

KALAHARI AIRWAYS

EXECUTIVE SUMMARY 2012



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1. The Executive Summary

Market factors favour inauguration of a new airline to meet the demand for additional, higher quality passenger service linking Botswana with the rapidly expanding markets of Europe and Southern Africa, and linking Botswana to European hubs, with both trans-Atlantic and global destinations.

This new airline will base its business and marketing strategies on achieving high, and profitable, load factors through absorption of unmet demand in three key air-traffic categories: unserved and under-served routes on which high unmet demand currently exists or can be readily developed; serving key niche markets where demand is either unmet or poorly served; and meeting peak traffic demands on certain key regional, seasonal, and variable routes where very high load factors can be predicted despite existing but lower-quality competition, or where competition cannot meet the demand.

In addition, the proposed new airline will be designed around, and operated utilizing, the most up-to-date electronic, informational, and aviation technologies to ensure low operating and marketing costs, maximum efficiency in deployment of its resources, and a high level of customer service and convenience. And it is this final element - dedicating the airline, its staff, and its organization to providing a high level of customer service and convenience, and efficiently meeting the needs, wants, comfort, and safety of the passenger - that will assure the proposed airline's rapid acceptance in the marketplace and its long-term growth and success.

The six key characteristics leading to the success and profitability of this new carrier will be:

- Provision of high-quality service on routes and in markets that currently are unserved, poorly served, or under-subscribed by existing carriers, thereby setting both a new trend and a new pace in air service to and within the Southern African region.
- Employment of cost-effective, up-to-date aircraft that will be sized right for the market and the route, leading to higher load factors, reduced costs, improved efficiency and flexibility, greater passenger comfort and satisfaction, and higher net profits.
- Outfitting these aircraft with the latest aviation technologies and navigational equipment will help ensure the highest level of reliability, punctuality, safety, and customer satisfaction.
- Utilization of the latest electronic and informational technologies in sales and marketing; reservations, ticketing and check-in; scheduling and resource planning; cargo tracking; and operational oversight. Such techniques as internet marketing, reservations, and sales; electronic ticketing and check-in; online quality control, resource planning, operational oversight, cargo and baggage tracking, and customer service, all will reduce staffing requirements while offering ease-of-use and greatly enhanced access by, and convenience to, the customer.

- Recognition that not everyone is geared for the electronic world, leading the proposed airline to provide a high level of non-electronic service as well, particularly to the many newer, less experienced travellers - but future loyal customers - found in the region.
- Ensuring a friendly, cooperative, enjoyable, yet highly professional face to the customer.
- Development and implementation of cooperation's, associations, and partnerships with other larger, more established, and highly regarded airlines both within and beyond the region to provide an extensive range of connections, through fares, frequent-flyer mileage sharing, and other passenger and client advantages through interline arrangements, code shares, common hubbing, and so forth.

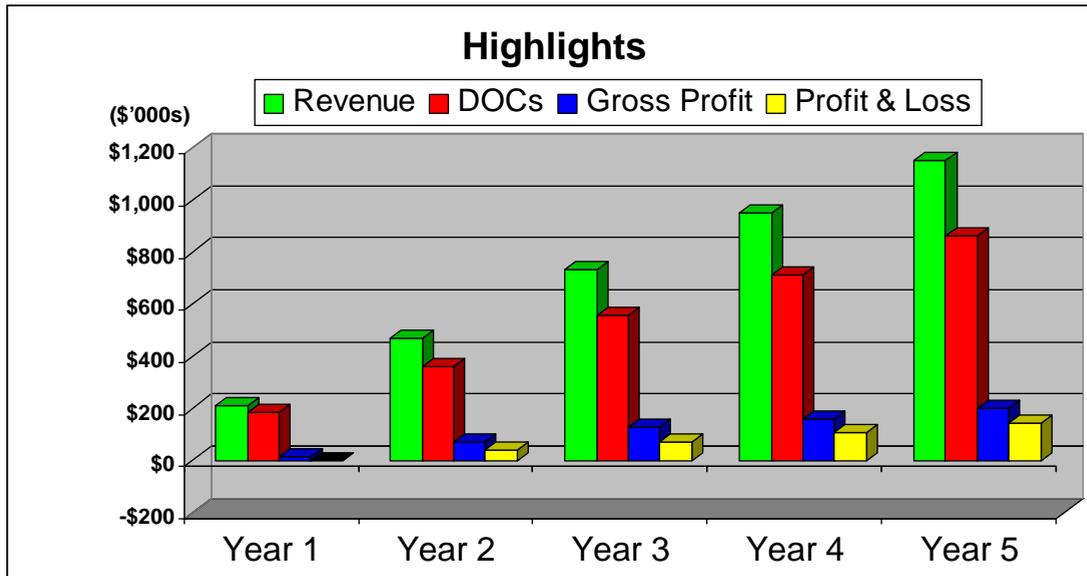
In short, the goal of this new airline is to be known to the passenger and the cargo customer by its proposed motto:

"Kalahari Airways, the Out of Africa Experience"

Primary financial results anticipated during the first year of operations include:

- Average passenger load factors in the 60-80 percent range, depending on route and season, reached within the first year of flight operations, and increasing thereafter to the 75-90 percent range.
- Revenues approaching 100 million USD within the first six months of flight operations, exceeding 200 million USD by the end of the first year, 480 million USD in the second year of operations, and nearly 750 million USD in the third.
- A gross operating margin of over 5 per cent is achieved within the first year of operations, reaching triple that by the third year, and with steady growth enabling rational expansion of the airline thereafter. An EBIT of over USD 2m for the first year is anticipated. This is applying a very conservative business model, and is achieved on an initial investment of 32 million USD plus \$30 million USD of aircraft financing. The accompanying chart illustrates the growth and profit potential present.

