

LAUNCH STRATEGY

For a new Russian low-cost carrier until 2025





▪ Executive summary

- Market Analysis
- Launching strategy
- Implementation

Executive summary

Executive summary

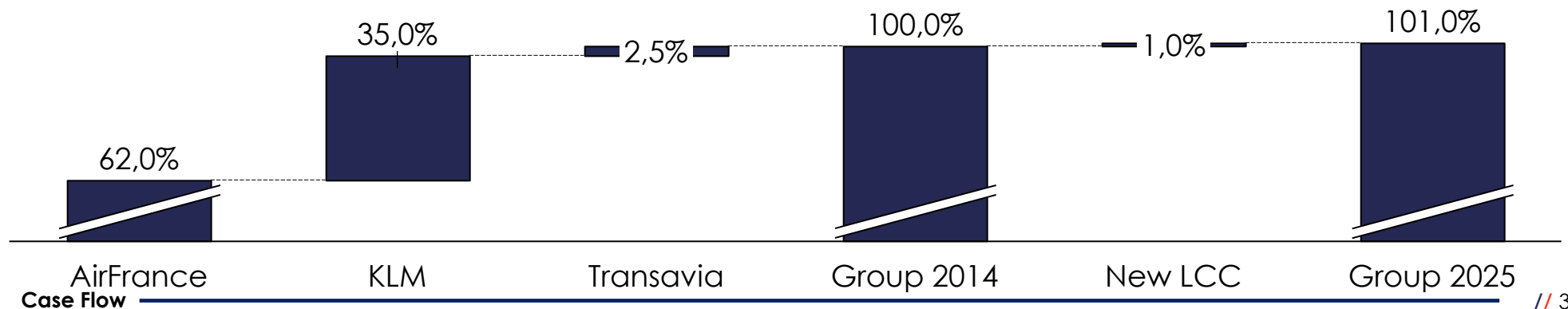
Market analysis

Launching strategy

Implementation

- Russian airline market is one of the most attractive to enter, despite the current economic crisis
- LCC business model can succeed due to legislation changes in 2014
- The best strategy is to enter the Russian domestic market in 2018 and launch international flights in 2020
- The company has to:
 - Attract a Russian investor, who would possess 51% share of the company (\$100 mln)
 - Lease 8 Airbus 320 in 2018 and 8 in 2020-2025
 - Operate in 24 destinations (20 domestic + 4 international)
- The revenue in 2018 will be at a level of \$88,7 mln and in 2025 at \$228,5 mln
- Average EBITDA – 15%

The financial result and impact on the AirFrance-KLM group by 2025



Source: ICAO, annual reports, Mintrans, Air Industry legislation, CaseFlow analysis

- **Executive summary**

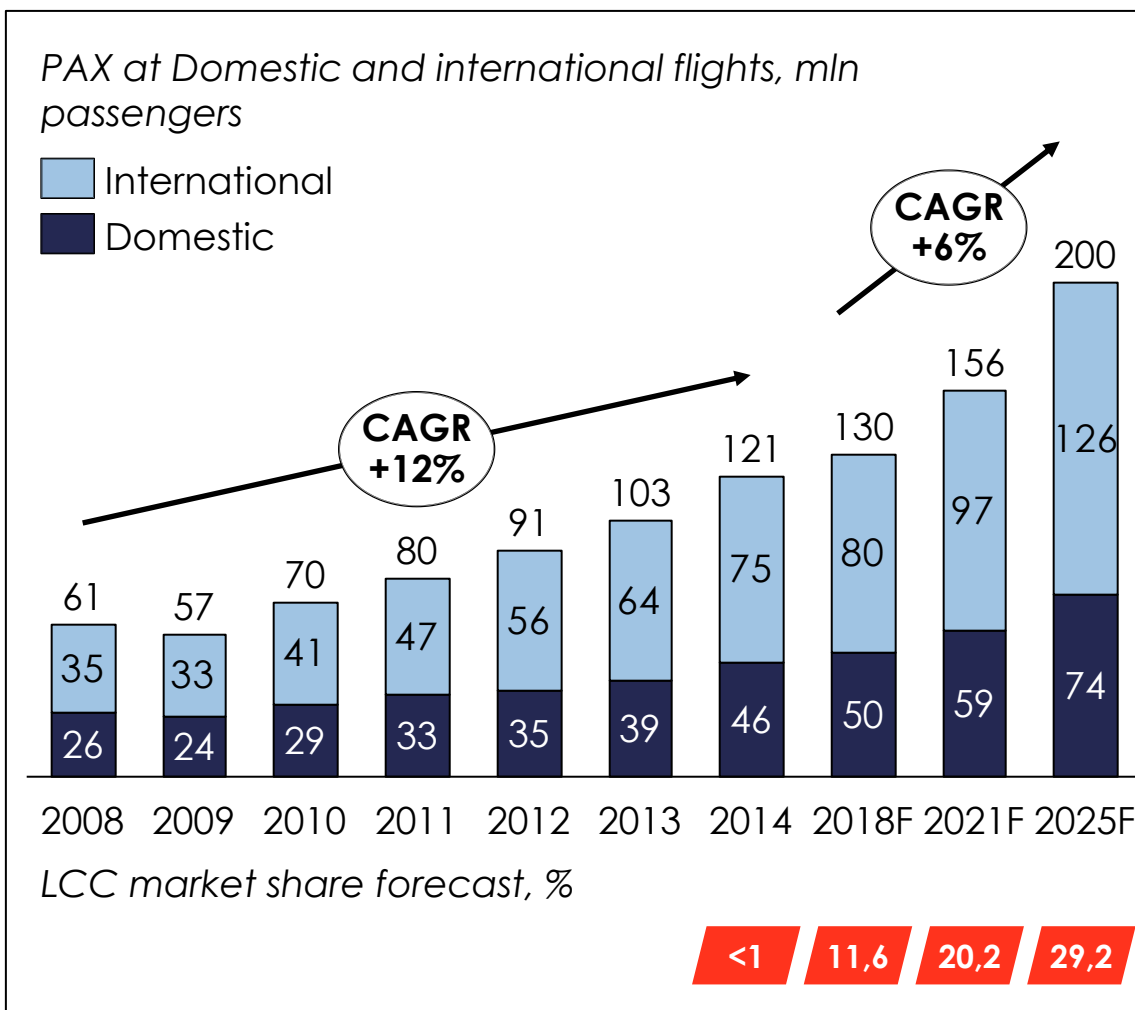


- **Market Analysis**

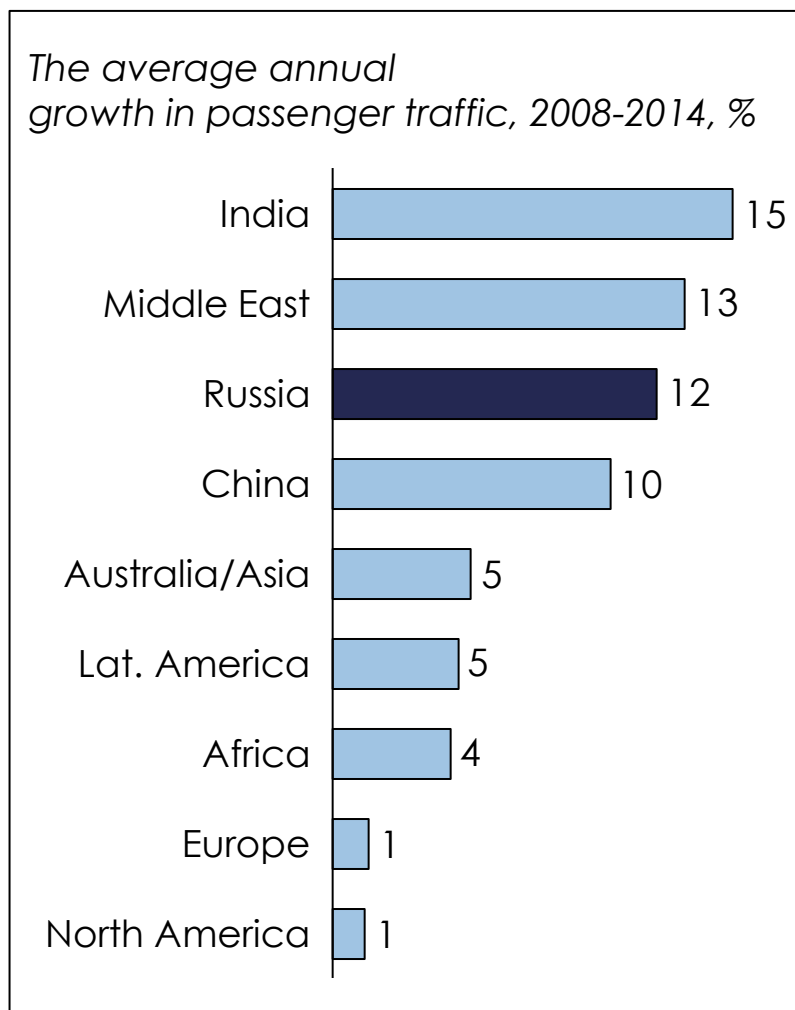
- **Launching strategy**
- **Implementation**

The Russian airline market is one of the most attractive markets in the world

The Russian airline market has been growing by 12% annually last 6 years...



... And it has one of the biggest growth rates in the world



The demand for air travel will steadily rise to 2025 due to the economic growth and an air mobility increase

Executive summary

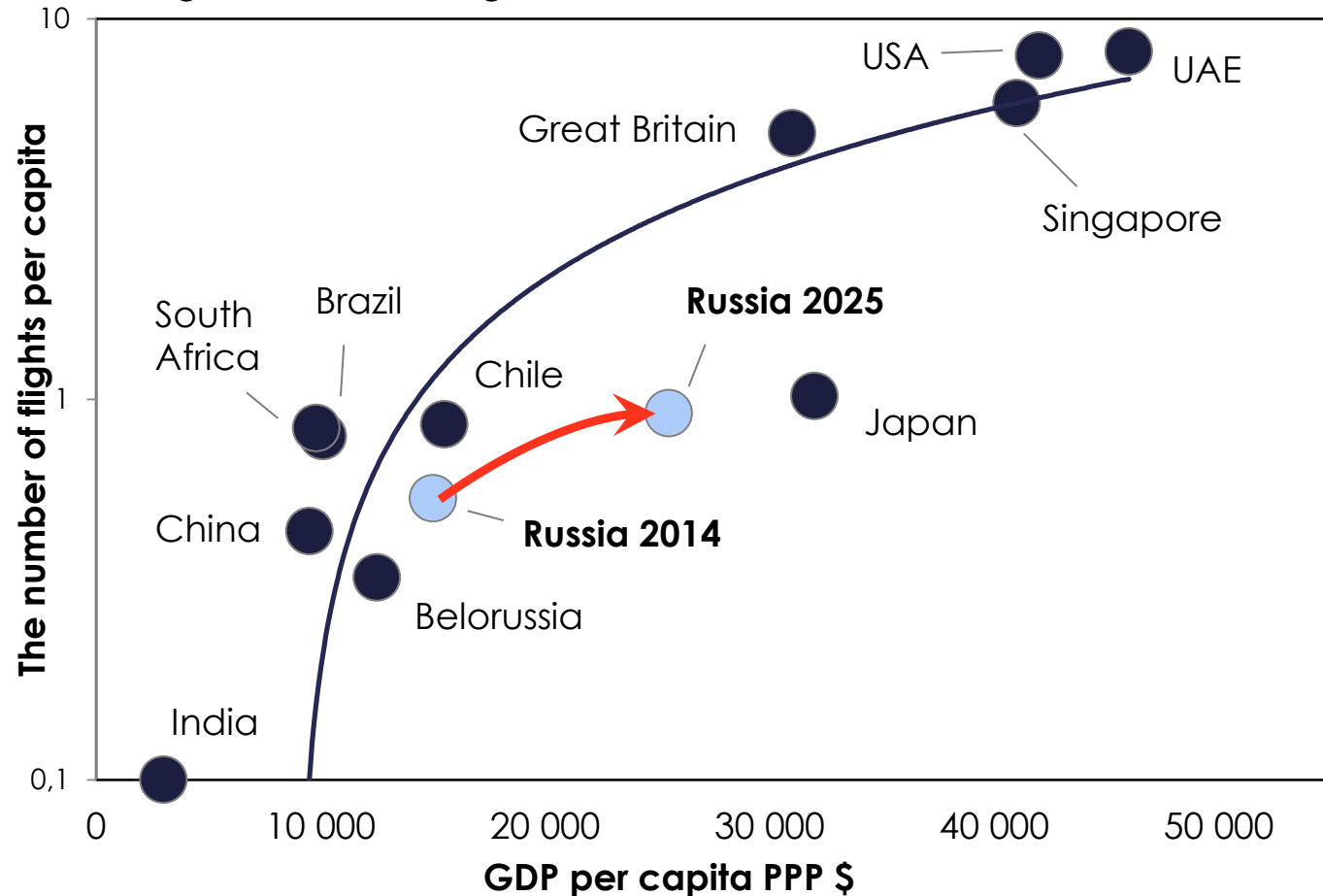
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Significant increase in air travel is expected in Russia with the income growth in future

