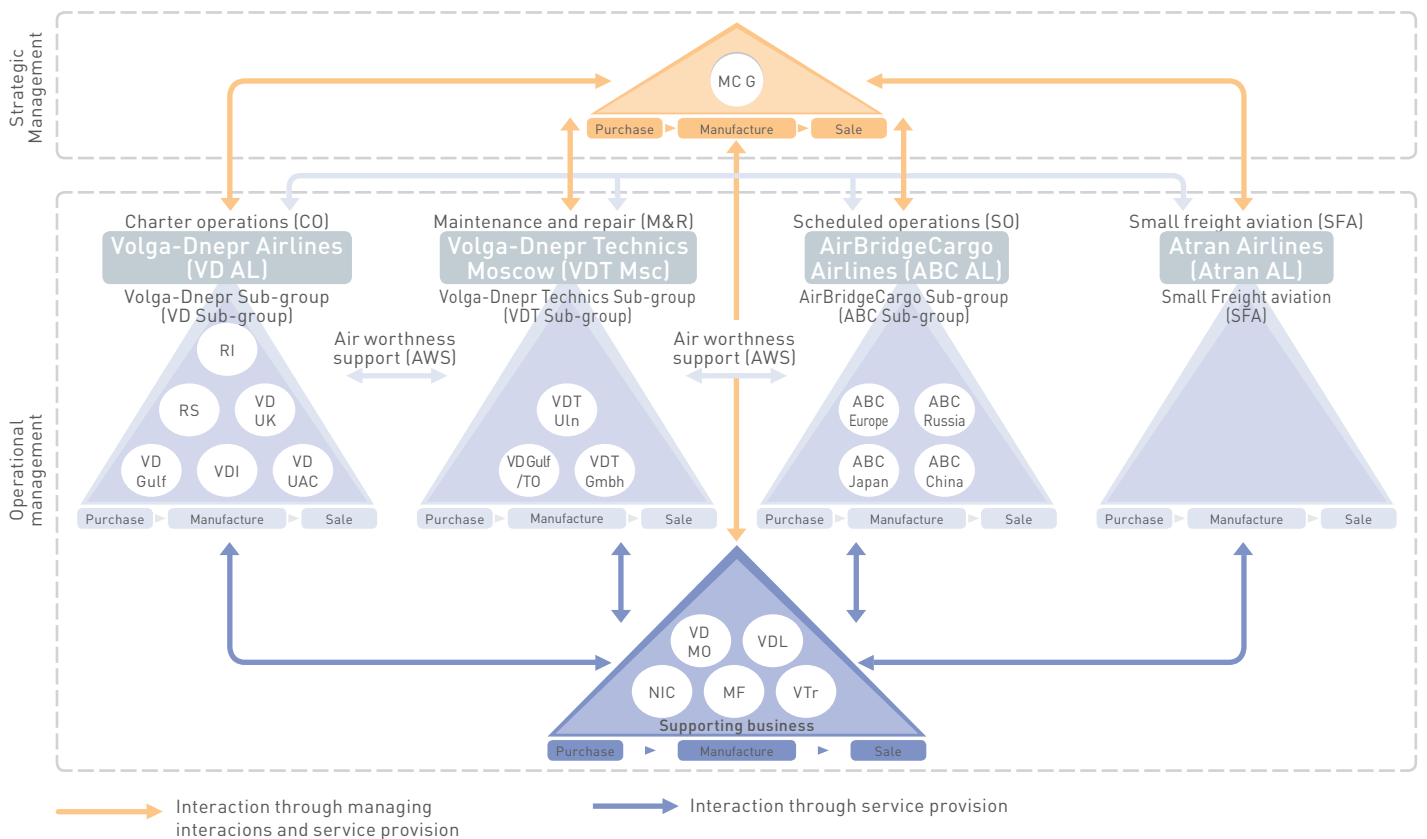
Scheduled freight transportation using Boeing 747 aircraft of various modifications is operated by the AirBridgeCargo sub-group. The parent company of the sub-group is located in Moscow (Russia). AirBridgeCargo Airlines Ltd representative offices are located in Frankfurt (Germany), Amsterdam (Holland), Krasnoyarsk, Yuzhno-Sakhalinsk (Russia), Shanghai, Beijing (China). Tokyo (Japan), and Chicago (USA).

The Volga-Dnepr Technics Sub-group coordinates the activities of such structural units as Volga-Dnepr Technics Ulyanovsk Ltd., Volga-Dnepr Technics Moscow Ltd. (Russia), Volga-Dnepr Technics GmbH, Leipzig (Germany) and Volga-Dnepr Gulf (UAE) FZC, Sharjah (UAE), specialising in aircraft maintenance.

Carriage of air cargo using small freight aircraft is provided by ATRAN Airlines, part of the SFA sub-group.

The group structure also includes business support companies established for the production of the products and services required for the four key business areas: charter and scheduled operations, aircraft maintenance and repair, and small freight aviation, that render services both for the Group companies and external customers. The business support companies include Volga-Dnepr Leasing Ltd (implementation of the IL-76TD deep modernisation programme), Volga-Dnepr International Training NOU (non-state educational institution) (educational services), NIC and NIC-Life Insurance Companies (aviation and non-aviation insurance), Volga-Dnepr branches. The Volga-Trucks branch (road carriage) located in Ulyanovsk (Russia) and the branch of Volga-Dnepr Airlines in Moscow (Russia) perform construction, repair, leasing and

Fig. 9.1. Structural and Process Model of the Volga-Dnepr Group



operation of buildings and structures, administrative support, transport service, passport and visa support and object protection.

