

Funding Requirements & Usage

Funding Needs

The management currently estimates the total funding requirements at £30 million. This takes into account the start-up costs, the on-going operating costs, the costs of incorporating aircraft, and the minimum cash requirements to satisfy the CAA. 10% will be contributed by the founder members in the U.K, while remaining share capital of 90% will be raised in the U.K and Pakistan through crowd funding and corporate equity investment.

Having successfully raised £10 million in pledges from founding members and private investors in the UK and Pakistan. Saif Air is now looking to raise £20 million more from equity investors who are interested in the opportunity presented by Saif Air 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.

The following table summarises the uses of funds, before the start of flight operation, which is the point when accumulated net uses of funds reaches its highest point:

Risk

As part of the risk management process, we have conducted a number of due diligence exercises on the proposed operation and consider the risks involved in establishing the airline are manageable as described above. It must be emphasised that any start – up airline may be regarded as “High Risk” so we will continue to exercise on - going oversight to ensure that wherever possible shareholder’s risk is minimized as much as is reasonably possible.

Exit Strategy

The company would like the investors to invest for a longer period of five year, but the management is ready for any option agreed between the company and the investors. A clear exit strategy has been established for our potential investors.

- **Recapitalization.**
 1. Pay back 25% to investors every year plus the attractive profit
 2. Pay off whole to existing investment.
- Take the airline to Initial Public Offering (IPO) of stock after 5 years.
- Take over the investors with replacement capital from other sources of investment or from the business's profits.

Use of Funding

Saif Air' total funding needs amount to £30 million. The following table summarises the pre – start uses of funds until its launch, which is the point when accumulated net uses of funds reaches its highest point:

Most of the planned start-up costs are apportioned to the following eight areas.

- Aircraft leasing, Insurance and painting of livery costs of two aircraft A330-300 or B777-200ER.
- Re – configuration cost of the aircrafts into three configurations, Economy, Economy Premium & Business Premium Class.
- Advance deposit payments for outsourcing the AOC.
- Deposits and advance payments to all airport services providers in the UK and Pakistan such as fuel, airport charges, ground handling, catering, offices, ground transportation and hoteling etc.
- Cost associated with ground operational crew and cabin crew recruitment, training, uniforms and certifying flight and ground operational crew.
- Marketing, advertising, and public relations costs, including costs of setting up a website and call centre capable of offering flight and fare information and making online sales and reservations, and related internet marketing as well as conventional print, broadcast advertising and public relation activities.
- Administrative and legal costs incurred in setting up the business and the airline operations.
- Pre-start salaries to Flight Crew and office personnel.
- Advance payments to set up Revenue Management System, office equipment etc.,
- Provision of a sufficient cash reserve to satisfy UK Civil Aviation Financial Test requirements. To assure timely payments of aircraft leasing or finance payments and operating costs of the aircrafts through at least for the first three months of operation.

Assumptions governing start-up costs are shown in the following table and chart: (000'0)

Start – up Expenses	£8,474
Fixed Assets	£700
Current Assets	£5,094
CAA Financial Test Requirement	£13,000
<u>Working Capital</u>	<u>£2,732</u>
<u>Required Funding</u>	<u>£30,000</u>

Saif Air has to set aside a Bond which is required by the CAA in order to protect consumers during the period that Saif Air is operating under Portuguese Airline's AOC. Saif Air 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.

Financial Highlights

Our research and financial projections indicate that air travel between UK/Pakistan is sufficient to provide a new carrier with revenues of over £89 million in its first-year operation. These sales figures are based upon load factors of only 60% in year one.

Second year revenues are expected to be over £142 million. Load factors for year two are 65%.

