TAP – Transportes Aéreos Portugueses, SGPS, S.A.
(Consolidation)

2017

Management Report
(Main Facts)

and

Accounts

A STAR ALLIANCE MEMBER

MANAGEMENT REPORT

(Main Facts)

2017

Economic Environment

International Environment

The overall economic activity in 2017 was solid, with expansion expected to be around 3.7%. This evolution, ½ percentage point higher than in 2016, represents a generalized recovery in both the advanced economies and the emerging and developing economies, with particularly pronounced growth in Europe and Asia.

In the context of the advanced economies, there has been an acceleration in growth, mainly driven by domestic demand, compared to 2016, with economic activity in the United States maintaining moderate growth of around 2.3% – an increase compared to 2016, together with an improvement in labour market conditions and a reduction in unemployment. Moreover, in the United Kingdom, economic growth declined to 1.7% from 1.9% in 2016, as a result of the deceleration of domestic consumption, in part associated with the impact on households' real disposable income, of the pound depreciation as a result of the referendum outcome on continuing their membership of the European Union.

In emerging market economies, economic activity increased, continuing to benefit from accommodative financial conditions and, in the case of commodity-exporting economies, a rise in prices by the end of 2016. In China, the economy grew by 6.8%, in line with what was observed in 2016, and despite the apparent robustness of economic activity, it's important to mention some concerns regarding medium-term financial stability, given the pace of credit growth. Non-financial sector credit, as a percentage of GDP, is similar to that of advanced economies and progressively distancing itself from the pattern considered in emerging market economies. India continued to stand out as one of the fastest growing emerging countries, at the order of 6.7%. In Brazil, the strong performance of exports and the slower pace of contraction in domestic demand allowed the economy to return to a positive growth of 1.1%, following a trend of -3.5% in 2016.

On the price side, an improvement in prospects for global growth, climate upheaval in the United States, the extension of OPEC+ agreement to limit oil production as well as geopolitical tensions in the Middle East have sustained crude oil prices, which are estimated to have risen above 20% since August, reaching a price increase of USD 67 at the end of December 2017.

The price of jet fuel also rose in a similar trend, registering the average price, namely the reference CIF NWE transacted by TAP, an increase of the order of 23.9%, compared to 2016, and ending the year above USD 642 per ton.

Regarding the Eurozone, which represents roughly 66% of the external demand for goods and services directed to the Portuguese economy, economic recovery continued, with growth expected to be 2.5% (from 1.7% in 2016). Underlying this performance, it is the domestic demand, as the main contribution, in particular fixed investment expenditure – supported by the very accommodative orientation of the ECB's monetary policy – and, to a lesser extent, net exports and changes in stocks.

The labour market continued to recover, with employment standing at 1.2% above its pre-crisis peak in the first quarter of 2008, with the unemployment rate returning to below 10%.

Economic growth in the Eurozone continued to be strong and widespread in the various countries and sectors, supported by private consumption and investment, as well as by exports, which benefited from a comprehensive world recovery.

In Spain, accounting for approximately 21% of the external demand for goods and services directed to the Portuguese economy, it is expected that the activity increased by 3.1%, slightly lower than the 3.3% registered in the previous year. The strengthening of export markets offset the adverse effects of increased uncertainty due to the political situation in Catalonia, an impact which, however, has mainly impacted this autonomous region, without affecting consumption and investment in the rest of the country.

With Germany accounting for around 11% of external demand for goods and services for the Portuguese economy, after growth of 1.9% in 2016, the economy is expected to finish 2017 with a growth of 2.2% driven by an increase in consumption and exports, as well as an explosion in the construction sector and an increase in corporate investment, in the context of a strong recovery in the global economy.

It should be noted that other large markets in the European economy and destination of Portuguese exports, specifically France and Italy, are expected to surpass the recovery pace in 2016, with growth of 1.9% and 1.4%, respectively. Furthermore, there has been a continuous reduction of the budget deficit in the euro area as a whole, with a decrease to -1.1%, of -1.5% of GDP in 2016. The government's debt-to-GDP ratio is also expected to decline from 88.9% in 2016, to 87.0%.

National Environment

Economic activity in Portugal increased by 2.7% in 2017, reflecting an increase of 1.2 percentage points compared to the increase of 1.5% in 2016, and which is higher than the 2.5% registered in the Eurozone. These developments were due to the increase in the contribution of domestic demand, mainly reflecting an increase in investment, since net external demand contributed the same as in 2016. Noteworthy is the greater sustainability of the pattern of evolution verified, with exports being the main engine, with a contribution reaching maximum values for more than two decades. The current economic recovery is also based on a greater dynamism of Gross Fixed Capital Formation (GFCF) and the reorientation of productive resources to sectors more exposed to international competition, with exports of goods and services growing by 7.7% in 2017 (4.1% in 2016).

