

SUBSTANTIAL TRANSACTION CIRCULAR IN RESPECT OF

THE PURCHASE OF 2 AIRCRAFT A350-900 FROM AIRBUS AT A PRICE OF USD 160M EACH, TO BE 100% FINANCED THROUGH JAPANESE OPERATING LEASE STRUCTURE

16 August 2019

IF YOU ARE A SHAREHOLDER OF MK, THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

For a full appreciation of this Substantial Transaction Circular, this document should be read in its entirety. If you are in doubt about the action you should take, you should consult your investment dealer, legal adviser or other professional adviser immediately.

This document is neither an invitation nor a prospectus nor a statement in lieu of a prospectus for the public in Mauritius or elsewhere to subscribe for shares in MK.

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A copy of this Substantial Transaction Circular has been filed with the FSC.

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## 1 DECLARATION BY DIRECTORS

This Substantial Transaction Circular includes particulars given in compliance with the Stock Exchange of Mauritius Ltd Rules governing the Official Listing of Securities (the “Listing Rules”) for the purpose of giving information with regard to the issuer. The Directors of MK, whose names appear in section 6, collectively and individually accept full responsibility for the accuracy and completeness of the information contained in this document and confirm, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

The consents given by the experts (if any) named in this document have not been withdrawn at the date of this document.

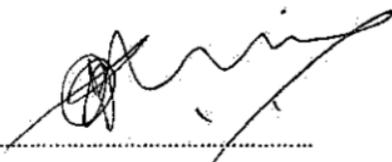
The Directors of MK hereby state that:

- (i) the financial performance trends of MK for the first quarter ended 30 June 2019 showed a net loss as is often reported for this quarter; was an improvement as compared to its corresponding period of last year.
- (ii) MK has concluded as part of its normal course of business; two A 330Neos on operating leases contracted in December 2016, one has joined the fleet on 19 April 2019 and the second on 21 June 2019.
- (iii) the working capital available to MK and its subsidiary companies (the “MK Group”) is sufficient to meet their day to day operations for a period of twelve (12) months from the date of this document assuming no major change in current prevailing conditions.
- (iv) there is no material adverse change in the financial or trading position of MK Group since the latest published quarterly financial statements ended 30 June 2019.

After due enquiries, the Directors of MK further declare that, as at 30 June 2019:

- (i) there are no debt securities outstanding;
- (ii) total borrowings of MK Group stood at EUR 516.7 million inclusive of present value of future operating lease payments in line with the first time adoption of IFRS 16 for leases;
- (iii) the total contingencies amounted to MUR 479.2 M and guarantees of MK Group amounted to EUR 2.5 million; and
- (iv) the total mortgages and charges of MK Group amounted to USD 2 million and MUR 25 million.

For and on behalf of the Board

  
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Director

  
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Director

**16 August 2019**

## SALIENT FEATURES OF THE TRANSACTION

### I. AIRCRAFT PURCHASE & FINANCING

Transaction	Purchase of 2 A350-900 aircrafts at a price of USD 160m each from Airbus
Purpose	Modernisation of aircraft fleet as per purchase agreement signed in 2014
Terms of the consideration	Financing from two Special Purpose Vehicle comprising of lenders and equity investors for USD 320m

## 2 DEFINITIONS

In this document, where the context permits, the abbreviations set out below bear the following meanings:

Act	The Companies Act 2001, as may be amended from time to time.
Airbus	Airbus SAS
Board	The Board of Directors of MK.
Constitution	The constitution of MK dated 9 <sup>th</sup> January 2009.
MK	Air Mauritius Limited and its subsidiary companies.
Listing Rules	The Listing Rules of the SEM.
NAV	Net Assets Value.
SEM	The Stock Exchange of Mauritius Ltd, established under the repealed Stock Exchange Act 1988 and governed by the Securities Act 2005 as amended.

