



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

---

## **PRESS RELEASE**

### **A320/A330 Swap Transaction**

---

In 2002 SAA entered into a purchase agreement with Airbus to acquire A320 aircraft. The first ten of the 20 A320s have been delivered and the delivery of the remaining ten aircraft was expected to take place by 2017. The original contract for the acquisition of the A320 aircraft however, resulted in the acquisition price negotiated with Airbus exceeding the current market value of the A320s due to the escalations that were part of the contract. As a result, SAA had to raise impairment losses in line with International Accounting Standard (IAS) 36 in excess of R1 billion for the first ten A320 units delivered. As the remaining aircraft were delivered, SAA would have been required to recognise further impairments.

To rectify this onerous contract, SAA had negotiated a swap transaction where the purchase of the remaining ten A320s would be cancelled and SAA would instead enter into operating leases on five A330-300s. From an operational point of view, the A330-300s would be deployed to phase out the A340-600 wide body fleet which was anticipated to result in cost savings. SAA would not be required to recognise impairment losses as the aircraft would be leased at market related rates. There would be a cash flow benefit as Airbus had agreed to reimburse SAA for the Pre-Delivery Payments (PDPs) that had already been paid for the remaining ten A320 aircraft not yet delivered. Moreover, SAA would not be required to pay the remaining PDPs on these aircraft. There was a possibility that SAA could be subject to a penalty for Buyer Furnished Equipment (BFE) ordered for the A320 aircraft.

In July 2015, on recommendation from the Board, the Minister of Finance approved the transaction subject to SAA providing additional information, including a net present value analysis over the full term of the contract and a detailed risk analysis with the identified mitigation strategies. Following the receipt of the required information, the Minister confirmed his approval of the transaction in September 2015.

Subsequently, the SAA Board Chairperson indicated in a letter to the Minister of Finance that the Board was reviewing the transaction structure with a view to amending it. The Minister of Finance responded saying that any such amendment should leave SAA in a better financial position than would otherwise have been the case had the swap transaction gone ahead and that steps must be taken to mitigate any risks that could arise from the original swap transaction not proceeding.

In line with the timelines set by the Minister of Finance, on 16 November 2015, SAA sought approval from the Minister of Finance in terms of Section 54(2) of the Public Finance Management Act (PFMA) to amend the structure of the original swap transaction that had been approved by the Minister. The transaction proposed entailed SAA purchasing the A330 aircraft and entering into a sale and leaseback of the aircraft with a local lessor so that the lease would be denominated in ZAR (the lease with Airbus would have been denominated in USD). In

addition, SAA shared communication from Airbus indicating that on an exceptional basis, Airbus had agreed to defer SAA's obligation to pay the Outstanding PDPs on the A320 purchase transaction, which is still in force, until 21 December 2015. By this date Airbus is expect to have agreed on an acceptable way forward with SAA.

Therefore there was urgency to reach finality on this matter. Moreover, as the nature of the transaction could have a material impact on SAA's financial position, failure to conclude the transaction was preventing the finalisation of SAA's 2014/15 financial statements, the holding of the Annual General Meeting (AGM) and the tabling of SAA's financial statements in Parliament.

National Treasury reviewed the formal application submitted by SAA on 16 November 2015 and requested additional information from SAA which was provided on 30 November 2015. Based on the indicative lease rates provided by SAA, both SAA and National Treasury's assessment indicated that possible benefits may be realised through entering into ZAR lease. However, SAA has confirmed that it still has to go on a Request for Proposals (RFP) process to identify a leasing company and perform due diligence procedures on the prospective lessor and hence the lease rates were still speculative. This applied to all terms and conditions including maintenance reserve payments, insurance requirements, return conditions, cross default clauses, any penalties including Buyer Furnished equipment (BFE) that may be incurred, other costs and expenses that would be payable etc. There was a risk that once finalized, the terms may prove to be more onerous than assumed by SAA in the submission.

Moreover, SAA has indicated that it intended to conclude a back-to-back arrangement with the local leasing company, with the leasing company expected to pay the USD 100 million in PDPs due on the contract signature date between Airbus and SAA. However, given that the RFP process had still to be initiated and could take some time to conclude together with the fact that there was an urgent need to finalise this transaction, there was considerable risk that no such arrangement would be in place by the time that the contract with Airbus must be concluded. In the absence of having identified the financial institution that would act as the lessor, SAA would be required to make the immediate payments that would become due. SAA has acknowledged that it is not in a financial position to afford the PDPs and this accords with National Treasury's own assessment. Should the airline not have sufficient funds available to meet the PDP payments as they became due and payable and SAA defaulted on its obligations, cross-defaults would be triggered on SAA's guaranteed debt obligations as well as other leasing arrangements. A default by SAA would have severe negative consequences for SAA and could have spill over consequences for the country as a whole. Specifically it would negatively impact on government's capacity to deliver on its social and developmental objectives

In light of the above, National Treasury concluded that SAA had not demonstrated that there was certainty that the proposed amendment to the transaction structure would leave the airline in a better financial position than it would otherwise have been had the airline implemented the original swap transaction structure. In fact, the information indicated that the proposed transaction structure would actually leave SAA in a materially worse off financial position where it is unable to meet its commitments as they fall due. Although possible benefits may be realised through allowing the airline to continue to pursue an alternative transaction these were far outweighed by the high probability of a default on the government guarantees and the severe consequences thereof.

Consequently, the Minister of Finance has not approved the proposed amendment to the transaction structure and has instructed SAA that they must implement the transaction structure in line with the approval that had already been granted, i.e. conclude the agreement to swap the purchase of ten A320s for a lease of five A330s from Airbus.

Should SAA conclude a significant transaction with Airbus or any other party for which the airline has not received approval in terms of Section 54, this would constitute an act of financial misconduct which could be grounds for sanctions against the Board in line with Section 83(4) of the PFMA.

**Issued by National Treasury**

**3 December 2015**