Air travel growth and GDP growth, 2014



- Demand for air travel directly depends on the GDP per capita
- With GDP growth, air transportation will increase
- In 2025 GDP per capita will be at the level of \$26,000 USD (+7%)
- Number of flights per capita will increase from 0.6 to 0.9 (+ 50%)

- **Executive summary**

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- **Launching strategy**

- **Implementation**

For launch of a new LCC in Russia, an effective strategy with distinguishing features was developed

Executive summary

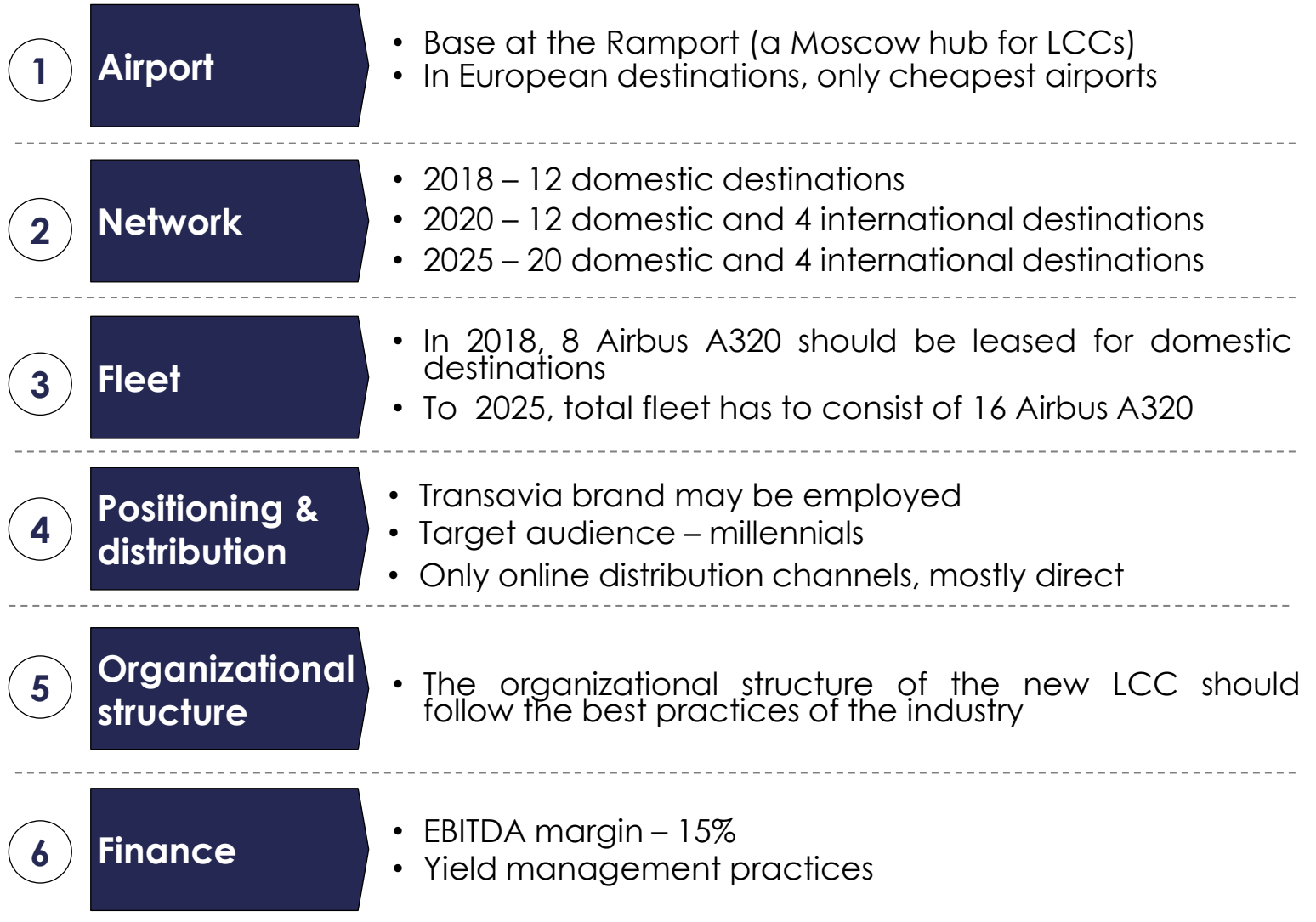
Market analysis

Launching strategy

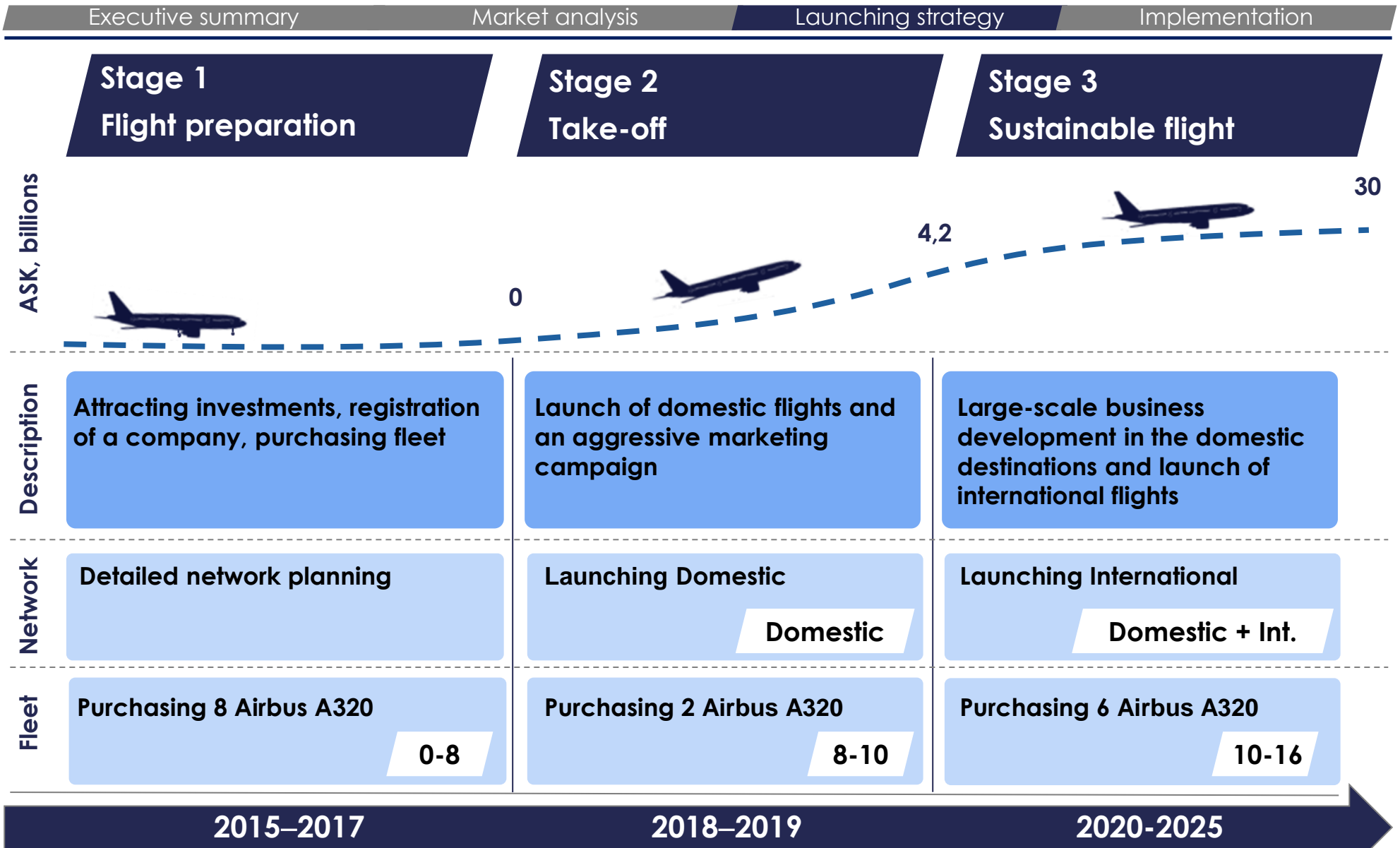
Implementation



NEW RUSSIAN LOW-COST CARRIER STRATEGY



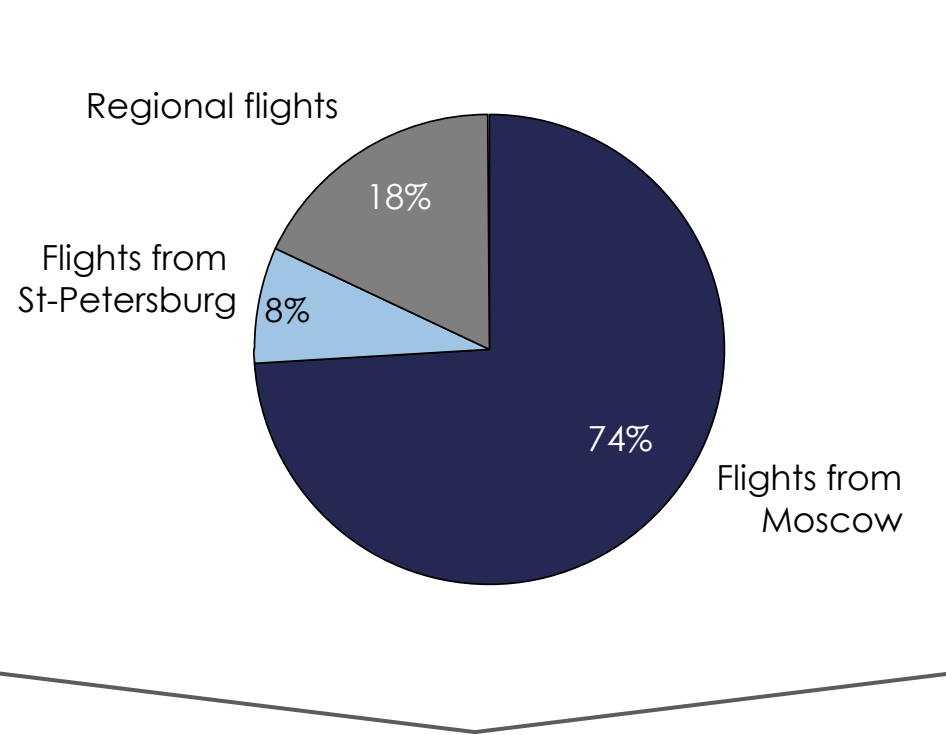
The strategy has to be implement in 3 stages



