

ORAL ANSWER TO QUESTION**AIR MAURITIUS LTD. - FINANCIAL SITUATION**

The Leader of the Opposition (Mr P. Bérenger) (*by Private Notice*) asked the Deputy Prime Minister, Minister of Tourism and External Communications whether, in regard to Air Mauritius Ltd., he will, for the benefit of the House, obtain therefrom, information as to -

- (a) if it is in a dire financial situation considering its accumulated losses and its debts and overdrafts and, if so, indicate the remedial measures being taken in relation thereto;
- (b) if a new hedging agreement is in force;
- (c) if the purchase of new planes is in process;
- (d) if it has been informed of the details of the new more liberal open air access policy of Government, and
- (e) the present composition of the Board thereof and the status of the Chief Executive thereof.

The Deputy Prime Minister: Madam Speaker, I would like to point out that Air Mauritius is a public company, incorporated under the Companies Act and managed by a Board of Directors. Moreover, it is a Listed Company on the Stock Exchange of Mauritius with around 13,000 shareholders, Government being one of them. In this context, it would be pertinent to recall that Listing Rule 11.3 of the Stock Exchange, in particular, requires that all sensitive information likely to affect the share price should be given in priority to the Stock exchange. This is further reinforced by section 87 of the Securities Act.

I will, therefore, disclose such information as is possible within the limits of the law.

Madam Speaker, in regard to part (a) of the question, the aviation industry worldwide is dominated by intense competition, depressed economic environment especially in Europe and volatile price of fuel. On the regional front, major developments have occurred with the investment of Etihad in Air Seychelles, and the bail outs of South African Airways, Kenya Airways and Air Austral by their respective governments.

It is within this extremely volatile environment that Air Mauritius is called upon to operate and compete with its existing ageing fleet. Indeed, the A340s are four engines long-haul aircraft having a high fuel consumption and requiring higher maintenance.

The House will note that the results of Air Mauritius were as follows since Financial Year 2010/2011 -

2010/2011: Profit Euro 9.9 m.

2011/2012: Loss of Euro 29.2 m.

2012/2013: Loss of Euro 3.6 m.

2013/2014: Profit of Euro 7.3 m.

9 months to December 2014: Loss of Euro 9.1 m.

Notwithstanding, the results of previous years, the company has retained earnings - therefore, no accumulated losses - of 36.4 m. Euro as at 31 December 2014. I am also informed by the Board of Directors that the Company has sufficient funds and banking facilities to meet all its debts and its other financial obligations as and when they fall due as stated in its Communiqué of 04 May 2015.

The Board is fully aware of the actual difficult situation and is taking important measures to ensure the viability of the Company. These include -

- The appointment of an international firm of consultants to review the business model.
- Improving productivity and efficiency.
- Carrying out an HR audit.
- Carrying out a Cargo Forensic Audit.
- Improving quality.
- Further cost reduction measures across the board.
- Further improvement of alliances with airlines to all destinations served.
- New aircraft and planned interim measures to improve product (such as Inflight Entertainment and seats).

Madam Speaker, my Ministry has on 13 January 2015 requested the Ministry of Financial Services, Good Governance and Institutional Reforms, to carry out a full inquiry on the purchase of airplanes. Further, the same Ministry is carrying out another inquiry on the Cargo Department of Air Mauritius.

The House may note that following the recruitment of Seabury, a firm of consultants, in February 2012, a 7-Step recovery plan was implemented covering, *inter alia*, the following areas -

- Network concentration and optimisation;
- Improvements in revenue management and commercial function;
- Cash conservation and cost reduction, and
- A major Customer Service Improvement project.

Madam Speaker, the House will also note that the depreciation of the Euro vis-à-vis the USD and other currencies is accentuating. As the House is aware, whilst expenditure of Air Mauritius is mostly denominated in US dollars, its revenue is essentially derived in Euro. During the year, the EUR/USD exchange rate dropped from 1.38 to 1.08 resulting in a negative impact of some EUR 24 m. compared to the corresponding period ending December 2013.

In addition, Air Mauritius was affected by the slower growth on mainland China with capacity outpacing expected growth. Load factor dropped from 79% to 63% for the period ending December 2014.