The management of the Group is effected at the strategic level via the Management Company (Volga-Dnepr-Moscow LLC) and at the operational level via parent companies of the sub-groups. The Volga-Dnepr-Moscow LLC management company has been established for the purpose of development and control of implementation of the uniform development strategy, functional strategies, formation of the uniform values of strategic managerial decisions taking and control over

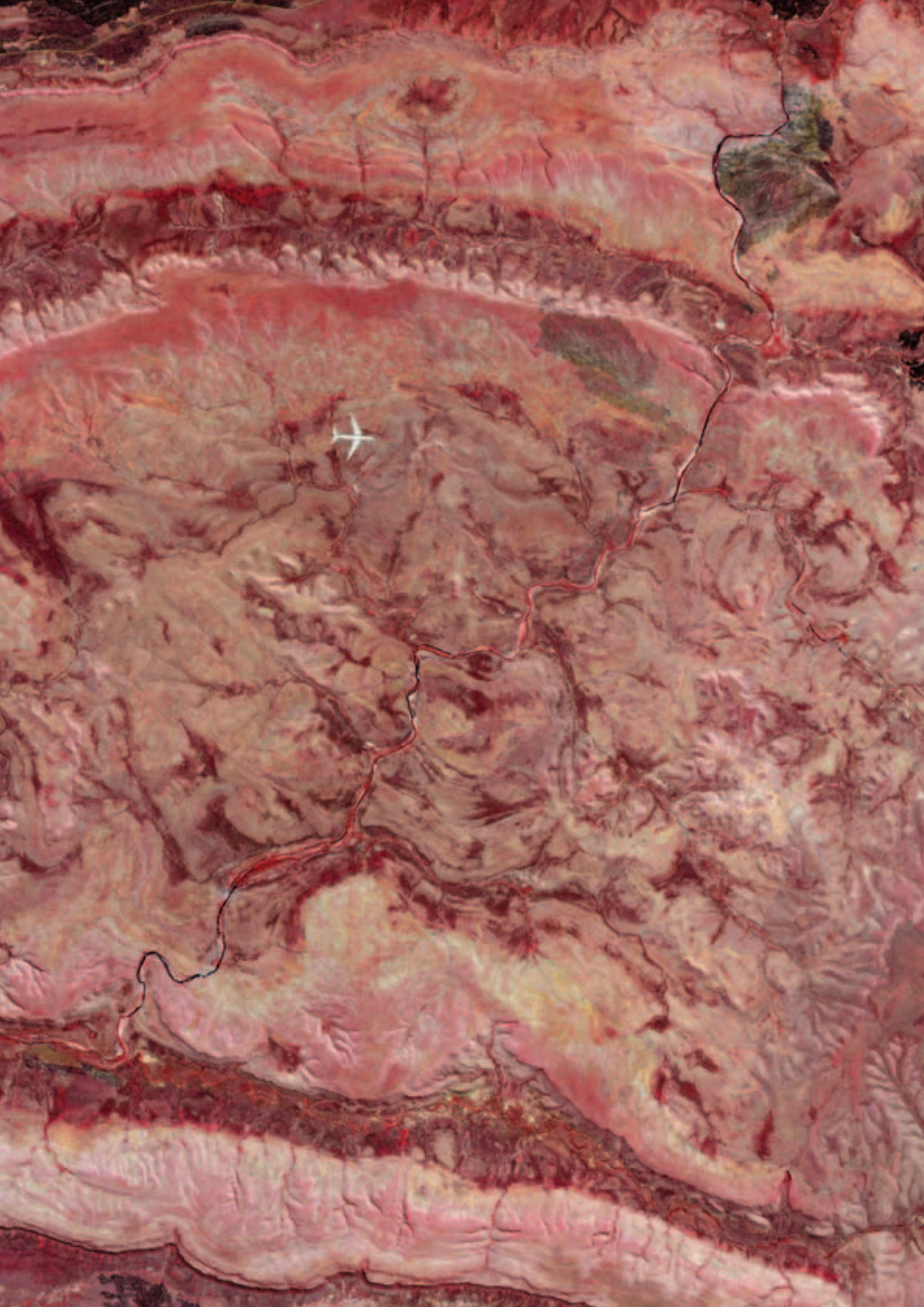
their performance, formation of the Group's and its sub-groups' budget, development of the uniform for the Group's structural units standards of management and formation of the Group's managing team.

A new dimension of the freight business

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Spider Crater (Australia)

Credit: NASA image created by Jesse Allen, using data provided courtesy of NASA/GSFC/METI/ERSDAC/JAROS, and U.S./Japan ASTER Science Team. Caption by Michon Scott.
<http://visibleearth.nasa.gov/view.php?id=8607>



RISK MANAGEMENT (CORPORATE RISK MANAGEMENT)

The risk management system of the Group provides for the following four stages of risk management: risk identification (analysis, threat assessment), risk assessment (realisation probability, financial impact, and manageability), identification of the methods of response to the risk (risk acceptance, mitigation, risk transfer to the third party, risk aversion), and risk reporting.

Risk management is effected at all levels of the Group as well as in all functional and project business areas. Below you can find some risks that Volga-Dnepr Group deems material for its business.

10.1. Key Business Risks

Provision of Flight Safety and Aviation Security

The Group's main priority is flight safety and the prevention of aviation accidents. The main operational methods that support this include enhancement of the level of aerotechnics reliability, personnel development, and improvement and strict compliance with work techniques. The Group has developed and introduced a flight safety management system using a set of specific indicators. This system constitutes the basis for the constant monitoring of flight safety and if and when required, takes adequate preventative measures. The published principles of the Policy of the Aviation Accident Prevention and Flight Safety Management constitute the code of conduct for all the employees of Volga-Dnepr Group and form the basis of the corporate safety culture. Starting in 2006, Volga-Dnepr Airlines has been subject to regular IOSA audits (the audit of operational safety of the International Air Transport Association).

In the past year, AirBridgeCargo Airlines passed this audit for the first time.

Competition

The industry is generally characterised by a high level of competition, however the unique product offering of Volga-Dnepr Group has enabled it to secure its stable market position and allows it to demonstrate growth in the key performance indicators. The opening of new routes, development and moderniation of the fleet, training of qualified staff, improvement of the customer service system, constant improvement of service quality and extension of their range, e.g. the introduction of unique and oversize cargo logistics services, minimise market competition risks.

The Risk of Aviation Fuel Price Growth

The growth of the aviation fuel price is a material adverse factor effecting operations of the Group. Measures for counteracting this risk include modernisation of the company's fleet (both of the existing aircraft and purchase of new ones with higher fuel efficiency), and enhancement of carriage management efficiency. The latter point implies reduction of flights without cargo, optimisation of the route network and schedule of aircraft traffic in the airport, as well as of the take-off and landing cycles. In addition, the Group builds mutually beneficial partnership relationships with suppliers on the basis of long-term contracts. In February 2011, Volga-Dnepr Airlines Ltd concluded a contract with the Aerofuels Group and Gazpromneft-Aero CJSC on the long-term supply of aviation fuel for the airline's aircraft. Due to the contracts made, the company is able to efficiently hedge risks

from the aviation fuel price change and guarantee supply of the particular volume of fuel, minimising the risk of aviation kerosene purchase at higher prices. During the reporting period, the company also considered the possibility of cooperation with TNK-BP Holding OJSC.

