

REGIONAL AIR SERVICES LTD

DOMESTIC AIRLINE

BUSINESS PLAN

Our Way Forward

MAY 2017

DISCLAIMER

This Business Plan document is issued by RAS with the purpose of disclosing a balanced and objective management view of the current situation, as well as the plan for recovery and our future growth. In the spirit of transparent management practice, we share some financial information as part of the discussion. For all intents and purposes, the financial information and figures pertaining to the future should not be construed as forecasts, projections or estimates of future profitability or representations of the company's future performance. These figures are merely a set of aspirational targets which are aligned to the Company's strategy as outlined in this Business Plan.

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EXECUTIVE SUMMARY

Business Description

Regional Air Services Limited (RAS) is a domestic airline registered and operating in Tanzania and is a subsidiary of Airkenya Express Limited in Kenya and a sister company to AeroLink Uganda Limited.

From its base at Arusha Airport RAS provides easy connections to Tanzania's Northern Parks which comprise of Lake Manyara National Park, Serengeti National Park and Tarangire National Park. RAS also offers a daily schedule flight to Zanzibar and Dar es Salaam thus giving clients a bush and beach experience. RAS's main goal is to provide superior, reliable, flexible and cost effective aviation services to satisfy the needs of Tanzania's tourism sector.

Since its inception in May 1997 RAS has strived to offer a consistently superior service on both schedule and charter flights hence enabling the clients to "*Discover the best of Tanzania.*"

According to Tanzania Civil Aviation Authority (TCAA) Tanzania has continuously recorded passenger traffic increase from 3,057,249 in 2008/2009 to 4,034,152 passengers in 2011/2012, recording a growth of 32% and 4,431,162 in 2012/2013 which is 9.8% growth. In 2013/14, passenger traffic reached 4,873,921 but declined in 2015/2016 by 0.5% to 4,850,017. The decrease in the number of tourists was attributed to insecurity in Kenya which affected East Africa as tourists viewed the whole region as being unsafe hence cancelled their travel plans.

Despite the positive outlook of the tourism industry, Regional Air Services has incurred a net loss of USD xxx in the last xxx years and a declining number of passengers. The aviation market in Tanzania has become more competitive with the rapid increase of carriers.

Over the years, we have not focused adequately on the premium segment of the market, and our product quality has fallen. Our marketing efforts have been predominantly focused on tactical sales promotions rather than brand-building. With such adverse odds, our intensifying sales efforts could only generate low yields insufficient to cover an increasingly uncompetitive cost structure. Thankfully, we are still flying high in service standards, due to the valiant efforts of our superb RAS team.

The demand outlook for Tanzania aviation is strong. Across Africa, there is huge growth in disposable income, ramped-up access to credit cards and the Internet, and increased cross-border trade.

Without question, our current trajectory is unsustainable and nothing short of dramatic action will reverse our fortunes.

Key Initiatives and Objectives

Thus, this report derives these objectives from the primary objectives of RAS, which will have the following elements:

- To regain and maintain the position of preferred domestic aviation service provider in Tanzania by continuously meeting and exceeding our customers' expectations.
- To provide aviation tourism services and satisfy demand in Tanzania's aviation tourism sector by proactively identifying customers' needs and gaps in supply.
- To attain net operating profits margins in the [XYZ] percent range within the first 12 months of flight operations, an annualized return-on-investment of approximately [XYZ] percent by the end of the second year of operations, and steady growth enabling rational expansion of the airline thereafter.
- To undertake and maintain the necessary fleet expansion to meet the aviation tourism demands in Tanzania as there is a consistent increase in passenger numbers.
- To gear operations, and present a professional, serious, growth-oriented image in order to revamp and turnaround the business. This will set the stage for planned expansion and enable the airline to extend its domestic scope and, in future years, to transition once again to be the largest domestic carrier.

Enabling our ambition of becoming the preferred carrier must begin with a fundamental remodel of our core business. There is nothing revolutionary about this; it is the sheer simplicity of focus, and going back to basics.

1. Smaller yet profitable network. Our network should comprise of routes where our premium travelers will want to go (adequate traffic), and where we can win in terms of competitive position. We are shrinking to grow, and as we get back on firm financial footing, we shall expand our network to cover more regions and airstrips within Tanzania.
2. Win back customers. We must reinvigorate our sales and marketing functions. We must win back the hard-earned loyalty of customers and convince them of the superior value of our services. We also need to optimize our revenue management to enhance yields.

