

MINISTRY PAPER NO. 28/07

GOVERNMENT GUARANTEE OF A LOAN TO AIR JAMAICA LTD. UNDER THE PROVISIONS OF THE APPROVED ORGANIZATIONS AND AUTHORITIES LOANS (GOVERNMENT GUARANTEE) ACT

1.0 INTRODUCTION

1.1 The Honourable House of Representatives is being advised that Air Jamaica Limited is seeking to approach the market to raise financing to support its Business Plan for 2007 to 2009. In this regard, the Honourable House is invited to approve a request for a Guarantee, under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act, to secure loans totalling US\$125 million to assist in this process.

2.0 BACKGROUND

2.1 Members of the House will recall that a Select Committee of the House was appointed in June 2006 to examine the financial and operational state of Air Jamaica, its future prospects and the plans being pursued by the airline's management. The Committee received submissions from a number of groups and its findings and recommendations are to be tabled shortly.

2.2 Extensive discussions were held by the Committee on the airline's Business Plan for the period 2007 – 2009 which included a requirement for external financing amounting to US\$125 million. Of this total, US\$60.0 million would go towards clearing outstanding debts; while US\$65 million will be allocated to fund the company's operations over the period 2007 – 2008, as well as finance operating losses for the two years.

3.0 FINANCIAL FORECASTS

3.1 The Business Plan also includes proposals to gradually reduce losses over the next three years through a re-fleeting exercise, continued route rationalisation, improved flight reliability; and further consolidation of operations. Table 1 presents a summary of financial forecasts for 2007 to 2009.



Table 1: Summary of Financial Results 2006 to 2009

	Estimated US\$'000 2006	Projected US\$'000 2007	Projected US\$'000 2008	Projected US\$'000 2009
<i>Total Revenue</i>	<i>392,158</i>	<i>401,035</i>	<i>390,539</i>	<i>406,515</i>
Passenger	320,327	331,509	317,706	332,856
Other	71,831	69,526	72,833	73,659
<i>Operating Expenses</i>	<i>(502,840)</i>	<i>(478,202)</i>	<i>(439,165)</i>	<i>(457,153)</i>
Finance Charges	(44,986)	(20,248)	(24,225)	(19,237)
Tax Rebate	24,014	25,000	25,000	25,000
Air Jamaica Vacations	(430)	423	0	0
<i>Re-fleeting Impact</i>	<i>0</i>	<i>3,660</i>	<i>12,570</i>	<i>33,830</i>
<i>Net Income</i>	<i>(130,229)</i>	<i>(68,332)</i>	<i>(28,151)</i>	<i>(11,055)</i>

3.2 Over the 3-year period the re-fleeting initiative is expected to generate net savings of US\$42 million. Improvements in maintenance and operations should contribute to improved flight reliability, thereby increasing load factor to 73% in 2009 from 64% in 2006. Continued route rationalisation will result in the closure of non-profitable routes and the development of new routes with the potential for profitable operations. It is anticipated that this initiative will generate incremental revenue of US\$17 million in 2007 increasing to US\$33 million in 2009.

4.0 FINANCING PROGRAMME

4.1 The Ministry of Finance and Planning (MoFP) has been working with Air Jamaica to secure its funding requirements from the domestic and external capital markets. In this regard proposals were requested from ten (10) foreign and domestic financial institutions, and all ten responded. Of the respondents, Bear Stearns & Company Incorporated provided the most competitive and cost effective proposal.

4.2 Bear Stearns Incorporated has agreed to arrange the issuance of a US\$125 million long-term fixed rate private placement on the international capital market, underwriting the full amount of the bond.

4.3 The following is a summary of the salient terms of the proposal by Bear Stearns & Company Incorporated:

Tenor: 20 years
Price: Par or slight discount
Interest: Semi-annually
Repayment: Twenty-one equal, semi-annual instalments commencing in Year 10
Security: Unconditional and irrevocable guarantee of the Government of Jamaica

*10 Difference in net
\$30 (us)
Interest rate
can track*

4.4 The net proceeds from the sale of Notes will be utilised as follows:

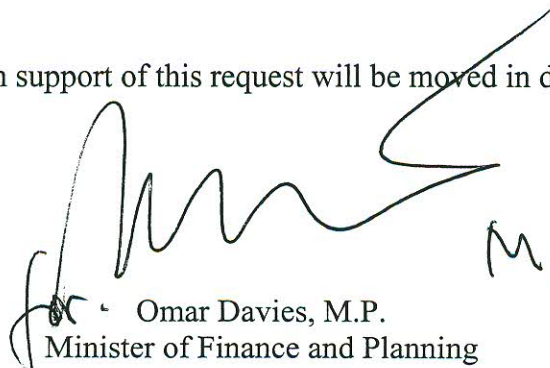
- a. An immediate injection of US\$60 million to cover outstanding debts.
- b. Capital injection of US\$65 million over 2007 to 2008 to finance fleet change (US\$17 million), other capital expenditure (US\$18 million) and losses over the two years (US\$30 million).

4.5 The attached statement sets out the total principal outstanding in respect of loans previously guaranteed on behalf of Air Jamaica.

5.0 REQUEST

5.1 The Honourable House of Representatives is being asked to approve the provision of a Government Guarantee, in accordance with the Approved Organizations and Authorities Loans (Government Guarantee) Act for principal moneys of US\$125 million, interest and any other amounts payable in respect of the Notes and the Fiscal Agency Agreement regarding the bond issue by Bear Stearns & Co. Inc.

The appropriate resolution in support of this request will be moved in due course.


M.O.S.

Omar Davies, M.P.
Minister of Finance and Planning
May 28, 2007