Regional and Legal Risks

Volga-Dnepr Group is an international holding with 80% of its operations concentrated outside the Russian Federation. For this reason the Group's activity is subject to various regional and country risks. Both the countries where the Group carries out its activities and international regulatory bodies pay special attention to the rules of air carriage performance and requirements made to airlines. To minimise the influence produced by such risks, the company's staff perform monitoring of changes made to regional and international laws, bringing their activity in line with new requirements set by regulatory bodies. The Group carries out its activities in full compliance with the best international practices and it has been certified by international and national regulatory bodies. At the same time, the Group is subject to the global macroeconomic risks that have become more acute due to the crisis events in Europe. However, the structure of the Group's freight carriage and income is well diversified by region which makes it possible to overcome potentially negative economic tendencies in some regions. Minimisation of this risk factor is also secured by constant optimisation of the route network with a view to the changing macro-regional trends and volatility of global cargo flows. Development of the carriage network is driven by new growth centres in the global economy.

Environmental Risks

Paying closer attention to the issues of environmental protection and the rational use of resources render the environmental policy an important component of Volga-Dnepr Group's business. The company consistently takes measures to minimise its negative impact on the environment and all plans for the Group's development are being created with this commitment in mind. The company constantly modernises its aircraft to ensure they meet all current and prospective requirements for the emission of harmful substances into the air and noise. In particular, the Group has implemented a project for construction of the ecologically friendly IL-76TD-90VD aircraft with modern PS-90A-76 engines that meet all ICAO requirements. Moreover, the project to resume production of the An-124 Ruslan family aircraft provides for the – creation of a new generation aircraft that complies with international requirements due to be in effect at the time of its proposed commissioning in 2020.

10.2. Financial Risks

The reporting period was characterised by a high level of uncertainty in the global financial markets caused by debt problems experienced by Eurozone countries, a slowdown of development in the world's leading economies, natural and technological disasters, and social and political events in some African and Middle Eastern countries. However, the financial results achieved by Volga-Dnepr Group in 2011 demonstrate the effectiveness of the financial risk management system adopted by the company. During the acute phase of the global economic crisis during 2008-2009, the Group was able within a short period of time to implement an efficient cost reduction programme.

The Currency Risk

Receipts and obligations denominated in various currencies result in the currency risk occurrence, with fluctuations of currency risks influencing financial performance of the company. To reduce this risk, the Group carries out a policy of balancing its receipts and obligations in each currency.

The Credit Risk

The credit risk occurs as the result of the failure by counterparties to perform their obligations to the company. To minimise this risk, the Group executes constant control and monitoring of the financial standing of its counterparties. The credit risk also arises in relation to the banks acting as guarantors of counterparties' obligations. In relation to the banks issuing guarantees, the company performs assessment of their financial standing based on the accounting data and on the results of the analysis defining the maximum limit under operation with bank guarantees from a particular credit institution.

The Loss of Liquidity Risk

To minimise the loss of liquidity risk, the financial services of the Group carry out accurate planning of the monetary inflows and outflows to identify possible deficit that in this case will be covered through short-term financing from partner banks. To promote the opportunity of additional financing, the Group performs systematic work to support its high financial and business reputation.

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Selenga River (Russia)

Credit: Astronaut photograph ISS029-E-37915.
Caption by William L. Stefanov, Jacobs/ESCG at NASA-JSC.
<http://visibleearth.nasa.gov/view.php?id=66586>

11.1. Charter Operations

One of the key business areas of Volga-Dnepr Group is air charter transportation for cargoes using An-124-100 Ruslan and IL-76 freighter aircraft operated by Volga-Dnepr Airlines Ltd. Volga-Dnepr Airlines is the leader of the global over-size and heavy cargo market. The airline's customers are such major industrial, transport and logistic companies as Lockheed Martin/United Launch Alliance, Thales Alenia Space, Eurocopter, Space System Loral, Sikorsky Aircraft, Russian Aircraft Corporation "MiG" FGUP (Federal State Unitary Enterprise), Rosoboronoexport, General Electric, British Petroleum, Exxon, Siemens, Mitsubishi Heavy Industries, The Boeing Co., as well as the U.S. and European Union governments, and international humanitarian and governmental organisations. Volga-Dnepr Airlines is also a regular participant in international humanitarian aid and peacekeeping missions.

The revenue from operation of the IL-76TD-90VD modernised aircraft increased by

34%

According to the 2011 results, Volga-Dnepr Airlines' results were comparable with those for 2010. Operating income for 2011 amounted to \$899.7 mn, which is 0.6% below the similar ratio for 2010. The revenue from operation of the IL-76TD-90VD modernised aircraft increased by 33.5% from \$55.8 mn up to \$74.5 mn.

In 2011, Volga-Dnepr carried 62,618 tonnes of cargo, 26.6% less than in 2010. In terms of the carriage volume, Volga-Dnepr Airlines was ranked third among Russian carriers behind AirBridgeCargo Airlines – also owned by Volga-Dnepr Group – and Aeroflot-Russian Airlines. Cargo turnover for 2011 fell by 23% as compared with 2010 and reached 384,472 thou t/km. This reduction in the key performance indicators was mainly caused

by a scheduled reduction of work volume under contracts made with governmental customers.

During the reporting period, the company continued to implement its strategy aimed at enhancement of the airline's operating efficiency. The key business areas included:

- Optimisation of the sales system and the opening of a new sales office in Japan;
- Reallocation of availability of the carrying facilities in line with market trends in favour of the market commercial sector, including the oil and gas and aerospace industries;
- Entering a new market segment – charter operations by small aircraft;
- Development of the service to provide complex logistics services for unique oversize cargo;
- Further improvement of the air staff professional training system.

In 2011, the company continued to work under joint international projects in the market of air cargo charter operations, such as Ruslan SALIS and Ruslan International.

The Ruslan SALIS project is the first large-scale international project for provision by Russian and Ukrainian companies of highly technological services to their European partners in the aviation sector. The German company Ruslan SALIS GmbH represents the interests of Antonov GC and Volga-Dnepr Group within the framework of their participation in NATO's Strategic Airlift Interim Solution (SALIS) programme. According to the contract signed in 2006, Ruslan SALIS shall deliver to the project participants (at present represented by 16 EU and NATO countries) 6 An-124-100 aircraft at a time. In 2011, within the framework of the

Ruslan SALIS project, there were 332 flights performed and 21,485 tonnes of cargo carried, 23% less than in 2010.