In addition, increasing competition from foreign carriers on all markets. Revenue, again, Madam Speaker, went down by Euro 6.3 million for that period.

Notwithstanding these financial challenges, the cash flow of Air Mauritius is stable and the gearing ratio well within industry norms. Indeed, the airline generates adequate cash to meet its financial obligations as and when they fall due. In addition, it has secured banking facilities upon which it can draw, as and when required.

Madam Speaker, in regard to part (b) of the question, I would like to inform the House that hedging is broadly meant to lock-in the cost of future purchases.

The driving principle is to protect the company from price risk that would have an adverse impact on key financial parameters, that is, fuel and foreign exchange essentially. Since 2011, the hedging strategy of Air Mauritius has been purely focussed on mitigating the

impact of fuel and foreign exchange volatility on profitability as well as protecting the balance sheet.

International experts, Lazard Frères, were appointed in 2009 to assist the company to redesign its hedging policy, revise and update its Risk Manual and put in place tools and appropriate mechanisms to better manage the financial risks.

The current hedging policy prescribes for a minimum of 30% and a maximum of 70% hedge ratio of the company's requirements over a maximum period of 2 years on a rolling basis.

Madam Speaker, I am informed by Air Mauritius that, with the assistance of Lazard Frères, it has continued its hedging activities within the new policy framework. The financial instruments used currently are plain vanilla instruments as opposed to the riskier leverage instruments on the downside that had been subscribed by the airline in 2008 such as the double-down extendible. The choice of financial instruments is determined by the Risk Manual which was revised to take into account lessons learnt from the 2008 hedging.

Hedging activities are carried out in line with the legal and regulatory framework under the International Swaps and Derivatives Association (ISDA) Master Plan. This document outlines the terms applied to a derivatives transaction between Air Mauritius and its counterparties, that is, financial institutions.

Consequently, Air Mauritius has signed an agreement, in line with the revised manual recommended by Lazard Frères, with the eight counterparties to carry out hedging activities.

As regards part (c) of the question, Step 5 of the 7-step Recovery Plan constitutes the refueling of the existing long-haul wide-body A340 fleet with the new generation aircraft. The rationale for the fleet re-equipment is as follows -

- The ageing A340 fleet with an average age of 14 years at end March 2015, with the age of the two oldest aircraft being 20.4 years and 18.4 years respectively;
- The high operating cost of the four engines aircraft;
- Loss of competitive edge vis-à-vis other airlines operating more efficient aircraft.

Air Mauritius is replacing its 6 aged Airbus A340 with 6 Airbus A350-900 two engine new generation aircraft, which have lower maintenance costs and fuel savings estimated at 25%.

Two will be leased from AerCap and come into service in 2017 and four have been purchased from Airbus with two being delivered in 2019 and two in 2020.

The two operating leases from AerCap have been approved and security deposits will be financed from internal resources. The deposits for the four purchased from Airbus amounting to 12% of the cost will be financed from internal resources and existing facilities. The balance is to be financed with Export Credit Agency (ECA) supported financial leases. Air Mauritius has been historically using Export Credit Agency backed financing to finance aircraft acquisitions.

With regard to part (d) of the question, the Government Programme 2015/2019 provides that the air access policy will be reviewed to transform Mauritius into a regional aviation and tourism hub. This is in line with our tourism strategy which is geared towards further diversification of source-markets, that is, a gradual blend of the traditional segments with emerging markets like Asia and Africa. Developments in these sectors will inevitably call for a re-engineering of our air access policy without jeopardizing the interest and viability of our national carrier. Notwithstanding the challenges posed by a gradual air access liberalisation, Air Mauritius remains an essential strategic partner in the development of our tourism industry, indeed economic development of our island as a whole. Government will strike the right balance between the interests of all stakeholders including that of the national carrier. We will encourage airlines to operate on new routes from new markets including seasonal and opportunity flights.

Madam Speaker, in regard to part (e) of the question I am tabling the composition of the Board.

The Chief Executive Officer is on contract expiring in August 2015.

Mr Bérenger: Madam Speaker, we have been provided with the figures for losses up to December 2014, if I heard the hon. Deputy Prime Minister rightly, but it has been reported that, for the full financial year ending March of this year, Air Mauritius will meet with a loss of Rs800 m. and this has been widely reported; can I know from the hon. Deputy Prime Minister whether this figure is confirmed?