A key element contributing to the success of this new carrier will be its organizational and management team. Leading this team is Denis Coghlan, who is university trained and has had over 30 years experience in the Transport sector having successfully operated both cargo and passenger charters worldwide from Sir Seretse Khama Airport, Gaborone and South Africa. With his wide knowledge of the industry he will assemble a team of highly qualified people, recruited both locally and regionally who have demonstrated their expertise in this field. This team will be highly motivated to ensure the successful start up of the new airline.



1.1 Objectives

The proposed airline will have as its primary objectives the following elements:

1. To establish and operate a new international airline aiming specifically at linking Botswana with Western Europe with the rapidly expanding markets of Southern Africa and linking Southern African with European destinations, via Western European hubs, to trans-Atlantic and global destinations.
2. To provide service and absorb unmet demand in three key traffic categories: unserved and under-served routes on which high demand currently exists or can be developed; serving key niche markets where demand is either unmet or poorly served; and meeting peak traffic demands on certain key regional, seasonal, and variable routes where very high load factors can be predicted despite existing, but lower-quality, competition.
3. To implement an organizational and marketing strategy that will, beginning in the first year of flight operations, achieve average passenger load factors in the 65-85 percent range, depending on route and season, and increasing thereafter to the 75-90 percent range, thereby maximizing revenues and return on investment while minimizing risk.
4. To achieve revenues in excess of 50 million USD per quarter within the first six months of flight operations, and exceeding 65 million USD per quarter, by the end of the first year.
5. To achieve net operating profits in the 5 per cent range within the first 12 months of flight operations, an annualized return-on-investment of approximately 50 percent by the end of the second year of operations, and steady growth enabling rational expansion of the airline thereafter.
6. To achieve the projected results starting with three large long range aircraft, growing to four by the end of the first year of operations, similar to the 355 passenger Boeing B747-400, obtained on a lease purchase basis;

supplementing those aircraft with long-range passenger aircraft on a wet-lease basis to serve peak-demand and intermittent routes and periods, as called for by the business plan; and incrementally expanding the fleet size and scope on a lease purchase basis to at least double its initial capacity by the beginning of the third year of operations to accommodate projected passenger growth and new routes in the business plan's out-years.

7. To gear operations, and present a professional, serious, growth-oriented image from the outset, that will set the stage for reasoned, planned expansion, mirroring growth rates projected for the first year of operations, and that will enable the airline to extend its regional scope and, in future years, to transition from its initial regional status into a larger continental and intercontinental carrier.
8. As an element critical to achieving the airline's other key objectives, to identify and develop key interline alliances, cooperation's, associations, and partnerships with other larger, more established, and highly regarded airlines both within and beyond the target region that will enable the proposed airline to provide an extensive range of connections, through fares, frequent-flyer mileage sharing, and other passenger and client advantages through interline arrangements, code shares, common hubbing, and so forth.

1.2 Mission

The proposed new airline's mission, simply stated, is to fill a niche in the growing air-travel market linking Botswana, and points beyond, to Europe and Southern Africa; to achieve high, and profitable, load factors by identifying and serving key routes and city pairs currently unserved, under-served, or poorly served, and where significant unmet demand exists; and to set a new standard for air service and professionalism both within the target market region and beyond.

By utilizing the latest aviation, electronic, and informational technologies, and by designing effective and efficient systems and building in quality control from the outset, we aim to ensure the highest level of service, operations, and safety, all based around the needs, wants, comfort, and convenience of the passenger and the cargo client. This combination of technology, service orientation, and quality oversight will help keep costs at a minimum and maximize profits to the airline and its investors. It also will help build the strong customer satisfaction and excellent reputation that will enable the airline to build solid, and crucially important, interline arrangements necessary to expand its scope and customer attraction in the early stages, and which will lead to continued long-term growth both within the target market area and, looking toward the future, beyond.

In short, this airline wants to be known by its proposed guiding motto:

"Kalahari Airways, the Out of Africa Experience"

1.3 Keys to Success

In descending order of importance, the five critical keys to success for the proposed new International airline are:

- **Employing an experienced, highly professional management team** that combines vision; realism; financial ability; solid knowledge of the aviation business; familiarity with, and belief in, the utilization and benefits of the latest aviation, electronic, and informational technologies; on-the-ground knowledge of the region and markets to be served; realization of the crucial importance of an organization's personnel to its success; and a total familiarity with, and commitment to, the overall mission and goals of the proposed new airline.
- **Intelligent, progressive, and aggressive marketing that identifies the airline as a different kind of player**, one that is sharper and smarter, and with a higher level of professionalism and operational standard than is the norm in the target region. Concentration on safety, with highly trained, dedicated, and professional personnel, caring for the passenger and the passenger's needs and wants, the advantages offered by advanced technology, and straightforward, understandable, highly competitive tariffs and fare pricing, all will form key pillars of the marketing strategy.
- **Identification, through careful market research, of unserved or under-served routes and city pairs** in the target market area with sufficient passenger demand to enable high load factors and profitable operations utilizing the category of aircraft envisaged.
- **Use of an all-jet fleet of modern aircraft** that offer a high level of comfort, safety, and fuel and operational efficiency and flexibility, which meet all normal aviation standards, and which offer sufficient, but not excessive, passenger and cargo capacity on the envisaged routes.
- **Use of advanced electronic and information technology** to reduce staffing and other operational costs; expand the potential market base; readily capture sales opportunities; simplify and speed passenger, baggage, and cargo handling; and enhance customer convenience and satisfaction.

Additional important, though less critical, keys to assuring the airline's success include the following:

- **Identifying, negotiating, and entering into, in the pre-operational stage and early on, beneficial associations, cooperation's, and partnerships with larger, more established, highly regarded carriers** both within and beyond the target market region to offer interline arrangements, through fares, frequent-flyer mileage sharing, and convenient hubbing and long-distance onward connections to passengers. Successful execution of this element of the business plan is crucial to the overall success and growth of the airline, and must be kept in mind in the organizational plan and structuring of the airline.
- **Establishing a high level of operational oversight and quality control** that will ensure that the airline always lives up to its marketing commitments and fulfils the promise of a high level of service, customer

satisfaction, convenience, and safety, at a reasonable, highly competitive fare.

- **Avoiding the temptation to go head-to-head with established carriers** on routes that already are well-served, unless solid evidence exists of additional, significant pent up demand, or widespread customer dissatisfaction with existing services.
- Maintaining flexibility that enables the airline to always respond and adapt to changing market conditions and opportunities, without being erratic, and employing equipment, scheduling, and staffing on a basis that is sufficient to get the job done properly, efficiently, and at a high rate of return, without "overkill" or fielding costly excess capacity or, conversely, unduly cancelling scheduled flight operations.
- **Identifying, developing, and quickly and cost-effectively exploiting opportunities** for new markets, new market concepts, and expanded sales potential.
- **Supplementing regularly scheduled passenger service** with both regularly scheduled and also special cargo services when and where sufficient demand exists, and also with seasonal, peak-period, and other intermittent passenger services on certain key regional, seasonal, and variable routes where very high load factors can be predicted despite existing but lower-quality competition, or where competition cannot meet the demand. Larger, longer-range, or specialized aircraft may be employed on a charter or wet-lease basis to provide these supplemental, but potentially highly profitable, passenger and cargo services.
- **Looking to combine the core aviation business with ancillary marketing concepts and activities** and ground-based operations that support, supplement, and complement the aviation elements of the business, including such activities as package-, group-, and charter-travel program offerings; value-added sales and customer services, both land- and Internet-based; construction and operation of enhanced passenger-, baggage-, and cargo-handling facilities and services; and other logical business pursuits both within and outside the immediate aviation business.
- **Avoiding growth for growth's sake** and instead looking for solid niche-enlargement opportunities that will allow incremental, but always profitable, expansion.

1.4 Kalahari Airways

The new airline operating company has been established as a limited-liability company in Botswana and will apply for IFSC accreditation thus qualifying for a lower income tax rate. Kalahari Express (Pty) Ltd. was founded with the objective of providing direct passenger and cargo flights from London and Cape Town to Gaborone expanding later to the Far East and North America. It will operate wide body long range aircraft and expect to garner 99% of the premium class market immediately. Its target customer will be the Government, Diplomatic, and Business sectors with particular emphasis on the Diamond Trade.

There is considerable demand for Premium Class seats due to the accelerating rate of development in Botswana and in particular, the

establishment of the Diamond Trading Center (DTC) in Gaborone. It will also target the high net worth tourist passenger that Botswana Tourism encourages. It is reasonable to anticipate that given a safe comfortable flight most passengers would prefer to use a Premium Class direct flight between Gaborone and London

Kalahari Airways intends to take advantage of the heavy demand for seats between Cape Town and London, due to heavy booking on all airlines operating on the route. British Airways report consistent 92% load factors on the London - Cape Town route. Passengers travelling to and from Botswana experience long transit delays in Johannesburg, in addition to the ongoing problem of baggage security. It will be in a position to offer Botswana passengers the best alternative, where there are no seats available or where they wish to avoid the long delays and extra travel time when in transit through Johannesburg.

It will have no direct competition on the routes it intends to operate, particularly, in the premium classes so marketing will be primarily directed towards the business passenger. To achieve this end, it intends to lease purchase three Boeing B747-400's to be equipped with 14 First class contour flat bed seats, 52 Business class contour lie flat seats, 32 Premium Economy super seats and 255 Economy seats.

The management team will be recruited both in the United Kingdom and South Africa and will be under studied by locally recruited citizens who exhibit high levels of competence in the private sector. Post holders have been identified for immediate appointment. Flight crew will be recruited locally, regionally and internationally and are available.

