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PORTUGUESE INSIGHTS

TAP PRIVATISATION: SMOOTH SAILING OR TURBULENT SKIES?

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The Portuguese Government approved the first phase of TAP's privatisation, which includes the sale of up to 44.9% of the company's share capital to a strategic investor, along with an additional 5% reserved for employees.

This decision follows the financial restructuring of the TAP Group, initiated in 2021, in response to the impacts of the COVID-19 pandemic. As part of this process, the State injected approximately €3,200 million into the company and regained full ownership of the share capital, following the exit of the previous shareholder, a consortium formed by David Neeleman, founder of the airline Azul, and Humberto Pedrosa of the Barraqueiro Group.

While the possibility of privatising up to 100% of TAP was considered, the Government argues that selling a minority stake offers advantages; however, this option seems to be largely due to pressures from both the left and the right against a full privatisation. With the proposed partial privatisation, the Government aims to ensure the entry of private investors who will provide additional funding, as may be required, and technical expertise to enhance the financial return in a future sale of the remaining capital, while leaving strategic decision-making control in the hands of the State. Selling a minority stake also allows for a broader range of potential investors, including those from countries outside the European Union, since European legislation requires that the majority of the capital be held by European citizens or companies.

The main conditions of the privatisation that have been disclosed are as follows:

- **Sale process**. The sale will take place in several stages, namely: the pre-qualification of interested parties, the submission of non-binding offers, the submission of binding offers, final negotiations, and the signing of the contract.

- **Calendar**. The process is expected to take around one year, with the sale anticipated to occur in the third quarter of 2025.

- **Evaluation criteria**. The selection of the buyer will prioritise, in particular, the proposed industrial plan, fleet expansion, the development of airport infrastructure within national territory, investment in sustainable fuels, and the immediate capital injection the investor is willing to make in the company. The Government's main concerns include maintaining TAP's hub in Lisbon — considered vital to the national economy and to the airline's role as a strategic link between Europe, Africa, and South America — as well as preserving TAP's identity as a national brand, ensuring it is not reduced to a mere subsidiary of an international group.

- **Management**. Under the approved model, private investors will assume management responsibilities, while the State is expected to retain veto rights over strategic matters through a shareholders' agreement to be proposed by the bidders.

- **Disposal of the remaining capital**. The tender conditions to be approved are expected to give the State and the investor pre-emption rights in the event of a sale – without imposing, in either case, drag along rights.

Although at first glance the newly approved model – combining private management with majority public ownership – may present certain advantages, past experience suggests that this solution also poses several risks and challenges, namely:

- **Safeguarding return**. If investors propose to make significant investments, they will undoubtedly seek mechanisms to safeguard their expected returns. These mechanisms might include profit distribution rules that reflect their investments rather than mere ownership percentages, or purchase price formulas for any future sale of the controlling stake that consider the value of their management and capital contributions. Such arrangements could ultimately reduce the financial return the State may obtain;

- **Risk of "nationalisation" of losses**. The experience of TAP's previous privatisation process, which ultimately led to its nationalisation, has set a difficult precedent to overcome if TAP ever encounters problems in the future, whether caused by a flawed strategy, mismanagement, or unexpected events like the Covid-19 pandemic, which led to the injection of public funds that are now unrecoverable.
- **State interference in management**. Maintaining State control may prompt private investors to protect their position by limiting the State's scope of intervention to very narrow aspects. Alternatively, they may seek compensation for any interventions that impact their expected returns, either through put options on their stake or via price adjustment mechanisms.

Among those interested in the privatisation are major European groups such as Lufthansa, Air France-KLM, and the IAG Group, which owns, among others, British Airways and Iberia. These groups have already taken part in the preliminary consultation phase and have expressed their intention to submit proposals. However, the Government appears committed to also seeking interested parties outside the European Union, so the participation of other operators cannot be ruled out.

The decree-law outlining the privatisation conditions approved by the Government is expected to be published shortly.

KEY INFORMATION

Share capital

100% owned by the Portuguese State (through the Directorate-General of Treasury and Finance)

Subsidiaries

TAP has the following subsidiaries:

- Portugália - Companhia Portuguesa de Transportes Aéreos S.A.
- TAP Logistics Solutions, S.A.
- SPdH – Serviços Portugueses de Handling, S.A.

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Financial information

- Net income: €54 million
- Revenues: €4,242 million (+1%)
- Recurring EBITDA: €875 million (+21%)
- Recurring EBIT: €383 million (+9%)
- Seat supply measured in ASK (2024): +1.6%
- Revenue per seat measured in RPK (2024): +3.4%.
- Net Debt: €750.3 million
- Credit ratings: BB- by S&P and Ba3 by Moody's

CONTACTS

António de Macedo Vitorino

Email: avitorino@macedovitorino.com

Mobile: 351 935 241 911

André Vasques Dias

Email: adias@macedovitorino.com

Mobile: 351 935 241 904

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