



Airline Company

BUSINESS PLAN SKYTRAILS AIRLINE, LTD.

*London Stansted Airport
London, United Kingdom*

SkyTrails Airline plans to establish itself as a niche player in the long-haul market of business travel. By continuously focusing on the needs of the premium-class business traveller, SkyTrails will provide the best value proposition in the markets it serves. It will offer customers a compelling value proposition: a high level of service and comfort at 50 percent of the current published business-class fare.

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EXECUTIVE SUMMARY

Purpose

Having successfully raised £1.3 million from angel investors, SkyTrails is now looking to raise £25 million from investors who are interested in the opportunity presented by SkyTrails and believe in its growth potential. This is a unique opportunity to invest in a new concept in the aviation industry which offers attractive returns and a clear exit strategy in the public markets within 3 to 5 years.

Vision

SkyTrails' aim is to establish itself as a niche player in the long-haul market of business travel.

By continuously focusing on the needs of the premium-class business traveller, SkyTrails will provide the best value proposition in the markets it serves.

Overview

SkyTrails is the project name for a new airline company that will focus on single class long-haul scheduled flights. SkyTrails will capitalise on the widening gap in long-haul travel between business and economy class. Based at London Stansted Airport (STN), SkyTrails will initially focus on the busiest transatlantic route, London to New York, by offering a STN-JFK service. SkyTrails will operate Boeing 757-200 aircraft configured with 80 seats which will provide a very spacious and pleasant environment. The aircraft will be equipped with the latest technology in order to enable the business traveller to use his time efficiently while travelling. The company will start by leasing two aircraft and expand its fleet to 6 aircraft by the second year of operation.

Источник бизнес-плана: <http://www.referenceforbusiness.com>



SkyTrails will be a "business to business" airline and will focus exclusively on the premium/business segment of the market. It will offer customers a compelling value proposition: a high level of service and comfort at 50 percent of the current published business-class fare. SkyTrails will charge £1,800 for a roundtrip ticket as opposed to £3,580 (for companies with high volume demand, SkyTrails will offer further discounts down to £1,400 for bulk purchase). In addition to an attractive price, SkyTrails will offer passengers considerable time savings, convenience, and will focus on creating a lifestyle appeal.

The business model contemplated enables the company to reach a break-even point with 40 passengers per flight (50 percent load factor) which significantly reduces the risks associated with typical airlines that need a greater number of passengers to break-even. In many ways, the SkyTrails model replicates the benefits of the very successful regional jet model on a long-haul basis.

By the end of the fourth year SkyTrails will achieve sales of £218 million, EBITDAR of £72 million and net income after taxes of £32 million.

Market Potential

- The London-New York route is the busiest transatlantic route with over 3.8 million passengers carried in 1999. The Civil Aviation Authority (CAA) estimates that approximately 30 percent of passengers were business travellers (1.14 million passengers).
- In 1999, over 2.65 million passengers in Stansted's catchment area travelled to the USA. Given that no airline currently serves the North Atlantic route from Stansted, SkyTrails will be uniquely positioned to take advantage of the unserved demand that exists.
- Stansted is the fastest growing airport in Europe with 9.9 million passengers for 1999. It is the hub of low cost airlines Go Fly, Ryanair, and Buzz, all of which are experiencing tremendous growth and an increase in business travellers. They claim that as many as 40 percent of their passengers are travelling on business.
- Stansted benefits from an Open Skies Agreement with the USA. This enables SkyTrails to operate flights to any city in the USA without having to obtain special rights under the Bermuda II Bilateral Agreement which apply to Heathrow and Gatwick.
- SkyTrails has already obtained landing and takeoff slots at Stansted and JFK airports for its initial flights.
- Total traffic from U.K. airports to the USA amounted to 16.2 million passengers in 1999. After launching the JFK route, SkyTrails will then be able to expand by targeting other attractive markets in the USA (Boston, Chicago, Washington, D.C., etc.) as well as other continents depending on the regulatory environment. With a break-even point of 40 passengers per flight, SkyTrails will also be able to target medium and low density routes offering an enormous potential for growth and an important competitive advantage.

Management

It is important to note that during the first 12 months the operations will be handled by TravelAir which has ETOPS certification, thus taking away much of the operational burden from SkyTrails' management and ensuring a timely launch.

Markus Friedman, Chairman

CEO of EBEL Watches (1991-1999)

CEO of CWS (1964-1991)

William Scott, Founder and Managing Director

Assistant to CEO, Southern Winds (airline in Argentina) (1999)

Associate, Global Transportation, Chase Manhattan Bank (1995-1998)

M.B.A., Columbia Business School (2000)/B.Sc. Economics, London School of Economics (1995)



Frederick Rodmann, Finance Director

Assistant General Manager, Pegasus Airline (1992-2000)

Audit Senior, Price Waterhouse (1986-1992)

Joseph Orr, Corporate Sales Manager

Airline Manager, Lastminute.com (2000)

National Account Manager, Virgin Atlantic Airways (1994-2000)

Oleg Schweitz, Marketing Director

Director of Marketing, Paramount Comedy Chanel (1997-2000)

Brand Manager, AT&T Communications (1996-1997)

Marketing Manager, Warner Bros. (1993-1996)

Ken Loman, Technical Director

Technical General Manager, Accountable Manager, Qatar Airways (1997-98)

Technical General Manager, Accountable Manager, CityFlyer Express (1991-97)

Project/Development Engineer, Air Europe (1988-91)

Non-Executive Directors

John MacDonald (Founder/Chairman CityFlyer Express 1992-1998)

Ryan Roland (Professor, Columbia Business School)

Competition

The London-New York route is currently served by British Airways (11x/day), American Airlines (7x/day), Virgin Atlantic Airways (5x/day), United Airlines (4x/day), and Continental Airlines (2x/day). These airlines operate out of Heathrow and Gatwick with wide-body aircraft (B747s, B777s, B767s, A340s, A300s, DC-10s) in a two- or three-class configuration. British Airways has introduced a fourth class of service, World Traveller Plus, which is equivalent to Virgin's Premium Economy.

By targeting such a dense route, SkyTrails initial market share will not be significant enough to be considered as a threat by the major transatlantic carriers. Existing players will only be able to react with price which is only one aspect of the SkyTrails concept and by no means the most important.

Key Success Factors

SkyTrails believes that the following factors will be key to the company's success:

Management and Culture

SkyTrails has hired experienced airline professionals in order to ensure the operations are well managed. Blending experienced airline professionals with a young creative management team will be a successful combination which will continuously look for innovation while maintaining a high level of professionalism. Getting the right combination will be key in executing this venture successfully. The company will also focus on building a strong corporate culture that will help to differentiate itself from the competition and sustain a high level of motivation while maintaining cost control.

More than just an airline, a lifestyle

SkyTrails will differentiate itself as much as possible from the traditional airlines. SkyTrails will be to the airline industry what the boutique hotels (Royalton, W Hotel, Mercer Hotel, etc.) are to the



hotel industry. Passengers flying on SkyTrails will identify to a lifestyle. SkyTrails has hired industrial designer Ric Sloan to work on the interior of the aircraft. Ric Sloan is one of the leading contemporary industrial designers and is viewed by many as one of the world's most fashionable.

Superior Product and Service

With an 80-passenger configuration, the cabin of the Boeing 757 will look more like a private jet than like a large mass transportation aircraft. Boarding and disembarking will be much faster given the low number of passengers. SkyTrails will reduce the overall travelling time by at least 1 hour and 30 minutes for passengers flying to and from the city of London, Canary Wharf, and the fast growing Cambridge area. Providing a personalized and comfortable experience is key in retaining customers and getting repeat business. A strong emphasis will be placed on this aspect of the business: particular attention will be paid to the design of the cabin, the technology available, efficiency of processes, and quality of service offered by the cabin crew. SkyTrails will continuously innovate and have the ability to introduce new products to market in a shorter timeframe than its competitors.

Strong Sales team

SkyTrails will market its services to companies directly. Its ability to acquire corporate clients will be extremely important to the success of the venture. SkyTrails will offer discounts for volume travel and will also partner with select hotels in order to offer all-in packages.

Low Cost Operation

As a new airline, SkyTrails will have a significant cost advantage over the existing airlines that have large overhead expenses. By focusing on a single type of aircraft, a single class of travel, and initially a single route, systems will be simple and costs will be kept to a minimum. SkyTrails will continuously focus on maintaining a low cost base in order to keep this advantage.

Low Break-Even Point

By operating the B757, SkyTrails will have lower operating costs and a low break-even point (40 passengers/50 percent load factor) significantly reducing the risks associated with traditional airlines. With such a low break-even point, SkyTrails will be able to make it through economic downturns with less pain than its competitors. It will also enable SkyTrails to consider medium and low density routes on a long-haul basis offering more point to point services.

The Internet

Maximizing the potential of the Internet will be key in keeping low distribution and administrative costs. SkyTrails will have a strong Internet presence and will use the Internet for customer interaction as well as internal functions.

Strategy

Operating Strategy: One type of aircraft, one class of service

SkyTrails will operate a single type of aircraft: The Boeing 757-200. By operating this aircraft type on the transatlantic route, SkyTrails will have significantly lower operating costs per trip. The trip



cost for the B757-200 will be approximately £25,000 one way as opposed to £75,000 for a B747 operated by existing carriers. This demonstrates the lower risk associated with this operation. It will also enable the company to offer direct services where others offer indirect services. Moreover, it will be able to offer greater frequency than competitors operating larger aircraft. Focusing on a single aircraft type enables the company to minimize the costs of training and maintenance. SkyTrails will offer only one class of travel which facilitates processes (marketing, purchasing, training, systems, etc.). In order to provide a high quality service to its customers, SkyTrails will implement productivity and profit-based incentives for personnel.

Pricing Strategy: Simple, £900 One Way

SkyTrails will not need sophisticated yield management systems to determine the price of each ticket. However, SkyTrails will hire an experienced yield analyst in order to maximize revenues. SkyTrails will offer a simple fare structure which will be comprised of a maximum of four different fare types.

This pricing structure will be very attractive for the small and medium enterprises (SME) who do not have access to large volume corporate discounts with the major carriers.

Sales, Marketing, and Distribution Strategy

1. *Corporates*: SkyTrails is a business to business airline. It will focus its efforts on targeting corporate travel managers directly through a strong sales force, partnerships with credit card companies, or other entities that have access to corporate clients. SkyTrails will offer flexible pricing to suit companies' travel requirements.

2. *End-users*: In order to attract the traveller directly, SkyTrails' marketing strategy will focus on the lifestyle and convenience rather than price because in many cases price is not the primary issue for the business traveller. SkyTrails will only use electronic tickets which will be distributed through agents, the Internet, and our call center. SkyTrails will also distribute through travel agents as they still have a significant position in the corporate market.

