



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

SAA CONCLUDING SWAP TRANSACTION WITH AIRBUS AS DIRECTED BY FINANCE MINISTER

The Minister of Finance, Mr Pravin Gordhan, directed the Board of South African Airways (SAA) to conclude the swap transaction with Airbus in line with approval granted in July 2015. SAA has informed the National Treasury that the Board has approved the execution of the transaction as directed and a process is underway to conclude it within the next few days. The transaction will see SAA swap the purchase of ten A320 aircraft for a lease of five A330-300 aircraft from Airbus.

The National Treasury has also been in direct contact with Airbus to ensure that all the required actions are executed smoothly to conclude the deal. Airbus has indicated that they are amenable to the implementation of the transaction and have required that all legal documentation be in place by 28 December 2015. The National Treasury will work closely with Airbus and SAA to finalise the swap transaction.

The implementation of the deal in this manner will mean that SAA will no longer be required to pay additional pre-delivery payments (PDPs) to Airbus, which would have amounted to approximately USD 40 million. Also, as the airline takes delivery of each of the A330s, the PDPs that have already been paid, which total just more than USD 100 million, will be refunded by Airbus. SAA will not be required to recognise impairments, as it will no longer be acquiring aircraft. It had been estimated that such impairments could have totalled in excess of R1 billion.

The implementation of the transaction will therefore, improve the airline's financial position by alleviating the cash flow pressure and improving its profitability. Further measures will be taken next year to stabilise the airline.





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BACKGROUND

In 2002 SAA entered into a purchase agreement with Airbus to acquire A320 aircraft. The agreement has proved financially onerous to the airline. In April 2015, the Board of SAA applied for approval from the former Minister of Finance, Mr Nhlanhla Nene, to cancel the purchase of ten A320 aircraft from Airbus and, instead, enter into an operating lease on five A330-300 aircraft with Airbus. During July 2015, the former Minister of Finance approved this request.

During November 2015, SAA applied for permission to amend the transaction to allow SAA to purchase the A330-300 aircraft and enter into a sale and lease back deal with a local lessor/s. SAA argued that one of the benefits of this transaction structure would be a mitigation of the airline's exposure to exchange rate fluctuations.

On 3 December 2015, the former Minister of Finance, Mr Nene, decided not to approve the amendment to the A320/A330 swap transaction structure. Whilst acknowledging that SAA might have benefited from entering into the local leasing arrangement, Minister Nene highlighted that the terms of the local leasing transaction remained speculative and there was considerable risk that the local leasing arrangement would not be in place by the time the A330 purchase contract was concluded with Airbus at which point SAA would be required to pay USD 100 million in PDPs.

It was likely that the airline would not have the cash resources available to make such a payment resulting in it defaulting on its obligations, triggering cross defaults on other leasing arrangements and SAA's government guaranteed debt obligations. This would have severe negative consequences for SAA and for the country as a whole. SAA was instructed to implement the transaction structure in line with the approval that had already been granted.

After his appointment, Minister Gordhan gave SAA an opportunity to make further representation, following which he decided that the airline must go ahead with executing the A320/A330 swap as had been approved in July 2015.

Issued on behalf of National Treasury

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