The company should be based at the new Ramport Airport* and start with the hub-and-spoke network model

74% of domestic flights are made from Moscow airports

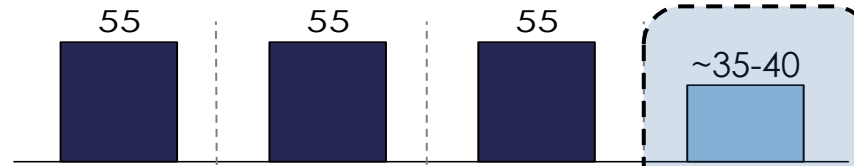
Domestic flights, % :



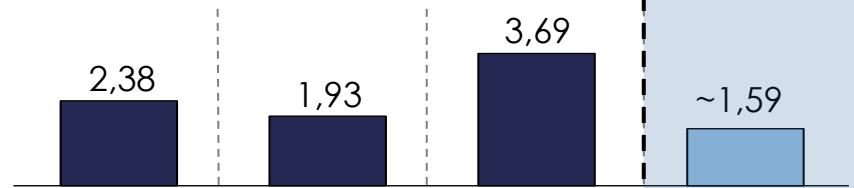
- Due to the Russian airlines network characteristics, the company should be based at a Moscow airport
- The company should adopt the Hub-and-spoke network model

The Ramport airport will provide tax and operational advantages for a LCC

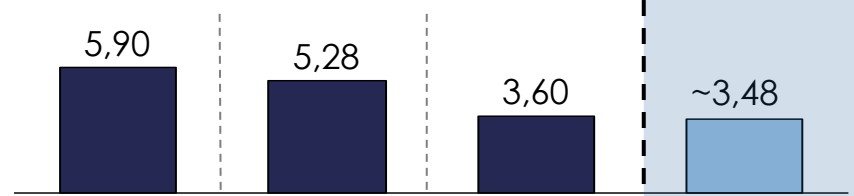
Average turnaround time, minutes



Airport service fee, \$ per passenger



Take-off/landing fee, \$ per ton MBM



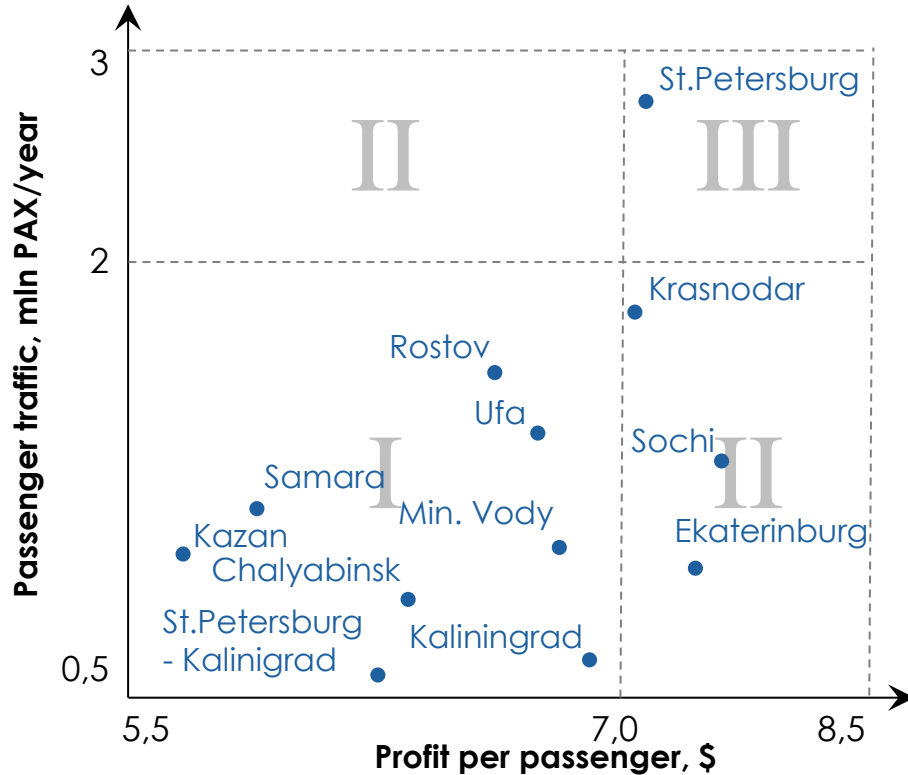
1) Ramport is planned to be opened in 2016. For more details see appendix №4

The network will cover the European part of Russia and the European cities

Domestic network at the launch of the company will include 12 destinations

2018

Chosen destinations pattern (quadrant – number of round-trip flights per day)

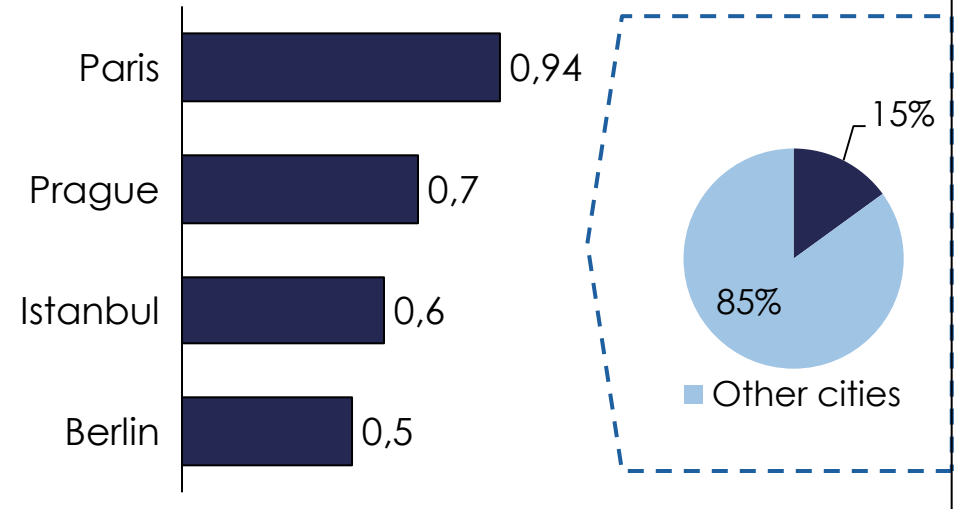


- Criteria**
- The biggest passenger traffic
 - Flight duration <3 hours
 - Few direct competitors

European market expansion: launch of 4 new directions

2020

Passenger traffic from Moscow in 2014, mln. PAX/year



Global vision of the company's network: 2025

- About 24 directions (Russia + Europe)
- About 66 flights per day
- Hybrid Hub Model (with a sub-hub in Saint-Petersburg)

- 1) For more details see appendix №3
- 2) For the destination map see appendix №2

The company should buy 8 AC A320*

Executive summary

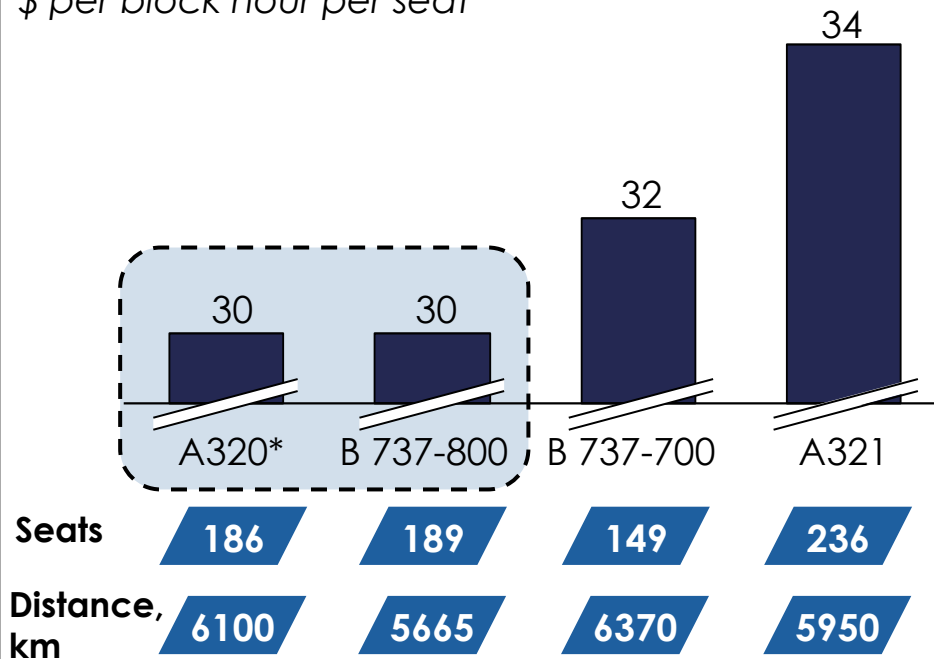
Market analysis

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Airbus A320* and Boeing 737-800 have the same operating efficiency...

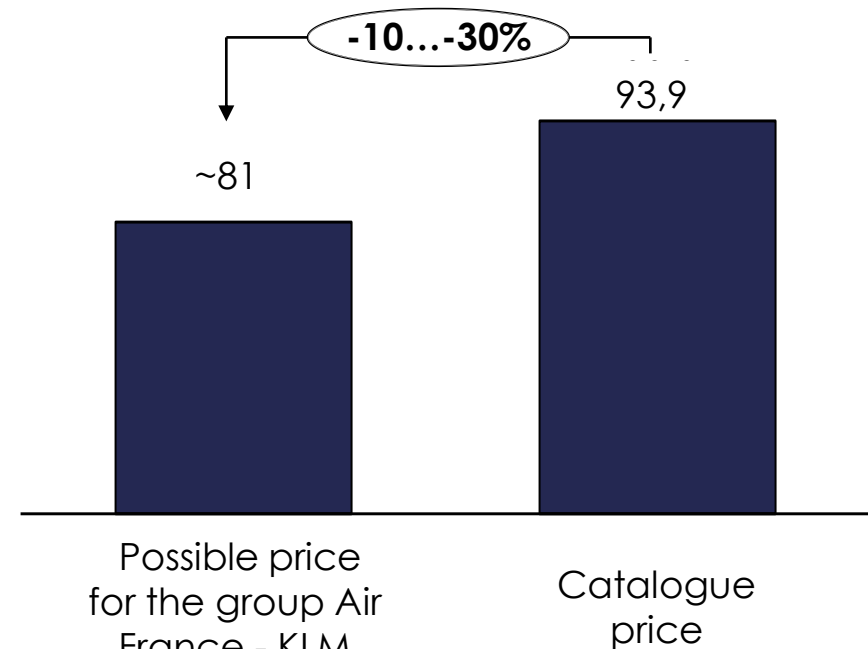
Operating cost,
\$ per block hour per seat



With other equal conditions, it is better to focus on the A320*, since the AirFrance-KLM group will be provided a significant discount