## 3 COMPANY BACKGROUND AND PRINCIPAL ACTIVITIES

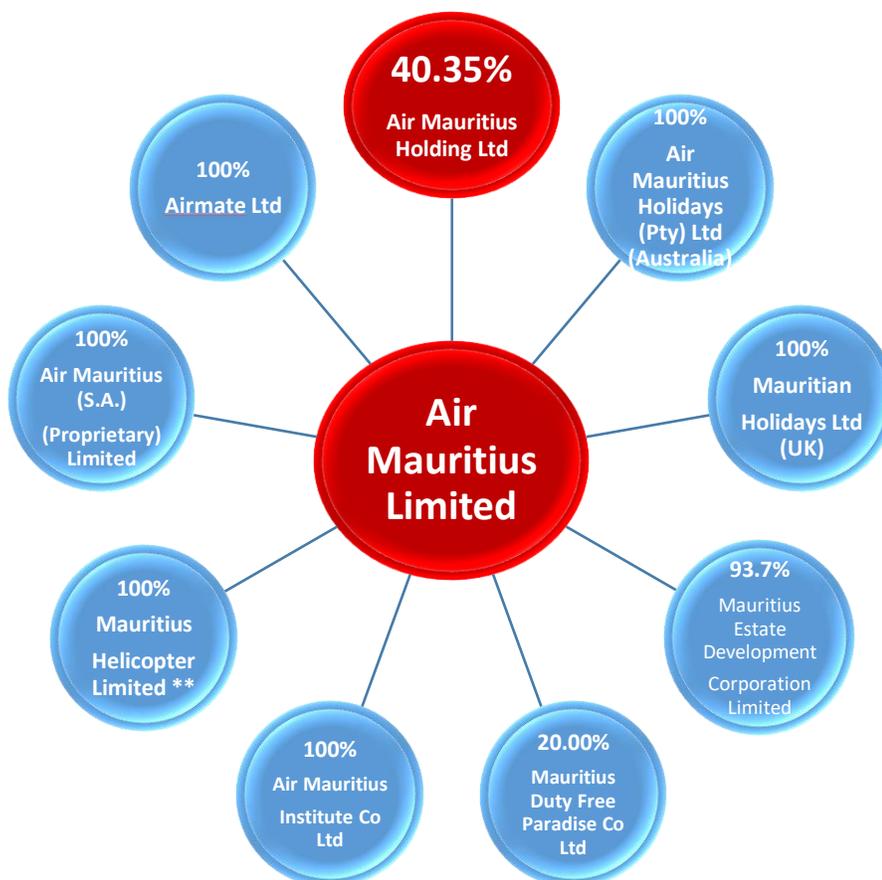
### 3.1 Company Background

Air Mauritius Limited was incorporated on 14<sup>th</sup> June 1967 in Mauritius under registration number 1600 (BRN C07001600) as a company limited by shares of unlimited duration. It was admitted to the Official List of the SEM in February 1995. Its registered office address is 19<sup>th</sup> Floor, Air Mauritius Centre, President John Kennedy Street, Port Louis.

As at 15 August 2019, the stated capital of MK was made up of 200,000,000 Ordinary Shares of MUR 10 each and the issued share capital was 129,305,000 shares worth MUR 1.29 billion.

The main activity of the Company is the airline business where it operates on 22 direct points to Europe, Africa, Indian Ocean, Asia and Australia.

### 3.2 Group Structure (as at 15<sup>th</sup> August 2019)



\*\* The Board approved the disposal of 49% shareholding in Mauritius Helicopter Limited on 29<sup>th</sup> March 2019.

## 4 THE TRANSACTION

### 4.1 Background to and purpose of the transaction

On 19 June 2019, the Board of directors of MK (the “Board”) approved the financing of its two new A350-900 aircraft to be delivered in October / November 2019 through a Japanese lease structure which will be contracted with HSBC and CACIB as major lenders together with Japanese equity respectively for an amount of USD 160M each

### 4.2 Substantial Transactions

The above transaction qualifies as Substantial Transaction as certain of the class tests under the Listing Rule 13.9 exceed the 50% threshold.

A substantial transaction is any acquisition or realisation of assets (including securities) by a listed issuer or any of its subsidiaries where:

- a) the value of the assets being acquired or realised represents 50 per cent or more of the net assets or consolidated net assets, as the case may be, of the acquiring or realising group; or
- b) the net profit (after deducting all charges except taxation) attributable to the assets being acquired or realised as disclosed in the latest published audited accounts represents 50 per cent or more of such net profit of the acquiring or realising group; or
- c) the aggregate value of the consideration given or received represents 50 per cent or more of the net assets or consolidated net assets, as the case may be, of the acquiring or realising group; or
- d) the value of the equity capital issued as consideration by the acquiring issuer represents 50 per cent or more of the value of the equity capital previously in issue.

Section 13.15 of the Listing Rules requires MK to send a circular to its shareholders containing the items of information as regards the listed issuer specified by Listing Rule 13.18.

#### **4.3 Rationale and benefit of the transaction**

The Board is of the opinion that the transaction is in the best commercial interest of MK and its shareholders for the reasons set out below:

- The purchase of the two aircraft are contractual arrangements signed in 2014 that have to be honoured.
- The aircraft were ordered as part of a fleet modernization program to replace the ageing A340 with more fuel efficient A350s.

#### **4.4 The Transaction Details**

The transaction involves the financing of two aircraft A350-900 from Airbus at a price of USD 160m each making a total consideration of USD 320m.

MK has appointed Seabury Consulting to advise on the financing modes. After reviewing the different proposals that were received, the recommended option which was approved by the Board is the JOLCO (Japanese Operating Structure Lease with call option).

The JOLCO is essentially through an SPV which is established with a 100% ownership by a Japanese entity (Japanese Lessor) which acquire the aircraft through lenders, with financing from Hong Kong and Shanghai Banking Corporation Limited for one aircraft and Crédit Agricole Corporate and Investment Bank / Crédit Industriel et Commercial for the other aircraft, (typically 78%) and Japanese investors (typically 22%)

- The Lessor will lease the aircraft to MK over an initial period of 12/13 years with an option for MK to buy the aircraft in year 10 at a predetermined price inclusive of outstanding obligations of lenders and return of capital to Japanese investors
- MK pays lease rentals in Euros (cash outflow) to the Lessor over the period of the lease.
- The lease internal rate of return (IRR) is around 2%.
- The Balance Sheet of MK will incorporate a non-current asset and a corresponding liability of around \$320m initially
- The current depreciation policy for wide body aircraft is for 20 years with a residual value of 20%.
- The profit and loss statement will be impacted accordingly as per accounting standards
- The aircraft are returned to the Lessor after 12/13 years if purchase option is not exercised but some return conditions have to be met

#### 4.5 Shareholder approval

As per SEM listing rules 13.10, a substantial transaction must be made conditional on approval by shareholders. Such approval may be obtained either by convening a meeting of the issuer or by means of the written approval of the transaction by a shareholder who holds or shareholders who together hold more than 50 per cent in nominal value/value of the securities giving the right to attend and vote at such meeting of shareholders. The SEM will normally require that any shareholder shall abstain from voting at that meeting of shareholders and will not accept the written approval of any such shareholder if such shareholder has a material interest in the transaction. In that event, a statement that such shareholder will not vote must be included in the Chapter 13 circular to shareholders.

In line with Listing Rule 13.10, MK has obtained the written approval for this transaction from shareholders of MK who together hold more than 50% in nominal value/value of the securities giving the right to attend and vote at a meeting of shareholders.