Ruslan International Ltd. is a joint venture set up by Volga-Dnepr Airlines and Antonov GC in 2006. It is a uniform marketing agent for the two airlines in the international market of cargo transportation by An-124-100 aircraft. Joint use of the fleet of both airlines allows them to provide their customers with a higher quality service due to the increased availability of the aircraft, the creation of a more flexible flight schedule and cooperation in the area of aircraft maintenance. Ruslan International is designated to enhance the service quality through use of the united experience of the two An-124-100 operators as well as efficient use of the joint fleet, loading equipment and maintenance bases. The two founding airlines continue to fly as independent operators. In total, Ruslan International operates 17 An-124-100 Ruslan aircraft (10 aircraft belong to Volga-Dnepr Airlines and 7 to Antonov GC). Within the framework of the Ruslan International project, in 2011 there were 696 flights performed and 40,734 tonnes of cargo carried, a growth of 15% over 2010.

In 2011, Volga-Dnepr Airlines continued to develop the segment of international cargo movements using IL-76TD-90VD aircraft. In December 2011, the company commissioned its fourth aircraft of this type. In pursuance of the contract for the purchase of the IL-76TD-90VD aircraft made at MAKS-2007 with Joint Stock Company "United Aircraft Corporation – Transport Aircraft" (UAC), the company performs further work on completion and delivery for commissioning of a fifth aircraft. The construction is performed at the Tashkent Aviation Production Association



Volga-Dnepr Airlines performs air cargo charter flights transporting unique and over-size cargo using its unique fleet of An-124-100 Ruslan, IL-76 and small aircraft (An-12, An-26, An-72).



named after V.P. Chkalov (Uzbekistan). The fifth IL-76TD-90VD was introduced into the Volga-Dnepr fleet after the balance sheet date in Q2 2012.

In 2011, Volga-Dnepr Group, together with UAC, began working on the creation of the technical design of the IL-76 civil version planned to be manufactured at Aviator-SP CJSC in Ulyanovsk.

As well as air carriage, Volga-Dnepr Group offers 'door-to-door' services for the complex logistics of oversize, heavy and other cargo, including multi-modal carriage schemes using road, railway and water transport worldwide. To resolve these tasks, the Group has set up a special Engineering and Logistics Centre with offices in Russia, the UK and USA working 24 hours a day, 7 days a week, 365 days a year.



The An-124-100 Ruslan has no direct comparison in the world among ramp aircraft. The record cargo capacity of the aircraft of 120 tonnes allows it to solve the most complex logistics challenges. Within the framework of the programme to modernise Volga-Dnepr Airlines' fleet, a lot of modifications were made to the An-124-100 to prolong the initial service life of the aircraft and of the components purchased, which made it possible to continuously operate the fleet of these aircraft.





The IL-76TD aircraft are designated to carry oversize, unique and general cargo weighing up to 50 tonnes. Starting in 2002, Volga-Dnepr Group has been implementing a programme for modernisation of the IL-76TD aircraft, the key element of which is installation of new PS-90A-76 engines. These new power units comply with the current and future requirements set by ICAO in relation to the emission of harmful substances into the air and aircraft noise. As at the end of 2011, Volga-Dnepr Airlines' fleet included four modernised IL76TD-90VD aircraft.



The range of services offered by the Engineering and Logistics Centre includes:

- Provision of on-ground equipment at loading/unloading airports;
- Land carriage of cargo to/from an airport, including receipt of all permits required;
- Technical expertise and the cargo's preparation for carriage;
- Development and manufacture of special carriage complexes for a particular project;
- Consultations on possible methods of a particular cargo movement including recommendations on its packing and preparation for carriage;
- Assistance with cargo customs clearance and insurance;
- Use of small aircraft (An-12, An-26, An-72) to ensure the most efficient service cost for customers.

11.2. Scheduled Operations

AirBridgeCargo Airlines, owned by Volga-Dnepr Group, performs scheduled cargo transportation using its modern fleet of Boeing 747 freighter aircraft.

Customers of AirBridgeCargo Airlines include major global logistics and industrial companies, such as DB Schenker, Panalpina, DHL, Inditex, Dachser, TNT, CYTS, CTD, DSV, and Kerry Logistics.

According to 2011 results, the operating income of AirBridgeCargo Airlines rose to \$767.5 mn, an increase of 14.1% over in 2010. Overall, the company recorded a loss. The decrease in the airline's profitability was caused, in particular, by a reduction in revenue on flights from China, which was not fully compensated for by other route sectors, such as Europe and the United States. In addition, during the reporting period there was a considerable growth in the airline's expenses for aviation kerosene in the global market and in Russia (in Russia +37%, in Europe and China +27%). Another factor that significantly influenced the company's profitability was the late delivery of its new Boeing 747-8F aircraft.

Last year, AirBridgeCargo Airlines ranked first among Russian airlines in terms of the volume of cargo and mail carriage, securing the transportation of 285,028 tonnes, which is almost twice annual tonnages of its closest competitor Aeroflot – Russian Airlines. Compared with 2010, the volume of cargo carried grew by 18.7%. In 2011, cargo turnover amounted to 2,372,145 thou t/km exceeding the 2010 result by 15.3%. Average load factors for AirBridgeCargo aircraft increased from 53.8% in 2010 up to 71% in 2011. Flight regularity was at the level of 97.9%. The departure and landing punctuality ratio was 47.6% and 41.7% respectively. In 2011, AirBridgeCargo continued to implement its strategy in key business development areas. AirBridgeCargo improved its tonnage ratios in all market segments and was awarded a higher rating

among all key consignors. In the key markets, in particular in Germany, the airline retained its position as the major freight operator departing from Frankfurt based on an annual competition by the largest handling company at Frankfurt airport, Fraport Cargo Services. The achievement of such high results was promoted by further implementation of the strategy to develop long-term cooperation with key customers and reduce the imbalance in two-way cargo flows.

During the reporting period, the company continued to develop its route network. AirBridgeCargo Airlines was the first airfreight company to commence scheduled cargo flights between Russia and the USA. The carrier began performing charter flights to Chicago three times a week using one of its Boeing 747-400 freighters. According to the results for the year, AirBridgeCargo aircraft flew to over 20 destinations in 12 countries.

After the balance sheet date, AirBridgeCargo Airlines Ltd successfully passed the IOSA safety audit, thus proving the high quality of its operations in line with international standards. To ensure product quality, the airline created an internal quality monitoring system. This system secures availability of 90% of information about cargo moving in the airline's network and incorporates and records key indicators in accordance with the airline's regulations. A special IT platform has been introduced allowing the company to execute control, perform analysis and prepare statements, and support close cooperation with all participants of the logistics chain (servicing companies, customers, IT providers). The platform is used for the message exchange between the airline and its customers.