...but AirFrance-KLM group may purchase Airbus A320 at the lower price

A320 price, Million \$ per plane

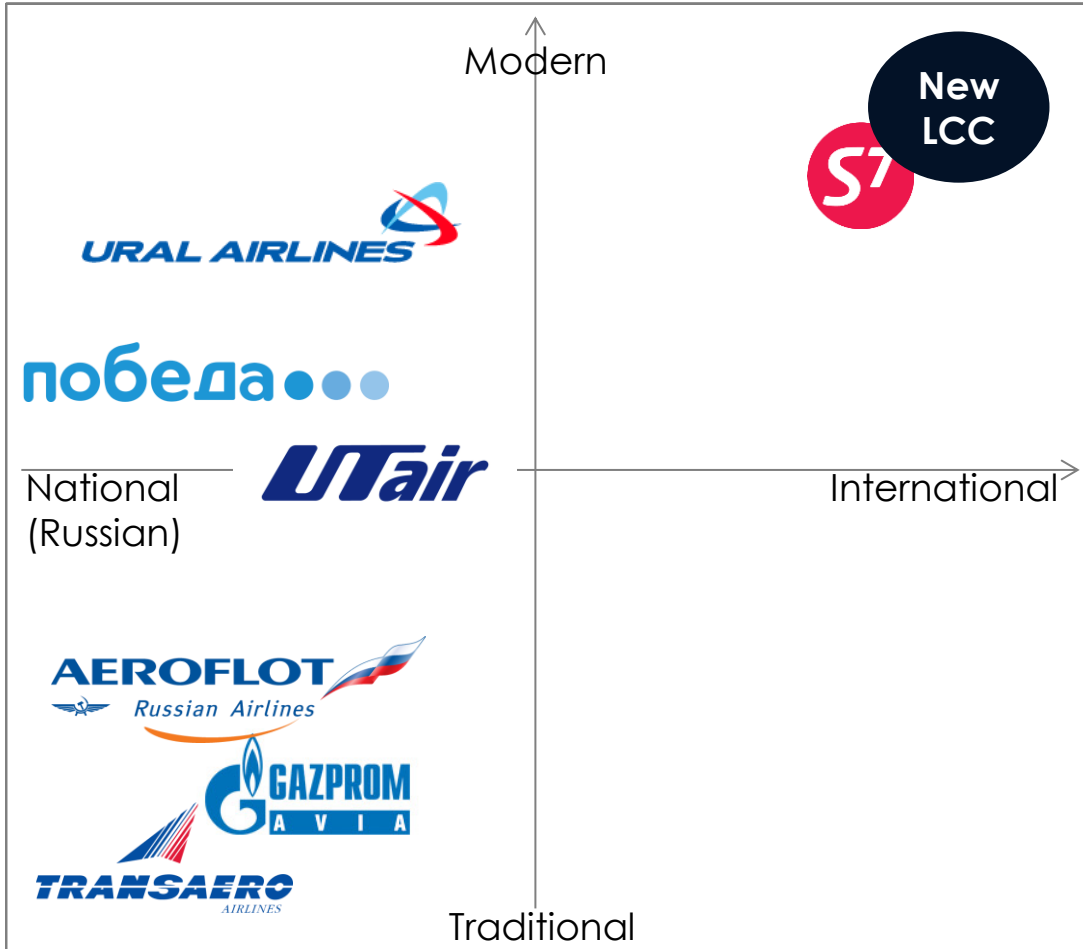


* - A320 with a "Space Flex" salon option with 186 seats. Available from 2015.

1) For more details see appendix

Transavia brand can succeed in Russian market, but the name has to be changed

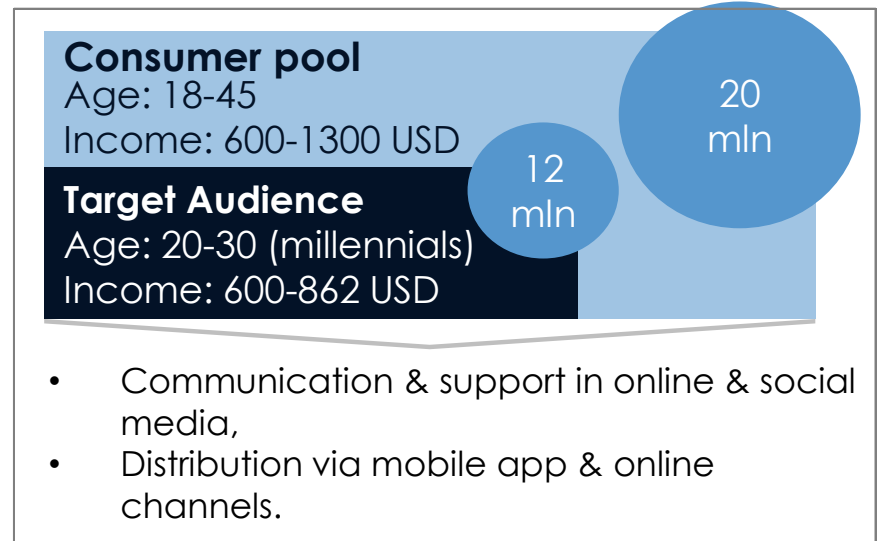
1 Russian airline brands' positioning is mostly national and traditional, so the Transavia brand may stand out on the market...



2 ...but the name of "Transavia" may be confused with a recognizable Russian airline brand "Transaero"¹



3 To support positioning as modern, rich digital experience has to be provided, which is attractive to the TA

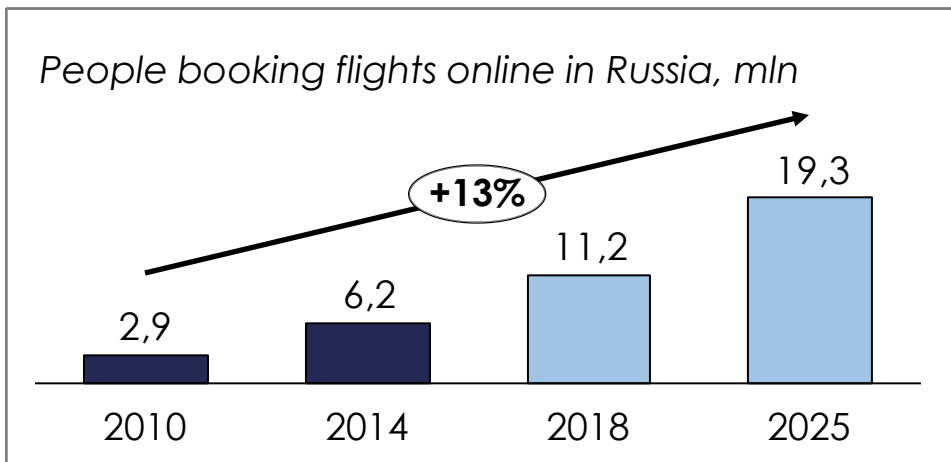


1) Transaero is the second most recognizable Russian airline brand, which is evaluated at 115 mln USD. It shares 12% of the market.

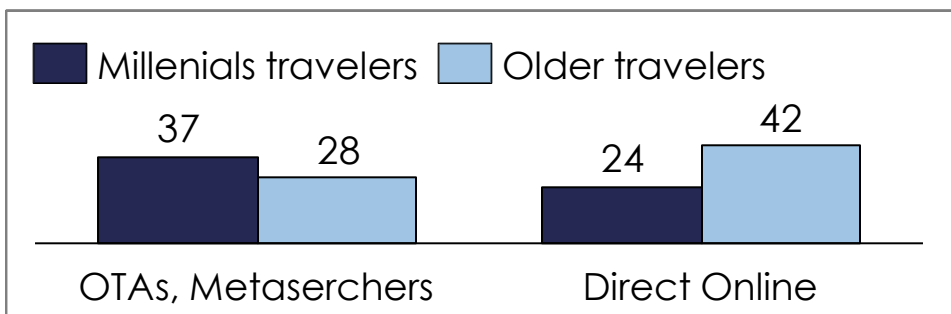
5

Company should employ both direct and indirect online distribution channels, since they are most cost-efficient

1 The number of people booking flights online is steadily increasing



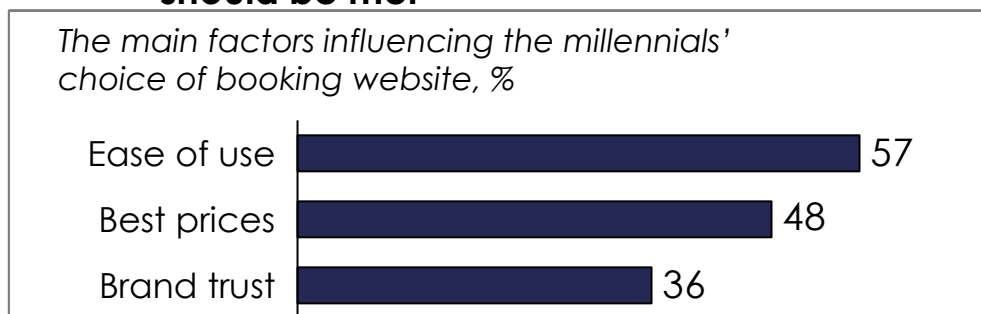
2 Russian consumers, especially millennials, actively use OTA's websites



3 Online distribution channels are the most cost-efficient

Type	Type	Channel	Cost, % of price
Online	Direct	Company's website	3-4
		Mobile app	3-4
	Indirect	OTA's ¹	5-7
		Metasearches ² :	5-7
Offline	Indirect & direct	Call centers, agencies, offices	7-13

4 To switch consumers to the direct online channels, the needs of the target audience should be met



1) The biggest OTA's in Russia: OneTwoTrip, Biletix, AnyWayAnyDay, Ozon.Travel.