3. Relentless cost focus. Having our own maintenance facility will reduce maintenance costs in the long run. We must also focus on keeping overhead and discretionary expenditure to a minimum.

Loss of Competitive Advantage:

Regional was set up and managed for seven years by one of East Africa's best-known pilots, Iris McCallum (awarded the "Guinness Stout Effort" award for bravery in flying in 1980, an acclaim not endowed on many.)

She built a reputation and strong brand for Regional Air Services as the leading domestic aviation company in Tanzania based on safety, reliability and friendly efficiency. RAS was renown to have excellent personnel and as a market leader in the Tanzania domestic market. However, this position has been lost to new entrants in the market as indicated in the statistics.

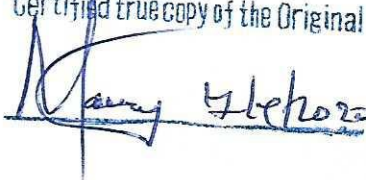
This has led to a decline in the reputational acclaim of RAS. New entrants taking some of the market share traditionally held by RAS means that the market dominance as well as the reputational edge has been lost. Therefore, the business strategy, plan and operations should evolve to meet the present reality; the brand of the company no longer enjoys the highest status in this market.

RAS has also not taken advantage of the ease in connectivity within East Africa that the group offers. The operational disconnect between the group companies means that RAS is not taking full advantage of its remaining competitive edge over the rest of the market. This edge is our market presence in Kenya, Uganda and Tanzania. The advantage of linking Tanzania's tourism circuit with Kenya's through Airkenya Express and with Uganda's through AeroLink Uganda Limited is that this is a unique service that only the group could exclusively offer to its customers and guarantees similar service levels across the regions.

Services

Tanzania is a vast country with a total of 16 national parks, many of which form the core of a much larger protected ecosystem. They have been set aside to preserve the country's rich natural heritage, and to provide secure breeding grounds where its fauna and flora can thrive, safe from the conflicting interests of a growing human population. The 16 national parks are divided into four zones as follows:

NORTHERN ZONE	WESTERN ZONE	EASTERN ZONE	SOUTHERN ZONE
Arusha N. Park	Gombe N. Park	Saadani N. Park	Kitulo N. Park
Mkomazi N. Park	Katavi N. Park		Mikumi N. Park

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Mt. Kilimanjaro N. Park	Mahale N. Park		Ruaha N. Park
Lake Manyara N. Park	Rubondo N. Park		Udzungwa N. park
Serengeti N. Park	Saanane N. Park		
Tarangire N. Park			

RAS operates daily schedule services into multiple airstrips predominantly in the northern zone. These include; Lake Manyara, Kuro, Nduvu, Serengeti South, Seronera, Fort Ikoma, Lobo, Grumeti, Kogatende, Sasakwa and Nduvu.

MARKET ANALYSIS

Background

Tanzania is a peaceful nation of more than 120 ethnic tribes with varying languages, beliefs and cultures all united with the national language Kiswahili. Within its borders Tanzania encompasses the continent's largest and deepest lakes, the highest mountain and the source of the River Nile. Here, one can discover the wild romantic Africa of his/her dreams – the land of wide open spaces abundant with wildlife, history dating back to the evolution of man, beautiful sandy beaches and warm hospitable people. Tanzania truly lives up to its reputation as 'The Soul of Africa'.

Limitations of the market survey

- Data from TANAPA in regards to arrivals and segmentation is not available.
- Passenger data by TCAA and Tanzania Bureau of Statistics is not stratified. It is not clear which passengers are tourists, evacuees, refugees or businessmen. This may skew the numbers in publicly available data.

Nonetheless, this survey shall be based on Information sourced from Tanzania Airports Authority (TAA), Tanzania Civil Aviation Statistics (TCAA) and Tanzania Bureau of Statistics. This forms the basis of the market analysis.

SCOPE

Therefore, this market analysis is based on sample data from Arusha hub. The numbers are presumed to reflect the general trend in Tanzania because the Northern zone, which is home to the Serengeti, is the busiest in the tourism circuit. Although data from TANAPA and our competitors would have given a more comprehensive outlook, this method of analyzing the numbers through Arusha hub is the best given the

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limitations. Also, Arusha is the operational base of RAS, which makes it the most appropriate region to analyze.

