

Finance

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## TAP PRIVATIZATION

The Portuguese Air Transports company was founded in 1945 by Humberto Delgado with the first goal of connecting Portugal with the Colonies Angola and Mozambique, but soon expanded to a few European routes. Nowadays TAP flies to 84 destinations over 35 countries.

In 2008 TAP presented alarming results in its profits and its equity reached negative values. The cause of these results can be associated with two events: Firstly the growth in 'jet fuel' price which led TAP to spend 67% more than expected and secondly, the acquisition of the Brazilian maintenance company AVEM in 2007. Since it was bought, AVEM has only accumulated annual losses of 286,5 million Euros until the year of 2014 and it represents a terrible investment which led to the need of recapitalization of TAP urgently after the declaration of technical bankruptcy in the end of 2008.

In 2012 the company had negative profit of 381 million euros and the recapitalization became inevitable. Once the decision was made, that TAP needed help, there were two options for it to happen: either by injection of capital by the government or by a privatization.

The Government at the time gave preference to a privatization and claimed that a governmental intervention was not allowed by the European Union's regulations. Since an airline company is subject to a high level of competitiveness, any aid from the State can be seen as a fostering to that company in detriment of other companies of the sector, therefore EU strongly disapproves any action of this kind. However, in the TAP specific case, the Portuguese government is not completely forbidden to help the company and the opposition strongly defended the preservation of TAP as a flag company of Portugal with the majority of capital owned by the State. In response to the criticism, the government emphasized that public capitalization would require many cuts on budget, selling of aircrafts and dismissing employees in a high number and for that the government insisted on the idea that the best solution for TAP would be the privatization.

The process of privatization began in 2012 when the businessman Germán Efromovich, CEO of Aviacsa, showed interest in the company, however some communication problems occurred and the government decided to postpone the deal. Efromovich kept in the race until 2014 when the process was reopened.

The conditions announced by the government were that 66% of the

company's capital would be sold through direct sale - 61% to direct investors and 5% to TAP SGPS workers. The remaining 34% would be in possession of the Government for two years.

On May 15th of 2015 all the 3 interested candidates presented their proposals: David Neeleman, CEO of Azul Linhas Aéreas and JetBlue Airways, who partnered with the portuguese businessman Humberto Pedrosa, Germán Efromovich, who kept on the race and Miguel Pais do Amaral.

A primary analysis of the proposals immediately excluded Miguel Pais do Amaral because it didn't accomplished one of the requirements of the government. The winning proposal was the consortium of David Neeleman and Humberto Pedrosa and the final contract with the Portuguese Government was signed on November 12th of 2015. The values that are now revealed show that the consortium has paid 10 million Euros for the shares of TAP SGPS and is prepared to invest 338 million Euros in the recapitalization of the company.

The commitments required by the government and accepted on the privatization by te consortium were:

- The enforcement of the obligations of public service
- The maintenance of integrity, corporate identity and autonomy of the TAP Group
- The conservation of the TAP brand and its association with Portugal, assuring the maintenance of the company's headquarter in the country
- The maintenance and reinforcement of the hub in Lisbon
- The contribution to the development of the national economy
- The assumption of commitments in matters of labour stability and appreciation and development of the human resources.

Since the signature of the contract, the new owners have already announced the purchase of new aircrafts and also the intention of competing with the strong low-cost airlines in Europe, making TAP more competitive and efficient.

Given the recent establishment of the contract it is not possible to assure the positive effects of the new measures and changes that will happen in the next months in TAP, however the new ownership has shown that it is determined to strengthen and modernize the company and to explore its capacities to the fullest.