#### 4.6 Shareholding Structure

##### Shareholding of MK

The list of MK Shareholders holding more than 2% of the Ordinary Shares as at August 16, 2019 is as follows:

Details	Percentage Held
Air Mauritius Holding Limited	40.35%
Airports of Mauritius Co Ltd	20.88%
The Government of Mauritius	6.62%
The State Investment Corporation Ltd	3.59%
Rogers and Company Limited	3.39%
Societe Air France	2.20%
Air India	2.02%

#### 4.7 Estimated Expenses for the Transaction

Professional expenses associated with the circular amount to MUR 12k and will be borne by MK. Details of the estimated expenses are broken down as follows:

Details	MUR'000
Fees for review of document	12
<b>Total estimated costs</b>	<b>12</b>

## 5 DIRECTORS

### 5.1 Directors Details

Directors	Mr Somaskaran APPAVOU, FRAeS (born 1970) Villa No 1, John Kennedy Avenue, Floreal Directorship in other listed companies: None
	Mr Bissoon MUNGROO, G.O.S.K. (born 1950) Royal Road, Montagne Blanche Directorship in other listed companies: None
	Mr Ramprakash MAUNTHROOA (born 1954) Maurice Prudent Avenue, Floreal Directorship in other listed companies: SBM Holdings Ltd
	Mr Nayen Koomar BALLAH, G.O.S.K. (born 1957) Louvet Avenue, Quatre Bornes Directorship in other listed companies: None
	Mr Anwar ABBASAKOOR (born 1962) Morcellement Bon Air, Old Moka Road, Bagatelle, Moka Directorship in other listed companies: None
	Mrs Ammanah RAGAVOODOO (born 1974) Dr C Mayer St, Floreal Directorship in other listed companies: None
	Mr Jean Louis RIVALLAND (born 1971) Dr Ernest Harel Street, Floreal Directorship in other listed companies: Swan General Ltd, New Mauritius Hotels Ltd, Swan Life Ltd
	Mr Yoosuf Muhammad SALEMOHAMED (born 1953) Louis Pasteur Street, Port Louis Directorship in other listed companies: None
	Mr Patrick ROUX (born 1966) Rue Pradier, Paris, 75019, France Directorship in other listed companies: None
	Mr Derek LAM PO TANG (born 1965) Address: 19 St Clement Street, Curepipe Directorship in other listed companies: None
	Mr Marie Hector Philippe ESPITALIER-NOEL (born 1965) Address: Chemin de L'Indigo, Morcellement Hillside, Butte aux Papayes, Mapou Directorship in other listed companies: Rogers & Co Ltd, Swan General Ltd, Ascencia Limited, Swan Life Ltd
	Mr Dharam Dev MANRAJ (born 1949) Address: 5 Trait D'Union, Floreal Road, Vacoas Directorship in other listed companies: None
	Mr Ashwani LOHANI (born 1958) (Appointed on 24 April 2019) Address: Banglow No 4, Railway Officers Enclave, S P Marg, Delhi 110021, India Directorship in other listed companies: None
	Mr Goolabchand Goburdhun (born 1964) (Appointed on 23 May 2019) Address: Riche Road, Camp de Masque Pave Directorship in other listed companies: None
Alternate Directors	Mr Radhakrishna CHELLAPERMAI (to Mr D.Manraj) (born 1955) 59 Vuillemin Street, Beau Bassin Directorship in other listed companies: None
	Mr Olivier PREVOST (to Mr P.Roux) (born 1955) 46, Boulevard des Etats-Unis, 78 110 Le Vésinet, France Directorship in other listed companies: None

## 5.2 Director's Profile

### **APPAVOU Somaskaran, FRAeS**

Mr Somas Appavou, FRAeS, was appointed CEO of Air Mauritius Limited in July 2017. Having worked in key global markets, he has over 20 years' of experience in the aviation industry. He holds a M. Phil Degree in Aerospace and Air Transport Economics from l'Ecole Nationale de l'Aviation Civile' and University of Toulouse as well as a Master Degree in Applied Mathematics from the University of Bordeaux (France). He started his career in the Strategic Planning department of Air Mauritius Limited. He then joined Airbus where he held leadership position including Head of Supply Chain in Hamburg, Germany; Regional Sales Director for Subcontinent-India and Africa. From 2009 to 2017, he held the position of Senior Sales Director, Middle East and Africa at Airbus. In this capacity, Somas Appavou was in charge of expanding market presence and supporting the growth of established airlines as well as the development of new airlines in Africa, whereby he contributed largely to the growth of Airbus commercial reach. He was appointed member of the executive committee of the African Airlines Association (AFRAA) in November 2018 for a period of three years.

Mr Appavou is well versed in business development, industrial partnerships as well as global functional support. Holder of multiple awards in Innovative Aircraft Financing Structure, Process Improvement and Aircraft Economics, Somas is a certified Six Sigma Black Belt and a passionate pilot having obtained his license in 1999.

Directorship in other listed companies: None

### **ESPITALIER-NOËL Marie Hector Philippe**

Mr Philippe Espitalier-Noël was appointed to the Board on October 09, 2000. He is currently the Chief Executive Officer of Rogers and Company Limited, one of the largest listed conglomerates in Mauritius. He holds a BSc in Agricultural Economics from the University of Natal in South Africa and an MBA from the London Business School. Mr Espitalier-Noël presides over the Business Mauritius Sustainability and Inclusive Growth Commission. He is also the Honorary Consul of the Kingdom of Denmark since March 2004. He is the Chairman of the Risk Management Steering Committee as from April 30, 2019

Directorship in other listed companies: Rogers & Co Ltd, Swan General Ltd, Ascencia Limited, Swan Life Ltd

### **RIVALLAND Jean Louis**

Mr Louis Rivalland is currently the Group Chief Executive of Swan General Ltd and Swan Life Ltd. He was previously part of the management team of Commercial Union in South Africa and conducted several assignments for Commercial Union in Europe. He then worked as Actuary and Consultant for Watson Wyatt Worldwide. He is a former President of the Joint Economic Council and of the Insurers' Association of Mauritius.