The Boeing B747-400 option would require a deposit of 2 million USD to lease purchase three aircraft currently in storage costing 21 million USD. A further 10.8 million USD will be required to return the three B747s to airworthy condition. We have identified six Boeing B747-400 recently retired by Qantas Airlines. We will put the first 747 into service in December 2012 and the second and third 747 will be available to operate the daily flight schedule with the third being available as the relief and standby aircraft. Our target will be to achieve the industry standard of 70% load factors during the first three months of operation and strive to increase our market share to attain 100% load factors, thus generating substantial profits. Though our financial forecasts only include a 59% load factor from the second year of starting each route.

1.5 Start-up Summary

Most of the planned start-up costs are apportioned to the following six areas, in approximately declining value:

1. Lease purchasing four, one for spares, (followed by two more by the end of the first year of operations) large wide body jet aircraft; most likely the

355 seat Boeing B747-400 ex Qantas. Provision of a sufficient cash reserve to assure timely payment of the leasing or finance payments and operating costs of the aircraft through at least the first six months of operations.

2. Marketing, advertising, and public relations costs, including costs of setting up a website capable of offering flight and fare information and making online sales and reservations, and related Internet marketing, as well as conventional print and broadcast advertising, and public relations activities.
3. Costs associated with recruiting, training, and certifying flight and ground operational crews.
4. A reserve to cover overall operating costs, aside from aircraft operating costs, over at least the first six months of operations.
5. Administrative and legal costs incurred in setting up the business and the airline operations.

Assumptions governing start-up costs are shown in the following table.

Table: Start Up

Fixed Operating Costs

Crew training and salary costs prior to operations starting	\$984,802
Ground & Technical Operations salaries	\$36,884
Aircraft delivery costs	\$1,125,000
Contingency	\$671,950
	<hr/> \$2,818,636

Overheads

Recruitment costs	\$328,320
3 months salary for office management	\$477,066
3 months of office and marketing costs	\$1,383,636
	<hr/> \$2,189,022

Start Up Expenses

\$5,007,658

Capital Expenditure

Lease Deposits	\$2,000,000
D' checks (3 a/c) and Landing Gear overhaul (3 a/c) less deposit	\$29,800,000
Start-up Inventory	\$260,000
Other Current Assets	\$176,000
	<hr/> \$32,236,000 <hr/>

Working Capital \$24,756,342

Start Up Capital Required

\$62,000,000

2. The Nature of *Kalahari Airways* Business

2.1 Position to Date

All of the initial research has been fully compiled and as soon as the lease purchase of the aircraft has been completed and all regulatory requirements have been complied with, it will be in a position to commence trading.

2.2 Mission Statement

Kalahari Express (Pty) Ltd. which will trade as '*Kalahari Airways*', has been founded to fill a niche that exists in the market place. It will offer passengers direct flights to and from London and Cape Town from Gaborone and at a later date other international destinations. The success of the airline will be directly influenced by its dedication to continually improving the quality of its service and every aspect of its operation.

2.3 Short Term Objectives

As a short term objective, it is the intention to launch the airline in the most cost effective way in order to achieve the greatest market penetration. Outsourcing of all non core operations to established service providers will ensure a rapid start up and allow management to focus on building up passenger traffic quickly.

2.4 Long Term Objectives

When the airline becomes a fully established success, it will begin to look at other markets such as the Far East and North America. The achievement of a successful start up will require the airline to upgrade to new widebody aircraft in the near future. In order for the new airline to be able to obtain the interline arrangements such as code sharing, interline fare agreements, frequent-flyer mileage sharing, and so forth, that will be so important to its competitive posture and overall success, it must:

- Fly Western-built aircraft jet aircraft.
- Meet the standards to have a two-letter IATA airline code.
- Meet the highest standards for safety, reliability, and service.
- Be accessible through normal reservations and ticketing systems.

Meeting these requirements, and negotiating the desired agreements, will be priorities from the outset in setting up the new airline. Additionally, partnering and interline arrangements will be carefully identified and sought that will offer the new airline strategic partnerships that will help give it the "cover" of larger, more established carriers, and also the status and service and growth potentials it will need to grow beyond its initial stage and to become a true presence in the aviation world.

2.5 Key Personnel

In terms of the requirement to maintain strict oversight of its operations, post holders, in particular, a Director of Operations, a Technical Director and a Quality Manager will be appointed.

2.6 Legal Structure

The airline will be launched and trade under the registered name of **KALAHARI AIRWAYS** and Kalahari Express (Pty) Ltd. is incorporated as a proprietary company in the Republic of Botswana. Denis Coghlan, a citizen of Botswana, is the majority shareholder. The company has applied for an international Air Operators Certificate (AOC). When the AOC has been approved the company will apply for an Air Transport License (ATL) and the traffic rights on the Gaborone to London and the Gaborone to Cape Town routes.

2.7 Professional Advisers

Paul Green, a former Boeing B747 Captain, will assist the company to comply with the Civil Aviation Authority of Botswana's (www.caab.co.bw) requirements to qualify for an AOC and will be the designated Chief Operating Officer Post Holder. Bernard Mmulane, a licensed aircraft engineer will be appointed Maintenance and Engineering Manager and will be the designated Post Holder with responsibility for overseeing the maintenance of the aircraft. They will be the nominated Post Holders responsible for maintaining compliance with the Civil Aviation Regulations and the Air Navigation Regulations and liaise with the CAAB. Its aviation law adviser is Pierre Erasmus, an attorney, specializing in aviation, admitted in South Africa and Namibia. Tony Whitty, CEO of Cabot Aviation LLC in the United Kingdom has been appointed to provide technical advice and conduct the negotiations with Qantas, the banks holding the paper and/or an engine lessor who may be contracted to provide engines.