Growth Strategy

SkyTrails will initially target the high volume routes in which it will only be a small player and not be perceived a real threat to the larger airlines. The following U.S. cities are obvious targets: New York, Boston, Washington, D.C., and Chicago. However, the medium term objective is not to increase capacity on these large routes but rather to focus on medium to low density routes where competitors flying wide-body equipment will not be able to operate profitably. London to Bradley Airport (Hartford, Connecticut) is a perfect example of such a route.

Financial Summary and Funding Requirement

Management currently estimates the total funding requirements at £25 million. This takes into account the start-up costs, the on-going operating costs, the costs of incorporating additional aircraft, and the minimum cash requirements to satisfy the CAA.



Income Statement	2002	2003	2004	2005
£				
Number of Aircraft	2	5	7	9
Load Factor	51%	59%	67%	68%
Total Sales	30,550,315	77,046,634	164,108,039	218,156,052
EBITDAR	11,804	16,701,194	50,804,281	72,763,402
EBITDAR Margin	0.00%	21.70%	31.00%	33.40%
EBITDA	-4,984,748	5,825,332	30,197,385	45,204,782
EBITDA Margin	-16.30%	7.60%	18.40%	20.70%
Net Income	-4,323,273	5,616,514	20,701,527	31,719,327
Net Margin	-14.20%	7.30%	12.60%	14.50%

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Value	£364MM	£437MM	£509MM

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The table above outlines the value of the company in 2005. This assumes conservative cash flow multiples and we therefore believe that these valuations are on the low side of the spectrum.

THE COMPANY

Vision

SkyTrails' aim is to establish itself as a niche player in the long-haul market of business travel.

By continuously focusing on the needs of the premium class business traveller, SkyTrails will provide the best value proposition in the markets it serves.

Values

Safety Technology Change	People and People Success Is in Details Innovate	Simpler Professional Service
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We exist to provide a valuable service to our customers, a rewarding opportunity for our employees, and profitability to our shareholders. We believe that success in this endeavor depends on our employees. Satisfied employees lead to satisfied customers, which lead to satisfied shareholders. To achieve this, we enable our employees to act with an entrepreneurial spirit, and we value those willing to take responsibility for their



actions and the consequences of those actions. We treat employees as family, which fosters intimacy, informality, strong relationships, caring attitudes, and it makes work more fun. We give employees the opportunity to become shareholders and to participate in the financial benefits of ownership. People take better care of things they own. We treat employees with respect, which encourages them to treat each other and every customer with respect. We want our customers to experience legendary service that makes a lasting impression. Providing exceptional value to customers requires hard work and concentration. Hard work is most effective when processes are simple. Simplicity reduces costs and speeds processes. We do not cut corners. We believe in doing things right the first time. We take pride in our efforts as well as the rewards. Throughout this endeavor, safety will be the overriding force behind any decision.

Management

During the start-up phase, the operations side of the business will be outsourced to TravelAir reducing management needs and ensuring a timely launch.

Our aim is to achieve a good balance between senior airline professionals and creative young managers.

Markus Friedman, Chairman (59)

After graduating from the University of Geneva in Law and Political sciences in 1964, Mr. Friedman joined CWS, a Swiss-based company producing industrial hygienic products and soon became CEO. In 1991, after 27 years at CWS, Mr. Friedman left the company and joined EBEL, the Swiss watch manufacturer, as CEO. He brought in Investcorp as a shareholder and restructured the company. In October 1999, Mr. Friedman orchestrated the sale of EBEL to LVMH, the French luxury goods group and left EBEL. Mr. Friedman is a shareholder in Avcon, a Swiss-based company that manages a fleet of private jets.

William Scott, Founder and Managing Director (27)

Mr. Scott has been actively involved in the airline industry since he joined Chase Manhattan Bank's Aerospace Group in 1995. He was involved in aircraft financing, airline privatisation and restructuring, and M&A transactions. More recently, Mr. Scott worked for Southern Winds, a regional airline in Argentina founded in 1996. He worked closely with the CEO in raising equity and on strategic issues. Mr. Scott holds a B.Sc. Economics from the London School of Economics and an M.B.A. from the Columbia Business School.

Frederick Rodmann, Finance Director (35)

Mr. Rodmann has been Assistant General Manager of Pegasus Airlines, a Turkish charter airline, since 1992. As Assistant General Manager he was actively involved in many aspects of Pegasus business and has wide aviation experience. Mr. Rodmann assisted Aer Lingus, the Irish flag carrier, to sell Pegasus Airlines to its current owners, the Cukurova Group in 1994. Under his stewardship Pegasus has made profits in each of the last six years and has grown its fleet from two to sixteen aircraft. Prior to joining Pegasus, Mr. Rodmann worked for Price Waterhouse in Dublin from 1986 to 1992. Mr. Rodmann is a member of the Institute of Chartered Accountants in Ireland. He also holds a Bachelor of Commerce degree from University College Galway, Ireland.

Joseph Orr, Corporate Sales Manager (32)

Mr. Orr has gained over 7 years of sales experience within the airline industry. The majority of this was at Virgin Atlantic where he worked within the Corporate Sales Department. His last role of National Account Manager gave him sole responsibility for a number of Virgin's largest volume clients—a portfolio that was valued at £35m. Prior to this, Mr. Orr was Area Sales Manager covering the city of London. Though the smallest geographical territory within this team, it was the highest revenue generating area and had the highest



proportion of clients contracted to Virgin. Mr. Orr left Virgin Atlantic earlier in 2000 and was appointed head of Airline Supply at lastminute.com prior to joining SkyTrails. He holds a Bachelor of Arts in Business Studies with travel modules.

Oleg Schweitz, Marketing Director (31)

Mr. Schweitz brings over 10 years of marketing and branding experience to SkyTrails. Having spent 3 years in International media planning at the CIA Group, he then moved to Warner Bros as Marketing Manager, overseeing all Interactive Entertainment products published across Europe. Mr. Schweitz joined AT&T as Brand Manager in 1996 with responsibility for brand marketing and advertising strategy during its key consolidation period in the U.K. Most recently Mr. Schweitz has been the Marketing Director with Paramount Television responsible for marketing and airtime sales revenue for the Digital, Cable, and Satellite broadcaster and a marketing department of eight. Mr. Schweitz is a qualified Chartered Marketer with the Chartered Institute of Marketing.

Ken Loman, Technical Director (39)

Mr. Loman has accumulated over 20 years of experience in the industry. On leaving the Royal Air Force in 1985, Mr. Loman worked with Jersey European in the Maintenance Control Department. In 1988 he moved to work with Air Europe as a Project/Development Engineer within the Technical Services Department. In 1991, he became involved in the start-up of CityFlyer Express as Technical General Manager. The airline achieved the First JAR 145 Approval for which he was the Accountable Manager. Late 1997 Mr. Loman worked on a short-term contract involved in the re-launch of Qatar Airways until late 1998. Since this time Mr. Loman has been working on a consultancy basis for a number of aviation related entities.

Non-Executive Directors

John MacDonald, Director (subject to clearance from non-compete with British Airways)

Mr. MacDonald is an active entrepreneur and general manager with skills in the identification and analysis of business opportunities, and their subsequent implementation and management. John MacDonald has a proven track record in founding, developing, and selling airline companies. In 1982, he founded and was the Managing Director of Connectair Limited, a commuter airline for British Caledonian. Connectair was successfully sold to ILG, Air Europe in 1988. From 1991 to 1999, John MacDonald was the Executive Chairman of CityFlyer Express, the premier British Airways Express Franchise. CityFlyer Express was sold to British Airways in 1999.

John MacDonald is a Non-Executive Director of Cannons Group plc and Positek Limited. Mr. MacDonald holds a B.A. from Southampton University and an M.B.A. from Cranfield University.

Ryan Roland, Director

Educated primarily in the Great Britain, Professor Roland earned B.Sc. and Ph.D. degrees in Chemistry from University College, London University. He also received degrees in Business Administration from Manchester (Dip. B.A.), Harvard (M.B.A.) and Columbia Business Schools (Ph.D.).

Professor Roland served on the faculties of the UCLA Graduate School of Management and Harvard Business School before joining the Columbia Business School faculty in 1979. He has also served as a Visiting Professor at INSEAD, Fontainebleau, France, Hong Kong University of Science and Technology, and the China Europe International Business School.

He has undertaken both educational and consulting activities for major corporations in the United States and overseas. Included are: AT&T; Aetna; American Cyanamid; Bankers Trust; Bell Canada, Bell Laboratories;



Bell Communications Research; BOC; Ceverceria Cuahatemoc (Mexico); Chase Manhattan Bank; Chemical Bank; CIGNA; Ciba-Geigy; Cluett Peabody; Corning; Digital Equipment; Equifax; The Equitable Life Assurance Society of the United States; Essilor of America; FMC; General Foods; General Electric; Goodyear; GTE.; Hoescht-Celanese; IBM; Johnson & Johnson; L'Air Liquide; MacDonalds; McGraw-Hill; Merck; PaineWebber; Pfizer; Singer; Sony; Stone Container; Thompson; and Unilever. Professor Roland is widely published. His articles have appeared in numerous journals and reviews. Professor Roland has also published five books.

Opportunity

In order to remain competitive, corporations have become more cost conscious and have taken steps to tighten their travel and entertainment budgets, often by requiring their employees to travel on a specific airline or in economy class. SkyTrails believes there is a fantastic opportunity to create a single class long-haul airline that will bridge the growing gap between business and economy class travel. London Stansted Airport offers attractive opportunities for long-haul travel and JFK is the most popular airport in the New York area. We believe that targeting the London-New York route makes sense because it is the busiest transatlantic route with 3.8 million passengers in 1999.

Tighter Travel and Entertainment Budgets

Travel and entertainment budgets of large and small companies represent on average 7 percent of operating costs and are the third largest category of controllable corporate expense behind salaries and data processing. These costs are coming under increasing scrutiny as companies try to maintain their profitability levels. As a result of this trend, more and more companies are implementing strict travel policies and are forcing employees to travel economy class. While this is still predominantly a phenomenon occurring for short-haul flights, some companies have already implemented these rules on long-haul flights as well. Only large companies with enough bargaining power obtain discounts from airlines for business class travel. These discounts range from 15 percent to 50 percent, depending on the size of the company travel budget. Large corporations therefore continue to allow their passengers to fly business class on long-haul travel because they benefit from these discounts. For smaller companies, the choice is more difficult: either pay full fare business class and travel in comfort or pay full fare economy class and travel in a cramped environment resulting in employee fatigue and inefficiency. Many companies do not have any other choice but to force employees to travel economy as business class is too expensive.

Bridging the Business-Economy Gap

The opportunity has been created by a widening gap in long-haul travel between economy class and business class, both in terms of price and service offered. Prompted by the introduction in the early 1990s of Virgin's Upper-Class, a business-first product, competitors have had to either improve the quality of their business class (British Airways) or follow suit by eliminating first class services and offering a business-first product (Continental Airlines). As a result of these changes, business class on long-haul flights has improved significantly but prices have also increased accordingly. Conversely economy class has seen very little improvement and overall economy class prices have decreased as a result of over capacity.