Last year, AirBridgeCargo carried on with work aimed at introducing paperless, electronic freight documentation.

In particular, it completed the technology work to meet Russian and international standards: E-Freight on routes from Amsterdam (The Netherlands) to Chicago (USA) and using paper technologies in compliance with Russian laws. It also successfully introduced a system for preliminary cargo customs declarations in the USA territory – and no violations on this route were identified during the period of work. The company keeps on working on extending its use of E-Freight technology within the framework of the existing booking system. Work has also been carried out on the creation of a uniform IT system for AirBridgeCargo that will include modules for cargo customs clearance, shipment tracking, and operating expenses control.

Already in 2011, hub operations at the Domodedovo and Sheremetyevo airports in Moscow accounted for over half of the international cargo flow transported by AirBridgeCargo Airlines, securing the leading position of the company in Russia in terms of hub operations. According to the 2011 results, the volume of transfer cargo increased by 26% to 66.1 thou tonnes (compared with 52.5 thou tonnes in 2010). The carrier is

Flight regularity was at the level of

98%



AirBridgeCargo Airlines uses highly efficient freight aircraft of the Boeing 747 family, representing an excellent combination of such important features as cargo capacity and flight distance. Due to its cutting-edge technologies and modern equipment, the Boeing 747 is able to carry any type of cargo, including those requiring special handling and temperature controlled conditions.



still ranked third in terms of freight volume at Domodedovo Airport with a throughput of 14 thou tonnes.

As the AirBridgeCargo fleet is supplemented with new Boeing 747-8F aircraft, the project for the second hub development is becoming the priority. This hub will be used to perform cross-polar flights between Asia and the USA. The company is considering the Tolmachevo (Novosibirsk), Koltsovo (Yekaterinburg) and Emelyanovo (Krasnoyarsk) airports as potential airports for the next stage of its hub operations development.

11.3. Small Freight Aviation

In the market for the carriage of cargo onboard small capacity freight aircraft, the Group is represented by Atran Ltd, which joined Volga-Dnepr Group in May 2011. During the reporting period, Atran operated three An-12 aircraft. The volume of Atran sales in 2011 amounted to \$11.2 mn, exceeding the 2010 result by 16%. The net profit for 2011 was \$547 thou. (in 2010 – \$5 thou).

The cargo turnover of the company and the total tonnage of cargo carried in 2011 remained practically at the same level as in 2010. In 2011, the airline performed 357 flights, 6% more than in the year before. The total number of flights in 2011 reached 2,700 flown hours (2% more than in 2010) and was in line with the planned annual number of flights of 1,000 hours per the list number of aircraft.

The market for small capacity aircraft was characterized by a significant reduction in the An-12 aircraft fleet as a result of

their writing-off as well as termination of An-12 operations by principal competitors (AVIASR AIR Airlines Ltd, Avial NV Airlines Ltd, Airstars Aircompany Ltd, Moskovia Airlines OJSC). Now, there are only two operators of An-12 aircraft left in the Central European part of the Russian Federation – Artran Ltd and Kosmos Air Enterprise CJSC.

The principal customer of the airline in 2011 was the world's largest express and courier company, UPS. Atran has been cooperating with UPS since 1994. This long-term partnership is secured by the high quality and reliability of the Atran service. During these 17 years Atran has demonstrated flight punctuality at a level in excess of 99%. In 2011, flight punctuality was 99.4%, which is higher than the average ratio within the UPS fleet.

In 2011, the company performed 254 flights for UPS on the route linked Moscow – Malmö (Sweden) – Moscow (Russia) with a flight frequency of 5 times a week (on weekdays).

Until May 30, 2011 Atran performed flights for UPS from the base airport of the airline – Domodedovo (Moscow). Since June 2011, Atran – at the request of UPS – began performing flights from Vnukovo Airport (Moscow). The transfer of flights to Vnukovo was preceded by serious preparation of the airline's own subdivisions and works coordinated with UPS. They agreed operational schedules of the flights and agreed advantageous contracts with the Vnukovo Airport's enterprises. All of these actions secured the success of the flight transfer from Domodedovo to Vnukovo.

In 2011, the company held further negotiations with UPS on the Jet project to

The volume of
Atran sales in 2011
amounted to

\$11,2
mn

replace An-12 aircraft with Boeing 737F and to transfer flights from Malmö (Sweden) to Cologne (Germany).

11.4. Flight Safety

Volga-Dnepr Group systematically supports the high level of aerotechnics air worthiness and invests funds into the training of production staff to secure safe operation and maintenance of Russian and foreign manufacture aircraft in compliance with international standards. The general business area remains further introduction and development of proactive forms: prevention of air accidents and management of flight safety in compliance with ICAO ideology and operational experience of the world's leading airlines.

The structure of the Group's airlines includes flight safety and aviation accident prevention inspectorates (FS&AAPI). Activities coordination and methodical management aimed at prevention of air accidents is imposed on the relevant department of the management company. The published principles of implementation of the Policy of the Aviation Accident Prevention and Flight Safety Management constitute the code of conduct for all employees of Volga-Dnepr Group and form the basis of the creation of its corporate safety culture.

The Group has its own system for flight safety management. It performs continuous monitoring of flight safety levels using a set of special directive ratios.

According to the 2011 results, the actual flight safety level recorded by AirBridgeCargo Airlines was much better than the directive ratio with 0.10 accidents

per 1,000 flights compared to the target level of 0.45.

In 2011, the actual safety level achieved by Volga-Dnepr Airlines was also better than the directive values and against the target ratio of $C_{\text{targ}}=1.11$, it reported 0.75 accidents per 1,000 flights performed.

In 2011, both airlines worked on preparation for the IOSA flight safety audit to meet the highest IATA standards. This audit is a prerequisite for confirmation of membership of this highly respected organization. This was the third time that Volga-Dnepr Airlines has successfully passed the flight safety audit since 2007. The new certificate is valid until April 2013. 2011 was the first audit year for AirBridgeCargo Airlines and the audit results showed that the safety standards adopted by the company are of a high level. AirBridgeCargo Airlines will be issued with an IOSA certificate in 2012 and will join Volga-Dnepr Airlines, which has been the only Russian freight carrier to hold the safety certificate so far.

