



CIVIL AVIATION SECTOR - EZNIS AIRWAYS

The BCM NewsWire (BCM) interviewed BCM member Eznis Airways Vice President B. Enkhbat (VP/EA) for a business profile of Eznis Airways after its first year of operations.

The interview is an insight into Mongolia's civil aviation sector and how Government and the private sector can have successful partnerships.

BCM: *Has the company's plan to attract mining and exploration work contracts come to fruition? (If 'yes' can you tell us how many mining / exploration / other similar contracts you have secured?)*

VP/EA: Currently, we've been operating at least 2 round trips to Oyu Tolgoi per week. We've also been talking to several large mining companies on possible charter contracts and are close to starting a regular charter to one more destination before the end of this year.

I think however the mining sector is yet to take off once the regulatory issues are sorted out of which we're positive. In the meantime, we're working hard to build our safety and reliability credentials - e.g., we've been standardizing our flight and maintenance operations with the help of experienced expatriate staff and have so far successfully passed several independent safety audits commissioned by our existing and potential mining and other clients. For instance, our current safety score at an influential <http://www.flightsafe.co.uk> was upgraded last month to become the highest in Mongolia. This is an encouraging achievement for a start-up airline with track record of only one year. We'll be audited early next year by them again so as to seek further upgrade of our rating. This week, we expect a separate audit from the UN office, which we're certain, would further demonstrate our safety standards.

In the next 2-3 years, we are confident that combined charter business coming from tourism and mining will grow to make up a significant part of our total revenues.

BCM: *Has the tourist market provided a profitable opportunity? (Most popular routes? How many tourists? How many charters?)*

VP/EA: Airline services are in general seasonal. It is extremely so in Mongolia with all too short summers and high influx of inbound tourists. We operated both scheduled and charter flights doing 10-12 departures per day at the peak of the tourist season this year, including charters for a number of tour operators. Most popular tourist routes are Murun and Dalanzadgad. With the next summer's orders for scheduled and charter flights flooding in (fuelled by a solar eclipse in late July - early August in western region), we already have our hands full. Furthermore, we see potential to even further maximize profitability by offering packaged tours ourselves and increasing attraction of other destinations.

BCM: *Has Eznis Airways filled the gaps in the civil aviation sector caused by the withdrawal of MIAT Mongolian Airlines from most domestic routes? (How many routes do you cover?)*

VP/EA: Eznis' launch of commercial flights just turned one year old last week. If in the very beginning we planned to serve approx. 30% of the domestic air market by the end of our 1st year, as of today we found ourselves carrying over 70% (the other 30% being split between MIAT and Aeromongolia).

We've been flying to 10 domestic destinations. MIAT is currently covering 4 domestic routes only. We think that we're successfully filling the existing gap with busy scheduling of our SAAB aircraft, including charters.

In fact, this is not the first time that Eznis had to fill in- we've already successfully handled the busy tourist traffic throughout most of the last summer (during which AeroMongolia didn't operate).

In a bigger picture, the ground infrastructure transportation in Mongolia improves (i.e., runways of 4 local airports are expected to be paved within the next 2 years, night lights will be installed in some of the airports making it possible for night flights etc.) and the public's confidence in air transport is slowly, but gradually recovering. In 2008, we plan to add 3-5 more domestic destinations and up to 3 regional (international) routes in Russia and China. To meet the growing demand for safer and more reliable local and regional air transport, Eznis will buy up to 2 more aircraft of bigger size next year which we plan to put this aircraft into operations before the start of the next summer.

BCM: *Has the choice of two SAAB 340B aircraft met company expectations, in particular in dealing with regional unsealed runways and weather hazards?*

VP/EA: Actually, we have three SAAB 340Bs... Yes, they've been proving our expectations of suitability with Mongolia's conditions of infrastructure and climate as well as cost effective fuel consumption vs. range.

BCM: *Has the flight schedule increased in the almost 6 months of flight operations?*

VP/EA: Currently, we operate our winter schedule (since Oct 1), which is much less busier than the summer one. In general last winter we operated on average 20 flights per week, whereas this winter's schedule consists of weekly 40-strong flights.

BCM: *Have you picked up business from the suspension of AeroMongolia from Nov 1, 2007?*

VP/EA: Winter season is in general low traffic period for most airlines. Therefore, it is normally the time of the year for them to conduct checks and regular maintenance of their aircraft after busy-flying summer. Eznis is not being an exception - we're almost complete with the regular safety maintenance for our 3 aircraft. Starting from Dec 15 (when all the 3 aircraft will be back in full service), we plan to add flights to few higher-traffic routes, which were abandoned by AeroMongolia.

BCM: *Has the Tg11 billion worth of investments started to show a return?*

VP/EA: Our operations statistics have been very positive compared with our expectations one year ago. Despite the capital-intensive nature of our business, we're very close to breakeven and even experienced several cash flow months this year.

BCM: *Any other comments?*

VP/EA: We owe our current start-up success to several factors. One of them is that we've been allowed to operate in a supportive environment with "liberalized domestic flight schedules, routes and tariffs in order to support private

investment in the airline sector" (Parliamentary Statement, 2005/7/7, No. 48).
The same document states the existing state airline (MIAT) will withdraw from its service after ending its aircraft resources and such service will be shifted to private sector. So we believe there's big room for air market to grow and for airlines to compete and succeed.

BCM: *Thank you for your time. It is an interesting insight into the civil aviation sector in Mongolia and private sector development.*