It should be noted that, in a context of import price pressure and a slight increase of unit labour costs, inflation is expected to increase by 1.6% (0.6% in 2016). In terms of determinants, the price of energy and non-energy should be highlighted for this increment, in this case due to the significant increase in prices of services, greatly influenced by the increment of prices in tourism-related activities.

With regard to the labour market, the growth of employment is expected to continue in 2017, as a result of the evolution of private employment and the recovery of public employment, with the maintenance of the downward trend in the unemployment rate expected to be around 8.9%.

It should be noted that after a 1.6% increase in 2016, GFCF, with the largest contribution to GDP since the end of the 1990s, is expected to grow by 8.3%. Underlying this evolution is the investment in housing by residents and non-residents, as well as the behaviour of corporate GFCF, determined by a favourable macroeconomic environment, in particular as regards financing conditions, and influenced by more structural factors associated to the need to restore levels and update the quality of productive capital after the recession. The projection for the growth of corporate GFCF includes information on investments in major infrastructures at the end of 2017 and on the allocation of funding through European funds in the transition to the Portugal 2020 program, with an impact on public investment as well.

Corporate Governance

The information on the Company's Governing Bodies is available for consultation at the TAP Group's website www.flytap.com

Governing Bodies

Three-year period 2015–2017

TAP–Transportes Aéreos Portugueses, SGPS, S.A.

General Meeting Committee

Chairman Diogo Patrício de Melo Perestrelo

Through deliberation at the General Meeting Committee on March 8, 2016

Company Secretary Ana Maria Sirgado Malheiro

Pursuant to number 1 of article 14 of the Company's by-laws

Board of Directors

Through deliberation at the General Meeting Committee on November 12, 2015

Chairman	Humberto Manuel dos Santos Pedrosa
Member	Fernando Abs da Cruz Souza Pinto
Member	David Humberto Canas Pedrosa
Member	Maximilian Otto Urbahn
Member	David Gary Neeleman
Member	Francisco Maria Freitas de Moraes Sarmento Ramalho (*)
Member	Henri Courpron (*)
Member	Philippe Calixte Albert Delmas (*)
Member	Robert Aaron Milton (*)
Member	Sydney John Isaacs (*)
Member	Tiago Gonçalves de Aires Mateus (*)

(*) *The indicated Directors submitted their resignation, following the shareholder reorganization process, which was concluded on June 30, 2017, in which the Portuguese State, through Parpública–Participações Públicas (SGPS), S.A. came to hold 50% of the share capital of TAP, SGPS, having been appointed, in a General Assembly on the same date, and for the remaining period of the 2015–2017 current term of office, seven new members of the Board of Directors, as a result of the change of the Articles of Association, also approved in this General Assembly, which decided that the Board of Directors would now be composed of 12 members:*

Chairman	Miguel Jorge Reis Antunes Frasquilho
Member	Diogo Lacerda Machado
Member	Ana Pinho Macedo Silva
Member	Esmeralda da Silva Santos Dourado
Member	António Gomes de Menezes
Member	Bernardo Trindade
Member	Li Neng

On July 24, 2017, following the resignation submitted by the Member Maximilian Otto Urbahn, the Board of Directors decided to approve the following co-optation, for the office of Member of the Board of Directors, for the remaining period of the 2015–2017 current term of office:

Member Antonoaldo Grangeon Trancoso Neves

Executive Committee

By election by the Board of Directors at the meeting on November 13, 2015

Chairman Fernando Abs da Cruz Souza Pinto
Member David Humberto Canas Pedrosa
Member Maximilian Otto Urbahn

As a result of the co-optation, on July 24, 2017, for the office of Member of the Board of Directors, of Antonoaldo Grangeon Trancoso Neves in place of the Member Maximilian Otto Urbahn who submitted his resignation, on the same date the Board of Directors determined the composition of the ***Executive Committee*** *as follows:*

Chairman Fernando Abs da Cruz Souza Pinto
Member David Humberto Canas Pedrosa
Member Antonoaldo Grangeon Trancoso Neves

Company Secretary

By appointment of the Executive Committee, at the meeting on December 16, 2015 ratified by the Board of Directors of the Company on January 20, 2016 pursuant to article 23 of the Company's by-laws, effective December 16, 2015.

Company Secretary Ana Maria Sirgado Malheiro
Alternate Company Secretary Not appointed

Supervision of the Company

Supervisory Board

The Supervisory Board of TAP, SGPS, S.A. was elected at the General Meeting on November 12, 2015, for the three-year period 2015-2017, with the following composition:

TAP, SGPS, S.A.