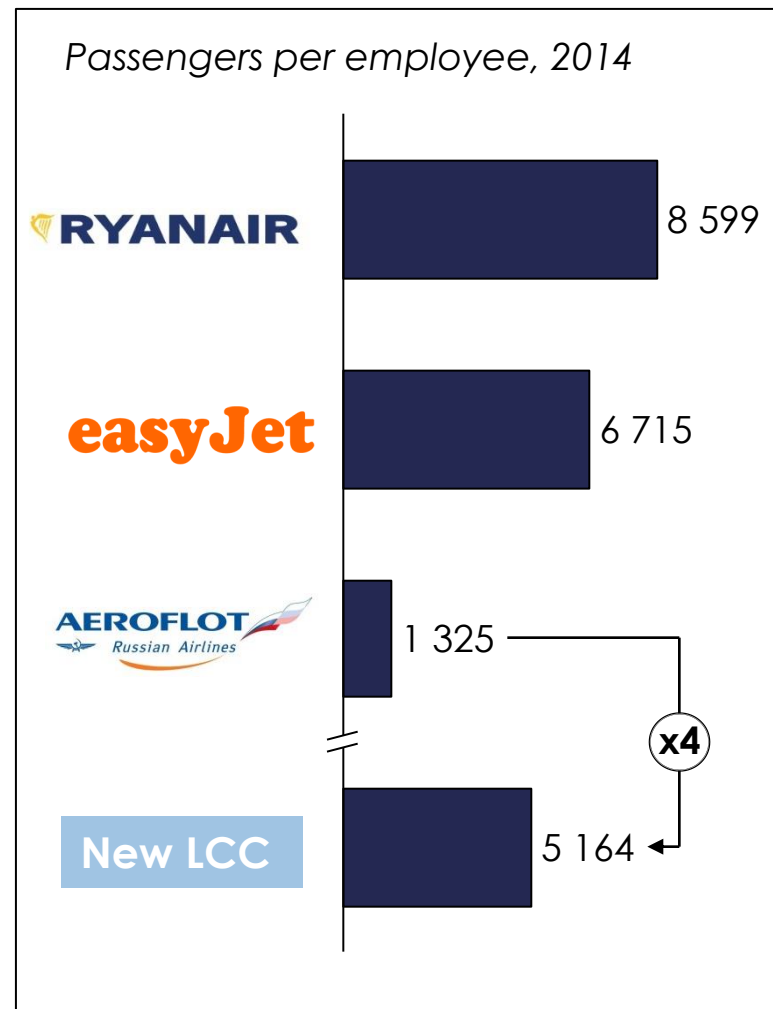
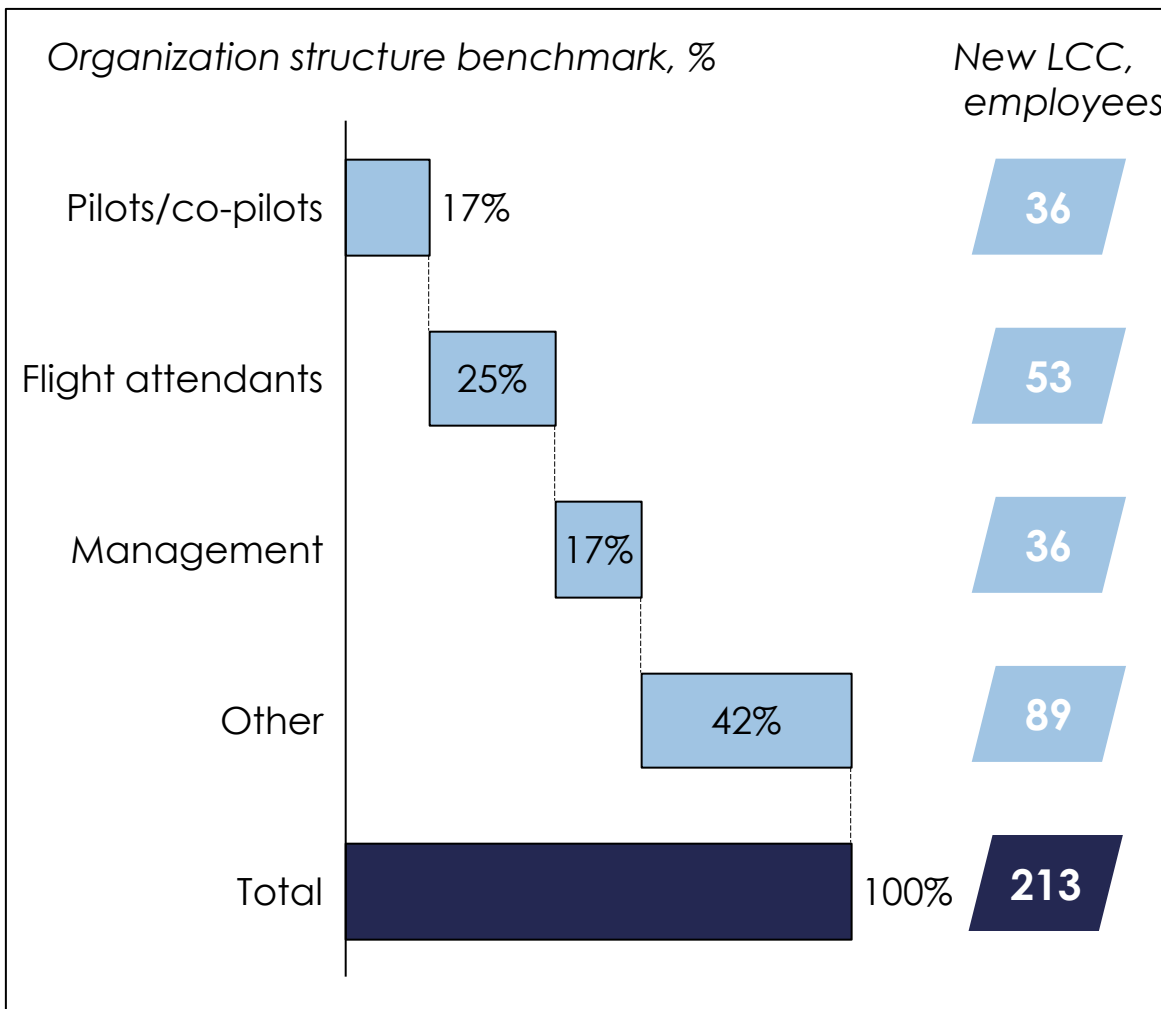
2) The biggest metasearches in Russia: Aviasales, Skyscanner, Yandex.Avia.

3) Monthly reach of the metasearches, not including mobile apps (mln people): Aviasales – 4.5; SkyScanner – 3.5; Yandex.Avia – 1.2.

The organizational structure of the new LCC should follow the best practices of the industry

The organizational structure of the new LCC will match European companies' best practices...

...and its efficiency will be comparable with the European LCCs' one



The company should apply the yield management practices to maximize the revenue

Executive summary

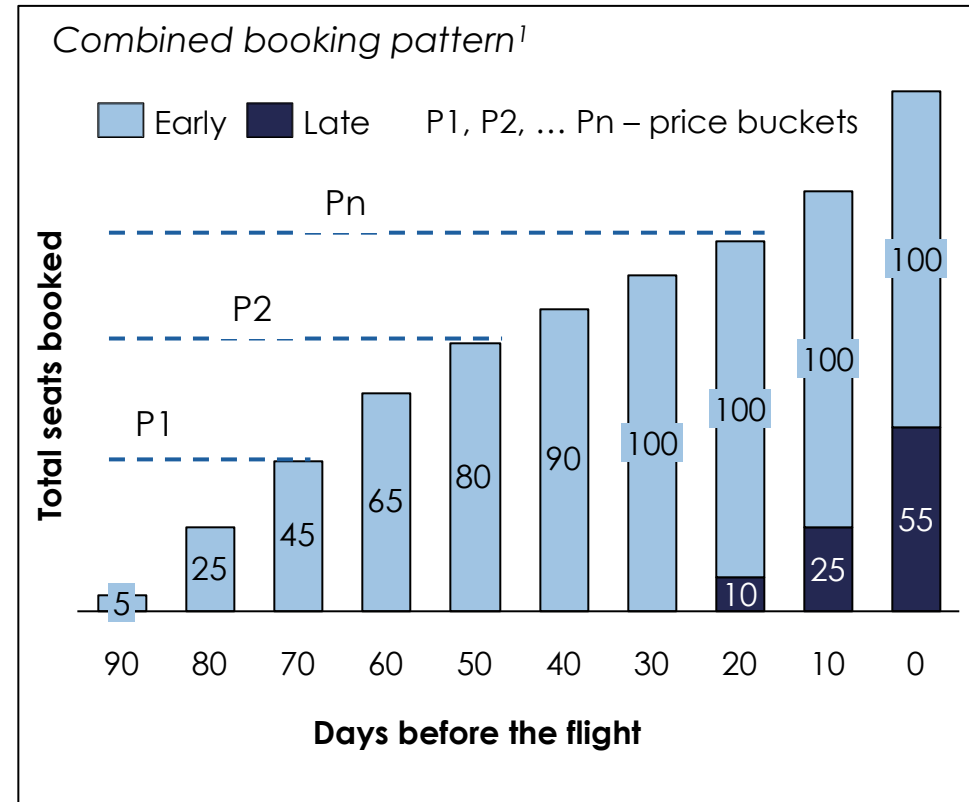
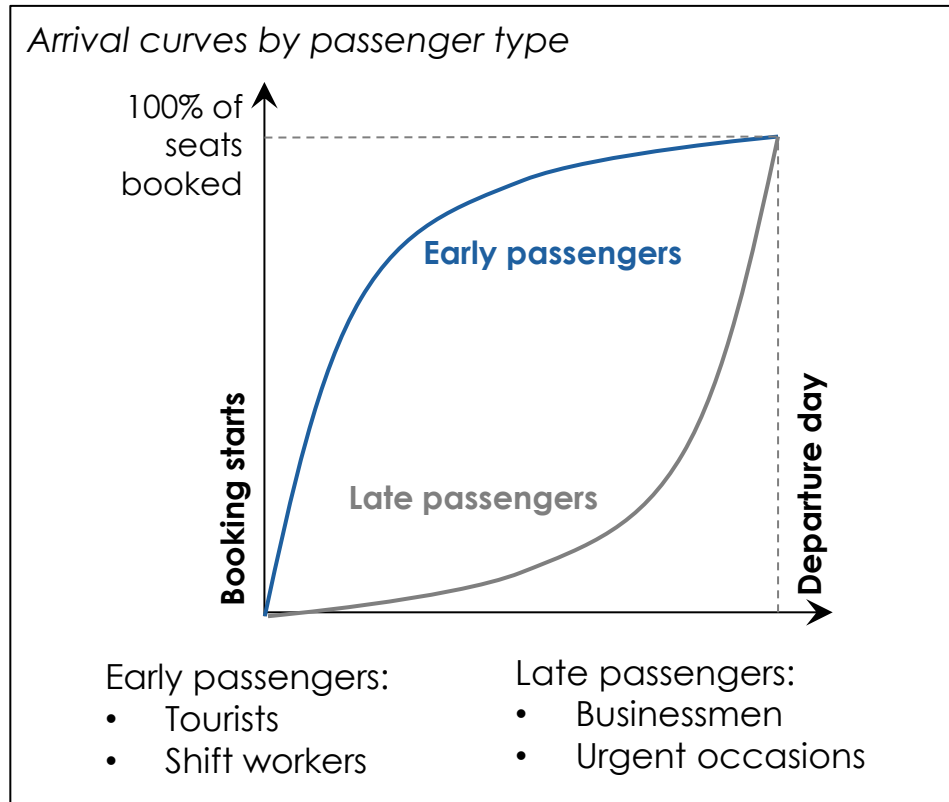
Market analysis

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To maximize the revenue, 2 types of passengers have to be taken into account

Together, this 2 types of passengers form linear booking of the seats in an aircraft



The following decisions should be implemented for every specific flight (destination, day and time):

- Booking starts date (from 90 to 150 days)
- Appropriate price buckets (P1, P2, ... Pn)
- Adjust the system in real time if necessary

1) The diagram is for information has to be adapted for every flight

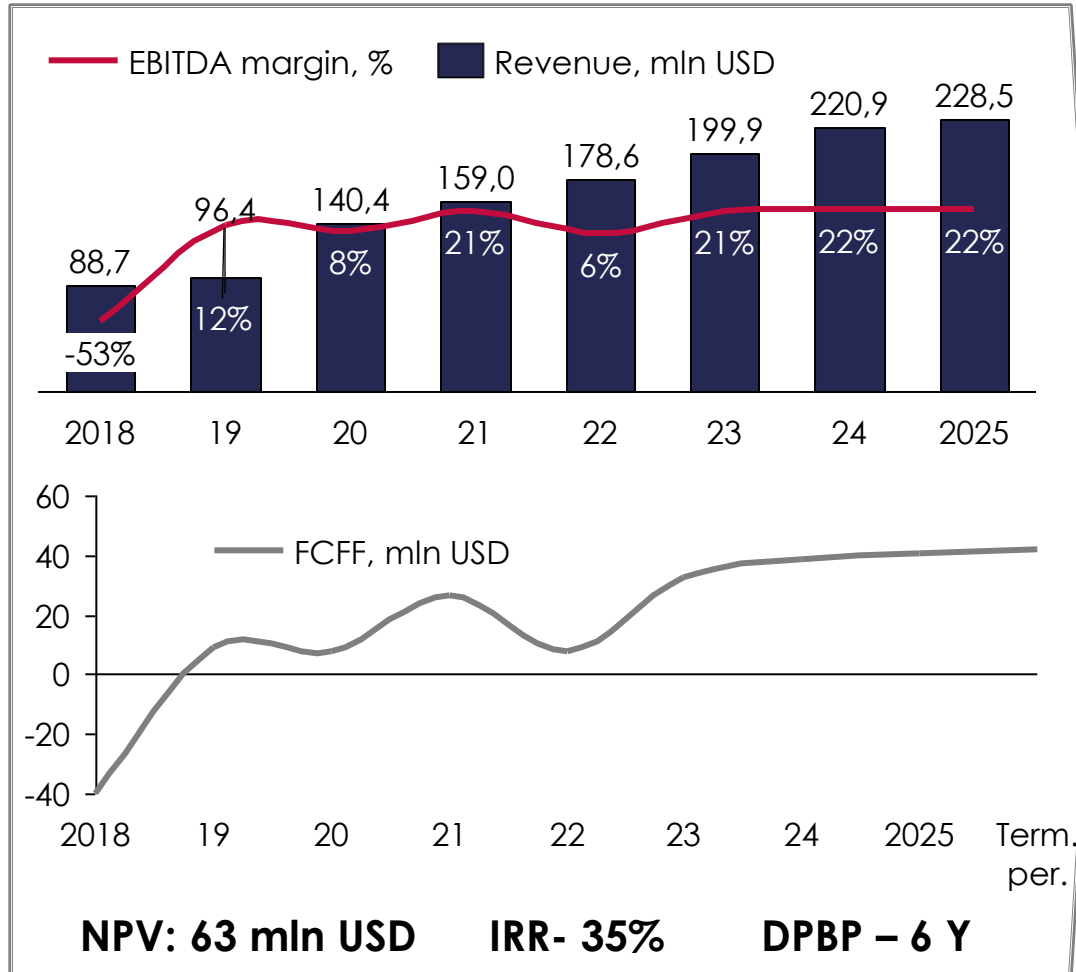
Case Flow

Source: Press, "Yield management in budget airlines" Gerald L. Barlow, CaseFlow analysis