When commitment from investors has been achieved, it will appoint Cabair International Aviation (www.cabair.com) at Cranfield in the United Kingdom, as its cabin crew, loadmaster and maintenance staff training organisation. Flight crew requiring recurrent training and conversion to type will be sent to Pan Am Flight Academy at Crawley in the UK who specializes in Boeing 747-400 simulator training (www.panamacademy.com). Ab Initio training of citizen cadet pilots will be carried out locally by a suitably qualified pilot training organisation to be identified. In addition, we will appoint HiFly Marketing in Cape Town (www.hiflymarketing.com) to commence saturation advertising in Cape Town. A Gaborone based, citizen owned marketing company TWT will be tasked with giving us maximum exposure in the local market.

3. The Service

3.1 How the Service will be operated

The airline intends to lease purchase three used Boeing B747-400 aircraft to service the Cape Town – Gaborone – London route. One B747 will be a relief and back up aircraft.

Flight may be based on aerodynamics, but the proposed airline will be based on technology. Efficiency and convenience through use of the most up-to-date informational and electronic technologies, in addition to modern aviation and navigational technologies are guiding principals of the proposed new airline. Technology will also be a cornerstone of the new airline's marketing strategy. Among the technological features the new airline will offer are:

- **Internet marketing and online reservations (e-reservations) and sales (e-sales)** that will provide quick and easy access to airline schedules, flight availability, reservations, and ticketing to a wide range of customers worldwide. This eliminates payment of agency commissions and keeps costs low - savings that can be passed on to the customer.
- **Electronic ticketing (e-ticketing)** which will enable passengers to obtain their tickets online and avoid the need to obtain paper tickets from airline offices, travel agencies, or at the airport. It also frees the airline from having to stock, track, and issue tickets and maintain paper trails. Again, more savings for both the airline and its customers.
- **Electronic check-in (e-check-in)** that will virtually eliminate waiting in line to check-in for e-ticketed passengers, enabling them to confirm their identities, obtain their boarding passes, and check-in their baggage (and even purchase tickets upon check in) utilizing a user-friendly kiosk that eliminates those last-minute frustrating waits to get to the counter. And it also greatly reduces the airline's needs to staff check-in desks, control long lines, employ local contract ground staff, and expend money and resources on an antiquated system that only adds to the traveller's inconvenience and frustration. Another win-win situation for both airline and passenger.
- **Electronic baggage tracking (e-baggage tracking)** which will enable the airline to track any piece of baggage from check-in to final pick-up and claim. If courier services can track parcels as they move around the world, and enable customers to track their parcels using tracking numbers and online tracking systems, then why can't the same system be used to assure that no passenger will ever again have to wonder where his or her baggage might be? There may still be contingencies (such as late check-in, lack of space, security restrictions, late connections, and so forth) that cause baggage not to be placed on a given aircraft, but at least both the airline and the customer can be assured that they both know exactly where the given item of baggage is at any moment, and when it might be expected to arrive at the destination.

- **Electronic cargo tracking (e-cargo tracking)** is the same basic idea as e-baggage tracking, and will use the same basic system, only for tracking cargo and parcels.
- **Electronic quality control (e-QC)** is another innovation that will enable technology to create a far better flying experience for the customer, give airline management and staff greater control over airline operations and performance, and save time, effort, money, and staff resources in the process. What is envisaged is a central electronic matrix that controls and monitors scheduling of aircraft, equipment, personnel, supplies, and support materiel, and responds to problems, excesses, and deficiencies. It also will track all elements of a given passenger's or customer's transactions and interactions with the airline, from initial flight inquiry through reservations, ticketing, check-in, flight, connections, and final baggage pick-up, claim, and check-out, as well as any standing preferences, follow-up comments, inquiries, or problems. It also will monitor things like weather conditions, flight delays or projected delays, gate jam-ups, and other contingencies, and will automatically notify appropriate airline personnel as well as passengers and customers of any advisories, warnings, or changes.
- **Electronic financial control (e-finance)** will enable complete electronic financial control and monitoring of the airline's finances, clear advantages.
- **Additional technological features will be incorporated on-board the aircraft** to provide flight crews with the latest navigational and communication technologies to assure the highest level of passenger safety and also airline reliability and punctuality. Included in this technology, in the case of the Boeing B747 aircraft, is all-digital avionics with advanced Cat IIIb low weather-minimal landing capability to permit landings under the poorest permissible approach and visibility conditions.

3.2 The *KALAHARI AIRWAYS* USP (Unique Selling Point)

The *Kalahari Airways* main Unique Selling Point is that it will offer passengers daily direct flights to London and Cape Town thus avoiding the inconvenient, uncomfortable and time consuming transit through Johannesburg's ORT. It is believed this Unique Selling Point will provide the airline with a competitive edge which will ensure it is successful. It will also be able to offer high security transportation services for high value goods such as diamonds and gold and high return services to overnight couriers. Diamond buyers, attending DTC sights and secondary diamond miner auctions, prefer to charter private jets between Gaborone and Johannesburg due to the non availability of suitable connections with premium class accommodation. The new airline will offer such passengers a secure and considerably more efficient means of accessing Gaborone.