The following table gives us an overview of this trend:

Round-trip fare LON-NYC £	1994	2001	% Change
Business Class	1,959	3,580	82%
Full-Fare Economy	817	884	8%
Deep Discount Economy	254	208	-18%

Round-trip fare LON-NYC £	1994	2001	% Change
Business Class	1,959	3,580	82%
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Round-trip fare LON-NYC £ 1994 2001 % Change

Deep Discount Economy	254	208	-18%
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There is a segment of the business travel market that cannot or will not continue to pay business class fares for long-haul travel. These business travellers are getting the worst deal since they are paying full-fare economy as they need the flexibility to change their ticket but are getting the same service as a leisure traveller paying a deeply discounted economy fare.

- SkyTrails will provide an attractive alternative: A "Business Class type" service for £1,800

LONDON-NEW YORK /STANSTED-JFK

While the overall transatlantic market is very competitive and many airlines have recently complained of over capacity in the market, fares have only been reduced in the economy class cabin where we tend to see a larger portion of deeply discounted fares. SkyTrails believes that it is the best strategy to start competing on the busiest transatlantic route where we only need a small share of the market to achieve profitability. In 1999, over 3.8 million passengers flew between London and New York (source: CAA). SkyTrails' initial share of the market will be approximately 2 percent. It will be difficult for established airlines to react in such a dense market. With higher fixed costs and larger market shares, established players will be reluctant to do so. The cost of competing on price would by far outweigh the cost of accepting a small erosion in their market share.

STANSTED AIRPORT

Stansted is London's third international gateway and one of the fastest growing airports in Europe. Growing at over 30 percent per annum, it served 9.9 million passengers in 1999. Stansted has a catchment area of 11.5 million people representing 20 percent of the U.K. population. Stansted is operated by the British Airport Authority (BAA), a publicly traded company. The BAA has a keen interest to see Stansted grow and has invested over \$750 million since 1986.

Existing Unserved Market for Transatlantic Services

Currently, no airline is offering a service to New York from Stansted Airport which means that SkyTrails will have no direct competition within the Stansted catchment area. In 1999, 2.65 million passengers in Stansted's catchment area travelled to the USA (source: CAA). These passengers will naturally prefer flights from Stansted. The low cost airlines operating out of Stansted—Ryanair, Go Fly, and Buzz—are all recording an increase in business travellers. These cost conscious business travellers are natural customers for SkyTrails.

Stansted's Catchment Area

Excluding Central London, total population of Stansted's catchment area is 11.5 million. The catchment area includes Essex, Suffolk, Norfolk, Cambridgeshire, Northamptonshire, Leicestershire, Lincolnshire, Bedfordshire, and Hertfordshire.

The most interesting region of Stansted's catchment area is Cambridge. Over the past three years, Cambridge has transformed itself into the home of fast-growing high technology companies. Over 1,200 companies employing over 35,000 people are based in the Cambridge area. Also, 12 major global corporations have established research centres in the area including Microsoft, Nokia, and Xerox.

Easy Access

The Stansted Express rail link runs every 15 minutes to/from Liverpool Street Station (heart of the city of London) right into the terminal building at Stansted airport. Travelling time is 41 minutes. Passengers working in London will be able to leave their offices 70 minutes before takeoff time, a convenience no other airline can offer.



Stansted is located just 30 miles from the North East of London and only 15 miles away from London's orbital motorway (M25). Stansted is adjacent to Junction 8 on the M11 which makes access easy for people working in Canary Wharf.

London Stansted Airport also offers easy onward travel facilities to Cambridge, Ipswich, and Norwich either by road, train, bus, or coach.

	Stansted	Heathrow	Gatwick
London (Financial District)	41 min	60 min	50 min
Canary Wharf	90 min	90 min	120 min
Cambridge	25 min	1h 20 min	1h 30 min

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Cambridge	25 min	1h 20 min	1h 30 min

Market Acceptance

More and more business travellers use Stansted as an alternative to Heathrow and Gatwick, both of which have become very hectic. In 1998, 32 percent of passengers travelling through Stansted were business travellers. A survey conducted by the *Financial Times* in November 1999 on 800 business travellers working in the city of London revealed that business travellers rated Stansted higher than both Heathrow and Gatwick.

Friendly Regulatory Environment

Slots are available at Stansted and new airlines have the priority when applying for these. Slots are distributed for each season and airlines need to apply approximately three months in advance (June deadline for winter schedule). SkyTrails has already secured slots at Stansted for its desired schedule.

Airlines flying out of Stansted are not governed by the Bermuda II Bilateral Agreement between the U.K. and USA. Stansted falls under the regional airports category which enjoy open skies with the USA. This means that airlines will automatically be granted traffic rights for flights from Stansted to the USA.

For further information on the regulatory environment please see the Appendix.

Lower Costs

Charges at Stansted are at least 20 percent below those of Heathrow and Gatwick. In addition, SkyTrails has negotiated attractive deals with suppliers who are eager to see transatlantic services from Stansted.

JFK AIRPORT

JFK is the largest and best known airport in the New York area. The new start-up JetBlue is based at JFK and will potentially be beneficial for SkyTrails in terms of connecting traffic.

Regulatory Environment

JFK has a slot restriction from 2 P.M. to 8 P.M. but under the new entrant rule, SkyTrails has been able to obtain the slots required for the initial two daily flights.

For further information on the regulatory environment please see the Appendix.



Service/Product

Lifestyle

SkyTrails will introduce a single class concept to long-haul air travel. The newly designed class will provide a "high tech," spacious, and comfortable environment. In many ways, SkyTrails aims to create a "boutique" airline which replicates the concept of boutique hotels and targets the same type of customers.

In order to achieve this goal, SkyTrails will hire and partner with well known designers and suppliers for various aspects of the business. The seats and aircraft cabin will be designed by Ric Sloan, one of the most fashionable industrial designers of the moment. He was featured in *Forbes* magazine (12 May 2001) as "one designer to watch." SkyTrails will partner with a fashion designer for the uniforms and with well known restaurants for the catering.

SkyTrails' primary target will be young executives (25-45) that are lifestyle driven.

Comfort

In addition to a standard airline four abreast seating configuration, SkyTrails will also offer a unique meeting room environment enabling passengers to conduct business in an office setting while travelling.

Seats will have a 52-inch pitch and will recline at least 150 degrees, very similar to the current business class of traditional carriers. SkyTrails will make a special effort to offer good lighting for passengers, something which is lacking in today's airlines. Given the number of proposed seats, each passenger will enjoy considerable improvement in air quality over the established operators, an issue that is attracting increasing attention in the media.

Technology

SkyTrails will ensure that the aircraft is equipped with the amenities business travellers need in order to continue working while travelling. Again, SkyTrails will aim to provide these services at a fair price in order to stimulate their use rather than high prices which are prohibitive. SkyTrails aims to create a business centre in the aircraft where passengers will be able to use telephone, fax, and printer. Each seat will be equipped with a laptop power supply. SkyTrails will also provide e-mail access and use of a personal mobile phone for each passenger.

Convenience

SkyTrails will focus on offering a high quality service from the time of booking right to the time at which the passenger arrives at hotel/home in the destination city. Passengers will have the choice of booking a seat through the Internet, a call centre, or a travel agency.

e-tickets: Tickets will be 100 percent electronic and the passenger will only need their passport and confirmation number in order to access the aircraft. They will be able to print a copy of their itinerary from the website or will get confirmation numbers from the call centre.

Free transfers to/from airports: A free shared limousine service will be offered between JFK and Manhattan on arrival and departure. On the Stansted side, free rail ticket to/from Liverpool Street station will be offered or a free car service to/from Cambridge.

Valet Parking Service: SkyTrails will offer a complimentary valet parking service at Stansted which will save time for passengers wishing to drive to the airport.

Larger carry-on luggage: The increased space on board will also accommodate larger carry-on



luggage which is a sensitive issue for business travellers who do not wish to check in their luggage.

No more check-in: Allowing larger carry-on luggage enables us to abolish the concept of check-in and simply close the gate 15 minutes prior to takeoff. For those passengers with lots of luggage, SkyTrails will offer a door-to-door service for an extra fee. By abolishing check-in, SkyTrails will not only avoid many delays but it will also save money that other airlines spend on lost and damaged luggage.

Reduced overall transfer time: Passengers working in the city of London and Canary Wharf will save at least 1 hour from the moment they leave their office to the time of takeoff. On arriving in New York, they will save at least 30 minutes as they will not have to wait for their luggage and for a taxi. Boarding and disembarking the aircraft will be much faster due to the smaller number of passengers on each flight. Passengers travelling in the opposite direction can expect similar advantages over the competition.

Personalized service: SkyTrails will have individual DVD players for passengers to view the movie of their choice. On the catering side, SkyTrails intends to offer a choice of cuisine by partnering with well known brands. On the night flight from New York, passengers will have the option to order their breakfast on the train into Liverpool Street station, therefore giving them more time to sleep on the aircraft.

SkyTrails will accommodate passengers in departure and arrival lounge. The arrival lounge in Stansted will have shower facilities to accommodate business travellers going straight to work.

Finally, SkyTrails will offer enhanced shopping on-board through extensive product offerings. SkyTrails will sell exclusive products not widely available in traditional stores.

SkyTrails will take special care in hiring and training the cabin crew as the level of on-board service is highly dependent on the quality of these people.

Frequent Flyer Program

Major airlines have been successful at retaining customers by giving them frequent flyer miles each time they travel. As customers get more miles, they gain privileges which include access to airport lounges, upgrades, free flights, and other benefits. In addition, major airlines, through global partnerships are able to offer these programs on many different airlines.

SkyTrails will introduce a frequent flyer program of its own which will be very simple and easy to understand. Most airlines have very complicated programs which often make it difficult for customers to redeem their miles. SkyTrails will offer frequent flyer Internet cash/points that customers will be able to spend on specific websites. SkyTrails will partner with selected ecommerce sites in order to provide this service. SkyTrails believes that its value proposition combined with good service and a simple and innovative frequent flyer program will be sufficient to retain customers.

Operating Strategy

SkyTrails' primary objective is to establish itself as a niche player in the long-haul market of business travel by providing a high level of service and comfort at an attractive price. The use of a simplified organizational structure, a common aircraft type, and a policy of system wide commonality will significantly reduce operating costs over the more traditional airlines. This, coupled with our focus on premium long-haul passengers, will enable us to achieve much higher margins than our competitors.



Focus on a single type of aircraft and a single class of travel

SkyTrails opted for the B757-200 based upon its capacity, range, operating costs, reliability, and availability. By operating a narrow body aircraft on long-haul flights, SkyTrails is able to reduce significantly the operating costs and offer more frequencies. By operating a single aircraft type, SkyTrails will minimize costs associated with training and maintenance programs. Pilot commonality, aircraft interchangeability, technician interchangeability, great economies of scale in spares holdings are some of the benefits associated with single aircraft type operation. Also by offering a single class of service, SkyTrails reduces significantly the complexity of serving three different classes (i.e., catering, marketing, purchasing, systems, etc.).