The Overall Market

Airports in Tanzania play an important part in the country's transport infrastructure. In addition to providing international gateways, airports have historically been used in domestic traffic and have been indispensable for pioneering development opportunities in remote rural areas. Overall the country has 368 airports with the Tanzania Airports Authority (TAA) responsible for 58 airports on the mainland. The majority of the airports are private airfields owned by mining companies and tour operators.

Increased economic growth and the coming into place of the East African Community agreement have seen an increase in the demand for schedule domestic air services in Tanzania. As a result the industry has realized growth and the emergence of new operators. The Tanzanian tourist circuit offers unique scenery, flora and fauna that greatly compliment the offering in Kenya's and Uganda's tourism circuits. This makes the East African region more marketable as a tourist destination.

The market combines a variety of elements all of which demand schedule domestic air services despite increased emergence of many operators. As the tourism numbers have continuously increased there is great demand for the service by:

- Tour operators, travel agents and property owners as they represent premium tourists who have the money to travel by air and who increasingly demand a higher level of service and convenience, but at an economical cost.
- Regulators; Tanzania National Parks (TANAPA), Tanzania Civil Aviation Authority, Tanzania Association of Tour Operators, Tanzania Tourism Board and the Ministry of Tourism.
- Business travelers requiring convenience, reliability, speed, and schedules built around business needs.
- Tanzania citizens and East African Residents especially during holiday seasons. Cost, reliability, convenience and destination are their concerns.
- Expatriate Market.

RAS needs to rebuild its brand so as to appeal to all these distinct groups by offering better quality service (and in some cases, offering service where none exists), at a higher level of safety, comfort, and convenience, and at reasonable fares.

Market Segments

Preliminary analysis indicates the following approximate market segmentation (considerable variations, of course, would be anticipated depending on route, season, and other factors):

Target Market and Target Customers

The target market for RAS is the tour operators and travel agents. RAS has primarily focused on its target market through its central reservations system and referral networks. The secondary target market is the direct selling via the website. Direct selling is far more effective in closing sales as well as in terms of costs and revenue (sales and marketing).

COMPETITIVE ANALYSIS

Industry overview

Tanzania is served by four international airports, Julius Nyerere International Airport (Dar es Salaam), Abeid Amani Karume International Airport (Zanzibar), Kilimanjaro International Airport and Songwe International Airport. The country attracts international carriers like Emirates, South African Airways, Qatar Airways, Etihad Airways, Ethiopian Airways, Swiss International, Condor Air, Oman Air and Turkish Airlines which provide direct flights to Dar es Salaam, Kilimanjaro and Zanzibar rather than via Nairobi ensuring an easy flow of tourists into the country. Thus, the development of a safe, efficient and reliable air transport industry is important in enhancing growth of tourism.

Arrivals at the various International Airports are as shown in the table below:

a) Tanzania's overall passenger traffic:

AIRPORT	2014	2015
Julius Nyerere International Airport	2,347,341	2,391,963
Abeid Amani Karume International Airport	847,233	796,501
Kilimanjaro International Airport	669,114	650,899
Songwe International Airport	126,026	133,736

Source: Civil Aviation Statistics of Tanzania, 2015

b) International Passenger Traffic


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AIRPORT	2014	2015
Julius Nyerere International Airport	1,192,290	1,251,436
Abeid Amani Karume International Airport	409,499	408,727
Kilimanjaro International Airport	362,299	332,607

Source: Civil Aviation Statistics of Tanzania, 2015

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c) Domestic Passenger Traffic

AIRPORT	2014	2015
Julius Nyerere International Airport	1,155,051	1,140,527
Abeid Amani Karume International Airport	437,734	387,774
Kilimanjaro International Airport	306,815	318,292

Source: Civil Aviation Statistics of Tanzania, 2015

Below is a summary of passenger numbers in all the airports manned by Tanzania Airports Authority:

NUMBER OF PASSENGERS

S/N	AIRPORT	2012	2013	2014	2015
1	JNIA	2,088,282	2,348,819	2,478,055	2,496,394
2	MWANZA	392,298	439,128	415,674	444,215
3	ARUSHA	162,268	187,911	179,511	142,224
4	MTWARA	56,620	53,062	47,909	33,330
5	MUSOMA	5,913	2,377	1,894	4,960
6	TABORA	8,827	9,470	12,832	10,139
7	KIGOMA	24,156	28,626	28,836	28,454
8	SHINYANGA	4,361	237	151	538
9	MOSHI	1,355	2,188	2,787	2,835
10	MAFIA	19,465	21,612	24,003	22,255
11	LINDI	397	542	798	1,204
12	TANGA	20,020	21,271	26,223	27,994
13	MBEYA	12,539	46,572	126,283	133,774
14	L/MANYARA	30,136	33,871	32,923	26,416
15	LOLIONDO	1,167	1,686	1,650	1,709
16	BUKOBA	29,738	25,943	28,704	31,972
17	MASASI	-	-	-	-
18	SONGEA	4,053	4,516	4,302	4,478

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19	S/WANGA	2,138	2,229	1,298	599
20	MPANDA	1,822	2,390	1,972	1,907
21	IRINGA	9,213	9,808	8,627	9,280
22	MAFINGA	35	50	18	-
23	NGARA	564	262	252	147
24	NJOMBE	99	232	69	204
25	KASULU	324	420	199	399
26	KIBONDO	65	47	32	56
27	KILWA	1,593	968	863	961
28	DODOMA	9,925	13,577	15,528	14,287
29	BIHARAMULO	-	10	129	53
30	CHUNYA	-	-	-	-
31	IFAKARA	-	107	-	-
32	KILOSA	-	-	-	-
33	KIRONDOTAL	36	51	31	-
34	KONDOA	2	19	-	-
35	KONGWA	1	9	-	7
36	LIULI	-	-	-	-
37	MANYONI	-	-	-	-
38	MASWA	-	-	-	-
39	MBAMBABAY	-	-	-	-
40	MKWAJA	-	-	-	-
41	MOMBO	11	42	23	-
42	MOROGORO	1,081	1,613	2,980	2,068
43	MPWAPWA	-	-	-	-
44	MUFINDI/Mgololo	6	-	-	-
45	MVUMI	-	-	-	3
46	NACHINGWEA	86	375	275	133
47	UKEREWE	-	-	-	-

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48	NGARENAIROBI	106	282	191	157
49	INYONGA	12	-	-	-
50	SAME	-	-	-	-
51	SINGIDA	192	148	206	457
52	TUNDURU	-	-	-	-
53	URAMBO	423	280	435	299
54	UTETE	-	-	-	-
55	UVINZA	-	-	-	-
56	KAHAMA	6,540	11,869	10,894	11,338
	Total	2,895,869	3,272,619	3,456,557	3,455,246
	Annual % Change	16.6	13.0	5.6	0.0
1	KIA	665,108	824,848	802,371	780,800
2	Zanzibar	798,441	856,607	934,337	878,789
3	Pemba				
	Grand Total	4,359,418	4,954,074	5,193,265	5,114,835

Source: TAA

From the statistics above, there are various discrepancies in the figures between TAA and TCAA in the passenger flows and numbers. The TAA passenger figures are higher than those given by TCAA in all the airports. The numbers do, however, give a useful general overview of what the market movements are like.

The northern part of the country, which is home to Serengeti National Park, Lake Manyara National Park and Tarangire National Park is well connected and this is the area most of the domestic operators have concentrated on. However, there is great potential in the rest of the country which remains underserved by scheduled air services, creating a heavy dependence on charter flights.

Air Tanzania was revived in 2016 and is the "designated" national carrier for Tanzania. The carrier operates a regional network that covers Songea, Comoros, Bukoba, Dodoma, Kilimanjaro, Mwanza, Mbeya, Kigoma and Zanzibar.

The ATCL fleet improvement program includes purchasing of six aircraft as follows: three Bombardier DASH8 Q400, two delivered in September 2016 and one is expected in June 2017; two Bombardier

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CS300 and one Boeing 787 Dreamliner to be delivered between May and June 2018. By July 2018, ATCL will be operating a fleet of seven aircraft.

With improved fleet, ATCL is confident to regain its position as a serious competitor in the air transport market. The ongoing ATCL fleet and network expansion program include destinations in Africa, Europe, Asia, and US. Their focus is mainly on overseas destinations and business regions within Tanzania.

The domestic aviation industry in Tanzania can be classified into two main sectors: (a) scheduled service; and (b) chartered service

a) Scheduled Service

Scheduled services in Tanzania can further be divided in to holiday travel and business travel. Travel to the national parks is mostly holiday based whereas travel to other destinations like Mwanza, Mtwara, Songwe, Kigoma and Dodoma is largely business based. The business route is dominated by Precision Air while the safari route is dominated by Coastal Aviation. Arusha Airport serves as a hub for most of the domestic operators as it is the gateway to the National Parks. Below is a comparison of passenger numbers flown by different operators into and out of this airport.