In the reporting year, Volga-Dnepr Airlines continued operating a full-scale trainer (FST) of the An-124 aircraft that was designed and built at the Group's own expense. Introduction of the trainer into the air staff professional training system and the training results observed undoubtedly demonstrate the key role of the FST in the prevention of air accidents. This year, the company purchased a trainer mobility system and introduction of this will further enhance training efficiency and quality.

Striving for further improvement of the flight safety management system, in 2011 Volga-Dnepr Airlines together with the Ulyanovsk State University continued working on the

creation of the Automated System of Aviation Accident Forecasting and Prevention. This project is being implemented in pursuance of the Russian Government's decree No. 218 on creation of highly technological equipment. The project is financed on a parity basis by state subsidy and the own funds of the airline. Leading scientists specialising in flight safety and management have been engaged to work on the project as experts and consultants. The project is expected to be completed in December 2012.

11.5. Aircraft Maintenance and Repair

In 2008, aircraft maintenance and repair (M&R) was separated into an individual line of the Group's business under the brand "Volga-Dnepr Technics" (VDT), which was set up on the basis of the existing M&R bases. This allowed for reducing costs and enhancing the quality of the Group's aviation fleet maintenance. Another line of the company's business was rendering aircraft maintenance services to third party airlines.

In 2011, Volga-Dnepr Technics' revenue amounted to \$26 mn, of which \$14.5 mn was generated from services provided to the Group's own airlines and the remaining \$11.5 mn was earned from services delivered to external customers. Labour works on linear maintenance amounted to 82,769 standard hours, including additional works. A network of operational complexes performing M&R services for Russian and foreign-built aircraft created by Volga-Dnepr Technics includes four main centres:

- Volga-Dnepr Technics Moscow Ltd performs prompt maintenance of the Boeing 747 family aircraft (pre-flight,

daily check, service check), Boeing 737 (pre-flight, daily check, service check, A-check) and renders associated services in the territory of the two major Moscow airports – Sheremetyevo and Domodedovo. Maintenance of the Boeing 747 family aircraft is performed by the linear maintenance station located at the Emelyanovo airport in Krasnoyarsk;

- Volga-Dnepr Gulf (UAE) FZC (Sharjah, UAE) renders services for prompt and periodical maintenance of Russian-built aircraft (An-124, An-24, An-26, An-32, An-74, IL-76);

Volga-Dnepr Technics Ulyanovsk Ltd (Ulyanovsk Vostochny, Russia) was set up on the basis of the Volga-Dnepr Airlines' maintenance station that had been in operation for over 20 years. The enterprise performs maintenance of the An-124-100 and IL-76 aircraft;

- Volga-Dnepr Technics GmbH (Leipzig/Halle, Germany) was set up as the Ruslan SALIS GmbH maintenance station, which has been operational since 2006. This enterprise specialises in Boeing 747-200/300/400 and An-124-100 aircraft maintenance.

In the reporting period, Volga-Dnepr Technics increased its customer portfolio by signing maintenance agreements with such major airlines as Aerosvit Airlines CJSC, JSC Kogalymavia, Northwind Airlines, Donavia OJSC, and Orenburg Airlines FGUP. Last year, the company also extended its network of components and spare parts suppliers all over the world and increased mobility of service provision. Strategic agreements were signed with such

companies as SPM Components & Support, Aircraft Maintenance Connections, Everest VIT GmbH, Air Spares, and others.

As regards business development, Volga-Dnepr Technics successfully used mobile airsheds to secure maintenance of aircraft engines in complex weather environments. Last year, the company also worked on the creation and introduction of a system for prompt and qualitative aircraft recovery that allowed it to reduce the average downtime required for recovery by 20%.

In relation to certification and licensing, in 2011 Volga-Dnepr Technics Ulyanovsk confirmed its certificate for the linear maintenance stations at the Sheremetyevo, Domodedovo and Emelyanovo (Krasnoyarsk) airports. It also obtained a certificate for maintenance of the Boeing 747-8 and Boeing 737-300/400/500 aircraft. These certificates cover operations of the linear maintenance of Boeing 747-8 and maintenance of Boeing 737 aircraft in the volume up to A-check. Volga-Dnepr Technics GmbH was issued with European-type aviation specialists licences EASA Part-66. In addition, the M&R base in Leipzig (Germany) was awarded a certificate from European aviation authorities (EASA Part 145) authorising it to perform aircraft maintenance works on the Boeing 747-200/300/400. Volga-Dnepr Technics GmbH was the first Russian enterprise to be certified under this system in the territory of the European Union.

As regards personnel development during the reporting period, the companies of the Volga-Dnepr Technics Sub-group hired new highly qualified employees for the linear maintenance station, the group responsible for defect elimination coordination.



The company implemented a programme to attract foreign staff with proven production experience. Throughout the year the company was active in training delivery and further education of the operating staff, including employees in engineering and procurement services. Employees of Volga-Dnepr Technics also received training in operating a new type of aircraft, the Boeing 747-8F.

Company plans for 2012 include organisation of work on the creation of mobile maintenance teams to further reduce downtime by 20% throughout the route network and by 40% at its own maintenance stations. The company will by its own forces organise prompt maintenance (A-check) at the network enterprises. One of the most important business areas will be implementation of the programme for training as well as the attraction and retention of engineering staff.



Company plans for 2012 include organisation of work on the creation of mobile maintenance teams to further reduce downtime by

20%

throughout the route network



11.6. Supporting Businesses

Auxiliary businesses of Volga-Dnepr Group support the operating activities of the Group's airlines and allow them to improve the quality of customer service through the provision of additional services in areas related to the primary activity of the company.

11.6.1. Volga-Trucks

Volga-Trucks is a branch of Volga-Dnepr Airlines Ltd and is located in Ulyanovsk. It was established in 1997 and specialises in road transportation allowing Volga-Dnepr to offer its customers delivery of cargo directly to the point of destination, including land carriage. In 2011, the company performed road transportation for AirBridgeCargo and Volga-Dnepr Airlines flights operating from Sheremetyevo Airport in Moscow to locations in Central Russia, Volga region, and Southern and North-Western districts. Revenue from road transportation services amounted

Revenue from road transportation services amounted to

\$5.2

mn.

to \$5.2 mn, which exceeds the 2010 result by 19%.

The total number of operations performed by Volga-Trucks in 2011 was 4,200 with the volume of carriages amounting to over 180 tonnes of cargo under contracts with AirBridgeCargo and Volga-Dnepr Airlines. During last year the company continued implementing the project for development of freight carriage using refrigerated vehicles. In 2011, Volga-Trucks carried over 3,600 tonnes of cargo in this market segment.