He holds a BSc (Hons) in Actuarial Science and Statistics, a Post Graduate Diploma in Strategy and Innovation from SAID Business School, University of Oxford and is a Fellow of the Institute of Actuaries, UK. He was appointed to the Board on July 26, 2012 and is the Chairman of the Audit Committee.

Directorship in other listed companies: New Mauritius Hotels Ltd, Swan General Ltd, Swan Life Ltd

**BALLAH Nayen Koomar, G.O.S.K.**

Mr Nayen Koomar Ballah, G.O.S.K. was appointed Secretary for Home Affairs on January 01, 2015 and Secretary to Cabinet and Head of the Civil Service on September 16, 2016. He holds a Diploma in Public Administration and Management, a Bachelor of Arts in Political Science and Economics, and a Bachelor of Arts (Honours) in English. He has a long career in the public service and has been the Secretary of the Public Service Commission and the Disciplined Forces Service Commission. He has served in senior positions in various Ministries such as the Ministry of Agriculture, Fisheries and Natural Resources, Ministry of Arts and Culture, Ministry of Youth and Sports, the Ministry of Public Infrastructure, Land Transport and Shipping, and the Prime Minister's Office. He has also served as chairperson and member on various boards and committees and is currently the Chairperson of the State Bank of Mauritius Ltd, Mauritius Telecom, the Mauritius Revenue Authority and Multi-Carrier (Mauritius) Ltd, and Director on the Board of Mauritius Duty Free Paradise Co. Ltd. He was appointed to the Board on November 10, 2016.

Directorship in other listed companies: None

**MAUNTHROOA Ramprakash**

Mr Ramprakash Maunthrooa is a Fellow Member of the Institute of Chartered Secretaries and Administrators – UK (FCIS) and a Fellow Member of the Chartered Institute of Transport – UK (FCIT). Mr Maunthrooa has spent more than two decades in the port sector. He was Director General of the Mauritius Ports Authority (MPA) up to October 1998. He has also served as Chairman of the MPA from October 2000 to November 2003. Mr Maunthrooa was also the Managing Director of the Board of Investment during the period 2010/2011. Mr Maunthrooa worked as Senior Adviser at the Prime Minister's Office (PMO) from January 2015 to April 2019 and also serves on the Board of State Bank of Mauritius (SBM) Holdings Ltd, SBM (NBFC) Holdings Ltd, SBM (Bank) Holdings Ltd, SBM (NFC) Holdings Ltd and State Insurance Company of Mauritius (SICOM). He was appointed to the Board on February 05, 2015.

Directorship in other listed companies: SBM Holdings Ltd

**MANRAJ Dharam Dev, G.O.S.K.**

Mr Dev Manraj, G.O.S.K., is currently the Financial Secretary at the Ministry of Finance and Economic Development of the Government of the Republic of Mauritius. Mr Manraj is a Fellow of the Association of Chartered Certified Accountants (FCCA) and holds a Diploma in International Management Development from (IMD) Lausanne, Switzerland. During his career, predominantly within the public and semi-governmental spheres in Mauritius, he has contributed on a large scale to the socio-economic development of the country. Mr Manraj has participated in the negotiations leading to the signature of Double Taxation Avoidance Agreements with several countries. He attended numerous discussions and consultative meetings with the World Bank, International Monetary Fund as well as other key international institutions. As Financial Secretary, Mr Manraj concluded "G to G" agreements with various African countries such as Ghana, Senegal and Ivory Coast on behalf of Mauritius Africa Fund. He has, additionally, successfully negotiated, on behalf of Mauritius, to obtain concessional financing and grants from India and China to implement major national infrastructure projects.

Mr Manraj has likewise participated actively in the implementation of major projects in Mauritius such as the Ebène Cyber City project and the setting up of numerous public sector organisations including the State Investment Corporation (SIC), State Informatics Ltd (SIL), the former Mauritius Offshore Business Activities Authority, the National Computer Board, the Board of Investment, Business Parks of Mauritius Ltd amongst others. He was appointed to the Board on March 09, 2015.

Directorship in other listed companies: None

#### **MUNGROO Bissoon, G.O.S.K.**

Mr Bissoon Mungroo, G.O.S.K. is the President of the Association of Hotels de Charme de l'île Maurice, President of the Rashitriya Sanatan Dharma Mandir Sangathan, Trustee/Founder Member of Mangal Mahadev Foundation and the Chairman and Managing Director of Manisa Hotel (Mauritius) and Le Flamboyant Hotel. He is the Managing Director of Mungroo & Sons Ltd (Transport), Gitanjali Co Ltd (Transport), Member of ALTEO Sugar Milling Company and the Managing Director of Office Clean and DHR Training. He is a Member of the School Management Committee, MITD Ecole Hôtelière Sir Gaëtan Duval. He was appointed to the Board on April 10, 2015.

Directorship in other listed companies: None

#### **SALEMOHAMED Muhammad Yoosuf**

Mr Yoosuf Salemohamed started his career in a chartered accountants firm where he obtained training in Accounting and Auditing. He joined a vertically integrated textile manufacturing Company as accountant in 1975 and ended his career there as General Manager. He has been associated in various textile activities since 1975 to date. He is a past president of the Mauritius Chamber of Commerce and Industry, past Chairman of the Mauritius College of the Air, past president of the MEPPA and past Chairman of Enterprise Mauritius. He has also been a Director of the Development Bank of Mauritius, a member of the Petroleum Pricing Committee and an adviser to the Ministry of Commerce and Industry. He is currently the Chairman of SICOM and is also a Board member of the Islamic Cultural Centre Trust Fund Board. He was appointed to the Board on July 30, 2015 and is the Chairman of the Corporate Governance Committee.