4. The Market and the Competition

4.1 The Target Market

The *Kalahari Airways* target market not only includes prospective travelers to and from London and Cape Town but also Cape Town passengers who experience a perennial shortage of seats to London and likewise also have to transit through Johannesburg's ORT. Market research shows that the airlines currently operating to London out of Cape Town maintain very high load factors on the route. In addition First and Business class seats will be marketed in Johannesburg, where there is a shortage of upper class seats to London. A code sharing agreement will be negotiated with a carrier operating the Lanseria Gaborone route.

4.2 Market Positioning

First, Business, Premium Economy and Economy will be offered on all of flights. The emphasis will be on marketing the upper class seats, being the most profitable, locally, by offering the Botswana Business Traveler higher levels of service than he or she would get if they take the longer transit route through Johannesburg. In addition, Economy class seats will be marketed in Cape Town at very competitive fares, ensuring maximum load factors.

Unsold seats will be marketed through the so called 'Bucket Shops' at low fares to ensure we have the highest load factors. Though it is a detested but economically necessary practice, it will be the airlines policy to overbook all flights, but offer free flights or cash inducements to those passengers who voluntarily agree to change to later flights. By using this strategy we will ameliorate the unavoidable problem where full fare passengers do not show or book multiple flights.

4.3 The Competition

The new airline will have no direct competition on the Cape Town - Gaborone and Gaborone - London sectors of our inaugural route. A clause in the UK - Botswana bi-lateral agreement restricts the designated UK carrier to operating on the London - Gaborone route only after the designated Botswana operator reaches full capacity on the route. South African Airways require transiting through Johannesburg with the lack of airport security and long delays for connections that entails. Other potential competitors such as Kenya airways and possibly a Middle East airline require passengers to change flights at their hubs and endure inconvenient transit delays in Nairobi or Dubai, waiting for onward connections to London. The flight time to London will be 11 hours as opposed to transit times of a minimum of 16 hours via Johannesburg and a minimum of to 20 hours via Abu Dhabi or Dubai.

5. The Marketing Plan

5.1 Anticipated Demand

The growing demand for seats to London from Gaborone is estimated to be in excess of 60,000 seats per annum with a very high demand for First and Business class seats estimated to be 7.5%. Thus if the new airline captures all of the premium class passengers who pay up to 10,000 USD for First and Business Class seats to London, it will be seen that 45 million USD in annual sales would accrue.

Kalahari Airways plans to have 35,770 premium class seats available per annum. Hyperlocal marketing methods will be employed in Cape Town and Gaborone. Upper class seats will be marketed in Johannesburg which has a continuous shortage of Business class seats and offer prospective First Class passengers private charter flights to and from Gaborone, if necessary. According to IATA statistics 3,000,000 passengers travelled to sub Sahara Africa in 2010 and the majority, over 90%, landed in South Africa. The new airline's target will be to capture 5% of the annual traffic figure and it will market aggressively to ensure all flights are full.

Extrapolated, at an average of 1,500 USD per seat, there is the potential to achieve 200 million USD plus in annual turnover. We have identified a cargo demand from the Botswana Meat Commission to deliver 40 tonnes of chilled beef to the London market on every flight. We estimate this business to be worth 50 million USD per annum. There is considerable demand for cargo from Europe to Botswana serving the mining industry, business and government and NGOs. In addition underutilized cargo space will be marketed in South Africa. The value of inbound cargo is estimated to be 50 million USD per annum. It should be noted that our new airline will contribute to Botswana's balance of payments in a very positive manner.

5.2 Marketing Methods

Kalahari Airways understands that advertising only reinforces, it does not generally sell. Therefore, in addition, it will establish a 24 hour call center where all enquiries will be followed up to ensure all of its customers experience a very personal service including, a personal point of contact to resolve any problems arising during their flight. Agents will be appointed locally and internationally tasked with promoting our airline and selling seats.

5.3 Public Relations

A Public Relations manager will be appointed to ensure our airline attracts maximum publicity of the beneficial type and to assure our passengers that we take their comfort and safety very seriously.

5.4 Marketing Strategy

The Marketing Mix will encapsulate the following strategies (**4Ps**):

Product (service offering)	Price (fares) Fare structure Revenue management Pricing / yield	Promotion
Place (sales and distribution) Internet (direct) Internet (wholesale/3rd party) Call Center Global Distribution Systems (GDS)		Other (kiosks, etc) Airport ticket counters City Ticket Offices Corporate sales

The market combines a variety of elements all of which demand a higher quality of air service than often currently available:

Business travellers requiring convenience, reliability, speed, and schedules built around business needs, Government and international organization travellers, requiring the same elements. We will target personal and leisure travellers from the Southern African region who have the money to travel by air and who increasingly demand a higher level of service and convenience, but at an economical cost.