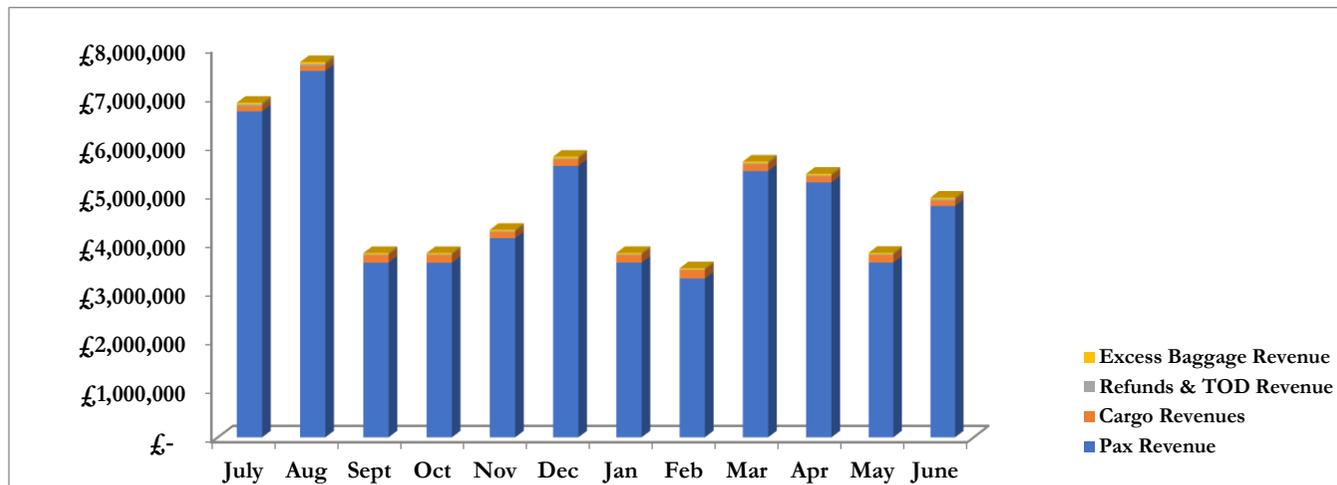
Third year revenues are expected to be about £205 million. A load factor for year three is just 70%.

The first year of formative operations will burn most of the profit until target profit commence. This is due to the start-up costs and other organisational and regulatory obligations of a new airline.

Due to the heavy start – up costs of £14.27. Saif Air will bear operating loss (EBITDAR) of (£5.37) million in its first operational year. The second year will recover not only first year losses but produce an operating profit of £13.92 million, and £30.12 million in its year three.

Operating margin in year one will be 6.06 % of total sales and will produce the operating margin of 9.83 % of total sales in year two and will be 14.72% of total sales in year three. The over-all long term operational profit target will be over 25% in year four and five, when new routes will be introduced.

The following chart and table show the projected sales figures for Saif Air.



	Year 1	Year 2	Year 3
Passenger Revenue	£82,378,440	£133,019,730	£193,621,650
Cargo Revenue	£5,690,520	£7,747,620	£9,788,860
Refunds & Cancellation Revenue	£171,830	£252,460	£296,780
Excess Baggage Revenue	£289,750	£607,940	£886,490
Total Sales	£88,530,540	£141,627,750	£204,593,780
Less Travel Agents Commission	(£4,118,920)	(£6,650,990)	(£9,681,080)
Less Total Annual Expenses	(£89,778,840)	(£121,059,030)	(£164,791,020)
EBITDAR	(£5,367,220)	£13,917,73	£30,121,680
Operating Margin	(6.06%)	9.83%	14.72%
Taxes, Dividends, Employees Profit Share	(£1,610,160)	(£11,149,560)	(£17,895,020)
Net Profit	(£3,757,060)	£2,768,170	£12,226,660
Net Margin	(4.24%)	1.95%	5.98%