Directorship in other listed companies: None

#### **ROUX Patrick**

Mr Patrick Roux is a graduate from the Ecole Nationale Supérieure des Télécommunications in Paris. He began his career at Air France in 1990. In 1992, he joined the Revenue Management Team at Paris headquarters where he was in charge of implementing the first yield management tool. After having implemented the merger with Air Inter, he became, in 1998, Head of Pricing and Revenue Management for all short and medium haul flights. In November 1999, he became Head of the Air France CEO's Executive Cabinet, until 2002, when he became the worldwide Marketing Director of Air France. In 2008, his responsibilities were expanded when he was appointed Senior Vice-President of Marketing for Air France-KLM. In September 2010, he became Senior Vice-President Air France-KLM for the American Continent based in New York. In September 2013, he was appointed Senior Vice President Air France-KLM for Asia Pacific, and Senior Vice President Alliances Air France-KLM as from February 01, 2016. He was appointed to the Board on January 22, 2016.

Directorship in other listed companies: None

**LAM PO TANG Derek**

Mr Derek Lam Po Tang is currently the Executive Director of several companies of the Lam Po Tang Group. He has over 25 years of management experience both in trading and manufacturing sector. He holds a Bachelor of Arts in Business Administration with Honours from Washington State University in USA. He was appointed to the Board on May 04, 2017 and is the Chairman of the Finance Committee.

Directorship in other listed companies: None

**RAGAVOODOO Ammanah**

Mrs Ammanah Ragavoodoo holds a Bachelor of Laws Degree from the London School of Economics and Political Science, United Kingdom since 1996. Having successfully completed the Vocational Examinations held by the Council of Legal Education in 1997, she was admitted as an Attorney in December 1998 and became a Member of the Mauritius Law Society. She is currently an Independent Practitioner and has over the last twenty-one years been advising corporate bodies, statutory bodies, local and International clients. She is also a Board Member of the Financial Intelligence Unit and member of the Electoral Supervisory Commission. She was appointed to the Board on May 04, 2017 and is the Chairperson of the Staff Committee.

Directorship in other listed companies: None

**ABBASAKOOR Anwar**

Mr Anwar Abbasakoor is a practising Attorney-at-Law. He qualified as an Attorney at Law in April 1989 and has since then been exercising in the general practice of law in various fields including constitutional, political, administrative, family, tax, corporate, real estate, business, industrial, commercial, bankruptcy, insolvency, environmental and intellectual property laws. Over the past 30 years, he has been working with a widely diverse portfolio of clients ranging from local and foreign private individuals to corporate entities in Mauritius, few foreign corporate entities, NGOs, parastatal bodies, parastatal corporate entities and an autonomous regional government namely the Rodrigues Regional Assembly. He has also been a Lecturer in Law at the Council of Legal Education for three years. He is currently an Independent Practitioner whilst working in close collaboration with various other law firms and barristers' chambers. He was appointed to the Board on May 04, 2017.

Directorship in other listed companies: None

**LOHANI Ashwani (Appointed on April 24, 2019)**

Mr Ashwani Lohani, IRSME 1980 is presently the Chairman and Managing Director of Air India. This is his second tenure as the CMD of Air India. Earlier he had served the India's national carrier from August 2015 to August 2017, during which he helped pilot the organization to a position of stability and earned operating profits consecutively for two years.

In between his two stints in Air India, he worked as the Chairman of the Indian Railway Board. During his tenure with the railways, it went through a major reform process leading to transformation. His tenure resulted in impetus to the Vande Bharat train, Dedicated Freight Corridors, High Speed Railway between Ahmedabad and Mumbai, cleanliness levels, improvements to station infrastructure, doubling of tracks, electrification and above all a vastly improved safety record.

He has worked earlier as the Managing Director and Commissioner Tourism, Government of Madhya Pradesh, Chief Mechanical Engineer of Northern Railway, Divisional Railway Manager Delhi, Director, National Rail Museum, New Delhi, Director in the Ministry of Tourism Government of India, Chairman and Managing Director of India Tourism Development Corporation and other important assignments in railways.

Directorship in other listed companies: None

**GOBURDHUN Goolabchund** (Appointed on May 23, 2019)

Mr Goolachund Goburdhun is currently the Managing Director of The State Investment Corporation Limited (SIC) and holds directorship in various SIC investee companies and Lottotech Ltd. In the past, he was in public practice as a Chartered Certified Accountant providing services relating to Accounting, Auditing, Management Consultancy and Corporate Secretarial Services. He was licenced as Auditor by the Financial Reporting Council. He also held Chairmanships on various Government-related companies/institutions such as MauBank Holdings Ltd, MPCB (now MauBank Ltd), National Pensions Board and Responsible Gambling and Capacity Building of the Gambling Regulatory Authority.

Mr Goburdhun is a Fellow of the Association of Chartered Certified Accountants and holds an Msc in Finance from the University of Mauritius. He has extensive experience in the field of accounting and finance. He is registered with the Mauritius Institute of Professional Accountants (MIPA) as 'Professional Accountant.'

Directorship in other listed companies: None

**CHELLAPERMAI Radhakrishna**

Mr Radhakrishna Chellapermal is currently Deputy Financial Secretary at the Ministry of Finance and Economic Development. Mr Chellapermal is a qualified Accountant and admitted as a member of the Association of Chartered Certified Accountants UK in 1980.