ARUSHA AIRPORT PASSENGER MOVEMENT FROM 2012 – 2016

DEPARTURES

AIRLINE	2012	2013	2014	2015	2016
Zanair	10,750	8,675	5,387	3,979	3,912
Coastal	14,918	17,551	12,435	10,835	17,832
Air Excel	13,060	14,521	12,995	10,837	12,286
Zantas	636	547	452	475	536
Regional Air	8,961	9,065	7,143	4,524	5,539
Auric	438	889	1,341	3,597	5,331
Flightlink	3,328	4,024	5,424	4,215	6,964
Precision Air	19,917	34,932	24,201	22,186	26,374
Air Tanzania	0	0	0	0	1,451
Tropical Air	7,504	12,156	10,499	5,948	6,199

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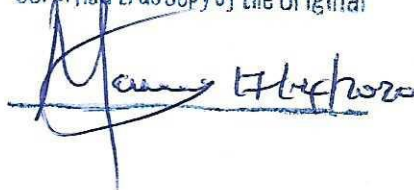
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As-Salaam	55	41	114	46	397
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Source: Tanzania Airports Authority

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ARUSHA AIRPORT PASSENGER MOVEMENT FROM 2012 – 2016

ARRIVALS

AIRLINE	2012	2013	2014	2015	2016
Zanair	4251	3,184	2,639	2,001	1,866
Coastal	11,819	14,706	20,791	20,833	17,381
Air Excel	11,247	13,528	15,640	13,217	10,238
Zantas	456	529	505	763	660
Regional Air	12,197	13,571	11,350	8,416	6,067
Auric	614	1,394	2,052	4,813	5,490
Flightlink	1,813	2,638	3,152	2,510	5,443
Precision Air	13,323	24,680	16,045	13,715	15,544
Air Tanzania	0	0	0	0	2,861
Tropical Air	1,429	2,373	5,037	2,723	160
As-Salaam	8	27	49	34	1,229

Source: Tanzania Airports Authority

Nature of competition

There are a total of 33 local commercial air operators serving domestic network on both the schedule and charter services. Of the 33 companies, RAS's greatest competition is Coastal Aviation, Air Excel and Auric Air who all have similar schedules/routes to those operated by RAS.

On joining the market in 1997, our competitors consisted of Coastal Aviation who commenced their operation in 1987 and Precision Air who began their operation in 1991.

This change in market dynamics is one of the fundamental explanations for the reduced market share and profitability of RAS.

Currently, Coastal Aviation is the largest domestic carrier with a total of 22 aircraft serving over 30 destinations within East Africa on a schedule basis. Air Excel are the 2nd largest with a total fleet of 9 aircraft and serving 13 destinations within Tanzania; Auric Air operate the latest C208 Grand Caravan and have a total of 13 aircraft.

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One of the main recommendations is on a need to do periodic business analyses, target setting and reviews. Presently, an in-depth SWOT analysis from all departments in Regional should be done in order to form the basis for the business plan for the next two quarters. However, this analysis should plug-in to the group goals and targets. Therefore, communication sharing within the group with input would be necessary. Fleet integration and joint route-marketing would require coordination and planning from the entire group companies. It is recommended that there be a common (annual) vision and goals. This would make coordination seamless. Also, financial planning and analyses of ticket yields, pricing, break-even points, ROI etc would help paint the true picture of the performance of the company.

Strengths

- RAS's wealth of experience in air transportation gained over many years in aviation tourism.
- Own maintenance facility thus ensuring quick turn – a – round of the aircraft
- Being the only company operating a twin otter in the tourism circuit provides safety comfort to clients who are afraid of single engine aircraft.
- Untainted safety and security record.
- Group presence in East Africa hence ability to tap into the strengths of both Airkenya and AeroLink plus the large network of tour operators and travel agents.
- Ability to move big groups at one go by sourcing aircraft from Airkenya
- Excellent customer service record.