Ensure service-oriented personnel through productivity and profit-based incentives

SkyTrails wishes to maintain labour cost flexibility by providing a portion of total compensation in the form of profit sharing. Maintaining high productivity of the work force is also an important aspect that management will focus on. SkyTrails believes that employee ownership is fundamental to its success and will provide schemes to promote this.

Focus on long-haul, point-to-point, nonstop services

SkyTrails will initially focus on the London-New York route where it can operate profitably with a small share of the market. SkyTrails will maintain this focus in the future by choosing routes where a large market already exists. Following New York, SkyTrails will start services to Boston, Chicago, and Washington, D.C.

Outsource non-passenger related activities

SkyTrails will outsource many services to quality companies in areas where there is no direct contact with the passengers. SkyTrails aims to offer a quality service to its passengers and will therefore ensure that only its staff interact directly with the customers.

Pricing Strategy

Simple and Transparent Fare Structure

SkyTrails will use a simple yield management system to determine the best price for each single seat in the aircraft. SkyTrails will have a simple fare structure with three different fares. SkyTrails will monitor the purchasing patterns and will be able to restrict the amount of discounted fares on certain flights.

Fare Type	Restrictions	One way Fare	Round-trip Fare
Flexible	Changeable and Refundable No Fee	£900	£1,800
Advance	2 weeks advance booking Nonrefundable Changeable with Fee	£700	£1,400
One month advance	For travel booked 1 month in advance Nonrefundable Nonchangeable	£500	£1,000
Flexible	This fare is designed for business travellers who make travel plans at the last minute and who often have to change their travelling plans. It is fully changeable and refundable without any fees nor restrictions. This fare is 50 percent cheaper than current published business class fares.		
Advance	This fare is designed for the business traveller who has fixed engagements and is price conscious. This ticket is equivalent to a premium economy fare on Virgin.		
One month advance	This fare will be used to stimulate leisure travellers to travel on Saturdays or to book one month in advance. It will be very difficult for business travellers to get access to these fares because of their booking and flying patterns.		



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One month advance	For travel booked 1 month in advance Nonrefundable Nonchangeable	£500	£1,000

In order to attract large corporations, SkyTrails will offer one way fully flexible tickets between £1,400 and £1,700 depending on the volumes involved. While large corporations already get deals at around £1,000 one way, small and medium enterprises (SME) have no means to achieve any significant discount from the full fare business class (£3,580 rtn) SkyTrails will offer very attractive alternatives for the SME market.

SkyTrails will use special promotions in the first months of operations in order to attract as many customers as possible and get them to experience the service. The initial objective is to focus on load factors rather than yields in order to penetrate the market and stimulate product trial.

Marketing and Sales Strategy

In order to be successful in the market of business travel, SkyTrails needs to convince two decision makers: 1.) the travel manager or person who makes the travel policy for a company and 2.) the traveller himself. The travel manager and the traveller make decisions based on different criteria and it is important to satisfy both decision makers in order to ensure success.

The travel manager is mainly driven by price and his objective is to negotiate the best deal for his company. On the other hand, the traveller is driven by frequent flyer programs, comfort, convenience, and lifestyle.

SkyTrails will have a sales team that will focus on travel managers of large and small companies and will have a conceptual and lifestyle driven communication strategy that will appeal to the traveller.

Sales and Distribution

Large Volume Companies (1000+ sectors per annum)

SkyTrails will target the large financial institutions and other companies with a major presence in both London and New York. In the city of London and in Canary Wharf there is great concentration of London-New York premium class traffic. The Top 20 London-New York spending companies account for close to 100,000 premium sectors per annum (sectors: one-way ticket). These companies are able to negotiate discounts of up to 50 percent off published fares and are often tied in to global deals with the major airlines. While SkyTrails can still offer more attractive deals to these large corporates, it does not anticipate obtaining primary carrier status.



SkyTrails will most certainly get secondary or tertiary status therefore capturing up to 20 percent of these companies' volumes. It will sign commercial agreements with these companies.

	Name	Estimated Sectors/Year*
1	Credit Suisse First Boston	10,000
2	JP Morgan	10,000
3	Goldman Sachs	9,200
4	Morgan Stanley	7,400
5	Deutsche Bank	7,400
6	Merrill Lynch	5,500
7	Chase Manhattan	5,500
8	UBS	5,500
9	Lehman Brothers	4,500
10	IBM	4,500
11	PricewaterhouseCoopers	4,500
10	Warburg Dillon Read	3,600
11	Seagram	3,500
12	Citibank	2,900
13	Reuters	2,800
14	Marsh	2,600
15	GE	2,200
16	Diageo	2,000
17	Barclays	1,500
19	Natwest	1,400
20	Cable and Wireless	1,400
	Total	97,900

**London originating only*

Name Estimated Sectors/Year*

**London originating only*

1	Credit Suisse First Boston	10,000
2	JP Morgan	10,000
3	Goldman Sachs	9,200
4	Morgan Stanley	7,400
5	Deutsche Bank	7,400
6	Merrill Lynch	5,500
7	Chase Manhattan	5,500
8	UBS	5,500
9	Lehman Brothers	4,500
10	IBM	4,500
11	PricewaterhouseCoopers	4,500
10	Warburg Dillon Read	3,600
11	Seagram	3,500
12	Citibank	2,900
13	Reuters	2,800
14	Marsh	2,600
15	GE	2,200
16	Diageo	2,000
17	Barclays	1,500
19	Natwest	1,400
20	Cable and Wireless	1,400

Total 97,900

Medium Volume Companies (50-1000 sectors)

SkyTrails has already identified over 200 companies in this category. These companies are the most attractive for SkyTrails because they have a weaker purchasing power than the large volume companies and therefore do not get discounts in excess of 30 percent off published fares.

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Small and Medium Enterprises (up to 50 sectors)

SkyTrails will also target the small and medium enterprises (SMEs) market. The Stansted catchment area of London, North London, Essex, Cambridgeshire, Hertfordshire, Essex, East Anglia, and the Southern Midlands has a proliferation of SMEs, many of which are subsidiaries of U.S. based companies. SkyTrails will offer a compelling value proposition to these SMEs based on corporate discounts from an already competitive pricing structure. British Airways and other major transatlantic airlines do not offer corporate discounts in the SME market.

SkyTrails will hire a strong sales team that will target companies directly. SkyTrails will also team up with a major credit card company and large business travel agencies that will give SkyTrails access to a large number of SMEs. SkyTrails believes that getting companies enrolled will be a critical success factor and will ensure that its value proposition is well communicated to the businesses likely to use the service.

Electronic Ticketing

SkyTrails will offer customers quicker, easier, more convenient ways to arrange travel through the use of e-ticketing or "ticketless travel." An e-ticket entitles a passenger to all the same conditions of a conventional paper ticket, however instead of being printed, the e-ticket is stored in the SkyTrails e-ticket database. The customer simply receives a paper itinerary/receipt for Customs and Immigration.

Distribution and Revenue Management

SkyTrails will use an integrated ticketless software (Open Skies by HP) which offers an online booking engine as an alternative to traditional airline distribution through Computer Reservation System (CRS). Open Skies also offers streamlined revenue accounting, airport functionality, and a customer database function. The Open Skies system is currently used by Go, Easyjet, JetBlue, Buzz, CityBird, and many others.

Travel Agency

SkyTrails will form relationships with the key U.K. business travel agents giving them an opportunity to increase their commission by taking some of the risk. Travel agents will be able to buy in bulk in advance and get higher commissions than if they simply book tickets on an ad hoc basis.

Travel agents' commissions in the U.K. have declined from 9 percent to 7 percent in recent years and are set to reduce further in 2001. SkyTrails will offer attractive returns for agency partners—well above U.K. industry standards.

Call Centres

SkyTrails will operate an efficient, customer oriented call centre open 24 hours a day in order to serve individuals, corporate clients, or travel agents. Fully trained staff will also be able to handle website enquiries.

Direct Sales through the Internet

Harnessing the power of the Internet will be key to the success of SkyTrails. It is the most cost effective distribution method and SkyTrails will heavily promote its website to attract direct passengers. A user friendly website will be set up to sell tickets, select seats, choose meals, check punctuality, etc. In addition, the website will enable passengers to choose connecting flights with European low cost airlines (Ryanair, Go Fly, Virgin Express, Easyjet, Buzz) and also with U.S. low cost airlines. This will enable SkyTrails to expand its target market by capturing connecting passengers as well as point-to-point passengers.

An extranet corporate booking tool will be developed for use by corporate clients.

SkyTrails will form strategic partnerships with leading travel, luxury goods, and financial websites targeting



similar audiences with hyperlinks between websites.

Advertising and Communication

SkyTrails' customer base is well defined which will enable SkyTrails to focus its advertising efforts to specific locations and specific newspapers and magazines.

Growth Strategy

Phase I: Market Penetration in high density routes

SkyTrails will initially target the most dense transatlantic market starting with New York. We will then expand to Boston, Washington, D.C., Dulles, and Chicago.

By targeting very dense markets, SkyTrails will only need a small portion of the overall market in order to be profitable.

Phase II: Extend service to medium/low density long haul routes

We see much larger potential in medium to low density long haul routes where the traditional airlines are not present today. These destinations include Stewart Airport or Whiteplains Airport which are located in New York state but within easy reach of Greenwich and Stamford (Connecticut) which are key business centres. Passengers will be able to bypass the large hubs for long haul flights in the same way the regional jet is able to bypass hubs on short haul flights.

	JFK	JFK	BOS	IAD	ORD	SWF	FLL	BDL
Launch Date	Feb 02	Mar 04	Mar 03	Jun 03	Sep 03	Mar 04	Mar 05	Mar 05
Daily Frequency	2x	1x	1x	1x	1x	1x	1x	1x

JFK: New York BOS: Boston IAD: Washington Dulles
 ORD: Chicago O'Hare SWF: Stewart airport (New York) FLL: Fort Lauderdale (Florida)
 BDL: Hartford (Connecticut)

JFK	JFK	BOS	IAD	ORD	SWF	FLL	BDL
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JFK: New York			BOS: Boston			IAD: Washington Dulles		
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BDL: Hartford (Connecticut)								
Launch Date	Feb 02	Mar 04	Mar 03	Jun 03	Sep 03	Mar 04	Mar 05	Mar 05
Daily Frequency	2x	1x	1x	1x	1x	1x	1x	1x

Other Opportunities

While scheduled long haul flights will clearly be our focus, SkyTrails will take advantage of opportunities in the high-end segment of the leisure market where we are seeing strong growth. Such opportunities could fit in nicely with the business travel which tends to be low at weekends and during the summer season.

SkyTrails will also consider ad hoc charters and corporate charters on a case by case basis.