The Deputy Prime Minister: Madam Speaker, whichever figures are being branded about, are unaudited figures provided for probably by rumours, but also based on some of the actual unaudited figures of Air Mauritius. It would not be possible for me, given the listing and the impact on the company's shares, to pre-empt what the audited figures will eventually be.

Mr Bérenger: Can I know whether the Deputy Prime Minister has the figure for overdrafts as at now?

The Deputy Prime Minister: I don't have the figure for overdrafts as at now, but I do know that the company has something like Euro 70 m. of unutilised overdraft facilities.

Mr Bérenger: I have not heard the hon. Deputy Prime Minister make any reference to *licenciement*, but again, in the Press, it has been widely reported that *licenciements* are envisaged. Can I know from the hon. Deputy Prime Minister whether, at this stage, at Air Mauritius itself or at its subsidiary Airmate Limited, any *licenciements* are envisaged?

The Deputy Prime Minister: Madam Speaker, I am informed that the current overdraft of Air Mauritius is Euro 5.5 m or so which is not substantial. As far as *licenciement* or any other cost reduction measures, Madam Speaker, I think the House will agree that *rien ne sera écarté*. We will look at all the measures that are necessary. Air Mauritius is in a difficult situation. It is facing a very competitive environment. The near parity between the Euro and the US dollar is creating havoc to its revenue which is falling and the revenues are mainly in Euros; so, at 60%. Costs are mainly in US dollars around 60 % again. So, the near parity of the Euro and the US dollar is creating a disrupting situation for Air Mauritius. On top of that, we have to add the ageing fleet and the high costs of operation. So, nothing will be set aside. The Board of Air Mauritius has decided to take whatever action is required to return the company to profitability.

Mr Bérenger: *Licenciement* apart, can I know from the hon. Deputy Prime Minister whether he has any idea what is going to happen to the Air Mauritius subsidiary Airmate Ltd?

The Deputy Minister: Madam Speaker, although I am sympathetic to the cause of the employees, this must be put in a general context of the company. Now if something has to be decided, obviously it is for the Board to take that decision, but it has to be in the context of the current competitive situation or the current losses that are being incurred and, of course, of the need to preserve as much employment as possible. So, it may not be the time for *largesses* in the company, but although I must say that personally, as a human being, I am sympathetic to the cause. But it will be up to the Board of Air Mauritius to take the decision that is necessary, given the current economic context.

Mr Bérenger: The hon. Deputy Prime Minister has told us that the gearing ratio is normal for the industry; is it a fact that the gearing ratio is 4:1?

The Deputy Prime Minister: No, Madam Speaker. Thank you for the question. It is 1:1.5. I am told that other companies - although I have not checked personally - like British Airways are 1:2. So, it is 1:1.5; thank you for that question.

Mr Bérenger: Can I know from the hon. Deputy Prime Minister whether, at this stage, the suggestion of a strategic partner is being envisaged?

The Deputy Prime Minister: I would say, Madam Speaker, that the point of appointing international firm or consultancy is to look at all the options. We are a very small company. We are faced with a lot of competitions and like it or not, not just for tourism, but for the whole concept of Mauritius being a hub to Africa, being a medical hub, being a financial services hub, being an educational hub, all that requires connectivity. So, in fact, nothing is being left out. I am not an expert in aviation. We leave it to the experts and let them come up and then the Board of Directors, obviously, with the input from the main shareholder, will decide.

Mr Bérenger: If I can, Madam Speaker, move on to the hedging issue. Can I know from the hon. Deputy Prime Minister whether there is any figure for losses, if any, sustained under the new present hedging arrangements and, finally, what is the final sum “that was lost” under the previous hedging arrangement?