Opportunities

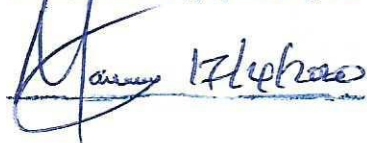
- The group's presence in Tanzania, Kenya and Uganda creates synergy across East Africa.
- Regional's online booking system, website and presence on the GDS will enable visibility and ability to book and ticket from all over the world.
- The national parks that RAS operates in is targeting attract high clientele thus presenting a great opportunity to maximize on business.
- Expanding into new and existing markets. Over the years RAS has focused on tourism in the northern circuit. However, with the coming up of lodges in unique locations provides opportunities for expansion. These are potential long-term opportunities.

Weaknesses

- Shrinking of routes and aircraft in a short span, creates a negative perception of closure of the entity hence loss of business.
- Lack of clear policies in regards to the business for example policies on credit clients and credit collection.

- Lack of a clear strategy at the beginning of every year for sales, marketing, ticket yield, route analysis and route expansion framework.
- *High Debt Levels:* As of May 31, 2017, RAS had roughly \$xxxx of long-term debt and capital lease obligations on its balance sheet, accounting for about xx% of total capital. The company also has a significant amount of other fixed obligations related to its aircraft, airport terminal space and facilities, and office space.

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Threats

- High cost of operation and frequent changes implemented randomly by the authorities.
- RAS faces a very competitive domestic airline industry. The industry is characterized by thin profit margins, high fixed costs and an increasingly concentrated field of airline companies. Most of RAS's primary competitors including Coastal Aviation and Air Excel are larger and have greater financial resources and name recognition. Following the company's entry into new markets, many of these competitors add services or engage in extensive price competition to pressure results. In addition, there have been mergers and acquisitions within the airline industry over the past few years. These transactions have significantly altered the landscape of the industry.

STRATEGIC PLANNING

RAS needs to have a clear laid down strategy and business operations plan. This should be based on mutually agreed targets within the group based on the peculiar circumstances of each market.

Target setting will then help with a determination on the performance. Currently, the main conclusion that can be reached is that there is an expansion of the Tanzanian market but this is counter-acted by the entry of new players.

MARKETING MISSION STATEMENT

"To target the un-served and under-served markets, seek out niches and unmet demand, and offer a higher level of service and a higher standard than the competition."

MARKETING STRATEGY

Strategy and Implementation Summary

First, the operations, sales and marketing would need to have forecasts. These plans should cover short, medium and long-term strategies.

For example, forecasts for our marketing strategy could cover the next 5 years of operation. The first 2 years of operation will be focused on market development, where the strategy will be to develop awareness of our services. In addition, this time will be used to solidify and identify any weaknesses in the business concept.

In years 3 through 5, RAS will be focused on rapid growth to establish a strong market presence. During these years, RAS will pay detailed attention to brand positions, gaps in market coverage, and additional

combined with well-placed, well-designed, distinctive advertising appealing directly to our prospective customers will help get the word out.

Special effort will be made to develop and operate a highly functional, fast, solid, and user-friendly website for online information, reservations, and e-ticketing. Internet marketing, combined with conventional non-Web marketing, will steer our customers to the website. The more customers using the website, the easier and more pleasant the experience will be for them, and the more economical, efficient and predictable will be the operations of the airline.

Maintenance Facilities

RAS is awaiting the license for maintenance facilities to improve the turn-around times for line and base maintenance.

FINANCIAL ANALYSIS

Core elements for evaluating the financial viability of RAS will rely on two elements: *First*, a group financial plan and strategy within which RAS would operate and be analyzed. *Second*, a financial plan for RAS and analysis of the current position as indicated below:

XXX

CONCLUSION AND RECOMMENDATIONS

This report has covered the following sections; a) Objectives; b) Loss of competitive advantage; c) Market analysis and finally d) Recommendations.

The recommendations for RAS to regain market share and regain profitability are:

- i) Build a consistent schedule that operates both in the morning and afternoon schedule as this will present better aircraft utilization and tap into business of passengers who have same day arrivals into Kilimanjaro. RAS needs to move away from low risk operations. Lack of consistency on the afternoon schedule and not adapting to customer wants and needs have shifted the business to the competition. The schedule needs to be revamped.
- ii) RAS needs to identify unmet or underserved routes so as to offer a wider route network. By so doing RAS will be tapping in to niche markets that attract clientele willing to spend as clients are constantly looking for different experiences that are unexplored. Traditional routes are overdone hence the need for an expansion plan that is reviewed constantly. The

