

COMMUNIQUE

The Board of Directors met in the presence of its Financial and Legal Advisors in order to review the current state of affairs of the Company. The plan formulated by the Company addresses the current issues at stake and positions the airline to come out stronger once the international economy recovers.

Company's Financial Situation

The Board took note of the latest figures regarding the financial situation of the company, the impact of fuel prices and the significant fall in market demand on the company's accounts in the context of the worst international economic crisis experienced since the Great Depression. During the third quarter of its financial year 2008/2009 (October to December 2008), Air Mauritius faced new emerging challenges leading to an unprecedented deterioration of its financial performance.

1. Fuel Hedge Impact

Air Mauritius is required to recognize the difference between the spot price of fuel and the price at which it has contracted to buy its fuel under hedging agreements. The company is required to account for losses arising not only on the volumes contracted for the year but also losses expected to arise on volumes contracted for future years, if the spot price is lower than the contracted price. These are in accounting terms referred to as contingent losses from mark-to-market operations.

Based on unaudited figures, the Company has realized a net loss of EUR 20.5m on its hedging contracts during the 9 months period ended 31st December 2008. Unrealised losses (Mark to market) as at 31st December 2008 on unexpired hedge contracts maturing up to August 2010 stood at EUR 129.5m.

The Company has appointed hedge specialists to review its hedging portfolio, develop risk reducing strategies and restructure the hedge portfolio. However, this is a complex operation and it is too early to determine any potential benefits that may be realized.

2. Impact on Cash flow due to hedging

A feature of hedging agreements is that collateral, usually in the form of cash, needs to be deposited with the hedge counterparties when losses on the contracts exceed a set level.

As explained in the Annual Report 2007/08, Air Mauritius has well-established procedures for hedging which date back many years. In line with these guidelines Air Mauritius has hedged directly with financial institutions. As of today, these counterparties for fuel hedging are Barclays Capital, BNP, Mitsui and Morgan Stanley.

At 31 December 2008, Air Mauritius has had to issue collaterals totaling EUR 117.9m in various forms including cash, letters of credit and Government guarantee. To ease pressure on the Company's cash flow, Government has pledged guarantees to the tune of USD 110m (EUR 78.5m) of which the equivalent of EUR 60.7m has been utilized.

The current volatility in fuel prices makes visibility very difficult. Depending on future fuel price movements the actual hedging loss could be higher or lower than the projected unrealized hedging loss.

At current oil prices, Air Mauritius expects the current collaterals in place to be sufficient to meet the company's liabilities, except:

1. For an equivalent amount of EUR 18m facility that it is currently renegotiating; and
 2. That cash resources must be available to meet the commitments of the company as hedge contracts mature and losses must be settled in cash.
3. Decline in demand for travel and cargo

The third quarter results were also impacted by declines in demand for travel and cargo resulting in lower revenue to the order of EUR 6.4m compared to the same period last year. For the Financial Year ending 31 March 2009, the Company is expecting a revenue shortfall of EUR 26.3m compared to corresponding figures of the last financial year. Continued declines are expected throughout 2009 and the turmoil in our main markets makes it extremely difficult to forecast demand beyond April 2009.

4. Estimated results as at 31st December 2008 and forecasts to 31st March 2009

On the basis that unrealized hedging losses would be recognized through the Hedge Equity Reserve Account, the impact of the above factors has resulted in estimated losses of EUR 18m at the end of December 2008 (2007 – profit of EUR 11.6m) and projected losses of EUR 23.1 m at the end of March 2009 (2008 - Profit of EUR 15.6m). Unaudited 9 months figures will be published by mid-February 2009.

5. Funding Requirements

The Board has investigated funding alternatives to meet its future cash flow needs. The total funding needs of the Company are estimated at EUR 65m and are expected to be met principally from the realization of non-core assets and bridging finance, together with a call for fresh capital.

The injection of fresh capital will consolidate the company's equity base in the interest of all its stakeholders.

The Board has resolved to recommend accordingly.

6. Business Restructuring

The Company has looked at a series of measures to improve its competitiveness.

These measures include a review of the network in the light of reduced demand. We will make full use of all opportunities offered by our new co-operation agreement with Air France for all European markets. Operations to Germany will be consolidated on Frankfurt.

The new operating plan has implications on our fleet and other resources including human resources. These implications are presently being assessed. A Company-wide plan for reducing costs across the board is of critical importance and will start from the top of the organization. This will include appropriate efforts by the Board and Leadership Team to set the example.

The Company also recognizes the need to strengthen relationship with its trade partners in order to maximize business opportunities.

Air Mauritius is committed to do all that is necessary to return to profitability once demand recovers. To this end, the Board has examined the implications in case the international situation worsens. If oil prices were to fall below USD30 and the demand to decline even more sharply than currently projected and/or the Euro were to depreciate sharply against the USD, additional measures and/or capital injection may be required. This has been factored in the business proposal as a worst case scenario.

The Board noted that Air Mauritius is facing similar problems of fuel hedging and falling demand as other airlines worldwide. Like Air Mauritius these airlines are also coming up with similar restructuring plans.

By order of the Board

12 January 2009

This communiqué is issued pursuant to Listing Rule 11.3

The Board of Directors of Air Mauritius Ltd accepts full responsibility for the accuracy of the information contained in this communiqué.