Mandate (Start - End)	Position	Name	Appointment Doc.	Mandates held in the company	
				Number	Date of 1.st appointment
2015-2017	Supervisory Board	Sérgio Sambade Nunes Rodrigues	General Meeting Committee on 12th November 2015	1	12.nov.2015
		Baker Tilly, PG & Associados, SROC, S.A.	General Meeting Committee on 12th November 2015	1	12.nov.2015
		Maria Susana da Mota Furtado e Almeida Rodrigues	General Meeting Committee on 12th November 2015	1	12.nov.2015
	Alternate	António Pires dos Reis	General Meeting Committee on 12th November 2015	1	12.nov.2015

Official Accountant

Through deliberation at the General Meeting Committee on 30th May, 2016, for the remaining period of the current term 2015–2017

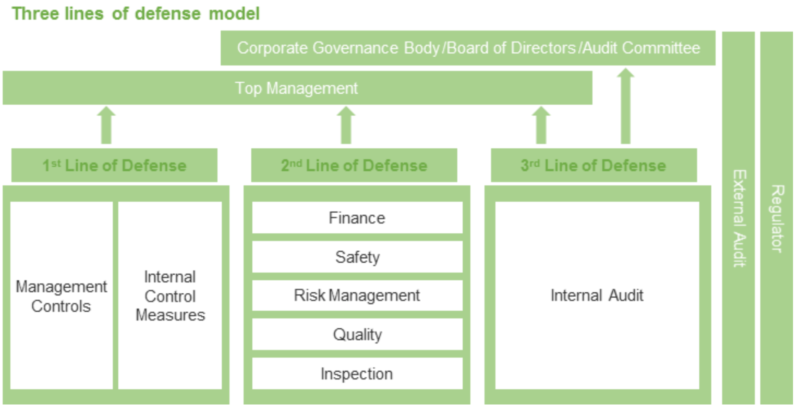
Permanent Oliveira, Reis & Associados representada por Joaquim Oliveira de Jesus
Alternate Fernando Marques Oliveira

Risk Management

Risk management and internal control

The model created by the European Community specifically separates areas, functions and professionals so that they can be efficiently and effectively coordinated, and clearly defines responsibilities and establishes the respective limits. This allows a clear view of the framework of the different positions in the organisation's general risk and control structure.

This model – the Three Lines of Defence Model – takes into account the following aspects:



Three Lines of Defence Model

1st Line of Defence – It falls under the responsibility of the person in charge of the business area, the operational manager, responsible for identifying, measuring, evaluating and mitigating the risks of the business in question. Each area has inherent operational risks and is responsible for maintaining efficient, adequate and effective internal controls, in order to implement corrective actions to address processes and controls deficiencies;

2nd Line of Defence – It includes risk and compliance management functions, which should work in conjunction with operational areas to ensure that the business risks identified in the 1st line of defence have been accurately assessed and reported;

3rd Line of Defence – It is represented by Internal Audit, responsible for reviewing, monitoring and evaluating, in a systematic and efficient way, the activities of the first two lines of defence, contributing to its development and improving its effectiveness.

This model decisively reinforces that the process owner is the owner of the risk and its controls. In this sense, frauds only happen when the process owners are not imbued with commitment and do not have the maturity to put into practice the controls and respective methodologies suggested and supervised by the second Line of Defence. As one of the three lines of defence in the TAP Group's risk management, Internal Audit seeks to evaluate and monitor the efficiency and effectiveness of operations, the preservation of assets, the confidence and integrity of reporting processes and the conformity with the law, regulations, policies, procedures and contracts established.

Giving continuity to the Corporate Risk Management (CRM) process, initiated and implemented in the 2nd semester of 2015 and applicable to all the companies of the TAP Group directly involved in operating and maintaining air transport activity, 179 risks were identified at the end of 2017. The Internal Auditing Office was given the responsibility of centralized monitoring, controlling and reporting of the CRM, which performs the treatment and monitoring of the Corporate Risk Management of the Company, in a coordinated and structured manner, as set out in the Corporate Risk Management Manual, using the COSO model and the FERMA analytical tool as the basis for assessment.

With the aim of strengthening the management, monitoring and evaluation of the compliance risk, the Company drew up the Compliance Manual, preferably reinforcing the areas to be monitored in the different Audits carried out over the year that form part of the Annual Audit Plan. In TAP Air Portugal, in order to prevent and avoid the violation of rules and the deviation of behaviours which have negative consequences for the organisation and for society, an area of Compliance was created, integrated in TAP Group's Auditing Office, aimed at embracing the implementation of good practices in the Group's businesses.

Following the disclosure of the Manual on Good Business Conduct, the Company made a compilation of national and international legislation applicable to Compliance, which culminated with the internal publication of the Global Compliance Manual. This document clarifies and is designed to align all of the organisation's processes in order to ensure compliance with standards and procedures, integrating anticorruption and ethical practices in TAP's culture. It is based on a responsible and conscious attitude of all of the Company's stakeholders. In this context and under the monitoring duty, the Audit enhanced the Compliance aspect, implementing best practices of Corporate Governance in its routines in all analyses carried out.