Operations

Air Operator's Certificate and Operating License

In order to conduct commercial flights, SkyTrails will need an Air Operator's Certificate (AOC) and an Operating Licence which are granted by the U.K. Civil Aviation Authority. In order to get an AOC and an

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Operating Licence, the company has to comply with safety, financial, and other requirements laid down by the CAA/JAA. The application process can take over 12 months to complete. In order to avoid relying on this process to start operations, SkyTrails will use the AOC and operating license of TravelAir in the first year of operations. By using an existing airline, SkyTrails significantly reduces the risk of delays in the start-up phase. SkyTrails will in effect outsource the operations to this existing airline for the first 12 months which will enable SkyTrails to focus on the commercial aspects of the business. From the passenger's perspective, TravelAir will be invisible. The crew will have SkyTrails uniforms and the aircraft will have SkyTrails livery. TravelAir has tremendous experience with B757 ETOPS (Extended Twin Operations) operations and is viewed by many as the best quality charter airline in the U.K.

Slots

Through TravelAir, SkyTrails has obtained landing and takeoff slots at both Stansted and JFK for the following times:

	Flight 01	Flight 02
London Stansted	15:00	19:00
New York JFK	18:00	22:00
	Flight 03	Flight 04
New York JFK	19:15	23:15
London Stansted	07:00	11:00

Flight 01 Flight 02

London Stansted	15:00	19:00
New York JFK	18:00	22:00

Flight 03 Flight 04

New York JFK	19:15	23:15
London Stansted	07:00	11:00

TravelAir will transfer all the slots obtained to SkyTrails once it obtains its own AOC.

Airports

In order to maintain a high level of customer service, SkyTrails will either employ its own staff or ensure the ground handling agent has dedicated staff for all aspects of airport handling involving contact with customers. For other aspects of ground handling, SkyTrails will initially outsource its needs until critical mass has been established. SkyTrails will lease space in each airport for lounges and offices.

Maintenance and Training

Heavy maintenance and training will be outsourced, initially to TravelAir.

Aircraft

The Boeing 757-200 is one of the most popular commercial aircraft ever built. Over 800 B757s are currently in service. Boeing is starting to deliver a stretched version, the B757-300 and is presently evaluating the possibility of building an extra long range B757. The B757-200 is usually configured to accommodate 180 passengers in a two-class configuration. The B757-200 has a high level of dispatch reliability (in excess of 99 percent).

The other possibilities for SkyTrails could have been the B767 which is a wide body aircraft. SkyTrails believes that the risk involved with operating a B767 are 30 percent higher and also limit the ability to expand in smaller markets. SkyTrails could have considered the BBJ which is equivalent to a B737 long range. Unfortunately, the BBJ is still in its early days and the lack of availability in the market is what has driven our decision towards the B757. The BBJ could be ideally suited for smaller markets.



B757-200 Specifications

Design range, miles (km)	4,550 miles (7,315km)
Maximum gross weight—Takeoff	255,000 lb (115,660 kg)
Typical operating empty weight	128,730 lb (58,390 kg)
Engines	Pratt & Whitney PW2040/PW2037
	Rolls Royce RB211-535
Maximum fuel capacity, U.S. gal (L)	11,526 gal (43,625L)
Lower-hold cargo volume	1,670 ft ³ (47.3 m ³)

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REGULATORY ENVIRONMENT

Bilateral Agreement between U.S. and U.K.

Flights from major international airports in the U.K. to the U.S. are regulated by a Bilateral Agreement between the two countries. The government negotiates routes for its country and then distributes these to the airline of its choice. Usually airlines have to submit an application detailing why its proposed service is in the best national interest. This creates a barrier to entry which is difficult to overcome. In addition, landing and takeoff slots at London Heathrow and London Gatwick are difficult to obtain creating another barrier to entry. These barriers to entry give a strong advantage to existing airlines. However, U.S. and U.K. government have been negotiating possible liberalization of skies. If this happens, we expect to see additional capacity out of Heathrow to the USA which may have an impact on yields.

Open Skies for Regional Airports (Bermuda II Agreement)

International flights from all the regional airports in the U.K. (Stansted, Birmingham, Manchester, etc.) are regulated by this Agreement with the U.S. which enables all national airlines of each country to operate an unlimited number of flights between these airports and any U.S. international airport. SkyTrails will therefore be able to benefit from this Agreement by operating out of Stansted. SkyTrails will still have to apply for the routes but these will be automatically granted. The application was filed on 12 September 2000.

A more detailed overview of the regulatory environment written by Eugene Stokes, Aviation Partner at Smyth Adair Benson, is provided in the Appendix.

MARKET ANALYSIS

Global Airline Industry

Major Airlines Characteristics:

Focus on hubs

In order to increase load factors, major airlines have adopted a hub and spoke strategy which consists of centralising flights at an airport therefore benefiting from connecting passengers in addition to origination and destination passengers. As a result of this strategy, many passengers are



forced to make stopovers, increasing their travelling time.

SkyTrails will offer point to point services which offer significant time savings for premium passengers.

High fixed costs

Major airlines have large overhead costs and many are tied in to labour contracts which prevent them from reducing these costs significantly.

SkyTrails will maintain a lower cost base and therefore maintain a competitive advantage.

Lack of customer focus

Overall, airlines tend to lack customer focus. By focusing on hubs and alliances, airlines gain efficiencies but these strategies are of limited benefit to the customers.

SkyTrails will offer an individual service and its success will be built on customer focus.

Consolidation with major alliances: Star Alliance, One World

While most industries have consolidated in the past few years through mergers and acquisitions, the airline industry's consolidation is based predominantly on alliances and minority equity stakes. Starting with code-share agreements and extending these to full alliances have been the common pattern followed by airlines around the world. These alliances enable airlines to benefit from each others network and distribution capability. While very beneficial to the airlines, it is arguable whether the consumer really benefits from these alliances as they tend to reduce competition. Customer satisfaction usually suffers as a result of this consolidation, creating an opportunity for SkyTrails.

The most successful alliance to date is the Star Alliance which is comprised of Lufthansa, United, SAS, Thai, Varig, Air New Zealand, Ansett Australia, All Nippon Airways, and recently Singapore Airlines. Its main competitor, One World, is comprised of British Airways, American Airlines, Cathay Pacific Airways, Qantas, Finnair, and Iberia. Another important combination is Virgin-Singapore Airlines. Singapore now owns 49 percent of Virgin Atlantic and the two airlines will be a strong competitor on the transatlantic market.

Following Swissair's acquisition of 85 percent of Sabena, other European airlines have started to talk about possible mergers and acquisition. On the U.S. side, United and U.S. Airways have announced a merger which has prompted other talks within the major airlines. This consolidation will be closely monitored by the regulatory bodies and it is uncertain how many will be approved.

SkyTrails will not take part in any alliance and will remain committed to its niche strategy. The larger the alliances become, the more opportunities there are for niche airlines to prosper.

Low Cost Airlines are gaining market share

Following the continued success of Southwest Airlines, many start-up airlines have emerged in the past ten years, both in Europe and in the U.S. The low cost airlines focus on short-haul traffic and have been key in stimulating demand by offering extremely low fares. These airlines initially targeted the leisure traveller but in recent years they have attracted a growing amount of business



travellers who were not satisfied with the high prices charged by the major airlines. The main challenge faced by these young companies is that of safety. After the ValueJet accident in Florida, customers were concerned that low cost airlines did not maintain their aircraft correctly and were more dangerous to fly than the majors.

While low cost airlines continue to thrive in the U.S., the more recent European additions such as Easyjet, Virgin Express, Go Fly, Ryanair, and others are experiencing tremendous growth and are presenting a serious challenge to the major airlines short-haul strategies.

SkyTrails will benefit from this trend as passengers are now used to flying with newer airlines which do not have the history of State-Owned carriers.

Regional Airlines are increasing point-to-point travel

The Regional Airlines are by far the most profitable segment of the market with net margins as high as 15 percent. They benefit from very fuel efficient modern aircraft (Regional Jets) and are able to focus on high yield passengers by providing point-to-point services and more frequencies. By using smaller jets, boarding and disembarking times are reduced which enables fast turnaround of the aircraft. Companies such as Comair and Atlantic Coast in the U.S. and Crossair, Air Littoral, and British Regional Airlines in Europe have grown tremendously in the past five years.

SkyTrails is in effect an extension of the Regional Airlines by offering point to point services on a long-haul basis.

The Market

Breakdown of Passengers on London to New York route April 1999-March 2000

	JFK	Newark	Total New York
Heathrow	2,499,983	709,104	3,209,087
Gatwick	134,226	492,547	626,773
Total London	2,634,209	1,201,651	3,835,860

N.B. In the above table, connecting traffic through London is included and accounts for 1.2 million passengers.

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Gatwick	134,226	492,547	626,773
Total London	2,634,209	1,201,651	3,835,860

Top 10 U.S. Destinations from Heathrow October 1998-September 1999

City	Airport	Business	Leisure	Total
New York	JFK	861,179	1,738,393	2,599,572
Los Angeles	LAX	313,806	1,073,360	1,387,167
Chicago	ORD	421,807	736,109	1,157,916
San Francisco	SFO	286,101	749,969	1,036,070
Washington, D.C.	IAD	358,403	654,786	1,013,189
Boston	BOS	286,406	525,556	811,961
Miami	MIA	158,855	459,399	618,255
Newark	EWB	171,880	492,303	664,183
Seattle	SEA	102,157	188,329	290,486
Philadelphia	PHL	107,265	181,572	288,837
Total		3,067,859	6,799,776	9,867,636



City	Airport	Business	Leisure	Total
New York	JFK	861,179	1,738,393	2,599,572
Los Angeles	LAX	313,806	1,073,360	1,387,167
Chicago	ORD	421,807	736,109	1,157,916
San Francisco	SFO	286,101	749,969	1,036,070
Washington, D.C.	IAD	358,403	654,786	1,013,189
Boston	BOS	286,406	525,556	811,961
Miami	MIA	158,855	459,399	618,255
Newark	EWR	171,880	492,303	664,183
Seattle	SEA	102,157	188,329	290,486
Philadelphia	PHL	107,265	181,572	288,837
Total		3,067,859	6,799,776	9,867,636

Stansted Catchment Area Originating Traffic to New York

	Inner Catchment*	Inner and Outer Catchment**
Total Traffic	406,338	744,839
Origin/Destination Passengers	357,508 88.00%	647,437 86.90%
Business Passengers	125,585 30.90%	232,392 31.20%

N.B. In the above table, connecting traffic through London is excluded.

**Inner Catchment: Essex, Suffolk, Norfolk, Cambridgeshire*

***Inner & Outer Catchment: Inner and Hertfordshire, Bedfordshire, Northamptonshire, Leicestershire, Nottinghamshire, Lincolnshire.*

Both catchment areas exclude the city of London which is a key market for SkyTrails.