Income & Expenditure Statement

Three Years Summary	Year 1		Year 2		Year 3	
£ (000'0)		%		%		%
Activity (Yearly)						
Aircrafts	2		3		4	
# of Flight	364		520		676	
Flight Cycles (FC)	728		1,040		1,352	
Flight Hours (FH)	5,824		8,320		10,816	
Block Hours (BH)	6,188		8,840		11,492	
Total Yearly Capacity	237,328		339,040		440,752	
Pax Load Factor	60%		65%		70%	
Total Pax carried	143199		220945		308849	
Pax carried Economy	109,900		169,550		237,000	
Pax carried Economy Premium	28,067		43,335		60,528	
Pax carried Business Premium	5,232		8,060		11,321	
Ave. Pax Fare Economy	£487		£494		£532	
Ave. Pax Fare Economy Premium	£707		£776		£780	
Ave. Pax Fare Business Premium	£1,722		£1,929		£1,802	
Gross Yield per seat	£547		£572		£596	
Net Yield per seat	-£26		£13		£40	
Revenue (000'0)						
Pax Revenue	£82,378	96%	£133,020	94%	£193,622	94.6%
Cargo	£5,691	3.3%	£7,748	5.47%	£9,789	4.8%
Refund, Cancellations & TOD	£172	0.2%	£252	0.18%	£297	0.1%
Excess Baggage	£290	0.5%	£608	0.43%	£886	0.4%
Total Revenue	£88,531	100%	£141,628	100%	£204,594	100%

Commercial Expenses						
Reservations	£4,119	4.7%	£6,651	4.7%	£9,681	5%
Credit Card Charges	£0		£0		£0	
Commissions	£0		£0		£0	
Marketing & Promotion	£1,000	1.1%	£1,500	1.1%	£1,500	1%
Total Commercial Expenses	£5,119	5.7%	£8,151	5.8%	£11,181	6%
Direct Operating Costs (000'0)						
Fuel & Oil	£12,090	13.7%	£18,353	13%	£25,489	12.5%
Navigation	£2,730	3.1%	£4,095	2.9%	£5,590	2.7%
Airport Charges	£4,922	5.6%	£7,659	5%	£10,877	5.3%
Ground Handling	£4,252	4.8%	£6,428	4.5%	£8,845	4.3%
Catering	£1,753	2.0%	£2,827	2.0%	£4,125	2.0%
Pax Taxes	£11,229	12.7%	£18,116	12.8%	£26,636	13.0%
Flight Operation	£1,014	1.1%	£1,615	1%	£2,213	1.1%
Total Operating Costs	£37,990	42.9%	£59,093	41.7%	£83,775	40.9%
Contribution	£45,422	51%	£74,384	52.5%	£109,638	53.6%

Fixed Costs									
Aircraft Lease	£	17,143	19.4%	£	25,714	18%	£	34,286	16.8%
Aircraft Hull/Pax Insurance	£	1,000	1.1%	£	1,500	1%	£	2,000	1.0%
Aircraft Inventory	£	2,000	4.4%	£	1,000	0%	£	1,000	0%
Salaries Crew	£	1,260	1%	£	4,512	3.2%	£	5,797	2.8%
Crew Training	£	500	0.6%	£	500	0.4%	£	500	0.2%
Salaries Office	£	1,396	1.6%	£	1,571	1.1%	£	1,931	0.9%
NI Contribution	£	609	0.7%	£	1,355	1%	£	1,920	1%
Contingency & Pax Welfare	£	1,432	1.6%	£	2,209	1.6%	£	3,088	1.5%
Office Rent & Rates	£	360	0.4%	£	360	0.3%	£	850	0.4%
Utilities	£	48	0.1%	£	60	0.0%	£	200	0.1%
Car Fuel & Maintenance	£	300	0.3%	£	450	0.3%	£	650	0.3%
Booking, CRS charges	£	487	0.6%	£	850	0.6%	£	1,175	0.6%
Pax Chauffeur Services	£	1,942	2.2%	£	4,147	2.9%	£	5,755	2.8%
Crew Hotelling & Transportation	£	1,313	1.5%	£	1,619	1.1%	£	2,250	1.1%
Entertainment	£	58	0.1%	£	77	0.1%	£	125	0.1%
Line Maintenance	£	455	0.5%	£	682	0.5%	£	920	0.4%
Capital Expenses	£	700	0.8%	£	575	0.4%	£	725	0.4%
AOC Management Fee	£	2,632	3.0%	£	-	0.0%	£	-	0.0%
Advance Deposit payments	£	3,666	4.1%	£	1,704	1%	£	2,143	1.0%
Maintenance Reserve	£	6,240	7.0%	£	8,914	6.3%	£	11,588	5.7%
Total Fixed Costs	£	43,541	51.3%	£	57,799	40%	£	76,903	37%
Overheads		£7,153	£0.08		£2,526	1.8%		£2,426	1.2%
Depreciation		£95	£0.001		£141	0.1%		£187	0.1%
EBIDTA - Year		-£5,367	-6.06%		£13,918	9.8%		£30,122	14.7%
EBIDTA - Cumulative		-£5,367			£8,551			£38,673	