As a complement and due to its importance and cross-cutting nature, an internal communication channel was made available, aimed at a general involvement in the Compliance culture, clearing up doubts and reporting cases that are known to the various stakeholders of the TAP Group's organisation.

Internal Process

The Corporate Risk Management (CRM) process was implemented within TAP Group in 2015, with the objective of identifying, evaluating and monitoring the indicators of the Organization's main risks, which are relevant to management, and applicable to all Group companies (which TAP holds the majority of shares), directly involved in the operation and maintenance of the air transport business.

In 2017, in collaboration with the company Megasis, a web-based platform for collecting and analyzing risks related to new cycles (corporateriskmanagement.tap.pt) was created. This new tool has enabled the user to access, fill and consult their response history, in a faster and safer way, regarding the risks of each area and subsequently send them to the Audit department, allowing to organize, analyze and prepare their cycle report.

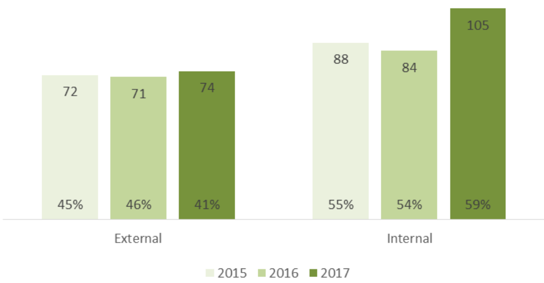
Risk factors and their management

Type of Risk

External Risks – Event that occurs due to external factors; the Company does not have any type of control and has to adapt to the new realities.

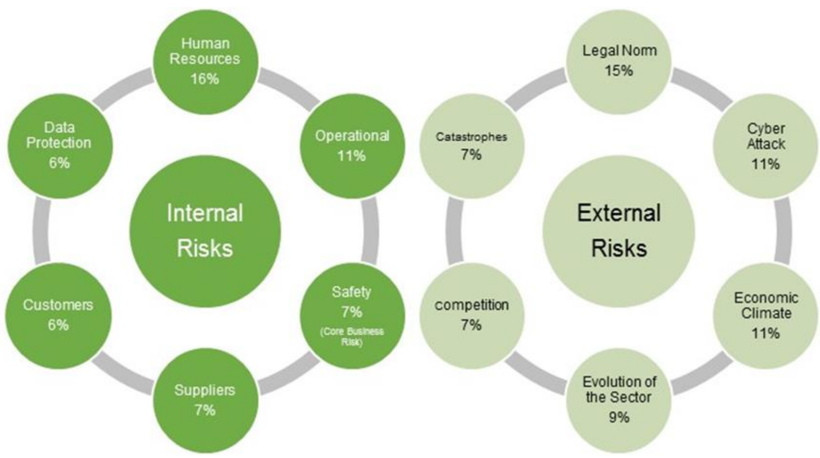
Internal Risks – Risk that is based on internal factors with which the company can interact in order to define a mitigation strategy, acceptance, transfer or refusal.

Risk Type Distribution
TAP Group



INTERNAL RISKS						EXTERNAL RISKS	
Core Business	Subsidiary Processes	Isolated	Contractual	Financial Instruments	Operational	External	Market
▪ Human Resources ▪ Suppliers ▪ Customers ▪ Commercial Organisation ▪ Own brands ▪ Products ▪ Security ▪ Marketing ▪ Facilities	▪ IT ▪ Infrastructures ▪ Certifications ▪ Data Protection ▪ Mergers / Acquisitions ▪ Security ▪ Indemnities ▪ Technical Factors	▪ Projects ▪ Subsidiaries ▪ Institutional Commitments ▪ Internal Control ▪ Social Responsibilities ▪ Fraud ▪ Corruption	▪ Payment Guarantees ▪ Buying Commitments ▪ Fraud ▪ Corruption	▪ Liquidity ▪ Interest Rates ▪ Exchange Rates ▪ Fuel Price ▪ Mergers / Acquisitions ▪ Indemnities ▪ Treasury ▪ Financial Assets	▪ Health and Safety at Work ▪ Operational ▪ IT ▪ Maintenance and Engineering	▪ Social Environment ▪ Interest Rates ▪ Exchange Rates ▪ Taxes ▪ Catastrophes ▪ Cyber Attack ▪ Partnerships ▪ Epidemics ▪ Airport Infrastructures ▪ Natural Phenomena ▪ Security Providers	▪ Attractiveness of the Market ▪ Developments in the Sector ▪ Competition ▪ Distribution ▪ Commercial Organisation ▪ New Products ▪ New Technologies ▪ Legal Requirements
Risks in the Company's organisation (people and services) and in the interactions between the Company and suppliers/customers.	Risks found in the processes / activities supporting the Company's activity.	Events that do not have a frequent routine in the Company's activity.	Existing risks with the commitment between the Company and suppliers/ customers and existing mitigations.	Economic and financial risks and their monitoring and control systems. Monitoring of economic and geopolitical developments, namely in countries with high social and political instability. Internal audit to procedures, to hiring and to transactions.	Risk of financial losses or negative impacts on the business and/or on the organisation's image / reputation, caused by faults or failures in governance and business processes, in people, in the systems or resulting from external events that may be triggered by countless events.	Risks related to the economic, environmental and social environments that are not directly related to the Company's activity.	All events that may be translated as a risk to the Company's activity and that are directly related to its activity.