Inner Catchment*

Inner and Outer Catchment**

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	88.00%	86.90%
Business Passengers	125,585	232,392
	30.90%	31.20%

SkyTrails Share of New York market from inner and outer catchment area

SkyTrails Load Factor	Share of Total	Share of O&D Traffic*	Share of Business Travellers
80%	23.00%	26.10%	74.40%
70%	20.10%	22.90%	65.10%
60%	17.20%	19.60%	55.80%
50%	14.40%	16.30%	46.50%

**Origin and Destination*

SkyTrails Load Factor	Share of Total	Share of O&D Traffic*	Share of Business Travellers
80%	23.00%	26.10%	74.40%

**Origin and Destination*



SkyTrails Load Factor	Share of Total	Share of O&D Traffic*	Share of Business Travellers
70%	20.10%	22.90%	65.10%
60%	17.20%	19.60%	55.80%
50%	14.40%	16.30%	46.50%

Inner and Outer Catchment

SkyTrails Load Factor	Share of Total	Share of O&D Traffic	Share of Business Travellers
80%	12.50%	14.40%	40.20%
70%	11.00%	12.60%	35.20%
60%	9.40%	10.80%	30.20%
50%	7.80%	9.00%	25.10%

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80%	12.50%	14.40%	40.20%
70%	11.00%	12.60%	35.20%
60%	9.40%	10.80%	30.20%
50%	7.80%	9.00%	25.10%

Focus on Point to Point Traffic

The majority of the business traffic between London and New York is point to point as business travellers from other European capitals tend to fly direct.

Connecting Traffic

While SkyTrails will focus primarily on point to point, it will benefit from connecting traffic originating in secondary cities in the U.K., Europe, and the U.S. Premium travellers in those cities have to connect in a hub in order to travel to the U.S. and they could easily combine a low-cost European flight into Stansted with a SkyTrails flight to the U.S. The following table highlights the various secondary cities that are served by a low-cost airline operating at Stansted and with arrival and departure times within 2 hours of a SkyTrails flight:

Airline	Secondary European City
Go Fly	Bologna, Copenhagen, Edinburgh, Faro, Malaga, Palma
Ryanair	Cork, Kerry, Knock, Nimes, Biarritz, Carcassone (Toulouse), Perpignan, St. Etienne (Lyon), Venice, Pisa, Glasgow, Ancona, Malmo, Brescia, Dinard
Buzz	Dusseldorf, Bordeaux, Berlin, Marseilles

Airline Secondary European City

Go Fly Bologna, Copenhagen, Edinburgh, Faro, Malaga, Palma

Ryanair Cork, Kerry, Knock, Nimes, Biarritz, Carcassone (Toulouse), Perpignan, St. Etienne (Lyon), Venice, Pisa, Glasgow, Ancona, Malmo, Brescia, Dinard

Buzz Dusseldorf, Bordeaux, Berlin, Marseilles

Airline	Secondary American City
American	Albany, Baltimore, Boston, Buffalo, Cleveland, Hartford, Los Angeles, Philadelphia, Pittsburgh, Raleigh/Durham, Rochester, San Juan (P.R.), Syracuse, Washington

American West Las Vegas

Delta Albany, Atlanta, Baltimore, Boston, Los Angeles, Philadelphia, Pittsburgh, Richmond, Rochester, Washington

National Airlines Los Angeles, Las Vegas

Northwest Detroit

TWA Las Vegas, Los Angeles, San Francisco, St. Louis

United Boston, Los Angeles, Washington, D.C.



Airline	Secondary American City
American	Albany, Baltimore, Boston, Buffalo, Cleveland, Hartford, Los Angeles, Philadelphia, Pittsburgh, Raleigh/Durham, Rochester, San Juan (P.R.), Syracuse, Washington
American West	Las Vegas
Delta	Albany, Atlanta, Baltimore, Boston, Los Angeles, Philadelphia, Pittsburgh, Richmond, Rochester, Washington
National Airlines	Los Angeles, Las Vegas
Northwest	Detroit
TWA	Las Vegas, Los Angeles, San Francisco, St. Louis
United	Boston, Los Angeles, Washington, D.C.

Premium Capacity on the London-New York Route (Sept.-Dec. 2000)

Premium Capacity on the London-New York Route (Sept.-Dec. 2000)

Airline	Daily Frequencies	Premium Seats one-way/day*	% Total Capacity
British Airways	11x	936	42.40%
American Airlines	7x	403	18.20%
Virgin Atlantic	5x	275	12.50%
United Airlines	4x	273	12.30%
Continental Airlines	2x	139	6.30%
Other**	n/a	103	4.70%
SkyTrails***	2x	80	3.60%
Total		2,209	100%

*Premium Seats: 80 percent LF on First Class, Business Class, BA World Traveller Plus, VS Premium economy, plus 10 percent of economy passengers where no Premium Economy equivalent exists

**Other includes 10 percent of premium seats on KLM/AF/EI

***Assumes 50 percent LF

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*Premium Seats: 80 percent LF on First Class, Business Class, BA World Traveller Plus, VS Premium economy, plus 10 percent of economy passengers where no Premium Economy equivalent exists			
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British Airways	11x	936	42.40%
American Airlines	7x	403	18.20%
Virgin Atlantic	5x	275	12.50%
United Airlines	4x	273	12.30%
Continental Airlines	2x	139	6.30%
Other**	n/a	103	4.70%
SkyTrails***	2x	80	3.60%
Total		2,209	100%



Market Shares on Planned Routes for SkyTrails:

Carrier	NYC	BOS	WAS	ORD	MIA
British Airways	42.40%	37.60%	41.70%	20.00%	57.70%
American Airlines	18.20%	34.80%	0.00%	37.60%	18.80%
United Airlines	12.50%	9.40%	37.80%	27.40%	0.00%
Virgin Atlantic	12.30%	7.60%	8.90%	5.60%	8.00%
Continental Airlines	6.30%	0.00%	0.00%	0.00%	0.00%
Nondirect OA	4.70%	2.30%	2.50%	3.20%	3.30%
SkyTrails Airways	3.60%	8.30%	9.10%	6.20%	12.20%
Total	100%	100%	100%	100%	100%

Carrier	NYC	BOS	WAS	ORD	MIA
British Airways	42.40%	37.60%	41.70%	20.00%	57.70%
American Airlines	18.20%	34.80%	0.00%	37.60%	18.80%
United Airlines	12.50%	9.40%	37.80%	27.40%	0.00%
Virgin Atlantic	12.30%	7.60%	8.90%	5.60%	8.00%
Continental Airlines	6.30%	0.00%	0.00%	0.00%	0.00%
Nondirect OA	4.70%	2.30%	2.50%	3.20%	3.30%
SkyTrails Airways	3.60%	8.30%	9.10%	6.20%	12.20%
Total	100%	100%	100%	100%	100%

Product on the London-New York Route

Business Class	AA	BA	UA	CO	VS
Equipment	A300/767	747	763	777	747
Pitch (inches)	50	72	135	153	150
Recline (degrees)	127	180	135	153	150

Business Class	AA	BA	UA	CO	VS
Equipment	A300/767	747	763	777	747
Pitch (inches)	50	72	135	153	150
Recline (degrees)	127	180	135	153	150

British Airways (BA)

BA is the market leader with over 40 percent of premium capacity. BA has run into a number of difficulties in the past year and reported disappointing results in 1999. The airline has clearly stated its strategy to focus on the business and premium traveller. BA has introduced a full-sleeper Business Class. We believe that BA is right to focus on the business segment but by offering a full-sleeper Business Class, they are taking the risk that First Class passengers downgrade to Business Class. In addition, by providing this higher quality product, BA is betting that it will be able to continue increasing the price of its business class product. It is simply widening the gap between business class and economy. BA recently introduced World Traveller Plus, which corresponds to Virgin's Premium Economy. The pricing will be similar to SkyTrails but the product is simply an economy class with more legroom. Although BA does offer a good product, it has been harmed by bad press, disappointing results, and unmotivated staff. BA's global strategy with American Airlines has been delayed by the regulatory bodies but BA is still trying to make it work under a weaker form. While BA and AA combined will be a powerful team, the culture and product do not seem to be aligned today.

American Airlines (AA)

AA has 7 daily frequencies with B767 and A300 offering 18.1 percent of the market capacity. AA's service and product standards are below that of the competition. As mentioned earlier, AA's alliance with BA, if it goes through, will be a powerful combination in terms of size and resources.



Virgin Atlantic Airways (Virgin)

Virgin's share of the premium segment is 12.3 percent. Virgin is by far the most innovative player in today's market. Virgin was the first airline to introduce a business-first service in the early 1990s and is the only airline to offer a premium economy section on long-haul flights. Virgin has a code-share agreement with Continental which enables both airlines to sell tickets on each others' flights. The recent sale of 49 percent of Virgin to Singapore Airlines will also provide Virgin with an increase in connecting passengers from Asia. Virgin is also rumoured to be considering a first-class only concept operating BBJs, ACJs, or Bombardier's Global Connector. This does not represent a threat to SkyTrails as Virgin is targeting the First Class passenger.

United Airlines (United)

United has the same share of the premium market as Virgin with 12.3 percent. United is one of the leading airlines in the Star Alliance which provides much connecting traffic. United's product is industry standard and is viewed as a follower rather than a market leader.

Continental Airlines (CO)

CO is more of a niche player in this market with only two flights a day. It operates out of Gatwick to Newark. However, its code-share with Virgin gives it access to Heathrow and JFK. Continental is a strong player at Newark where it controls over 50 percent of the landing and takeoff slots. It is planning to increase its presence at Newark by building a new terminal for additional wide body aircraft. In May 2001, Continental started a service from Stansted to Newark with a B757. This certainly helps to raise the profile of Stansted as a gateway to the U.S. Continental's B757 only has 16 business class seats and its early morning departure from Stansted does not suit the London or Canary Wharf based traveller.

British Midland (BM)

BM has been attempting to obtain traffic rights from Heathrow to the USA, so far unsuccessfully. It is determined to keep trying to get into the market. BM has ordered Airbus A330s which will be delivered in summer 2001 and which it intends to use on routes to the USA. British Midland has obtained rights to fly from Manchester to the USA but not from Heathrow.

FINANCIALS

Funding Needs

SkyTrails' total funding needs amount to £25 million. The following table summarises the uses of funds to August 2003 which is the point when accumulated net uses of funds reaches its highest point:

GBP £	Sources and Uses until Aug 03
Total Funds Raised	26,359,750
Aircraft Reconfiguration	-10,150,000
Aircraft Leasing	-11,127,588
Aircraft Deposits	-3,558,620
Advertising Expense	-5,558,690
Operating Profit	13,732,027
Cash Balance Aug 2003	9,696,879

GBP £ Sources and Uses until Aug 03

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GBP £ Sources and Uses until Aug 03

Operating Profit 13,732,027

Cash Balance Aug 2003 9,696,879

SkyTrails has to set aside a Bond which is required by the CAA in order to protect consumers during the period that SkyTrails is operating under TravelAir's AOC. SkyTrails also needs to have sufficient funds to satisfy the CAA that it can survive with no revenues for 3 months at the time it applies for its own AOC.