Volga-Trucks is a member of the International Automobile Transportation Association and holds a customs carrier licence which allows it to perform road transportation using the customs transit procedure. The company's fleet includes vehicles manufactured by Volvo, Mercedes-Benz and Scania and these are used for transportation of general, customs and bulk freight.

11.6.2. NIC Insurance Company

According to the 2011 results, NIC Insurance Company CJSC, established in 1995 to provide reliable insurance protection of the Group's air fleet, was ranked 10th in terms of insurance premium collection among other insurance company members of the Russian Association of Aviation and Space Insurers (RAASI).

In 2011, the total amount of insurance premiums under direct aviation insurance contracts showed insignificant growth – by 4.4% (8,557.8 mn rubles). According to market trends, the share of payments under hull insurance policies increased by 21% over the year to 85.3%.

In 2011, NIC Insurance Company CJSC – acting together with the management of Volga-Dnepr Group and insurance broker Willis Ltd – was able to decrease the combined tariff applied to the hull and civil liability policies by 16% instead of the planned 10%, while the average decrease in the global market was at the level of 11%. Thus the company was able to save 400 thou US dollars despite a 19% increase in the Group’s fleet cost.

Besides aviation insurance, NIC Insurance Company provides the personnel of all the structural units of the Group with corporate insurance protection within the framework of employment benefits. This includes voluntary health insurance, accident and incapacity insurance. NIC also offers services to the Group employees for insurance of their private vehicles, property and liability. According to the 2011 results, payments under all insurance products amounted to 72,198 thou rubles.

In 2011, NIC-Life Insurance Company Ltd, which offers life insurance and supplementary pension payment services to the Group’s employees, effectuated payments for the total amount of 18,641 thou rubles. The number of the Group’s employees reaching the pension age and receiving supplementary pension payments increased to 106 persons as at the end of 2011.

In 2011, NIC Insurance Company continued working to extend the list of its long-term reinsurance partners. This already includes leading international insurance companies such as Chartis, Aspen, Partner Re, Allianz, Liberty, Torus, La Reunion Aerienne, Lloyd’s syndicates, and others.

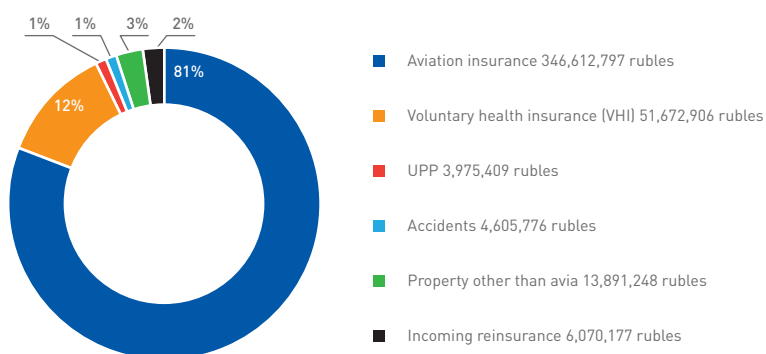
The development strategy of the NIC Insurance Company up to 2020 was approved in November 2011 and is focused on performance of the tasks set before the Group in the areas of the aviation insurance, flight safety management and air accident prevention, as well as personal insurance of employees. NIC assists the Group with performance of its task to become one of the three leaders in the industry in terms of flight safety ratio. NIC Insurance Company also engaged in work on aviation accident prevention and flight safety management as an accident forecasting expert.

According to the 2011 results, payments amounted

72,198

thou rubles

Fig. 11.1. Structure of the Insurance Portfolio by the Underwritten Premium for 2011





A new dimension of the freight business

Annual report
VOLGA-DNEPR GROUP
2011

Seattle (USA)

Credit: Images courtesy NASA/GSFC/MITI/ERSDAC/JAROS, and U.S. / Japan ASTER Science Team and Paul Morin, University of Minnesota.
<http://visibleearth.nasa.gov/view.php?id=1218>



DEVELOPMENT PROJECTS

12.1. Projects for Resumption of An-124 Family Aircraft Mass Production

Over more than 20 years of operation in the commercial market, the An-124 has become an essential tool used in the complex logistics of super-heavy and oversize cargo and has no aircraft equivalents in the world. Volga-Dnepr Group is an active participant in the project for resumption of An-124 mass production. In 2011, within the framework of this project, Volga-Dnepr Group continued to interact with competent ministries and agencies regarding performance of the Russian President's commissions to organise production of the An-124 aircraft for needs of the Ministry of Defence of the Russian Federation. In particular, the company rendered assistance to regulatory bodies with identification of the technical design of the new aircraft and development of the technical and economic assessment of the An-124 production resumption at Airstar-Sp CJSC. In 2011, the company also formalised the list of commercial customers of the modernised An-124 aircraft on the basis of the applications received by JSC United Aircraft Corporation.

One of the major events that took place during the reporting period was the signature in the course of the International Aviation and Space Salon MAKS-2011 of the Decision "On the Procedure for Performance of R&D Works on Modernisation of the first An-124-100-150 (An-124-100) aircraft operated by Volga-Dnepr Airlines Ltd. According to the R&D Terms of Reference, the modernised An-124-111VD will have the following characteristics: take-off weight – 402 tonnes, cargo capacity – 150 tonnes, range with 120 tonnes of cargo – at least 5,000 kilometres, and the minimum number

of the crew members – three persons. In addition, the parties developed and approved the schedule of the R&D works performance. The aircraft will be equipped with modernised D-18T series 3M engines fitted with the FADEC digital control system with the resource of 50,000 hours and 11,111 cycles. Environmental features of the engine will be in line with the international requirements on the level of harmful substance emissions in compliance with Appendix 16 ICAO volume 2 (including amendments up to the 6th) and noise in compliance with requirements stipulated by chapter IV Appendix 16 ICAO.

Moreover, the company carried on performing other works to attract the Ukrainian party to the production resumption project. There was an active discussion of the draft intergovernmental agreement on state support of An-124 production resumption in the line of the Ministry of Industry and Trade of the Russian Federation, RF Government Office, RF President Administration and other specialised ministries and agencies.

During the reporting period, the Group's representatives also held further negotiations on the issue of American companies participating in the project and their inclusion into the processing chain of the aircraft manufacture.

SOCIAL RESPONSIBILITY AND PERSONNEL DEVELOPMENT

13.1 Personnel Development

According to the goals of its strategic development, the Group is trying to become the most attractive employer in Russian civil aviation.

The ambitious goals set by the company in the area of active business development in the Russian and international freight carriage markets and its striving for industry leadership require a proactive and professional approach to its staff development policy.