Distribution by typology and main categories of the 179 risks (74 External Risks and 105 Internal Risks) of TAP Group, sent by the 28 areas involved in the process of collecting information for Corporate Risk Management (CRM)



Summary of Performance of TAP–Transportes Aéreos Portugueses, SGPS, S.A. (Consolidation)

In 2017, the air transport business, whose impact on global GDP is around 3.5%, continued to make a significant contribution to the development of the world economy, promoting connectivity through the provision of connections between more than 20,000 city-pairs, and providing more than 4.1 billion passengers with growth opportunities through the positive impacts of globalisation − stimulating innovation and generating opportunities in tourism, business and investment areas. The market's strong performance observed at the beginning of 2017 remained mostly the same during the entire year, sustained by a general resumption of economic conditions. Global demand for passengers in terms of revenue-passenger-kilometre totals has grown by approximately 7.6% compared to 2016, significantly exceeding the annual average of a 10-years period of 5.5%, while capacity offered increased by 6.3%. The flight load factor that increased by 0.9 p.p., stood at a record high of 81.4%, confirming the airlines' investment in maximizing the capture of demand. Throughout the year, the yield sustained a descending trend, an evolution that made air travel even more accessible. Regarding the air cargo market, global traffic increased by 9.0% in 2017, standing significantly above the average of 4.7% in the last five years, and was twice as large as the 4.3% increase in world trade as a consequence of a strong increase in export sectors, to accompany the movement of companies towards a rapid replenishment of their stocks.

In the meantime, aircraft fuel prices continued on a rising trend, a behaviour that began in late 2016 and, more sharply, in early December following the agreement by non-OPEC suppliers to accompany their counterparts in that organization, in limiting the offer. This oil prices increasing trend was strengthened throughout 2017, this behaviour being influenced by the cuts in production made by OPEC and Russia, which are decisive for the reduction of excess stocks in the market. It is estimated that the average price of Brent crude oil rose from 43.3 USD in 2016 to 54.1 USD in 2017, ending the year above 67 dollars per barrel. This behavior, which translated an increase in the order of 25%, was accompanied in parallel by the prices of the Platts aviation fuel index, which reflected an average increase of close to 24%. Notably, the CIF NWE reference, transacted by TAP, grew from USD 425 in 2016 to USD 527 per tonne, ending the year above USD 642 per tonne.

As a result of this behavior, the overall fuel charge for TAP, S.A., which accounts for a significant portion of the company's total Operating Expenses and Losses (in the order of 21.6%), increased by 33.7% in relation to 2016, equivalent to EUR 146.4 million, and the oil price performance had an unfavorable impact on TAP's fuel costs, estimated at EUR 87.7 million.

Fuel Costs TAP, S.A.

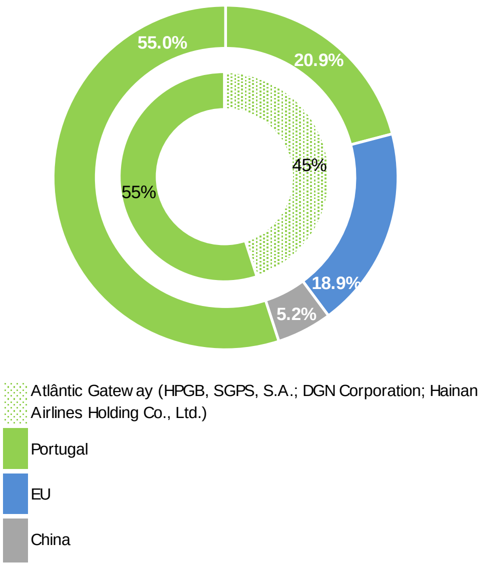
EUR million	2017	2016	var. (abs.)
Total (*)	**580.2**	**433.8**	**146.4**
Price Effect			87.7
Quantity Effect			53.9
Aquisition of the CO_2 emission Allowances	5.6	0.7	4.8