Valuation

In order to value airline companies on the same basis, we use the Enterprise Value (EV) to EBITDAR multiple. EBITDAR is cash flow before rentals (operating leases) which, for SkyTrails amounts to £72.6 million at the end of the fourth fiscal year. The following table shows the multiples for European publicly traded airlines:

	BA	Lufthansa	KLM	SAirGroup	Alitalia	Air France	Ryanair	Average
1998/1999	9.5	4.5	6.5	6	5.6	5.9	14	7.4
1999/2000	15.3	5.9	8.5	9.3	10	4.4	12.2	9.3
2000/2001	12.9	5.6	6.4	7.5	8.2	4.4	11.2	8.0
2001/2002	10.1	4.9	5.5	6.8	7.6	3.1	10.1	6.9

BA	Lufthansa	KLM	SAirGroup	Alitalia	Air France	Ryanair	Average	
1998/1999	9.5	4.5	6.5	6	5.6	5.9	14	7.4
1999/2000	15.3	5.9	8.5	9.3	10	4.4	12.2	9.3
2000/2001	12.9	5.6	6.4	7.5	8.2	4.4	11.2	8.0
2001/2002	10.1	4.9	5.5	6.8	7.6	3.1	10.1	6.9

EBITDAR: Airlines are valued based on EBITDAR multiples (as opposed to EBITDA) because airlines have different mixes of operating leases and on-balance sheet financing for aircraft which therefore would distort valuations based on EBITDA multiples.

If we take a very high discount rate of 50 percent to account for the risk involved and assume that we are four years away from the end of the fourth fiscal year, we get the following present values:

EBITDAR Multiple	5	6	7
PV with 50% annual discount	£72MM	£86MM	£100MM

EBITDAR Multiple	5	6	7
PV with 50% annual discount	£72MM	£86MM	£100MM

Operating Margins

The financial model produces an operating margin at the end of year 4 of 21.3 percent. Margins well in excess of this are currently being attained by regional carriers, even though the more traditional airlines do not reach these heights. We believe this margin is on the low side because we have made conservative assumptions. We will attain margins similar to the better regional carriers as our strategy is similar to theirs. The table below shows the operating margins obtained by a selection of regional and non-regional airlines and was sourced from *Airline Business* magazine.

Operating Margin	1999	1998
Regional		
Atlas Air	28.90%	32.20%
Ryanair	22.70%	24.10%
Southwest Airlines	21.80%	21.80%
GB Airways	19.20%	14.50%
Westjet Airlines	19.00%	11.20%
Skywest Airlines	18.30%	16.50%
Majors		
Delta	9.00%	12.50%
Northwest Airlines	6.90%	-2.10%
Lufthansa	5.70%	9.00%
Air France	3.50%	2.90%
British Airways	0.90%	5.00%



Operating Margin 1999 1998

Regional

Atlas Air	28.90%	32.20%
Ryanair	22.70%	24.10%
Southwest Airlines	21.80%	21.80%
GB Airways	19.20%	14.50%
Westjet Airlines	19.00%	11.20%
Skywest Airlines	18.30%	16.50%

Majors

Delta	9.00%	12.50%
Northwest Airlines	6.90%	-2.10%
Lufthansa	5.70%	9.00%
Air France	3.50%	2.90%
British Airways	0.90%	5.00%

Assumptions

Revenues

Aircraft

SkyTrails will start operations with two B757-200 with an 80-seat configuration. The following table shows aircraft addition through the period of the plan:

	Feb 2	Mar 3	Jun 3	Sep 3	Mar 4	Mar 5
Additions	2	1	1	1	2	2
Total B757	2	3	4	5	7	9

	Feb 2	Mar 3	Jun 3	Sep 3	Mar 4	Mar 5
Additions	2	1	1	1	2	2
Total B757	2	3	4	5	7	9

Load Factors

We have assumed that the first two flights reach their break-even load factor after 12 months.



Fares

Fare type	Fare	Definition	Distribution method
Full fare	1,800	A fully refundable, fully changeable, flexible fare	Sold through SkyTrails call centre or website
Full fare TA	1,600	A fully refundable, fully changeable, flexible fare	Sold through travel agents
Corporate	1,400	A fully refundable, fully changeable, flexible fare with a corporate discount for volume purchase	Sold through travel agents or through SkyTrails call centre or website
Restricted	1,400	A 14-day advance purchase fare with fees for changes and cancellation	Sold through SkyTrails call centre or website
Restricted TA	1,260	A 14-day advance purchase fare with fees for changes and cancellation	Sold through travel agents
Full Restricted	1,000	A nonchangeable, nonrefundable fare	Sold through SkyTrails call centre or website
Full Restricted TA	900	A nonchangeable, nonrefundable fare	Sold through travel agents

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Full Restricted	1,000	A nonchangeable, nonrefundable fare	Sold through SkyTrails call centre or website
Full Restricted TA	900	A nonchangeable, nonrefundable fare	Sold through travel agents

Other Revenue: £1,000 per sector is assumed for Cargo and Duty Free revenue.

The following table breaks down the mix of fares assumed in each year:

Fare	2001-2002 % of seats	2002-2003 % of seats	2003-2004 % of seats	2004-2005 % of seats
£1,800	2.40%	6.14%	7.25%	7.37%
£1,600	4.80%	5.29%	5.48%	5.58%
£1,400	38.40%	44.07%	53.53%	56.22%
£1,260	14.40%	12.78%	8.05%	7.29%
£1,000	16.00%	13.21%	14.10%	13.94%
£900	24.00%	18.51%	11.59%	9.61%
Weighted average price	£1,215	£1,272	£1,314	£1,327
Total round-trip passengers	7,578	62,136	124,431	164,575



Fare	2001-2002 % of seats	2002-2003 % of seats	2003-2004 % of seats	2004-2005 % of seats
£1,800	2.40%	6.14%	7.25%	7.37%
£1,600	4.80%	5.29%	5.48%	5.58%
£1,400	38.40%	44.07%	53.53%	56.22%
£1,260	14.40%	12.78%	8.05%	7.29%
£1,000	16.00%	13.21%	14.10%	13.94%
£900	24.00%	18.51%	11.59%	9.61%
Weighted average price	£1,215	£1,272	£1,314	£1,327
Total round-trip passengers	7,578	62,136	124,431	164,575

Variable Costs

	STN	JFK	BOS	IAD	ORD	SFW	FLL	BDL
Fuel (US\$ per U.S. Gallon)	1	1	1	1	1	1	1	1
Consumption (Gal/hr)	1,110	1,110	1,110	1,110	1,110	1,110	1,110	1,110
Maintenance (Round Trip) £	6,533	6,409	7,150	7,582	6,519	8,207	6,519	
Landing Fees £	208	437	280	246	326	142	182	142
Navigation Fees £		2,410	2,384	2,431	2,998	2,410	3,117	2,410
Pax Services* (per pax) £	120	120	120	120	120	120	120	120
Ground Handling £	850	2,223	1,834	1,882	1,544	1,434	1,334	1,434

*Pax Services include: catering (£30), frequent flyer contribution (£25), in-flight products (£10), ground transfers (£20), distribution cost (£5), Lounge U.S. (£5), airport passenger handling (£9), credit card commission (£16)

Variable Costs

	STN	JFK	BOS	IAD	ORD	SFW	FLL	BDL
<i>*Pax Services include: catering (£30), frequent flyer contribution (£25), in-flight products (£10), ground transfers (£20), distribution cost (£5), Lounge U.S. (£5), airport passenger handling (£9), credit card commission (£16)</i>								
Fuel (US\$ per U.S. Gallon)	1	1	1	1	1	1	1	1
Consumption (Gal/hr)	1,110	1,110	1,110	1,110	1,110	1,110	1,110	1,110
Maintenance (Round Trip) £		6,533	6,409	7,150	7,582	6,519	8,207	6,519
Landing Fees £	208	437	280	246	326	142	182	142
Navigation Fees £		2,410	2,384	2,431	2,998	2,410	3,117	2,410
Pax Services* (per pax) £	120	120	120	120	120	120	120	120
Ground Handling £	850	2,223	1,834	1,882	1,544	1,434	1,334	1,434

N.B. These figures are based on current prices obtained from suppliers

Fixed Costs

Direct Costs

Flight-Deck Crew

11 flight crews are assumed for the first two aircraft. Each flight crew is composed of a captain and a first officer. Captain cost is assumed at £6,850 per month and first officer at £4,760. These figures include social charges, accommodation, and transport.

Cabin Crew

11 cabin crews are assumed for the first two aircraft. Each cabin crew comprises 1 purser, 2 senior cabin crew, and 3 junior cabin crew at a cost of £2,367, £1,878, and £1,670 respectively.



Insurance

\$25,000 per month per aircraft.

Leasing

- \$315,000 per month per aircraft for the first two aircraft which is based on current market conditions.
- \$335,000 per month per aircraft for the next two aircraft as we assume used aircraft will be leased.
- \$420,000 per month per aircraft for aircraft 5-9 as we assume new aircraft will be leased.

Security Deposits

The standard 3-month rental is assumed.

Reconfiguration Costs

We assumed £2,000,000 per aircraft for the first two aircraft of which 25 percent is paid 6 months prior to delivery and 75 percent is paid thirty days net. All other reconfiguration costs are assumed thirty days net.

TravelAir Management Fee

\$42,000 per month for the first two aircraft and \$15,000 per month for additional aircraft. This is consistent with the contract signed with TravelAir. We assume SkyTrails will get its own AOC in the thirteenth month of operation at which point SkyTrails will no longer pay a fee to TravelAir but incurs higher payroll cost as it takes all the operations in-house.

Salaries

These include salaries and benefits for the Ground Operations/Customer Service, Sales, Marketing, Finance and Administration, and Technical departments. These are projected according to a manpower plan.

Indirect Costs

£	Pre-Ops	Year 1	Year 2	Year 3	Year 4
Advertising Expense	858,690	2,200,000	4,500,000	5,150,000	5,400,000
Internet and Technology	60,000	180,000	240,000	240,000	240,000
Legal	183,000	120,000	120,000	120,000	120,000
Rent (offices/lounge, etc.)	397,000	228,000	312,000	384,000	384,000
Other	216,500	1,096,000	1,211,000	1,886,000	1,671,000
Total	1,715,190	3,824,000	6,383,000	7,780,000	7,815,000

Indirect Costs

£	Pre-Ops	Year 1	Year 2	Year 3	Year 4
Advertising Expense	858,690	2,200,000	4,500,000	5,150,000	5,400,000
Internet and Technology	60,000	180,000	240,000	240,000	240,000
Legal	183,000	120,000	120,000	120,000	120,000
Rent (offices/lounge, etc.)	397,000	228,000	312,000	384,000	384,000
Other	216,500	1,096,000	1,211,000	1,886,000	1,671,000
Total	1,715,190	3,824,000	6,383,000	7,780,000	7,815,000

Exchange Rate: £1=\$1.45

SkyTrails will using hedging techniques for both fuel and currency in order to minimize its exposure.

Interest Income: Interest rate is assumed at 3.5 percent per annum.



