



Since the demise of the Soviet Union, the company has played an important role in developing international connections from the Ukraine. **Martin Foley** visited its Kiev base to learn more about its plans.

Ukraine International

Eastern European Promise

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As one of the first start-up airlines in the Commonwealth of Independent States (CIS) following the break-up of the former Soviet Union, Ukraine International Airlines (UIA) has brought a 'westernised' approach to the local aviation industry. While many of the former Aeroflot divisions which had become independent carriers through-

out the region were flying a mix of Antonov, Ilyushin, Tupolev and Yakovlev types, it was introducing modern western equipment in the form of the Boeing 737. It is now poised to place a significant order for brand-new short-haul aircraft as it embarks on a major expansion to support a growth in traffic demand in the Ukraine.

Background

The company was established in October 1992 as Air Ukraine International. It was set up by the State-controlled Ukrainian Association of Civil Aviation (with Irish leasing company Guinness Peat Aviation holding a small stake) and launched services on

November 25, 1992, using two B737-400s. "It was decided to start with new B737s to give the airline the most reliable and competitive medium range aircraft available at the time; and to allow for flexibility in aircraft size with the B737 family," Deputy President Richard Creagh told *Airliner World*. The former Aer Lingus executive joined the carrier in 1993 in its first year of operation and has been the driving force behind its subsequent growth. The high lease costs of the Classic B737s ultimately resulted in their early return to the lessor in late 1994, and they were replaced in the short-term by older and cheaper B737-200s. However, just a year later, after being re-branded as UIA, Classic versions of the B737 had returned, with the introduction of a single B737-300. This aircraft, seating around 130 passengers, was better suited to the company's undeveloped network than the previous -400 models, which offered capacity for almost 170 people.

New Ownership

In 1996, Austrian Airlines and Swissair became shareholders in the company, investing \$9 million in new equity. This made the business more attractive to other investors, and in 2000 the European Bank for Reconstruction and Development (EBRD) acquired a small stake for a reported \$5.4 million. The ownership of UIA is now split between the State Property Fund of Ukraine (61.6%), Austrian Airlines (22.5%), EBRD (9.9%) and lessor AerCap (6%).

With the financial stability of its shareholders, UIA has expanded its activities. From operating



A single aircraft family enables the carrier to reduce crewing and technical support costs.

just a couple of aircraft, its fleet now consists of 16, comprising five B737-300s, five -400s and six -500s. Like most European short-haul carriers, UIA has configured its aircraft with a flexible two-class interior with a moveable divider between the Business and Economy cabins. However, three of its B737-400s are dedicated to its charter routes and as such fly in an all-Economy layout.

UIA's network now encompasses four domes-

The majority of the airline's fleet are configured in a two-class layout with a moveable divider, although three of B737-400s are dedicated to charter routes and fitted in an all-Economy layout. (Martin Foley)



To maintain the highest standards of service to its passengers, the airline puts particular importance on customer relations during cabin crew training.





Above • **The airline has a fleet of 16 aircraft – five B737-300s, five B737-400s and six B737-500s.** (Airteamimages – Philippe Noret)
Below right • **A programme has begun to retrofit the carrier's B737 fleet with Aviation Partners Boeing winglets to boost their operational efficiency. The first of five aircraft to be fitted with performance-enhancing devices this year, B737-32Q UR-GAH, was rolled out in March 2008.** (All Ukraine International Airlines unless stated)

tic points – Kiev, Lviv, Odessa and Simferopol – and 17 international destinations (see table). The airline's growth has been particularly strong over the past two years as the Ukrainian economy has begun to flourish. "We are developing the network carefully; seeking a mix of business and leisure markets," said Richard Creagh. Examples of recent network additions include Tbilisi in Georgia and scheduled links from Lviv in western Ukraine to Barcelona, Madrid and Rome.

Customer Service

UIA faces strong competition on some of its most important routes from major European rivals such as Air France, British Airways, KLM Royal Dutch Airlines and Lufthansa. However, by offering schedules that are popular with business travellers and a good-quality, reliable product at a cost matching those of its overseas rivals, it has been able to carve out a credible share of the market. The key to its success, according to



"We are passionate about keeping costs low to protect profitability and to enable us to compete effectively with the so-called budget carriers," said Ukraine International's Deputy President Richard Creagh.