Assumptions

Other Revenue: £8,451 per flight is assumed for Cargo and Excess Baggage and cancellations & Refund's revenue.

Cargo £7,817

Excess baggage £398

Cancellation & Refund £236 £9,500 per flight is assumed for Cargo and Excess Baggage and cancellations & Refund's revenue.

Aircraft

Air Mashriq will start operations with one A330-300 with a 313-seat configuration. The following table shows aircraft addition through the period of the plan:

	Year 1	Year 2	Year 3	Year 4	Year 5
Addition	2	1	1	1	2
Total	2	3	4	5	7

Variable Costs

- *Pax Services include: catering Business Premium (£,25), Economy Premium (£,15), Economy (£,10), Pax Taxes Business Premium/Economy Premium (£,150), Economy (£,75), Pax Contingency (£,10, distribution cost (£,28), Lounge UK (£,5), Airport Charges/pax (£,50), Ground Handling/Pax (£,30) airport passenger handling/Pax (£,34),*

Fuel (US\$ per Tonne)	\$500
Consumption (Tonne/hr)	6
Maintenance (Round Trip)	£18,393
Landing Fees	£6,761
Navigation Fees	£3,750
Ground Handling	£5,841

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

Fixed Costs

Direct Costs

Flight-Deck Crew

2 deck crews are assumed for each flight. Each flight crew is composed of a captain and a first officer. Captain cost is assumed at £8,125 per month and first officer at £5,667. These figures include daily travelling and daily allowance but exclude accommodation, and transport.

Cabin Crew

10 cabin crews are assumed for each flight. Each cabin crew comprises 1 purser, and 9 cabin crew at a cost of £2,375, and £1,167, respectively.

Insurance

£41,667 per month per aircraft.

Leasing

- \$1,000,000 per month per aircraft which is based on current market conditions.

Security Deposits

The standard 2-months rental and one-month advance monthly rent is assumed.

Portuguese Airline Management Fee

£219,298 per month for the first two aircrafts and £43,860 per month for additional aircraft. This is consistent with the contract signed with Portuguese Airline. We assume Saif Air will get its own AOC during the first year of operation at which point Saif Air will no longer pay management fee to Portuguese Airline from the second year but will incur 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	£250,000	£1,000,000	£1,500,000	£1,500,000	£1,500,000
Legal	£25,000	£50,000	£50,000	£50,000	£100,000
Rent (offices/lounge, etc.)	£69,000	£360,000	£360,000	£850,000	£850,000
Utilities	£8,100	£48,000	£60,000	£200,000	£200,000

Indirect Costs £	Pre - Ops	Year 1	Year 2	Year 3	Year 4
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=\$1.40, £1=1.14 Euro (1st February 2018)

Saif Air will be using 100% hedging techniques for both fuel and currency in order to minimize its exposure.