After working in the private sector for 6 years, Mr Chellapermal joined the Ministry of Finance and Economic Development in 1983, where he has been involved in various projects mostly in the improvement of the business and investment climate and private sector development. Mr Chellapermal has served on various Boards and Committees amongst others: Board of Investment, Financial Services Commission, State Investment Corporation Ltd.

He is presently the Chairperson of the Investment Committee of the National Pension Fund (NPF) and the Mauritius Africa Fund (MAF). He is also Board Director of Airports of Mauritius Co. Ltd., Airport Terminal Operations Ltd (ATOL), Airport of Rodrigues Ltd. (ARL), Rodrigues Duty Free Paradise & Co. Ltd and MauBank Holdings Ltd. He was appointed to the Board as alternate to Mr Dharam Dev Manraj on May 15, 2015.

Directorship in other listed companies: None

**PREVOST Olivier**

Mr Olivier Prévost is a graduate from a French Business school (Institut Supérieur de Gestion), and he started his career in 1980 as a financial analyst on the stock market and followed the training of Société Française des Analystes Financier, within a bank (BRED). In 1984, he joined a listed company of the computer Industry (BULL), in charge of financing projects and financial communication, and then in 1987 was a controller and in 1992 became the head of restructuring and M&A projects, especially in charge of the Privatisation completed in 1995.

In January 1996, he joined Air France as project manager of Air Inter Merger and the Air France's IPO for the AF's CFO. After the Air France's IPO in 1999, he implemented the financial communication, and then moved to Alliance Department as head of the financial affairs, where he worked in particular on the Alitalia JV (2001) and the KLM merger (2003-2004). Since the end of 2008, he is in charge of the AF's Subsidiaries and M&A projects (creation, acquisitions, or sales). In 2019, he also became the vice President of CRPN (the French pension fund of pilots and flight attendants). He is also Board member of several companies not only in France. He was appointed to the Board as alternate to Mr Patrick Roux on October 1, 2017.

Directorship in other listed companies: None

### 5.3 Interests of Directors

The direct interests of the directors and Chief Executive Officer of MK and their indirect interests through related parties in the equity securities of MK Group as at 31 July 2019 are set out below.

Name of Director	Direct Interests	% Held	Indirect Interests
Mr Anwar Abbasakoor	142,488	0.1390%	-
Mr Derek Lam Po Tang	8,420	0.0103%	-
Mr Bissoon Mungroo	16,100	0.0157%	-
Mr Louis Rivalland	100	0.0000%	-

### 5.4 Director's Service Contracts

The Chief Executive Officer has a service contract which expires on 13 July 2020. There are no other executive directors within the MK Group whose service contract that needs to be disclosed under section 221 of the Act.

### 5.5 Remuneration and benefits in kind to directors

The aggregate of remuneration paid and benefits in kind granted to the directors of MK Group in respect of the last financial year ended 31 March 2019 amounted to EUR 0.15million.

The Company provides the Executive and all Non-Executive Directors with the privilege of a reasonable amount of air tickets for themselves and their immediate family. The value of this privilege is not considered to be a part of their remuneration

The Directors' remuneration and benefits in kind for the next financial period have not yet been determined and are likely to remain the same as 2018 and 2019; monthly fees payable to each Non-Executive Director amounts to Rs15,000 monthly except for the Chairman who is paid Rs75,000 per month plus a car allowance of Rs75,000 per month. The total estimated remuneration for the current financial year will be to the tune of EUR 0.14million

### 5.6 Outstanding loans to directors

No Loans were made by MK or its subsidiaries to its directors as at 31 July 2019.

### 5.7 Contract or Arrangement with directors

MK has entered into normal commercial contracts / agreements at arm's length with Air France, Air India, Mungroo & Sons Ltd, Aurdally Brothers & Co Ltd and Rogers & Co Ltd. Officers of these entities also sit on the Board of Air Mauritius Limited

## 6 CORPORATE INFORMATION

### 6.1 Company Information

Company Name	Air Mauritius Limited
Year of Incorporation	14 <sup>th</sup> June 1967
Business Registration Number	C07001600
Registered Office	19 <sup>th</sup> Floor, Air Mauritius Centre, Port Louis

### 6.2 Advisers

Company Secretary	Mr Vijay Seetul, Fellow Member of the Association of Chartered Certified Accountants (F.C.C.A)
Joint Auditors	Ernst & Young Chartered Accountant 9th Floor, NeXTeracom Tower 1 Ebene, Cybercity KPMG, KPMG Centre, 31 Cybercity, Ebene
Legal Advisor and Notary	Etude Guy Rivalland, 7 <sup>th</sup> Floor, Chancery House, Lislet Geoffroy Street, Port Louis Me Didier Maigrot, Labama House, Sir William Newton Street, Port Louis
Registry and Transfer Agent	Prime Partners Ltd, 15 <sup>th</sup> Floor, Air Mauritius Centre, Port Louis
Principal Bankers	SBM Bank Mauritius Ltd SBM Tower, 1 Queen Elizabeth II Avenue, Port Louis The Mauritius Commercial Bank Ltd 9-15 Sir William Newton Street, Port Louis AfrAsia Bank Ltd Bowen Square 10 Dr Ferrière Street Port Louis
Other Bankers	Barclays Bank PLC 6th Floor, Barclays House 68-68A, Cybercity, Ebene, Mauritius Morgan Stanley & Co. International plc, London, U.K Credit Agricole, Paris, France Natixis, Paris, France Macquarie Bank International, London, U.K Standard Chartered Bank, London, U.K Goldman Sachs, London, U.K