Mr Creagh, is its relatively low unit costs. "We are passionate about keeping costs low to protect profitability and to enable us to compete effectively with the so called budget carriers," he said. "Our costs are actually in line with most of these competitor companies." Earlier this year UIA launched a company-wide product improvement programme to enhance all aspects of its customer service. "We believe

we can have a real competitive advantage in our in-flight service because of the quality and warmth of our cabin crew," explained Mr Creagh, who is personally responsible for interviewing each of the new recruits. "This is an area in which we will continue to focus and improve." This focus on the customer interface appears to be working, with the airline receiving much more positive feedback. On a recent flight between Kiev and London, one stewardess told *Airliner World*: "I like to smile as when I smile it makes the passengers feel more comfortable".

Fleet Changes

Although Richard Creagh acknowledges that the B737 and the airline's decision to operate a single type strategy "has served it well", the company is now seriously considering introducing alternate aircraft models. Its management board is currently evaluating both Airbus and Boeing models for the introduction of up to 36 new aircraft for delivery between 2011 and 2018. Despite UIA's previous loyalty to the US manufacturer, there is no guarantee that it will win this latest order. The final decision will be based simply upon who can offer the more attractive deal.

"We are now in the final stages of completing a study into the cost/benefits of the A320 Family versus the Next-Generation B737. We are in negotiations with both manufacturers and hope to make a decision within the coming six months," continued Mr Creagh. "We are strong in both the technical and operations areas, so whereas we have built up excellent experience with the Boeing family; we would not find it too difficult to switch to Airbus if that proves to be the better decision."

Any order is likely to include a mix of variants

to provide flexibility and help reduce operating costs across the network. Mr Creagh said that larger models such as the A321 and B737-900ER would be particularly appropriate for UIA's leisure routes, while the smaller versions would be good for lower density, high frequency flights. To provide additional capacity ahead of the planned 2011 delivery of the first of the new aircraft, UIA has agreed to lease four new B737-800s from Aviation Capital Group. These will be delivered between May 2009 and March 2010 and will allow the carrier to begin to retire its



older Classic models over the next five years. "If necessary, we will lease additional new aircraft to cover any gap," added Mr Creagh. UIA's fleet plan remains focused upon a single aircraft family – whether from Airbus or Boeing. However, in the future it could look to add some smaller capacity aircraft. It has confirmed an interest in the locally-produced An-140 and An-148 models, although according to Mr Creagh: "We would need to be sure that

they could add value before we make any commitment. The Sukhoi Superjet looks like a good product, but we are not, at this stage, considering it for our fleet."

Turning to Freight

UIA's primary focus has always been its passenger operations, but it has secured additional revenue through its freight activities. It currently handles a limited amount of cargo in the hold of its B737 fleet, in the past supplementing them with wet-leased Antonov models from the Antonov Design Bureau. In an attempt to expand this area of its business, UIA has now sourced a single Boeing 737-300SF to provide additional capacity: it arrived at its Kiev base on July 3. The 16-ton freighter, which offers 4,000cu ft (127m³) of cargo space, has been leased from GECAS and was previously operated by US carrier Kitty Hawk (as N105KH, c/n 24462). The jet entered commercial service with UIA on July 9 on a three-times-weekly connection (every Monday, Wednesday and Friday) between Kiev and the Austrian capital Vienna. The frequency of the flights, made in co-operation with

NETWORK		
Amsterdam	Kiev	Odessa
Barcelona	Kuwait	Paris
Berlin	Lisbon	Rome
Brussels	London	Simferopol
Dubai	Lviv	Tbilisi
Frankfurt	Madrid	Vienna
Helsinki	Milan	Zurich

Austrian Airlines, will be boosted to five a week from September 1, with additional Tuesday and Thursday rotations. At the same time the route will be extended on to Liège, providing a feed into TNT's hub at the Belgian airport. Richard Creagh believes that the Ukraine is in an ideal "strategic position" to become a cargo hub for traffic "between Europe and Eastern destinations". To support this, a second B737-300SF will join the fleet in 2009. Meanwhile, the airline is in talks to secure additional ad hoc charter work for its single aircraft to increase its utilisation. It is currently "in negotiations with prospective clients" and expects to close a number of contracts by the end of the third quarter.