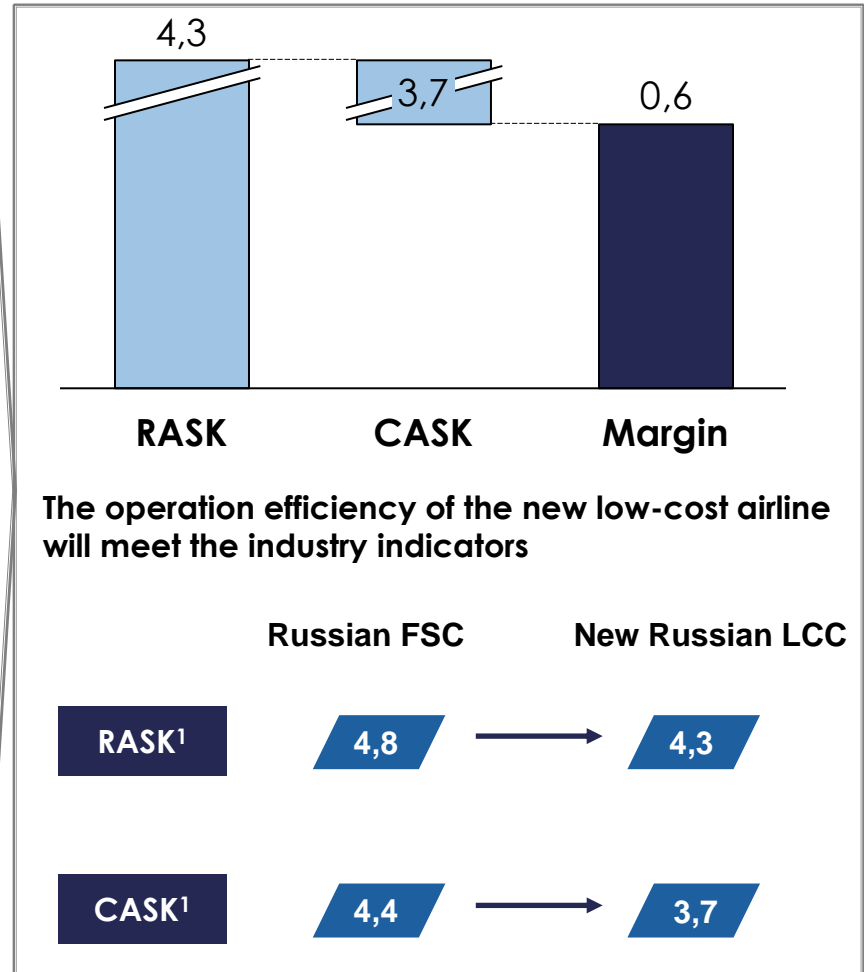
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Launch of a new low-cost airline in Russia is financially efficient

In current conditions, launch of a new low-cost airline in Russia is cost-effective



Operational KPI's will be comparable with Russian FSC's



* Aircraft acquired on lease at a rate of 4%, the term of the contract for 15 years, a down payment - 20% of the initial cost

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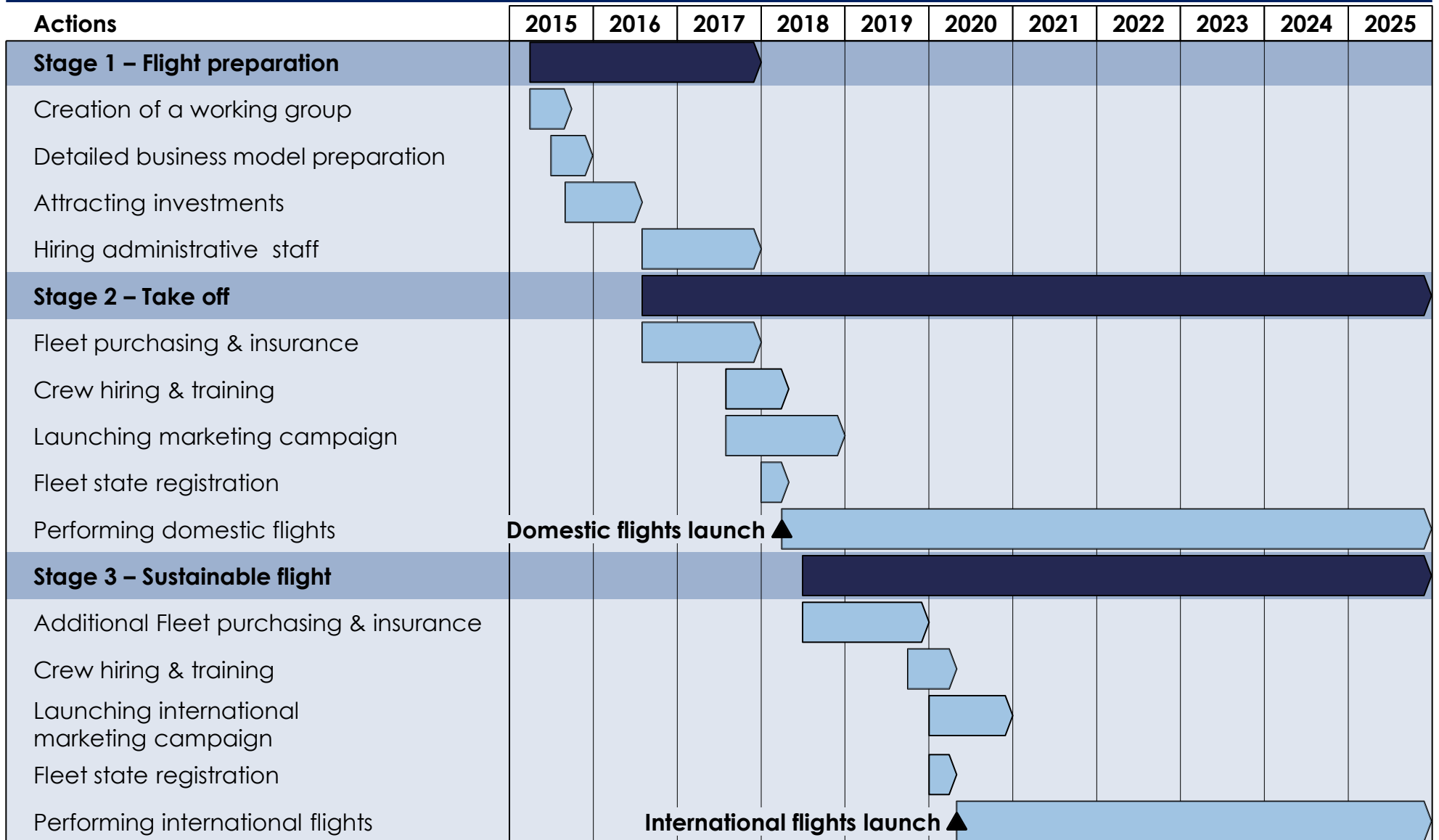
In order to successfully launch low-cost carrier in Russia the company should focus on three main stages

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Thank you for your attention!



Appendix



Appendix 1: Legislation possibilities allow to launch low-cost carriers in Russia effectively

Legal environment has been becoming more favorable for LCC since 2014, allowing to cut costs effectively

		Description	Possibilities
Positive	Legislation	<ul style="list-style-type: none"> International pilots are allowed to be hired Catering must be provided only in 3+ hours flights Price and amount of luggage are specified by airline companies Tickets may be non-refundable 	<ul style="list-style-type: none"> International pilots will be hired Catering will be provided only in 3+ hours flights Luggage and food on board will be sold at additional prices
	Infrastructure	<ul style="list-style-type: none"> In 2016, airport "Ramport" for low-cost carriers will be constructed in Ramenskoye city (45 km from Moscow) Reconstruction of airport in St. Petersburg for low-cost carriers 12 large Russian airports will be modernized, reconstructed or developed for FIFA 2018 	<ul style="list-style-type: none"> International pilots are allowed to be hired Catering must be provided only in 3+ hours flights

... But there are still some unbeneficial limitations. Though, they may be overcome

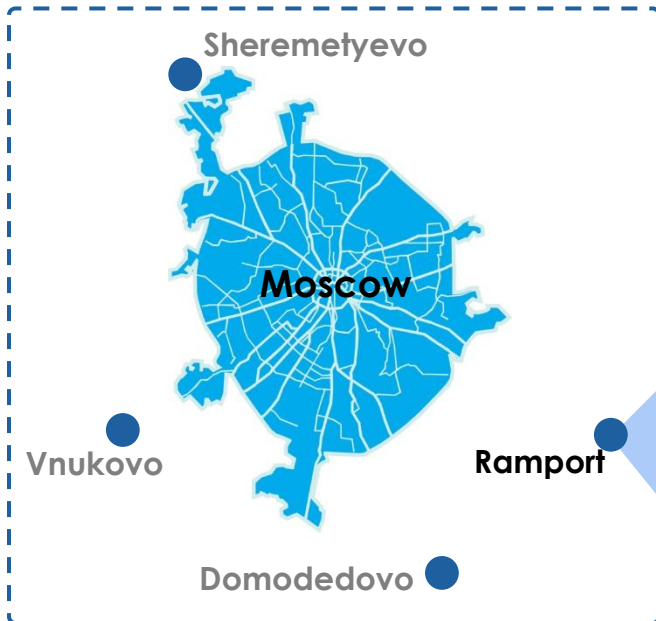
		Description	Solution
Negative	Legislation	<ul style="list-style-type: none"> At least 8 planes are required for regular flights 	<ul style="list-style-type: none"> 8 new aircrafts have to be leased (at 20% down payment +4% annual interest)
		<ul style="list-style-type: none"> Restrictions on attracting international investment: the international company can possess maximum 49% of the Russian company's share 	<ul style="list-style-type: none"> A Russian partner with potential share of 51% (at least 80 \$mln) has to be found
		<ul style="list-style-type: none"> Impossibility to carry international flights in the first two years of existence 	<ul style="list-style-type: none"> First 2 year only domestic destinations may be covered

Appendix 2: Ramport Airport information

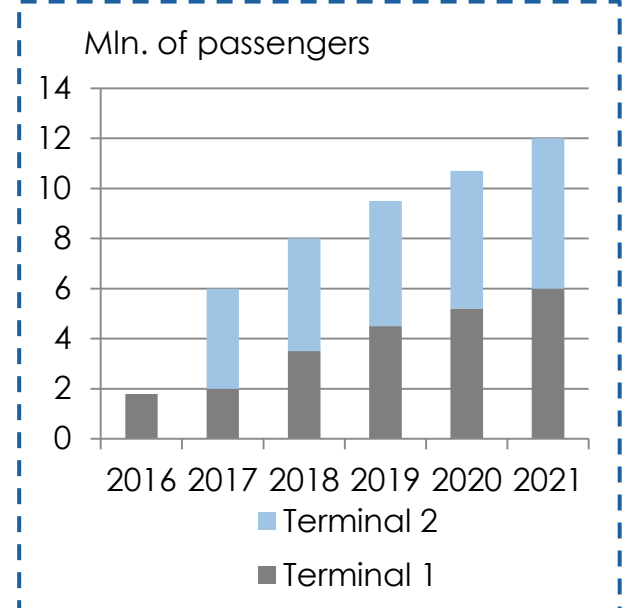
The new airport Rampport is under construction in Ramenskoye (Moscow region)