Annual Income Statement (£)

FYE DECEMBER	2001	2002	2003	2004	2005
Revenue					
Total Passenger Revenue	-	29,320,595	74,422,654	158,860,079	212,059,412
Charter Revenue	-	-	-	-	-
Other Revenue	-	1,229,720	2,623,980	5,247,960	6,096,640
Total Revenue	-	30,550,315	77,046,634	164,108,039	218,156,052
Operating Expenses					
Salaries and Benefits	927,000	5,235,170	8,536,105	1,907,550	23,441,555
Fuel	-	6,556,655	14,070,125	25,600,793	34,235,586
Maintenance	-	4,016,690	8,619,536	15,683,369	20,973,152
Landing Fees	-	396,585	789,766	1,250,127	1,528,248
Navigation Fees	-	1,481,813	3,158,926	5,780,160	7,805,474
Pax Services	-	5,848,188	14,401,162	29,749,429	39,761,225
Ground Handling	-	1,858,722	3,842,269	6,351,984	8,108,271
Air 2000 Management Fee	137,931	626,897	57,931	-	0
Insurance	-	413,793	758,621	1,310,345	1,724,138
Other Expenses	1,097,190	4,104,000	6,111,000	7,670,000	7,815,000
Total Operating Expenses	2,162,121	30,538,511	60,345,440	113,303,758	145,392,650
EBITDAR	2,162,121	11,804	16,701,194	50,804,281	72,763,402
EBITDAR MARGIN	N/A	0.0%	21.7%	31.0%	33.4%
Aircraft Rental	-	4,996,552	10,875,862	20,606,897	27,558,621
EBITDA	(2,162,121)	4,984,748	5,825,332	30,197,385	45,204,782
EBITDA MARGIN	N/A	-16.3%	7.6%	18.4%	20.7%
Depreciation	-	-	1,200,000	2,000,000	2,800,000
EBIT	(2,162,121)	(4,984,748)	4,625,332	28,197,385	42,404,782
EBIT MARGIN	N/A	-16.3%	6.0%	17.2%	19.4%
Interest Expense	-	-	-	-	-
Interest Income	241,902	661,475	722,477	1,376,225	2,908,543
Income Before Taxes	(1,920,219)	4,323,273	5,347,809	29,573,610	45,313,324
MARGIN	N/A	-14.2%	6.9%	18.0%	20.8%
Taxes 30%	-	-	268,705	8,872,083	13,593,997
Net Income	(1,920,219)	(4,323,273)	5,079,104	20,701,527	31,719,327
MARGIN	N/A	-14.2%	7.3%	12.6%	14.5%

FYE DECEMBER	2001	2002	2003	2004	2005
Revenue					
Total Passenger Revenue	-	29,320,595	74,422,654	158,860,079	212,059,412
Charter Revenue	-	-	-	-	-
Other Revenue	-	1,229,720	2,623,980	5,247,960	6,096,640
Total Revenue	-	30,550,315	77,046,634	164,108,039	218,156,052
Operating Expenses					
Salaries and Benefits	927,000	5,235,170	8,536,105	1,907,550	23,441,555
Fuel	-	6,556,655	14,070,125	25,600,793	34,235,586
Maintenance	-	4,016,690	8,619,536	15,683,369	20,973,152
Landing Fees	-	396,585	789,766	1,250,127	1,528,248
Navigation Fees	-	1,481,813	3,158,926	5,780,160	7,805,474
Pax Services	-	5,848,188	14,401,162	29,749,429	39,761,225
Ground Handling	-	1,858,722	3,842,269	6,351,984	8,108,271
Air 2000 Management Fee	137,931	626,897	57,931	-	0
Insurance	-	413,793	758,621	1,310,345	1,724,138
Other Expenses	1,097,190	4,104,000	6,111,000	7,670,000	7,815,000
Total Operating Expenses	2,162,121	30,538,511	60,345,440	113,303,758	145,392,650
EBITDAR	2,162,121	11,804	16,701,194	50,804,281	72,763,402
EBITDAR MARGIN	N/A	0.0%	21.7%	31.0%	33.4%
Aircraft Rental	-	4,996,552	10,875,862	20,606,897	27,558,621
EBITDA	(2,162,121)	4,984,748	5,825,332	30,197,385	45,204,782
EBITDA MARGIN	N/A	-16.3%	7.6%	18.4%	20.7%
Depreciation	-	-	1,200,000	2,000,000	2,800,000



FYE DECEMBER	2001	2002	2003	2004	2005
EBIT	(2,162,121)	(4,984,748)	4,625,332	28,197,385	42,404,782
EBIT MARGIN	N/A	-16.3%	6.0%	17.2%	19.4%
Interest Expense					
Interest Income	241,902	661,475	722,477	1,376,225	2,908,543
Income Before Taxes	(1,920,219)	4,323,273	5,347,809	29,573,610	45,313,324
MARGIN	N/A	-14.2%	6.9%	18.0%	20.8%
Taxes 30%	-	-	268,705	8,872,083	13,593,997
Net Income	(1,920,219)	(4,323,273)	5,616,514	20,701,527	31,719,327
MARGIN	N/A	-14.2%	7.3%	12.6%	14.5%

APPENDIX A

Regulatory Environment and Licensing Issues

Eugene Stokes

Partner

Head of Aviation Regulatory and Commercial

Smyth Adair Benson

For the past 15 years Eugene Stokes has been a recognised specialist with an international reputation in regulatory, commercial, EC, and competition law affecting air transport and the travel industry: he advises airlines, airports, banks, governments, and regulatory authorities on a wide range of regulatory, legal, and aeropolitical issues, has been involved in all aspects of the liberalisation of aviation in the European Community and advises on both contentious and noncontentious commercial and competition issues in the aviation sector.

During this period, his airline clients have been numerous but have included United Airlines, Delta Airlines, ANA, Cathay Pacific, Philippine Airlines, Swissair, CityFlyer Express, British Caledonian, Dan-Air, and Avianca, and he has advised the new low cost U.K. scheduled carrier EasyJet since its start-up.

SkyTrails—Licensing Requirements

SkyTrails is an English registered company and its principal place of business will be in England. Under European Community Law, every air transport undertaking with its registered office and principal place of business in a Member State of the European Union must hold an operating licence granted by that Member State in accordance with the EC Licensing Regulation (Council Regulation EEC No: 2407/92). In the United Kingdom the grant of operating licences is delegated to the Civil Aviation Authority. While the EC Market Access Regulation (Council Regulation EEC No: 2408/92) provides that all holders of EC operating licences have the right (virtually unrestricted) to operate any services between any two points in the European Community ("community carriers") it leaves the rights of Community carriers to operate to points outside the EU unaffected. Community carriers require to be separately licensed by their states to perform such services according to the requirements of bilateral air services agreements between the Member States which licences them and the relevant states outside the European Union.

The bilateral air service agreement between the U.K. and the U.S. is quite restrictive, but the proposed route London Stansted/New York JFK is available under it. An application will need to be made to the CAA for a route licence following the grant of which the U.K. government (the Department of the Environment Transport and the Regions or "DETR") will be asked to designate the applicant (i.e. by diplomatic note inform the U.S. government [Department of Transportation or "DOT"] that the applicant has been designated for service under the bilateral by the U.K. government).



The requirements of an EC operating licence are quite onerous and include the issue by the CAA of an Air Operators Certificate (AOC) and demonstration to the CAA's satisfaction of stringent financial fitness requirements (which require it to be demonstrated that the applicant can discharge its financial obligations in its business for the first two years and this without any revenue for the first three months). For a new airline, these requirements (particularly the AOC requirements which relate to safety and technical competence) can take many months to process. Because SkyTrails wishes to commence service early in 2001 it has decided to contract with an existing U.K. operating licence holder to operate the services on its behalf until such time as its own operating licence is granted.

While it is permitted to enter into such an operating agreement, it is a requirement of U.K. law that an undertaking which makes seats available on an aircraft (or holds itself out as being able to make seats on an aircraft available) while not the operator of the aircraft, must (except in certain circumstances which will not apply to SkyTrails) be licensed. The applicable licence is an Air Travel Organiser's Licence (ATOL) the primary purpose of which is to protect the consumer who has advanced moneys to a seat provider in advance of receiving evidence of his contract with the actual operator.

Because of the hybrid nature of the operation, the CAA can apply the financial fitness standards of the EC licensing regulation to SkyTrails even during the period when it holds an ATOL (the financial fitness standards for which are somewhat different).

This "hybrid" arrangement whereby a new airline operation commences through the combination of an ATOL (held by the new airline pending grant of its own operating licence) and an operating agreement between the new airline and an existing U.K. operator is somewhat frowned upon by the European Commission (although it is not technically contrary to relevant EC legislation). While a number of U.K. airlines have commenced service in this way, the U.K. CAA now looks for a commitment to work towards the grant of an operating licence as soon as possible.

The Process

Route Licence

SkyTrails has selected TravelAir as the operator of the initial services. TravelAir will be required to apply for the route licence for the Stansted/JFK route and seek designation by the U.K. government. Once application has been made to the CAA it will be published in the CAA's Official Record after which there will be a 21-day period for objections to be lodged. Only other U.K. operators have the right to object but, given the CAA's pro-competitive licensing policy and the availability of this route under the U.K./U.S. bilateral, it is not anticipated that any such objector would have reasonable grounds. The possibility of an objection cannot, however, be entirely dismissed. An objection does delay the process which to some competitors might be regarded as a reason for objecting in itself even though the objection might need to be withdrawn later when grounds for the objection would need to be filed. Generally, we would not expect any other U.K. carrier to behave in such a manner.

Assuming there is no objection, TravelAir will be able to proceed after a 21-day period to grant of the licence by the CAA (who will wish to ensure that TravelAir is financially fit to operate the route—this depending to a large extent on the financial arrangements between SkyTrails and TravelAir). Following grant of the route licence to TravelAir, the process of designation by the U.K. government can be completed in a matter of days and it is not anticipated that the process of grant of an operating permit by the U.S. DOT would occupy any substantial passage of time.

If there is an objection to the application to the CAA, the CAA will fix a date for a hearing and require written submissions from the applicant and the objectors. The entire hearing process can take between three and six months and there are provisions for appeal to the Secretary of State which is a written process. It is, however, considered extremely unlikely that even if there were objections they would proceed to a hearing because there



are no obvious good grounds for an objection to be made out.

On the grant of its own operating licence, SkyTrails would apply for its own route licence, having agreed with TravelAir that TravelAir would apply for its own route licence to be revoked at the appropriate point.

ATOL

SkyTrails will apply for an ATOL in time to be ready to sell with the appropriate lead time. On grant to it of its operating licence the ATOL will be revoked.

Other Considerations

The U.K./U.S. bilateral requires fare to be filed and approved by the governments. SkyTrails' fares will be substantially below those of their competitors at the outset. While this will obviously be of concern to those competitors, it is not expected that they will succeed in persuading their governments to disallow them. Nevertheless they may try to squeeze a new carrier like SkyTrails out of the market by lowering their own fares. Whether such price pressure is lawful will depend on the application of general principles of anti-trust/competition law, but these principles are well known to the competitors concerned who will be well aware of the consequences of proceeding unlawfully.