Ukraine International currently offers flights to 17 overseas destinations, with links from its main base at Kiev, plus the cities of Lviv, Odessa and Simferopol. (Airteamimages – Jeroan Hribar)



This Boeing 737-3Y0SF, UR-FAA, is UIA's first dedicated jet freighter.



Market Opportunities

UIA handled 1.44 million passengers in 2007, a 42% rise over the previous year, and is expected to handle over 1.7 million in 2008. It is also operating profitably, posting a pre-tax gain of \$17.5 million in 2007 on revenues of \$271 million. A strong performance in the first six months of this year has put it in a position to end the year in profit once again, although it is bracing itself for increased competition. Wizz Air Ukraine, a new venture from the Central and Eastern European budget airline, recently launched domestic services from the country and will introduce its first international flights in mid-September. Air Arabia and Germanwings are also set to arrive in the market.

UIA's seasonal flights to Dubrovnik, Monastir, Nice and Pula helped boost traffic in the first half of 2008, with passenger numbers increasing to 760,000. In June alone the airline carried nearly 155,000 passengers with an average load factor of 71%, up 7% on 2007. Some of this growth can be attributed to an increase in frequencies on the Kiev-London/Gatwick route, where it has increased weekly flights from seven to ten. "These results are not only a vindication of our low-cost, high-value strategy but also proof that the economy is really growing and that

Ukrainians now have more disposable income to hand," explained Richard Creagh. The arrival of an additional B737-400 in October will enable further network growth and the airline's management is considering adding destinations in the Middle East, alongside a link to Dubai to be introduced from October. "We are also studying the prospects for new services to Russian and other CIS cities," added Mr Creagh. However, unlike the Ukraine's largest carrier Aerosvit Airlines, UIA has no immediate plans to enter the long-haul market.

Outlook

UIA may be only the second largest carrier in the Ukraine but it has probably made the biggest impact on the development of the country's aviation sector. It was one of the first CIS airlines to join the International Air Transport Association (IATA), to introduce Boeing models to its fleet, to secure 'western' investment and to set up a JAR-145 heavy maintenance facility. Having brought all these 'firsts' to the Ukraine, a sensible, sustainable business model has enabled it to weather the slow post-independence years in the country and it is now well positioned to take advantage of recent growth in the local economy. ●●●●●

UKRAINE INTERNATIONAL AIRLINES (PS/AUI)											
Type	Variant	Reg'n	C/n	In Service Dates	Notes	Type	Variant	Reg'n	C/n	In Service Dates	Notes
B737-200	247	UR-GAC	23188	Nov 94 – Jun 05		B737-300	429	UR-GAP	27094	Jun 05 –	
	2T4	UR-GAD	22802	Jan 95 – Mar 03			4Y0	UR-GAR	26081	Feb 06 –	
	3Y0F	UR-FAA	24462	Jul 08 –			4C9	UR-GAV	26437	Dec 06 –	Lsd to Adria
	35B	UR-GAF	24237	Jan 98 – Oct 02			529	N419CT	25419	Oct 01 – Jan 02	
	35B	UR-GAG	24238	Apr 98 – Apr 03			529	UR-GAI	25218	Jul 01 – May 03	
B737-300	32Q	UR-GAH	29130	Apr 99 –		B737-500	5Y0	UR-GAJ	25192	May 02 –	
	341	UR-GAL	24275	Jan 03 –			5Y0	UR-GAK	26075	May 02 –	
	36N	UR-GAN	28569	Apr 03 –			528	UR-GAS	25236	Feb 06 – May 07	Lsd to Adria
	33R	UR-GAQ	28869	Apr 05 –			528	UR-GAT	25237	Apr 06 – May 07	Lsd to Adria
	4Y0	UR-GAM	25190	Apr 03 –			5Y0	UR-GAU	25182	Dec 06 –	
B737-400	4Z9	UR-GAO	25147	Nov 04 –			5Y0	UR-GAW	24898	Apr 07 –	