A complete market analysis and segmentation will require a specific passenger and destination survey, the cost of which is included in the Start-up Costs for the airline. Preliminary analysis (based on a variety of methods, including observation, interviews with travel- and airline-industry professionals, economic segmentation, future projections based on marketing plans, and experience with the region and market) for planning purposes, however, indicates the following approximate market segmentation overall (considerable variations, of course, would be anticipated depending on route, season, and other factors):

- Business - 25%
- Government and International Organizations - 15%
- Regional Resident Personal and Leisure Travellers - 25%
- Diaspora Personal and Leisure Travellers - 10%
- Seasonal Holiday Travellers - 25%*

*The seasonal/holiday travel segment of the market to some degree distorts the overall market percentages, but might initially be anticipated for two reasons: first, it compensates for the drop in business and government travel that can be expected during the peak summer holiday travel season; second, a significant portion of this traffic is likely to be carried on flights employing specially chartered or wet-leased supplemental aircraft. To achieve this end, an agreement will be negotiated with AeroNexus (www.aeronexus.co.za) to provide wet leased Boeing 767's as and when required.

Market Analysis (Pie)

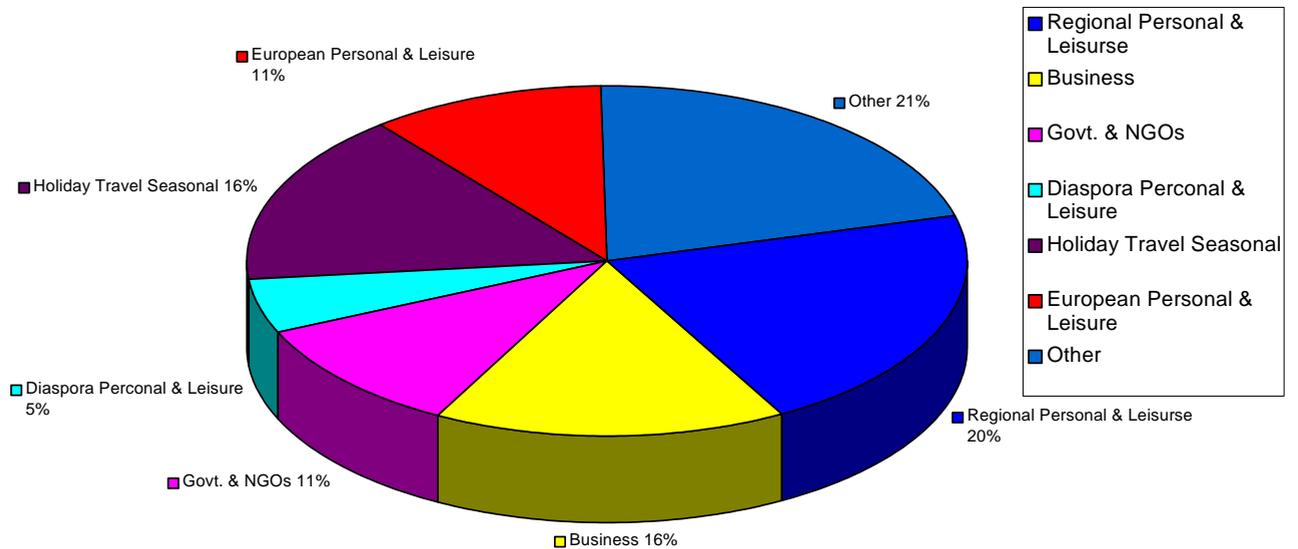


Table: Market Analysis

Market Analysis

Potential Customers	Growth	Year 1	Year 2	Year 3	Year 4	Year 5	CAGR
Regional Personal & Leisure	20%	18,000	24,000	30,000	36,000	42,000	20.00%
Business	15%	13,500	13,500	22,500	27,000	31,500	15.00%
Government & International Org.	10%	9,000	12,000	15,000	18,000	21,000	15.00%
Diaspora Pers. & Leisure	5%	4,500	6,000	7,500	9,000	10,500	5.00%
Holiday Travel Seasonal	15%	13,500	18,000	22,500	27,000	31,500	15.00%
European Pers. & Leisure	10%	9,000	12,000	15,000	18,000	21,000	10.00%
Other	20%	18,000	18,000	30,000	36,000	42,000	20.00%
Total	100%	90,000	120,000	150,000	180,000	210,000	33.3%

6. The Operational Plan

6.1 Location

A vacant building has been identified at Sir Seretse Khama International Airport, Gaborone which is available and which could be converted for use as a Head Office very quickly. To keep overheads to an absolute minimum, an airport handling company, Swissport, has been identified who will be appointed airport agents at Gatwick and Cape Town to represent Kalahari Airway's interests and provide the requisite aircraft handling facilities.

6.2 Operational Methods

Internationally recognized best practice will be adopted in our day to day operations and the new airline will strive to achieve an ISO 9000 Standards rating as soon as possible. A Flight Operations Manual has been produced covering every aspect of flight operations with the utmost emphasis on the safety of our passengers. The FOM has been submitted to CAAB for approval.

6.3 Job Responsibilities

Jeff Livings, a former technical director of Virgin Atlantic and with extensive airline experience is the CEO designate. Mr. Livings will interview suitably qualified candidates to be appointed post holders with responsibility for operations and technical oversight in terms of the conditions of our AOC and ICAO requirements. His will be responsible for ensuring the optimum operation of the airline and will be responsible for ensuring the safe, efficient and cost effective operation of all aspects of Customer Service, Cabin Service, Flight Deck Crew, Flight Operations, Engineering and Aircraft Operation and formulating Kalahari Airways policy and objectives ensuring strict compliance with the conditions of our AOC.

