OFFICE OF THE PREMIER
CAYMAN ISLANDS GOVERNMENT

Statement by Premier and Hon. Minister for Finance, Tourism and Development
PAL/CAL Exploration
(9th November 2012)

Madam Speaker, recently, the Cayman Islands Government received a proposal from Philippine Airlines (PAL) and their parent company, San Miguel Corporation, to jointly explore mutually beneficial ways of working together. The Government passed the proposal on to the CAL Board to explore the validity or merits of the proposal. Based on the responsive feedback from CAL's Board, San Miguel Corporation and Members of CAL's Board were allowed to present such a proposal to the Governor in Cabinet.

San Miguel Corporation is a multi-billion dollar company and has expressed great interest in investing in the Cayman Islands. We welcome this exploration of potential investment and trust that they will ultimately chose to invest in these islands. With their controlling ownership of PAL, there also appears to be some potential opportunities for Cayman Airways and the Cayman Aviation sector, in general, to benefit from an investment by San Miguel Corporation.

Madam Speaker, accordingly, Cayman Airways is currently in discussions with Philippine Airlines to ascertain if there are ways for the two airlines to work together. The exploration of this potential collaboration is covering a variety of areas, but includes reviewing the ability to code share, to provide aircraft operations and includes other strategic areas. These explorations are very preliminary Madam Speaker and, while there may be great speculation in the media as to what may ultimately be agreed, nothing has been confirmed at this point and discussions are ongoing.

Cayman Airways has also been exploring the concept of raising capital through a variety of options. The introduction of preference shares as an additional class of shares is one of those considerations that could possibly be pursued to raise capital from any potential investors locally or otherwise. These non-voting shares provide for a stated return to the holder(s) and provide an equity source of funding for the airline. Under the Public Management and Finance Law, and the Framework for Fiscal Responsibility, the ability for the airline to issue preference shares requires obtaining Cabinet, House and UK approval. Madam Speaker, considering the lengthy approval process, this too is only exploratory at this time. Assuming the necessary approvals can be obtained, preliminary discussions with the San Miguel Corporation suggest that they may be interested in purchasing some of these preference shares in Cayman Airways. While this investment

would be welcomed, the conceptual goal is also to offer the preference shares locally for purchase by Cayman residents and Cayman companies.

Madam Speaker, there is obviously much going on behind the scenes to attract potential investors, such as San Miguel Corporation, to the Cayman Islands. Our National Airline is quite busy exploring the potential ways and benefits that such an investor could bring to the key service the Cayman Airways provides to these islands. Many ideas and concepts are being explored and considered, but nothing is yet to the stage that could positively be released in the absence of any definitive agreed terms. Indeed Madam Speaker, the MOU I signed with the San Miguel Corporation stated that we would explore potential ways to work together and that is exactly what we are doing. The necessary due diligence and seeking of approvals all need to be conducted, but at this point it is suffice to say that the exploration is ongoing and I look forward to bringing more details forward if some of the ideas are commercially viable and acceptable under the PMFL.

Cayman Airways Management and Board, should be commended for their continued efforts to realize ways in raising needed Capital for a variety of purposes such as to purchase their current fleet of aircraft instead of leasing in order to reduce operational costs (ownership vs leasing). These are the type of initiatives that have been embarked upon in order to reduce their dependency on the Government and ultimately the people of these Islands.

Madam Speaker, I am also proud to announce, as informed by our Chairman and Management of CAL, that for possibly the first time in the history of our National Airline, or certainly within the last decade, the company made a small profit for first quarter of this fiscal year (July-Sept 2012). While not much of a profit, in consideration that the Airline is coming from comparable quarterly losses for the same period in excess of $2 million in 2009, we should all be proud and continue to support the Management and Board of Cayman Airways to get us to even further heights.