## 7 FINANCIAL INFORMATION

### 7.1 Air Mauritius Limited Statement of Financial Position

MK financial statements highlights for the audited financial years ended March 31 2019, 2018 and 2017

		<b>Audited 12 months 31.03.17</b>	<b>Audited 12 months 31.03.18</b>	<b>Audited 12 months 31.03.19</b>
Total Assets	EUR'000	375,053	366,298	360,526
Owner's Interest	EUR'000	90,552	85,625	49,396
Revenue	EUR'000	497,809	514,339	499,807
Operating Profit	EUR'000	23,646	18,888	(33,078)
Profit / (loss) after tax	EUR'000	27,552	4,885	(29,027)
<b>KPIs</b>				
EPS	EUR	0.27	0.05	(0.28)
NAV per share	EUR	0.89	0.84	0.48
Number of issued shares	000	102,305	102,305	102,305
Dividend per share	EUR	0.03	Nil	Nil

### 7.2 Financial and Trading Prospects

The International Air Transport Association (IATA) forecasts net profits for the airline industry in 2019 to increase to US \$ 35.5 billion from US \$ 32.3 billion in 2018. All regions except Africa are expected to report profits for 2019. African carriers as a whole are expected to report net losses of US \$ 300 million in 2019 compared to US \$ 400 million in 2018.

The market will remain challenging with pressure on yields due to intense competition and operating costs (especially fuel) expected to remain volatile in view of geo-political situation.

MK will continue to tap on revenue opportunities in focus markets such as France, Reunion, South Africa, India and UK while strengthening its partnership with AF, EK, KLM, Singapore Airlines, Malaysian Airlines, Virgin Australia and Air India in other markets. MK will also implement core strategies in terms of network with the new state of the art fleet of 350-900 and 330-Neos and align its commercial capacity deployment accordingly.

Its ongoing cost containment program will be relentlessly pursued while not comprising on safety and security.

In furtherance of the above measures, MK expects to grow its revenue and manage its costs while being alert to volatility of both the price of fuel and the Euro parity vis-à-vis the USD.

## 8 RISK FACTORS

Air Mauritius Limited faces a number of risk factors that are managed on a daily, weekly and monthly basis by Management under the guidance of the Board.

### A. Market Competition Risks

The markets in which the MK operates are highly competitive. It faces competition from other airlines on its network as well as from indirect flights and charter services and from other modes of transport. As the aviation markets continue to be liberalized with competitors having lower cost structures, better products, and other competitive advantages, this trend is expected to continue. This will in turn result in increased downward pressure on yields.

Management has responded to this risk by implementing a number of initiatives including investment in new markets and in the fuel efficient fleet of A350 and A330-Neos with the objective of repositioning MK and equally responding to competitors' fares to maintain and grow both passenger and cargo traffic.

### B. Financial Risks

Air Mauritius is exposed to financial risks relating to fluctuations in exchange rate, jet fuel price and interest rate movement, as well as credit and liquidity risks. The objective of the financial risk management at Air Mauritius is to minimise the negative impact of these market fluctuations on the Company's earnings, cash flows and equity as follows:

- Foreign Exchange Risk

MK is exposed to currency risk on revenue, purchases and borrowings in foreign currencies along with currency devaluation of cash held in currencies other than Euro, the reporting currency. The currency pair MK is most exposed to, is the Eur/Usd as revenue stream of MK is to a large extent in Euro and MK pays a significant proportion of its expenses in Usd.

This risk is minimised by holding cash in Euros wherever possible and subject to future cash flow requirements but exchange controls in some markets will from time to time delay conversion and repatriation of funds.

- Jet Fuel Price Risk

Jet fuel is a major variable cost component for Air Mauritius, accounting for over 30 % of total operating costs. Volatility in the price of jet fuel can have a material impact on the Company's operating results.

The risk associated to fluctuations in the price of jet fuel is managed by various hedging techniques. This price risk is partially hedged through the purchase of oil derivatives in forward markets with the principal objective to increase the predictability of cash flows and profitability.

- Counterparty Credit Risk

The Risk Management Manual requires that the Company deals with only approved financial institutions. Overall exposure to each approved financial institution, including local Mauritian banks, is well defined.

The Company has in place wherever possible ISDA (International Swap Derivatives Association) agreements with institutions with whom it carries out hedging activities. These aforementioned measures ensure that credit risks are minimized.

- Interest Rate Risk

Air Mauritius earnings are also affected by changes in interest rates due to the impact of such changes on interest income and expenses from short term deposits and other interest bearing financial assets and liabilities.

Air Mauritius mitigates this risk by having a loan portfolio both short and long term which carries both fixed and floating rates.

- Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding.

The Company mitigates this risk by careful cash flow planning and regular review of the facilities it has in place with its banking partners

### **C. Business Model Risks**

The Company had recognized the importance of revamping its business model and had remained focused and implemented measures that were crucial to ensure recovery and thereafter long term sustainability of the airline. The Company embarked on a major fleet modernization program, which it is currently implementing in a prudent and phased approach.

Meanwhile, the airline's network is being reinforced with increase in frequencies on routes that are economically viable and with introduction of operations to and from new destinations.

The combined investments in aircraft, products and routes will reinforce Air Mauritius' positioning among the top carriers in the region. While this program weighs heavily on the Company's finances, it is a precondition to its sustainability.

### **D. Network and Alliances Risks**

MK operates a number of aircraft based on a certain number of economic assumptions. When economic cycles change, it become challenging for MK to readjust the fleet size accordingly.

MK addresses this issue by having a mix of new mid-term and old aircraft in its fleet with flexibility to finance its aircraft on both finance and operating leases. This has lately culminated with the introduction of new generation and more fuel efficient aircraft in the fleet.