Paul Green, the Chief Operating Officer designate, will be appointed to manage the flight operations and in the interim, he will assist with the application to CAAB for an Aircraft Operating Certificate (AOC). Upon achieving a successful start up, he will be responsible for the day to day operation of flight operations. His prime responsibility will be to ensure the safe and efficient operation of the Company. He will institute an operational policy as set out in the Flight Operations Manual, which is well documented for all Operations staff to follow. The emphasis of the policy will always be on a safe operation and building a safety culture. This policy has been designed to ensure the most effective and efficient use of the Company's flight crews and aircraft and to ensure that they are consistent with safety.

6.4 Outsourcing

Airport operations will be outsourced to a specialist airline handling company, Swissport, at London Gatwick (www.swissportuk.com) and Cape Town

(www.swissport.co.za), who will also provide check-in and upper class lounge facilities for our passengers.

Ground operations and line maintenance will also be outsourced to specialist maintenance companies eliminating the need for the new airline to maintain expensive maintenance operations away from our home base in Gaborone.

A local citizen owned company, Aviation Ground Handling (Pty) Ltd., who can provide the requisite ground handling at Sir Seretse Khama Airport, has been identified thus, allowing our airline to focus on our core business of providing safe reliable air transport to our passengers.

KALAHARI AIRWAYS will offer secure transportation services for high value low volume overnight Cargo/Freight and Mail which will be subcontracted to a well established citizen owned Freight Forwarder who will manage that side of the operation.

It will be company policy to engage the services of Botswana Citizen owned companies, wherever possible.

6.5 Marketing Strategy

The proposed new airline intends to cut out new territory as it goes about marketing itself. While it will clearly serve the target markets of Southern Africa, it will just as clearly be a different kind of player on the field, and will seek to be known not only as a Global airline, but at the cutting edge of the aviation business in Africa.

The airline's emphasis on the latest information and electronic technology, and its stress on comfort, convenience, safety and customer service, will be cornerstones on which the marketing strategy will be built.

The airline will utilize a combination of methods to achieve the recognition that it both desires and needs. A fairly large advertising budget is planned to buy the space and time to get its name and message in front of the largest possible group of potential customers that it can. Given the crowded field of European and African airlines, it is better to come on like a lion than a lamb, or you may be lost in the herd.

The airline will also utilize public relations to good advantage to extend and supplement its advertising budget.

There are a number of "hooks," aside simply from its newness, that the airline can utilize to get the media's attention. The airline is opening up new markets, and it also is transcending the technological barrier with the latest technology in the business in Africa, or anywhere. It has big ambitions, but knows that it needs to serve the customer first to realize them. And it wants to know and serve its markets better than anyone else.

Everything about this airline, from its name to its colours, from the look of its planes to its airport kiosks, from its smart but informal crew uniforms to its

advertisements and literature should set it apart. And it costs little more to do things freshly and smartly than the more ordinary way of doing things. An organization is new only once in its life, so the airline should grab that opportunity and get all the attention it can at the outset. And it needs to have both an adequate budget, as well as an outwardly directed management, to achieve that end.

The new airline will become known as one where all the staff practices the motto;

"Kalahari Airways, the Out of Africa Experience"

6.6 Sir Seretse Khama Airport Operations

In the new terminal building, currently undergoing construction, at Sir Seretse Khama Airport a Dispatch and Flight Operations Office will be established under the direct control of the Director of Operations.

7. Financial Forecasts

7.1 Profit and Loss Forecast

We have produced a Five Year Model, which includes a comprehensive analysis of our proposed start up, including an Income statement, Balance Sheet, Statement of Cash flows along with airline operating statistics and financial ratios. Personnel numbers including Management Organization, Flight Operations, Technical and Ground operations are also incorporated in the Model.

7.2 Cash Flow Forecast

The cash flow forecast as outlined in our five year model shows a very positive outlook.

7.3 Balance Sheet Forecast

Our Balance Sheet forecast is shown in the five year model and has been produced in line with industry norms.

8. Financial Requirements

8.1 Required Finance

We require a minimum investment of 62 million USD depending on the availability of funding and the aircraft options available to us, to be secured by an agreed equity and control mechanism. The main shareholder will invest two million USD in the form of a bond over property.

In order to raise the additional financing required to put three aircraft into service, thus reducing the risk of an AOG (Aircraft on Ground) event that would severely disrupt our service, we have approached the Botswana Development Corporation (www.bdc.bw) for \$30m in structured finance. Our request to Wesbank for a \$30m Lease Purchase facility over five years has been met with positive interest following the meeting with SAA Technical, who demonstrated their ability to maintain the value of the aircraft assets.

8.2 Risks

We have carried out our own due diligence exercise on every aspect of the proposed operation and consider that the risks involved in establishing our airline will be minimal especially considering our anticipated dominance of this sector of the market. However, we do recognize that every airline startup is 'High Risk' so we will re-visit every aspect of our operation on a continual basis to ensure that the risk is minimized as far as possible.