Rampport will be modern, fully equipped low-cost airport with developed aeronautic infrastructure

The first flight is planned in 2016 and in 2021 the airport will reach its projected capacity



- ✓ 2 fully equipped modern terminal with total surface 60 000 m²
- ✓ 5,5 km runway
- ✓ Total surface of airport infrastructure 240 000 m²
- ✓ Announced as a “Low-Cost” airport

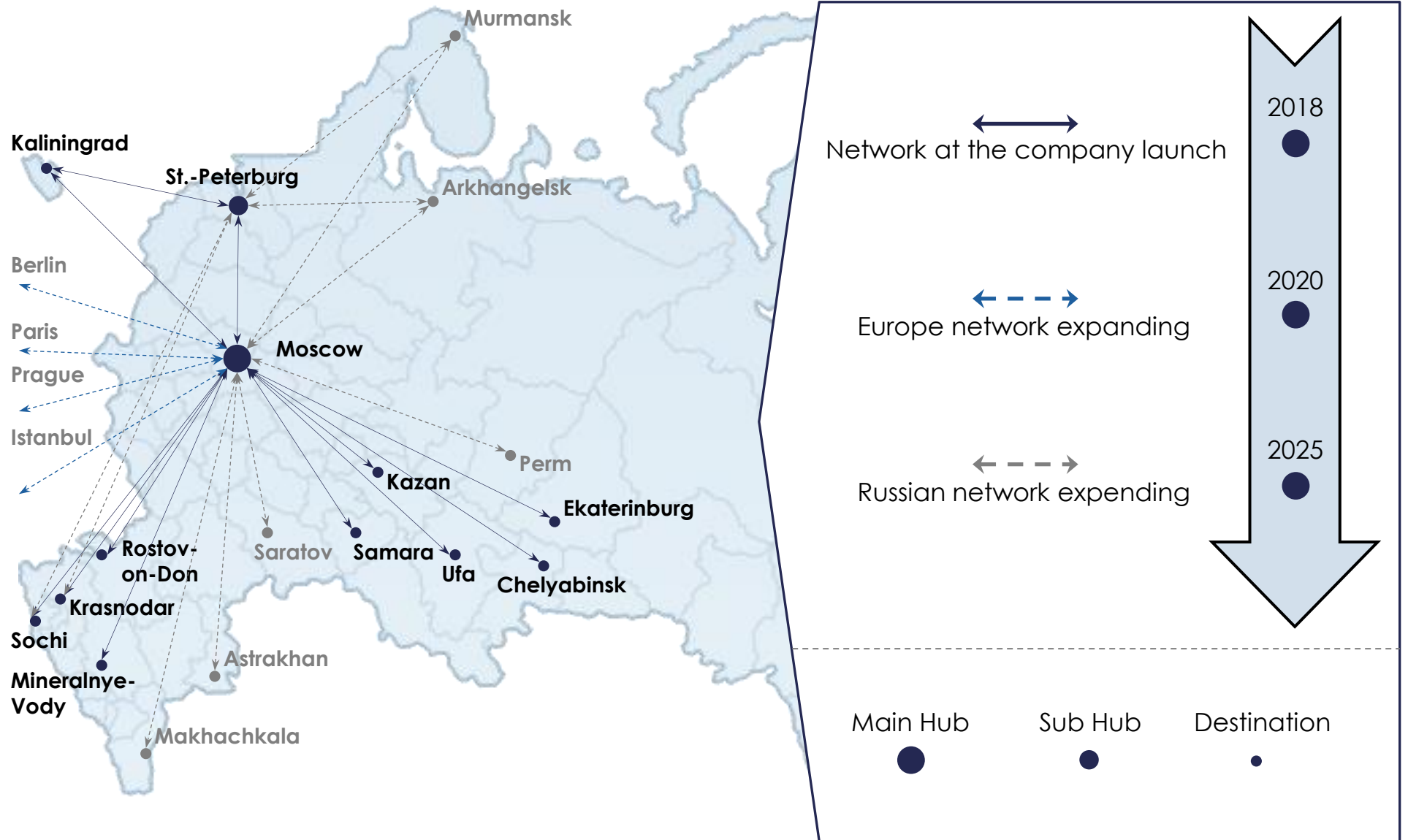


Along with the main airport activities the auxiliary infrastructure will be developed:

- Sub-urban train “Aeroexpress” from Kazansky station
- Reconstruction of the highway M-5 “Ural”: extension up to 4 lanes
- Construction of 2 high-rise parking-places
- Construction of the modern hotel facilities

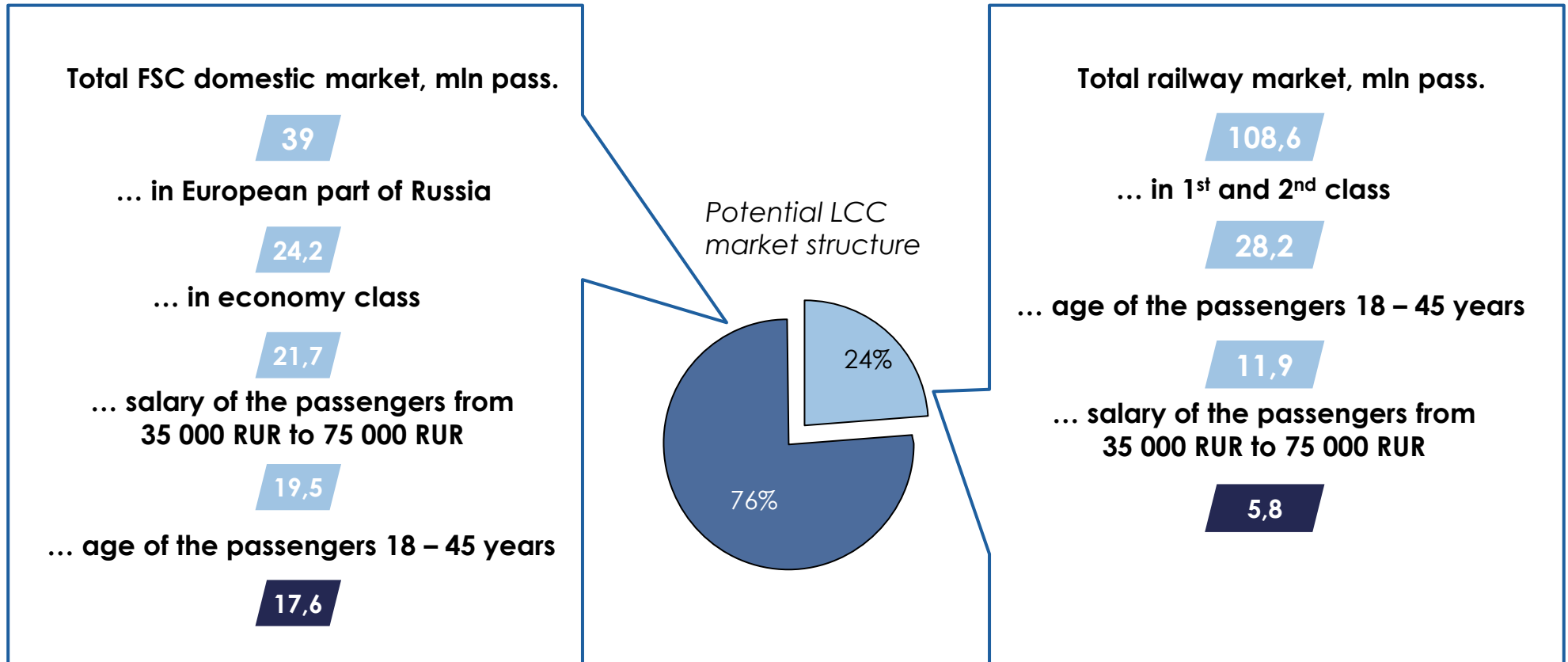


Appendix 3: Route map development



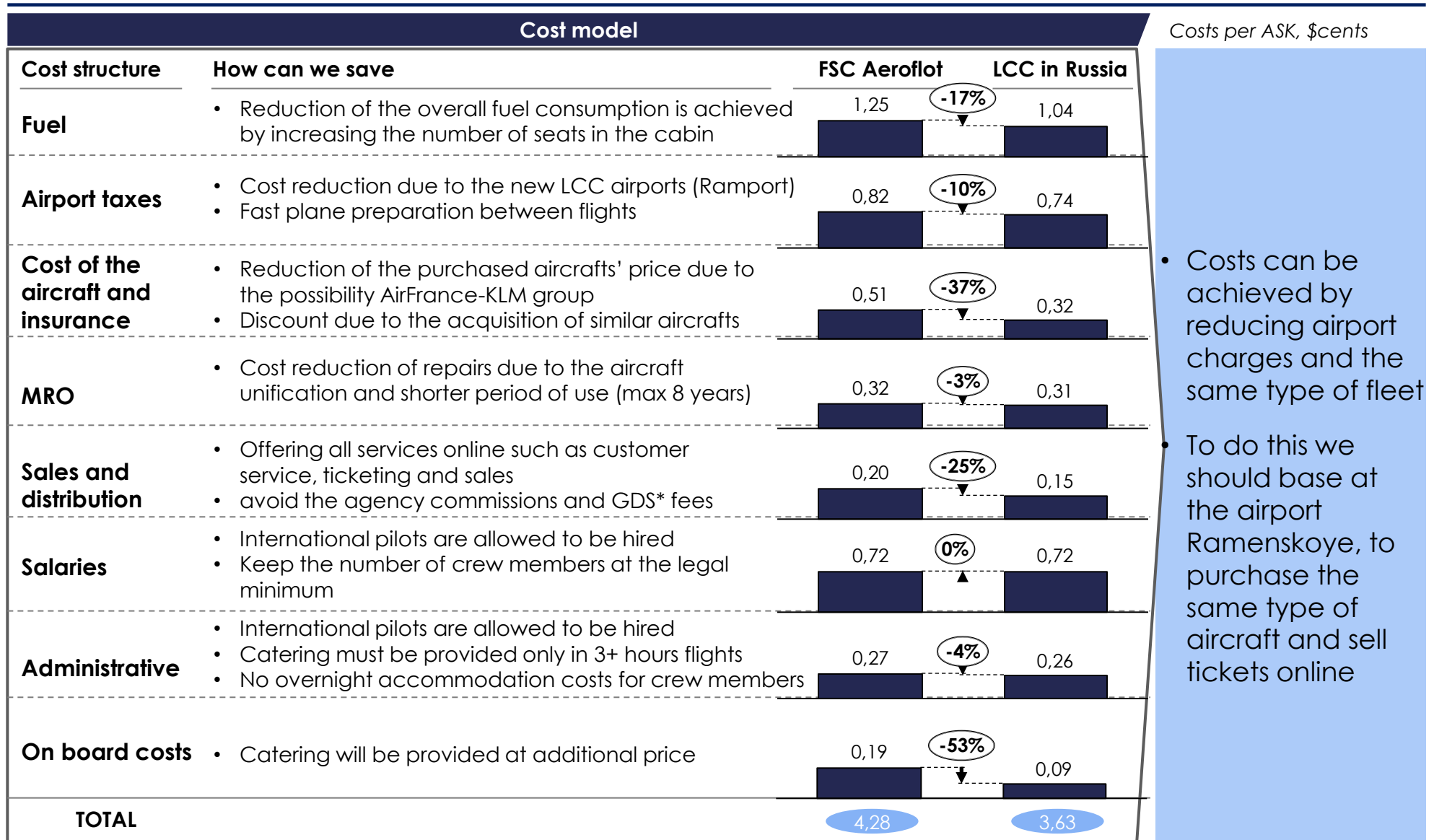
Appendix 4: Low-Cost potential. Domestic market sizing in Russia