MK has to adjust capacity and frequencies, add new ports of calls whenever market potential dictates so, and suspends flights to destinations which are no longer cost effective. With its strategic partnerships, MK ensures constant scanning of the environment, implementation of up-to-date systems, high level of mutual understanding and nurtured relationships with major joint venture / code share partners and alignment of product and services to optimise connectivity for a seamless journey for its passengers.

## **E. Fraud Risks**

Air Mauritius mitigates this risk by having a proper and efficient system of internal controls across MK which is subject to regular internal and external audits. The Internal Audit Department reports risk issues and departures from established procedures directly to the Audit Committee together with the actions taken to remedy the weaknesses and to further improve on the existing internal controls.

MK has a detailed Fraud Prevention Policy which outlines procedures for prevention, detection and investigation of suspected frauds and irregularities.

## **F. Major Events**

An air accident may cause major disruptions to the operations.

The Company ensures that its Emergency Procedures manual is regularly reviewed and updated with the support of its consultants.

## **G. Safety and Security**

The safety and security of customers and employees are fundamental for the Company. Failure to prevent or respond effectively to a major safety or security incident may also adversely impact operations and financial performance.

The Company satisfies itself that it has appropriate safety resources and procedures including a Crisis Management Centre. Regular training and drills are carried out for a continued state of preparedness of its officers and staffs.

## **H. Reputational Risks**

The Company faces reputational risk and consequently loss of public confidence when it is confronted with a negative perception. It recognizes reputation as an ongoing risk that can adversely or beneficially impact the organization's image and that the very survival of its business depends on continued credibility and trust.

It therefore maintains a constant dialogue and communication to improve its image with all stakeholders, while putting their trust and confidence at the centre of all its undertakings.

## **I. Legal and Regulatory Risks**

The Company's business may be harmed if it fails to comply with the applicable legislations and regulations or governance standards or changes in interpretation of laws and regulations. It also has to manage the risk of loss that may be caused by an unfortunate transaction, a claim resulting in liability for the Company or a failure to adequately protect assets of the Company.

The Company actively monitors these risks through its Legal Section which ensures that all contracts are properly vetted and that legal risks pertaining to these agreements are properly understood, identified, measured and integrated into strategic decisions.

The effect of any potential changes to any applicable law or regulations, whether before or after completion of the transaction, cannot be predicted. This could potentially cause actual results to differ materially from those expressed or implied in this document.

## **J. Information System Risk**

MK is highly dependent on IT systems for most of its principal business processes. The failure of a key system may cause significant disruption to operations and result in the loss of revenue.

System controls, disaster recovery and business continuity arrangements to mitigate the risk of a critical system failure have been put in place by MK and are constantly monitored.

## **K. Human Resource Risk**

The Company has a large unionized workforce.

Collective bargaining and effective communication take place on a regular basis between Management and the Unions as the Company recognizes that a breakdown in the bargaining process and communications may disrupt operations and adversely affect business performance.

## **L. Insurance Risk**

In order to protect itself against any liability falling outside the scope of coverage or against any inadequate coverage, MK reviews its insurance policies on a yearly basis with the assistance of experts in the insurance field.

MK contracts out basic and fundamental insurance protection akin to the airline industry which is intended to provide adequate security to MK in its coverage of "All Risks, War and Terrorism" protection for loss or damage to aircraft, engines and spare parts, passenger and third party liability, property damage, cargo and baggage liability and employee liability among others.

## **M. Stock market risk**

In addition to the above risks, the share price is also dependent upon the stock market conditions. Consequently, the value of the shares quoted on the SEM may be subject to volatility.

## **9 ADDITIONAL DISCLOSURES**

### **9.1 Executive Share Scheme**

There is no employee share scheme currently in place for its executives and senior employees of MK and in its subsidiary companies.

### **9.2 Material Contracts**

The Directors of MK are interested in contracts or arrangements subsisting at the date of this Information Memorandum. However, these contracts or arrangements are not significant in relation to the business of MK Group.

MK has concluded as part of its normal course of business; two A 330Neos on operating leases contracted in December 2016, one has joined the fleet on 19 April 2019 and the second on 21 June 2019 in its ordinary course of business.

At a special meeting of shareholders held on 10 June 2019, the following transactions were approved:

- Issue of 27,000,000 ordinary shares of MK at an issue price of Rs15 for the acquisition of 200,000 shares of Mauritius Duty Free Paradise Co Ltd from Airports of Mauritius Co Ltd (AML)
- Issue of Non-Voting Convertible and Redeemable Preference Shares to AML for a total amount of Rs500,000,000
- Disposal of 342,732 shares of Pointe Coton Resort Hotel Co Ltd to AML for a consideration of Rs111,336,458

### **9.3 Legal Proceedings, Contingencies and Guarantees**

At 15 August 2019, MK Group had the following contingent liabilities:

- bank guarantees amounting to EUR 2.5 million given by MK group arising in the ordinary course of business from which it is anticipated that no material losses will arise; and
- legal claims amounting to MUR 479.3 million have been lodged against MK Group in various courts in Mauritius arising from claims mainly in respect of termination of employment or contracts or others. The above claims include cases that have been dismissed in inferior courts but have been appealed against. The directors have been advised by the legal team that some claims appear unfounded and that the severance allowance/damages claim in others appear on the high side. MK has also lodged a counterclaim for an amount of MUR 126.5 million.

### **10 DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents are available for inspection for a minimum of 14 business days as from the date of this Substantial Transaction Circular, during normal business hours at the registered office of MK:

- The constitution of MK;
- The original circular;
- The audited financial statements and annual reports of MK Group for the years ended 31 March 2019, 2018, 2017 and 2016;
- The unaudited financial statements of MK Group for the quarter ended 30 June 2019
- Trust Deed

16 August 2019