Volga-Dnepr Group employs only the most qualified specialists with the greatest potential for further professional development. It forms its personnel reserve through regular and active cooperation with universities and has also implemented its own "Young Generation" programme.

Last year, the headcount of the Group increased by 10.8% to reach 3,270 personnel at the end of the year.

During the reporting period, the main events aimed at attracting new personnel included the Doors Open Day for AirBridgeCargo air staff, which included a tour around the Boeing 747-400F aircraft, and successful implementation of the programme for training commercial staff entitled "Commercial Service Incubator". Based on the successful results of this, Volga-Dnepr Airlines employed five young specialists.

The Group's social policy is aimed at protecting employees' social rights, young families support, work with the younger generation, and provision of medical and pension benefits.

Another key line of the Volga-Dnepr business in the HR area is improvement of labour productivity up to the level of global industry standards. The company solves this task by way of employee training and education, the development and introduction of modern systems of education, improvements in working conditions, and the introduction of modern production and management technologies.

The total amount allocated for personnel education and training in 2011 was \$1.6 mn, which is comparable with the 2010 investment.

Today, Volga-Dnepr is actively working on development of the production ties between Group companies and the enhancement of interaction efficiency, knowledge and experience exchange among specialists of its various subdivisions. In particular, to improve interaction between the companies and to enhance the quality of services offered to customers, in 2011 AirBridgeCargo and Volga-Dnepr Technics held a number of joint teambuilding events for key managers.

A strong example of the experience and knowledge sharing among the Group's professionals was constituted by the flight and technical conferences that brought together the flight officers to solve pressing issues and tasks in the area of aerotechnics operation, support of high air worthiness

The total amount allocated for personnel education and training in 2011 was

\$1,6
mn



Since it was founded, Volga-Dnepr Group's success has been driven by the high professionalism of its employees and staff enthusiasm, who constantly strive for the highest standards.





standards, flight safety, and improvement of labour productivity.

Volga-Dnepr Group is an active participant in educational programmes to develop the specialists of future aviation to overcome the industry's lack of qualified staff. Some years ago, Volga-Dnepr made strategic partnership agreements with the leading universities of the Ulyanovsk region: Ulyanovsk Higher Civil Aviation School, Ulyanovsk State University, and Ulyanovsk State Technical University. In 2011, Volga-Dnepr expanded the geography of cooperation with the educational institutes by making agreements with the Tomsk Polytechnic University, Samara State Aerospace and Kazan Aviation Universities. During the reporting period, over 180 students of these universities

completed practical training in the Group companies and 12 of these were offered employment with the Group.

As regards work with the younger generation, Volga-Dnepr held a number of events for its employees' children in Ulyanovsk and Moscow. The children could visit trainer complexes and, sit at the wheel of real transport aircraft.

The key element of work on the Group's personnel development and training of its management staff is the Corporate University, which was established in 2011 as one of the first corporate education centres in Russia. The first result of the corporate university work was the progression of young managers to key operative management positions in the Group.

Today, the corporate university is a diversified educational company acting in the form of a non-state educational institution – Volga-Dnepr International Training NOU. The company holds a licence to perform educational activities and has the status of an aviation training centre.

At the moment, the corporate university comprises the Leadership School, Management School, Aviation Training Centre, School of Foreign Languages and Knowledge Centre. The main educational sites of the corporate university are located in Ulyanovsk and in Moscow. Besides, there are field sessions held in all the structural units of the Group and at customer offices.

Actual business tasks require that changes be made to the education and development process. They also call for a more innovative approach to educational events. Thus, in 2011, a series of project sessions took place with



The general objective of the corporate university:

Seventy per cent (70%) of the strategic tasks set before the Group are solved by employees trained at the Corporate University.



the Managerial Technologies Department of the Management Company of Volga-Dnepr Group with the engagement of leading specialists of the PM-Expert company, the leader in the market of project consulting and training services. These sessions were attended by the top managers of Volga-Dnepr as well as heads of the Group's projects.

In 2011, graduations from the Management Reserve School and Personal Assistant School took place and the School of Bankers and Economists, Line Management School, and even School of Health were opened, the latter of which began its activity from the seminar entitled "Corporate Standards of the Healthy Lifestyle".

Last year, Volga-Dnepr received an order from the Aviation Administration of the United Arab Emirates to train its inspectors in the engineering and technical peculiarities of the An-124-100 Ruslan aircraft in order to gain the fullest insight into the aircraft, up to the potential of flying it in the future. To perform this extraordinary order, a special working team was formed in the Corporate University and training sessions were organised in Sharjah (UAE).

13.2. Social Responsibility

The future of any business, its gradual and efficient development are closely connected with the social welfare, standard of life, culture and health of the nation, as well as preservation of its historical heritage.

Volga-Dnepr Group performs its social mission in line with applicable national priorities and priorities of significance to society in general and for each individual in particular, notably support of sports and

healthcare, education and science, culture and art, and helping disadvantaged groups.

Developing and implementing its social programmes, Volga-Dnepr Group strives for their multi-level realisation. The employees of the Group regularly take an active part in social and charitable campaigns, making their personal contribution to the creation of a harmonious society.

The main project in the area of corporate social responsibility is the project for construction of the production and dwelling complex "Volga-Dnepr City" in Ulyanovsk. The main objectives of the project include provision of housing for the company's young specialists and specialists of the Port Economic Zone. On the land plot with the area of 13.2 ha there will be administrative and office buildings and an aviation and educational centre with a total area of 28,480 sq.m. The area allocated for the social and housing facilities construction will make 23,600 sq.m. Moreover, it is planned to create a park zone on the bank of the Volga River. The total amount of capital investments is valued at \$75 mn.

In 2011, the opening ceremony of the secondary comprehensive school "Istochnik" took place. This school is one of the key social projects of the Volga-Dnepr Group. Its implementation was commenced in 2005 with the setting up of the primary school "Istochnik" in Ulyanovsk. Opening of the



The volume of educational services sold in 2011 grew by 15% compared to 2010. The number of class hours in 2011 increased by 4% over the previous year.



authors secondary comprehensive school “Istochnik” is another step on the way to the project implementation. The new school accommodates 144 pupils and offers all necessary conditions for education, creative and physical development of the children. This educational institution operates as a system of pre-school, primary, basic secondary and additional education. “Istochnik” is a half board school with a maximum of 12 children in a form. The full day regime allows the children to obtain new knowledge and to develop their creative talents at the same time.