The Deputy Prime Minister: Madam Speaker, there are three types of figures we are going to consider. One is the situation as at 31 December which has been published. I think a loss of about 1.2 million Euros, and we are talking of both foreign exchange hedging and fuel hedging. We have, generally again, on the foreign exchange further loss on the fuel hedging. So, without going – it is difficult for me to answer, but I will give the figure because speculation would be worse, Madam Speaker. I say again, the unaudited figures roughly amount to, again, of something like Rs2.5 m. on foreign exchange hedging, but a loss of about Rs10 m. on the fuel hedging. So, the next loss for 31 March would be about Rs7.5 m. What I need to say, Madam Speaker, is the point of hedging is to lock-in the cost of fuel. Now, the hon. Leader of the Opposition raised a matter of 2008. I was not Minister responsible for Air Mauritius in 2008, but after that I did become responsible. But, at that time, Air Mauritius had gone for a large amount of hedging, that is, 80% to 90% of its fuel requirements. And not only had it done that, Madam Speaker, but it had taken the cheapest product. Hedging like an insurance. We can take an expensive insurance or we can take a cheap insurance. That was a very cheap insurance and the cheap insurance resulted – it was

commonly called double down extendable - Madam Speaker, in a loss of 144 million Euros. We have to multiply by 40 for the hedging at that time.

Mr Bérenger: If I can move on to the purchase of new planes. Very serious allegations were made by the Minister concerning the deal between Air Mauritius and Airbus under the previous Government, but, now, I understand that Government is going ahead with the purchase of the airbus planes, although we are informed that an enquiry is on. But can I, therefore, put it on record, have it from the Minister, that the order to Airbus has, indeed, since the general elections, been confirmed?

The Deputy Prime Minister: Madam Speaker, the hon. Leader of the Opposition may know that, in fact, the Memorandum was signed by the previous Government on 06 July 2014 and the order was placed a week before Nomination Day for the six airplanes. Now, this has been done. The aircraft lease will be coming, as I mentioned, in 2014, the four others a little later. Immediately as I took office, with the concurrence of Cabinet, Madam Speaker, the full documents were sent to the Ministry of Good Governance because there had been rumours - we want to check the rumours - but, at the same time, we cannot stop the operation of Air Mauritius and all the benefits that will come from obtaining these aircrafts. Notwithstanding this, if there has been any *maldonne* - I am sure you will agree that my colleague is doing very good forensic work - and I am sure that if there is anything wrong, he will find the culprits, Madam Speaker.

Mr Bérenger: Madam Speaker, as far as air access is concerned, I am glad to have heard the Minister say that Government will strike the right balance between the interest of Air Mauritius, Tourism and the other sectors of the economy, including Rodrigues also. Can we know what can be expected in terms of increases in flights? There are requests, I understand, from Emirates Airlines and others to increase their number of flights to Mauritius. At this stage - the new more liberal open air access policy referred to in the Budget Speech - can we know whether that will result in increase and, if yes, how many increased flights operated by Emirates and the others?

The Deputy Prime Minister: Madam Speaker, I must perhaps also say that Air Mauritius is in a difficult situation. The Rt. hon. Prime Minister was right to ring the alarm bells and point out that the Board has to take the appropriate action.

As regards the air access policy which is in line, obviously, affects Air Mauritius. There is air access and air access, Madam Speaker. There is air access towards the main

markets and air access towards the region. So, these are two different aspects. What I know is that hopefully, as I mentioned here in Parliament recently, there may be substantial developments between China and Mauritius, India and Mauritius and Africa, which, I think, the whole House will agree, is an exceptionally good thing for the country. As far as the other markets are concerned, Madam Speaker, we are waiting for the review of the air access policy before any decision is taken.

Mr Bérenger: The last part of my question, Madam Speaker, is that with the present composition of the Board which has been circulated, can I know - because again there have been reports in the Press - whether conflicts of interest between Members of the Board present or recent past, have been detected and, if yes, whether those cases or conflicts of interest have been referred to the Police?

The Deputy Prime Minister: Madam Speaker, I presume the hon. Leader of the Opposition is referring to the Air Cargo. There is an inquiry going on. I think the report will be out on Friday and whatever action needs to be taken - I have not seen - if it has to go to the Police, I am sure the Board will do that, because the whole point of the Air Cargo inquiry was to determine whether anything is at fault and if things are at fault, then, obviously, decisions will need to be taken.

Madam Speaker: Hon. Jhugroo!

Mr Jhugroo: Madam Speaker, can the hon. Deputy Prime Minister state whether it is in order to purchase aircrafts six days before the Nomination Day and, if so, can we know how many aircrafts, the types of aircrafts and the amount involved?