(*) Includes charges relative to the acquisition of the CO_2 emission allowances

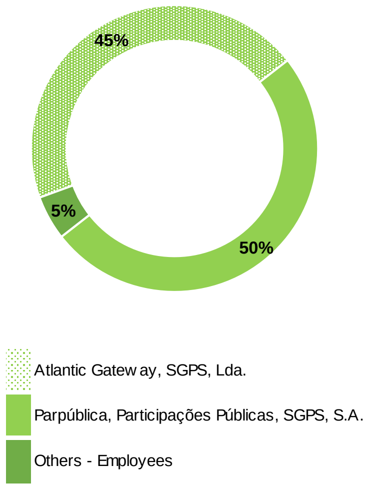
Shareholder structure of the TAP Group on December 31, 2017

Geographical distribution and by type of investor of the shareholder structure of TAP–Transportes Aéreos Portugueses, SGPS, S.A., on December 31, 2017

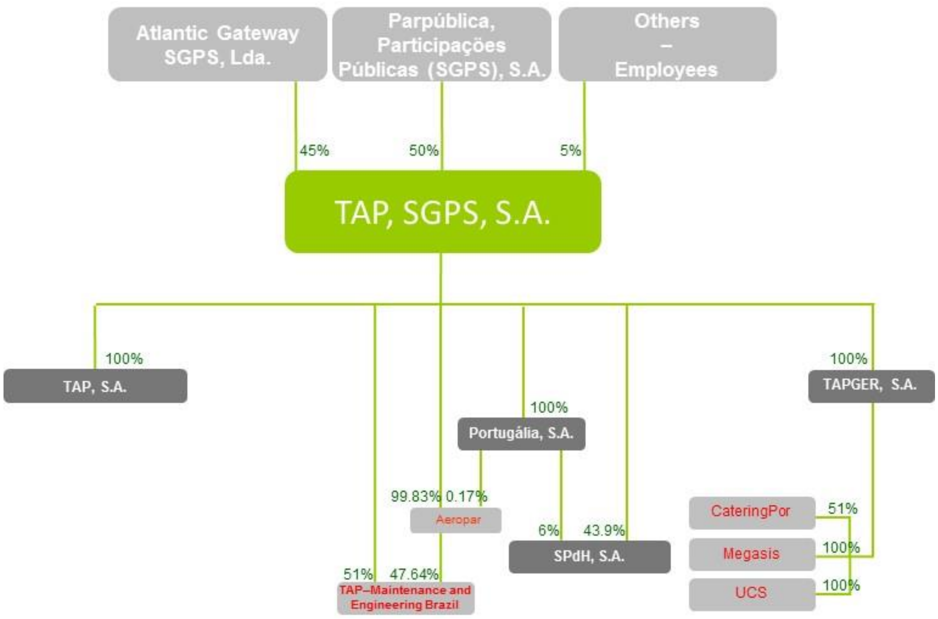
Geographical distribution of the shareholder structure



Breakdown of the shareholder structure by type of investor



At the end of 2017, the Group of companies that were part of the consolidation perimeter of the TAP holding was made up of TAP–Transportes Aéreos Portugueses, SGPS, S.A. and its subsidiaries, according to the organisational diagram.



Consolidation methodology

The following companies were included in the consolidated financial statements by the full integration method:

- TAP–Transportes Aéreos Portugueses, SGPS, S.A.
  - Transportes Aéreos Portugueses S.A. (TAP, S.A.).
  - TAPGER–Sociedade de Gestão e Serviços, S.A. e empresas subsidiárias:
    - CATERINGPOR–Catering de Portugal, S.A.
    - U.C.S.–Cuidados Integrados de Saúde, S.A.
    - MEGASIS–Sociedade de Serviços e Engenharia Informática, S.A.
  - PORTUGÁLIA–Companhia Portuguesa de Transportes Aéreos, S.A. (PORTUGÁLIA)
  - AEROPAR Participações, S.A. (AEROPAR) e empresa subsidiária:
    - TAP–Manutenção e Engenharia Brasil, S.A. (ex-VEM)

Subsidiaries are all the entities over which the Group considers there is control.

It should be noted that during the year ended December 31, 2017, there were changes to the consolidation perimeter of the TAP Group, with the sale of 51% of the capital of the subsidiary company L.F.P.–Lojas Francas de Portugal, S.A., which had been classified, as of December 31, 2016, as a discontinued operation.

The following entity was classified as an associate:

- SPdH–Serviços Portugueses de Handling, S.A. (SPdH)

Aggregate performance of the companies of the TAP holding (Consolidation)

The attached consolidated financial statements of the Group were prepared in conformity with the International Financial Reporting Standards adopted by the European Union (IFRS – formerly called the International Accounting Standards – IAS) issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC), in force on the date of preparation of the said financial statements.

