

## **AI Airports International: New Board of Directors decides to completely terminate business ties to the Meinel Bank Group**

Management contract with Meinel Airport Managers (MAM) terminated with immediate effect – Severe violation of duty of care alleged on the part of MAM – No compensation payments to be made to Meinel Bank – Damages for breach of contract and restitution will be claimed

Jersey, October 28, 2008 – The new Board of Directors of AI Airports International (“AI”), elected by the independent AI certificate owners on July 28, 2008, has taken the final step in cutting the company’s business ties to the Meinel Bank Group. Due to apparently severe violations of the principle of duty of care which AI believes it can establish, the contract defining the cooperation with the external fund management company Meinel Airport Managers Ltd. (MAM), a 100% subsidiary of Meinel Bank, has been terminated with immediate effect. Following the termination of the “market maker” agreement and the rescission of the licence agreement, AI Airports International has thus ended the third contractual agreement with the Meinel Bank Group which is relevant to the day-to-day business operations of AI Airports International. As announced after their appointment at the EGM the new Board of Directors has therefore eliminated the last remaining business ties with Meinel Bank and put an end to the cash drain on AI arising from the payment of excessive management and other fees to Meinel Bank. The contract was ended based on three alternative arguments: on the basis of misrepresentation on entering into the agreement; on the basis of breach of contractual terms entitling immediate termination and on the basis of automatic termination for MAM carrying on business within a fiscally unacceptable jurisdiction – no compensation payments are to be made by AI Airports International to either MAM or Meinel Bank. Restitution and/or damages for breach of contract will be claimed.

“In the past few weeks, the review of the management agreement by independent legal and accounting experts has identified a significant number of apparent violations against the principle of duty of care and standards of good corporate governance”, says Wolfgang Vilsmeier, Chairman of the Board of Directors of AI Airports International. The review was carried out on the basis of the documentation provided by MAM, which was incomplete. Nevertheless, the available documents provide a picture which shocked the board as to how the company was managed. “On the one hand, it is incredible how little care the present Board of Directors believes MAM and the previous Board of Directors appear to have used in managing the assets of the AI certificate holders, and, on the other hand, how a systematic cash drain from the fund to Meinel Bank was set up and maintained, costing AI millions. The results of our review are much worse than initially anticipated”, Vilsmeier explained.

The investigation team contracted by the newly-elected AI Board of Directors discovered an accounting system which they regard as inappropriate. A standardised reporting system was never established, and the documentation of the company’s business activities was incomplete. Accordingly, the termination of the management agreement with Meinel Airport Managers was a logical step to prevent further damage to the interests of the AI certificate holders, Vilsmeier said. AI has given notice to MAM that it has acted alternatively either

- 1) To rescind the management agreement on the basis of negligent or fraudulent misrepresentation inducing MAI (as it then was) to enter into the management agreement or

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- 2) To terminate the agreement with immediate effect for breach; or
- 3) To terminate the agreement with immediate effect for MAM carrying on business within a fiscally unacceptable jurisdiction.

In addition, the AI Board of Directors accuses the Meinel Bank subsidiary MAM of violating its responsibilities in at least three specific areas:

- Pursuing an inappropriate investment strategy with no professional preparation of investment decisions.
- The ongoing invoicing of certain costs incurred by MAM to the account of AI Airports International.
- Violation by the MAM management of its authority delegated by the previous Board of Directors.

#### **Pursuing an inappropriate investment strategy with no professional preparation of investment decisions**

The investments made by the previous AI Board of Directors were not subject to proper due diligence carried out by independent experts. For example in one case legal due diligence was made only after the contract was signed.

The business and development plans for all airport investments were based on optimistic assumptions about significant future growth of passenger traffic. Also the two consulting companies ACV-MS (51% stake) and A-DM (49%) were acquired at purchase prices which, according to an examination carried out by the Board, were not determined in accordance with “best practices”.

#### **The ongoing invoicing of certain costs incurred by MAM to the account of AI Airports International**

In spite of charging high management fees to AI Airports International, the Meinel Bank subsidiary MAM purchased external consulting services in order to acquire missing expertise and in many cases invoiced such additional costs to AI.

#### **Comprehensive claims for restitution and/or damages**

Vilsmeier also announced that claims for restitution and/or damages arising out of the various alleged breaches are being formulated by AI Airports International against Meinel Airport Managers Limited and others. Included will be claims for repayment of management fees paid to date. One background to the charges is the fact that Meinel Bank collected fees for the placement of the certificates in the course of the IPO and for the “market maker” function which were significantly higher than market benchmarks. The IPO fee paid by MAI was for instance more than twice the amount of market benchmarks. According to Vilsmeier the charges represent an amount in the double-digit millions of Euros range.

#### **Appointment of new manager for AI**

The new AI Board of Directors will procure new management capabilities in the near future.

## Comprehensive strategic review of the existing investment portfolio

AI Board of Directors has commissioned a comprehensive strategic review of all existing investments by independent experts – no trust in the decision making processes of the former management.

One of the first steps taken by the new Board of Directors was a comprehensive review of all investment decisions taken by the former Board or the external management entity Meinl Airports Managers (MAM) and a review of the strategic options for all airport participations in the AI portfolio. An international due diligence team – consisting of auditors, lawyers, aviation experts and Goldman Sachs – has been engaged.

The AI Board has concluded that AI does not represent the best owner for all of its portfolio assets and that it might be more suitable to sell certain participations to a third party. The stake in the “Lake Baikal” airport in Ulan Ude represents such an investment. “After a comprehensive review, including on-site due diligence, we have come to the conclusion that this particular airport could be managed more efficiently by a local owner. A fund domiciled in Jersey could manage an airport in a remote Siberian region only by incurring significant costs and considerable risks”, Vilsmeier said.

As it is the case with Ulan Ude, the other airports in the AI investment portfolio, namely Parma Airport (AI stake of 67%) and Bydgoszcz Airport (AI shareholding of 49%) are typical “development investments” that may provide significant shareholder value for their owners, however the Board has concluded that they require a hands-on management approach from an experienced airport operator. Vilsmeier: “We are convinced that all three investments have a considerable development potential however such a portfolio would be in better hands of an investor with a more strategic and long-term approach who has the management capacity to fully exploit their potential.”

Independently from the strategic review of the portfolio the AI Board will also evaluate all possibilities for using the significant cash position of AI (approximately EUR 350 million as of end of September).

Once the portfolio review has been finalised the AI Board will take the necessary decisions regarding the future of AI. “At the moment, I do not exclude anything. Potential next steps may range from the long-term development of individual airports to the sale of single assets or the entire portfolio and we will also evaluate a reasonable certificate buyback program. Of course a potential buyback program is subject to AGM approval. We will carefully consider all potential options in light of their potential for creating value for our certificate holders”, Vilsmeier said. As the review process has only recently commenced, no formal timetable for a final resolution about the future of the AI portfolio has yet been determined although the Board would expect the process to have made significant progress until the end of the year.

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