The Deputy Prime Minister: Madam Speaker, I must say I left Government in June and the aircrafts were purchased in July; the first agreement and then the actual signature a week before the Nomination Day. I would think that it is certainly not good governance, given that huge cost of the aircraft and given the question marks that have been raised during the campaign; we could have avoided all this, Madam Speaker, by postponing the purchase of the aircraft. I certainly do not consider it as good governance.

Madam Speaker: Hon Mohamed!

Mr Mohamed: Madam Speaker, we have heard the hon. Deputy Prime Minister said that everything will be done by the Board of Directors, by the administration, in order to try to bring down costs and he also referred to the possibility - in a roundabout way - of people working at Airmate or Air Mauritius for that matter of loss of jobs. Could I invite, therefore,

the hon. Deputy Prime Minister to look into all the facilities that cost a lot of money to the company, that Executives are getting and to former Executives and to Directors of the Board and former Directors of the Board, their children, their wives, family members and all those golden handshakes that have been the practice through various regimes, whether this could be looked into first and at the last then look at the small, little man and woman who is toiling a way to keep his job? Maybe we should look into those high-fliers at the level of company first before...

Madam Speaker: Hon. Mohamed, we have understood your question, please!

The Deputy Prime Minister: Madam Speaker, within the parameters of the requirement to attract and maintain the best brains to the airline, we are competing an international environment, I understand that the Board, in looking at the cost cutting measures, nobody will be spared, no rank will be spared and everything that needs to be done will be done and whatever decision that is required, if a person is not performing, then he has to expect the worst.

Madam Speaker: Hon. Ameer Meea!

Mr Ameer Meea: Madam Speaker, in the recent past, there have been talks about Air Mauritius selling its subsidiaries, more specifically the Paille- en-Queue Court and also other subsidiaries, to finance the loss of the company. Is this still being considered?

The Deputy Prime Minister: It can be considered. The issue with selling Paille-en-Queue Court was that the price that was obtained was not up to Air Mauritius liking and that's why it was not sold. So, I personally think it has to go in order to generate the cash.

I must also say, Madam Speaker, that whatever we can say about Air Mauritius Ltd., is that it lost, on hedging issue, 144 m. Euros. It never actually got any bail out from the Government, it never got additional money from the Government and it actually went back to profitability. I was still Minister of External Communications in 2010-2011. So, it resumed profitability. It was after that, that it fell again into loss making.

Madam Speaker: Hon. Bhagwan!

Mr Bhagwan: Thank you, Madam Speaker. One of the main causes of the downfall - I would say downfall in terms of problems which Air Mauritius has been facing over the years - is direct political interference from Government and Ministers. Can the hon. Deputy Prime Minister give the assurance to the House, the country and the nation that this question

of political interference in terms of recruitment and purchase of equipment will no longer take place?

The Deputy Prime Minister: I won't make any point. Madam Speaker, the Board of Directors will quite easily tell you that neither any Member of the Government nor myself interferes with the running of the company. It is in a difficult situation, it has to be brought back to profitability and it will do so by taking whatever measures needs to be taken without interference.

Madam Speaker: Yes, hon. Leader of the Opposition!

Mr Bérenger: I am sure the hon. Deputy Prime Minister is fully aware of the profound anxiety amongst the employees of Air Mauritius in general and, in particular, Airmate Ltd. Can I therefore request the hon. Deputy Prime Minister to see to it that these employees are provided with as much information as possible to help them get over this very difficult path?

The Deputy Prime Minister: Certainly, Madam Speaker, the fully audited results of the company will be out on 18 June and, no doubt, as we expect, there will be a loss. But, at the same time, Madam Speaker, and as the hon. Prime Minister has mentioned, it is important for everyone to realise the difficult situation that Air Mauritius finds itself in and that everybody in his own like from the Messenger up to the Chief Executive Officer should know that, from now on, things have got to change. They will all have to work together for the success of the airline. Of course, we are committed to the success of the airline, Government is committed to the success of the airline, but we cannot do it on our own. We do require the help and assistance of every single employee at Air Mauritius and there are over 3000 of them. Thank you.

Madam Speaker: No other question, hon. Leader of the Opposition? Time is over!