Presented below are the most important aspects, in 2017, of the overall performance of the TAP holding and of each of the companies that constitute the core business in which the Company holds investments.

2017 was a year of consolidation of the route and fleet expansion strategy that began in 2015. The long-haul equipment integrated four A330-300 aircraft, which replaced two A330-200 aircraft and also enabled an increase of two aircraft, compared to the previous year. The arrival of these units enabled the launch of two special painting projects – *Retro*, which evoked TAP's history and the *Stopover*, which promoted the program with the same name, launched by TAP in 2016. At the end of 2017, the long-haul fleet totalled 22 aircraft.

In the medium-haul equipment, two aircraft were added – one A320 and one A321 –, contributing to the growth of this fleet, which totalled 45 aircraft. These aircraft began their operation already equipped with TAP's new medium-haul cabins, thus aligned in number of seats and product.

In the regional fleet, 2017 marked the beginning of the operation of four Embraer E195, under TAP Express brand. These aircraft, with a capacity of 118 seats, have increased the regional fleet for a total of 21 aircraft. It is also worth mentioning that the E190 fleet has been certified to operate London City Airport, and this certification enabled TAP to start operation for this airport of London in October.

At the end of 2017, TAP operated a total of 88 aircraft – 22 in the long-haul fleet, 45 in the medium-haul fleet and 21 in the TAP Express fleet –, representing a growth of 8 units compared to the end of 2016. In short, since the privatization of the Company, at the end of 2015, TAP has integrated a total of 29 aircraft into its fleet.

The result presented by the TAP Group showed a significant improvement, benefiting from the strong market behavior observed at the beginning of 2017, which remained largely the same throughout the year, sustained by a general resumption of economic conditions. However, in the meantime, aircraft fuel prices continued on a rising trend, a behaviour that began in late 2016 and, more sharply, in early December following the agreement by non-OPEC suppliers to accompany their counterparts in that organization, in limiting the offer. This increasing trend in oil prices has been strengthened over the course of 2017, with a 25% increase in the average price of Brent crude oil.

Conditioned by the economic framework described above, TAP SGPS ended 2017 with a positive net profit in the amount of EUR 21.2 million, which represents a relief of EUR 49.0 million in relation to the EUR -27.7 million registered in 2016.

At the operational level (before finance and tax expenses), the Company registered a positive profit in the amount of EUR 106.8 million, reflecting an improvement of EUR 93.8 million, compared to the amount verified the previous year.

Profit before tax totalled EUR 38.4 million, a value which represents a relief of EUR 66.7 million regarding the EUR -28.3 million registered in 2016.

Regarding the Air Transport business, a total of 14.225 million passengers were carried, representing a growth of 21.6% over the previous year. Of note, is the significant increase in sales and services rendered, in the order of 27.8%, in 2017, compared to 2016. Underpinning this behaviour, in addition to the high increase in demand, the increase in yield should also be mentioned, due to the combined impact of the introduction of a new simplified tariff concept (*Branded Fares*), as well as favourable economic conditions. In this context, it was possible to face increasing competition among airlines, referring in particular to Brazilian, North American and European markets in general, whose demand showed a strong dynamism throughout 2017.

It should also be noted that the activity of TAP– Maintenance and Engineering Portugal revealed a total income generated in sales and provision of maintenance services to third parties in the amount of EUR 144.2 million, 84.8% than in 2016. The recorded increase is directly related to the increase in engine maintenance activity, which represented about EUR 114 million, and in the increase of activity for third parties with the execution of several Sharklet modifications and the execution of A330 C-Cheks. The component activity also reflected a growth, as a result of the increase in engine activity, an evolution that derived from the combination of the strong demand currently found in the market and the commercial and operational policies that have been developed.

With respect to TAP S.A., the company registered a net profit of EUR 100.4 million, a value that is EUR 66.9 million higher than the 33.5 million registered in 2016. Operating profit reached EUR 148.6 million, that is, EUR 124.6 million more than in 2016, with net financial results in the amount of EUR -17.5 million, corresponding to an aggravation of around EUR -30.9 million compared to the previous year.

Regarding the Maintenance and Engineering unit in Brazil – TAP−Maintenance and Engineering Brazil –, results showed a reduction in Reais regarding 2016 and the budget, despite having shown a revenue growth in USD in relation to 2016 (USD 2 million more). The core Customers continue to be the Azul, Air Transat and TAP airlines, while fluctuations keep occurring with respect to the remaining Customers, as the main activity is aircraft maintenance and contracts are of the *time & material* type. It is important to mention the appointment of the previous CFO to the post of CEO, as well as the continuation of the improvement of operational processes and restructuring of the organisation, towards better suiting capacity to demand, both in terms of dimension and work organisation, and better satisfying Customers' expectations.