LCC may potentially attract 23,4 million passengers that currently travel by FSC and railways

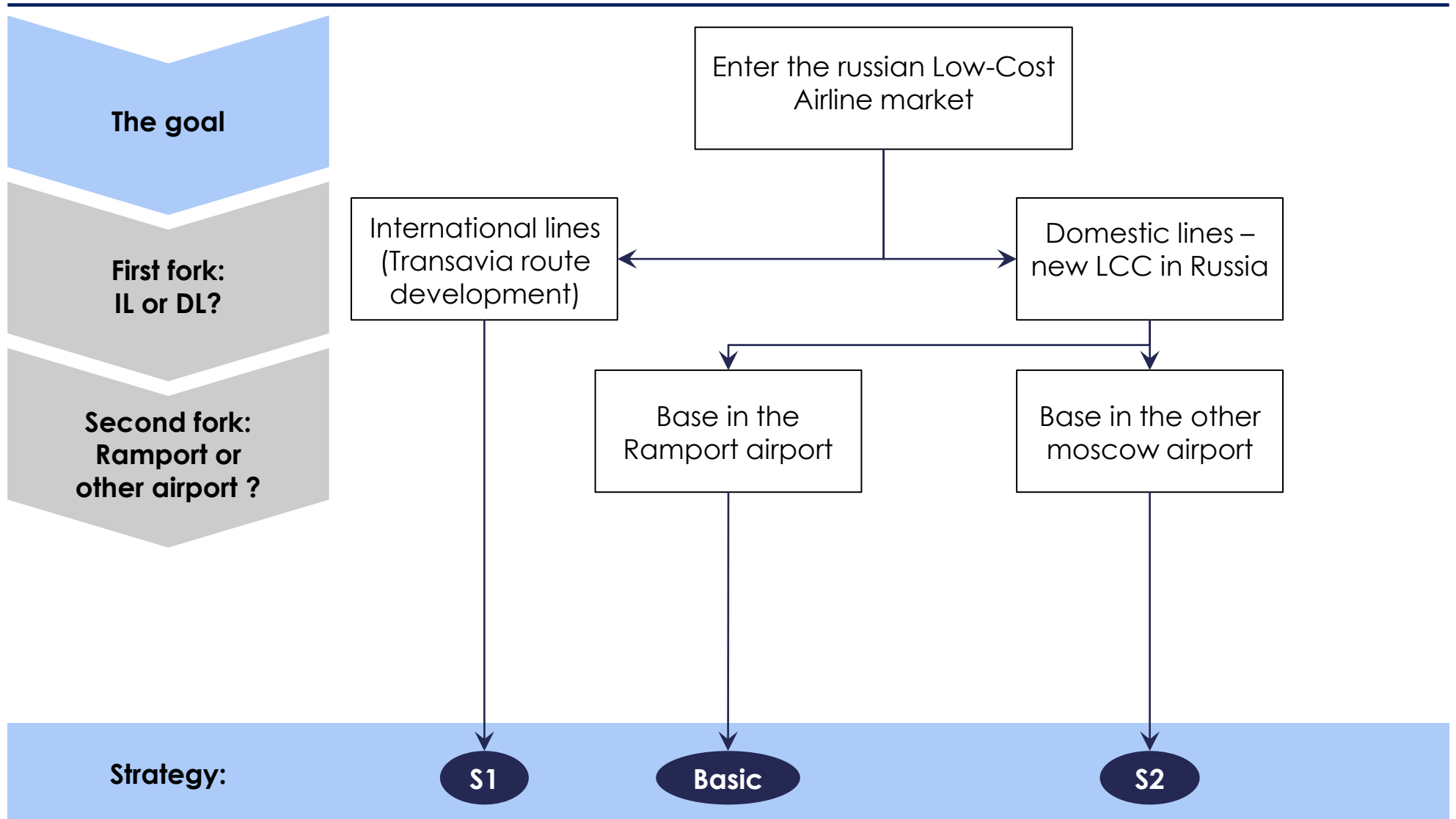


Total potential domestic LCC market in Russia in 2015, mln. pass./year : 23,4

Appendix 5: Potential to minimize the costs






Appendix 6: Tree of the strategies

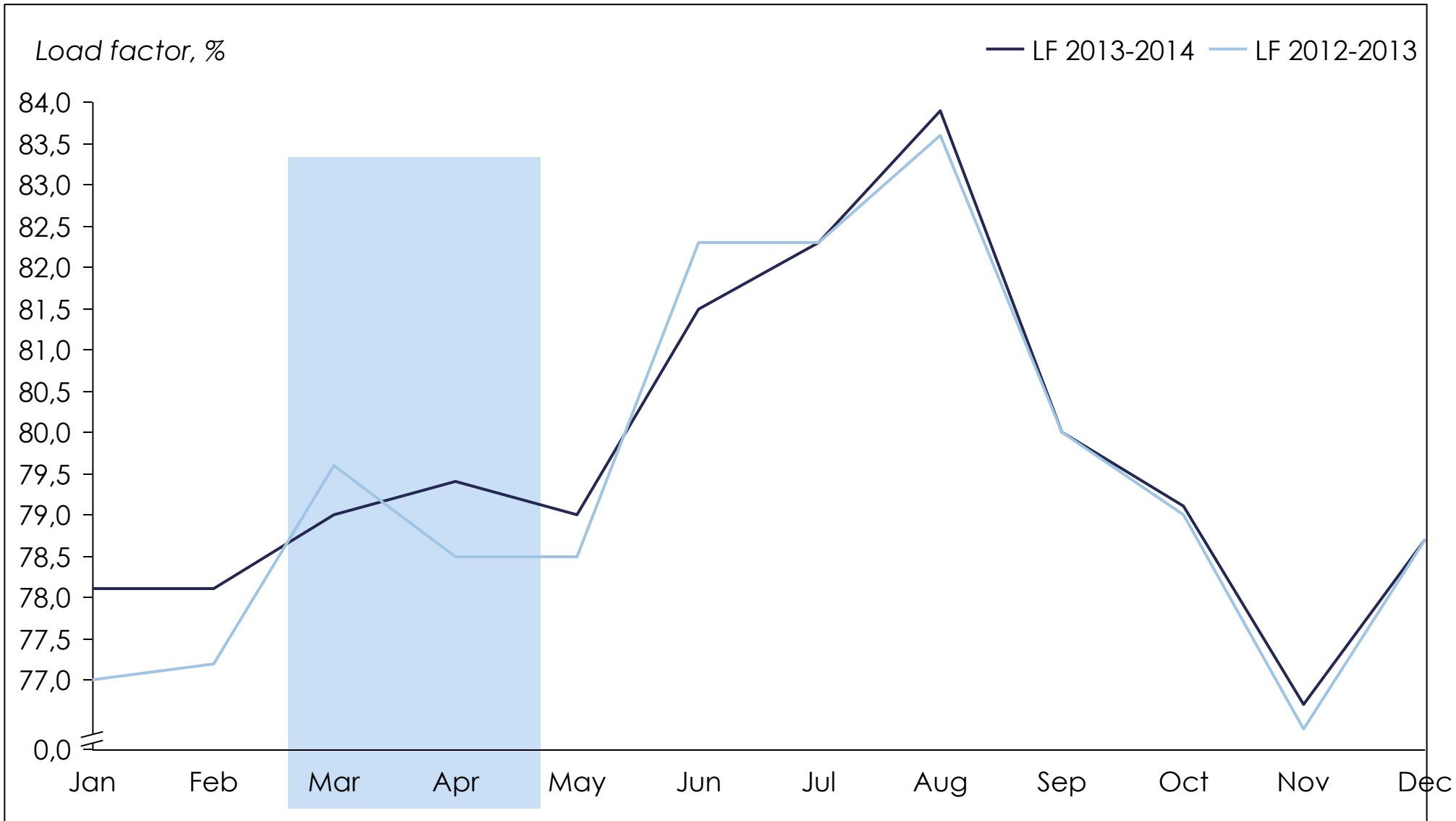


See the details of the strategies S1, S2, S3, S4 further in the appendix № S1, № S2, № S3, № S4

Appendix 7: List of potential investors

	Cash available Million USD	Requirements for cooperation	Portfolio	Potential interest
Basic Element 	~600	<ul style="list-style-type: none"> • Efficient investments • Diversification 	<ul style="list-style-type: none"> • Metallurgy • Energy and mining • Engineering • Airport business 	<ul style="list-style-type: none"> • Vertical diversification
RENOVA 	~500	<ul style="list-style-type: none"> • Efficient investments • Diversification 	<ul style="list-style-type: none"> • Metallurgy • Energy and mining • Engineering • Airport business 	<ul style="list-style-type: none"> • Vertical diversification
VEB 	~ 2 300	<ul style="list-style-type: none"> • Pay back period > 5 years 	<ul style="list-style-type: none"> • Petrochemistry • Engineering • Metallurgy • Olympic Games 	<ul style="list-style-type: none"> • Development of national transport system

Appendix 8: The best time to enter the market is March/April - to test the business model and be ready for the season



Appendix 9: Aircraft technical characteristics

	Airbus			Boeing		
	A319	A320 ¹	A321	737-700	737-800	737-900
Fuel consumption, liters per 100 kilometers per person	2,95	2,61	2,5	2,71	2,68	2,32
Cruising speed, km/h	840	840	840	828	828	823
Max. flight distance, km	6850	6100	5950	6370	5665	6045
Max. capacity, people	156	186	236	149	189	220
Cost, mln. USD	85,8	93,9	110,1	78,3	93,3	99,0
Max. take-off weight, tons	75	78	93,5	70	79	85
Empty weight of the aircraft, tons	40	42	48	38	41	44
Max flight attendants, people	3	3	4	3	3	4

1) Space Flex salon option, available from 2015

Appendix 10: Information about routes

Market, price & competition

Departure	Arrival	Total market, people	Target market ¹ , people	Potential Low-cost segment (+ trains), people	From Moscow	Min. price, FSC, USD	Max. price, FSC, USD	Price of the new LCC, USD	Competition: FSC/LCC ²
Moscow	Saint Petersburg	2 847 150	2 075 572	2 676 451	1:25	40	136	33	22
Moscow	Krasnodar	1 804 860	1 315 743	1 334 781	2:10	65	145	39	12
Moscow	Sochi	1 514 040	1 103 735	1 147 821	2:00	62	101	41	11/2
Moscow	Yekaterinburg	1 417 470	1 033 336	1 056 612	2:20	86	154	41	7/3
Moscow	Rostov-on-Don	1 000 110	729 080	763 868	1:45	67	85	39	15
Moscow	Mineralnye Vody	913 530	665 963	693 477	2:20	84	90	40	15
Moscow	Samara	876 900	639 260	702 637	1:35	66	99	29,5	10
Moscow	Ufa	832 500	606 893	623 085	2:00	39	92	38,5	5/2
Moscow	Kazan	705 960	514 645	585 485	1:30	70	163	32	7
Moscow	Kaliningrad	701 520	511 408	529 877	1:55	80	95	38,5	9
Moscow	Chelyabinsk	638 250	465 284	474 772	2:25	102	155	43,5	7
Saint Petersburg	Kaliningrad	366 300	250 905	275 110	1:40	85	102	34,5	3

1) People aged 20-45 with an income 430 -1300 USD

2) Amount of offers of FCS and LCC companies on the metasearch SkyScanner. Search for flights on Monday in 2 weeks.