Contribution of associated companies

In terms of SPDH−Serviços Portugueses de Handling, S.A. (Groundforce Portugal), established in 2003 with the demerger of the Ground Handling Business Unit of TAP S.A., TAP, SGPS, S.A. holds a number of shares representing 49.9% of the respective share capital, a figure that includes a 6% stake held by PORTUGÁLIA−Companhia Portuguesa de Transportes Aéreos S.A.. In 2017, the company reached a positive net result of EUR 8.7 million, higher than the result of EUR 2.2 million reached in 2016.

Main Indicators

TAP, SGPS, S.A.
(Consolidation)

	2017	2016	var.
	EUR million	EUR million	
Operating Income/(loss) (earnings before interests and taxes)	106.8	13.0	719.1%
Pre-tax Earnings	38.4	(28.3)	236.0%
Net Income attributable to the shareholders of TAP SGPS	21.2	(27.7)	176.5%
Net Income of TAP, S.A.	100.4	33.5	199.6%
Net Income of SPdH–Serviços Portugueses de Handling, S.A.	8.7	2.2	302.6%
Net Income of Aeropar Participações, S.A. (Brazil)	(24.6)	(15.2)	-61.8%
Net Income of TAP–Maintenance and Engineering Brazil, S.A.	(50.1)	(31.9)	-57.3%
Total Assets	1,680.5	1,657.1	1.4%
Total Equity (after non-controling interests)	(475.9)	(469.6)	-1.3%
Active Staff of the Group (December 31)	12,908	12,889	19
TAP, S.A.*	7,470	7,200	270
Air Transport	5,158	4,821	337
Maintenance and Engineering	1,840	1,892	-52
Transversal Services	422	432	-10
Others	50	55	-5
SPdH–Serviços Portugueses de Handling, S.A.**	2,396	2,320	76
Remaining Companies	3,042	3,369	-327

(*) Not including staff who are not placed and not active
(**) Associated Company

Highlights

Structuring Events

During 2017, the Company increased efforts to guarantee a competitive position in the global market, particularly by promoting a transformation process that will allow it to reach and sustain high levels of operational efficiency and agility. The continuation of the occurrence of structuring events was also registered, among them developments within the scope of the Re-privatization Process, launched at the end of 2014. The main facts that took place in 2017 regarding this process are the following:

Timeline of the main events in the scope of the Re-privatization Process

June 24, 2015 – Conclusion of the agreement for the sale of 61% of TAP, between the Government, through the Minister of Finance and the Minister of Economy, and the Atlantic Gateway consortium, comprised of businessmen Humberto Pedrosa (owner of the Barraqueiro Group) and David Neeleman (shareholder of Azul Linhas Aéreas Brasileiras), which took place at the Ministry of Finance. In a press conference, Atlantic Gateway presented the strategic commitments for TAP.

November 12, 2015 – In a press release, the Council of Ministers announced that it had approved (Resolution 91-A/2015 of November 12) the final draft of the Agreement on the conclusion of the reprivatisation of TAP–Transportes Aéreos Portugueses, S.A., whose signature, and consequent immediate inflow of funds in the company, had been urgent and imperative to safeguard the public interests pursued by the company.

February 6, 2016 – Conclusion of a memorandum of understanding between the Portuguese State and Atlantic Gateway SGPS, Lda. ("Atlantic Gateway"), later amended on April 26, 2016, which sets out the principles, rules and conditions of the reconfiguration of the Portuguese State's participation, through Parpública–Participações Públicas (SGPS), S.A. ("Parpública"), in TAP–Transportes Aéreos Portugueses, SGPS, S.A. ("TAP, SGPS").

March 8, 2016 – The General Assembly of TAP, SGPS decides to issue EUR 120,000,000 of convertible bonds in up to 130,800 special ownership shares of TAP, SGPS, these bonds having been subscribed, on March 16, 2016, by Azul S.A. in the total amount of EUR 90,000,000, and on June 14, 2016, by Parpública in the total amount of EUR 30,000,000.

May 19, 2016 – Conclusion of the share sale and purchase agreement between Parpública, Atlantic Gateway, HPGB, SGPS, S.A. and DGN Corporation, later amended on June 7, 2017, which implements the above mentioned memorandum of understanding and in accordance with which, subject to the prior verification of certain conditions, Atlantic Gateway undertakes the commitment to sell shares representing the share capital of TAP, SGPS to Parpública as needed so the latter will hold 50% of the share capital and voting rights of TAP, SGPS.

December 23, 2016 – The National Civil Aviation Authority ("ANAC") approves the decision on the reprivatisation of 61% of the share capital of TAP, SGPS, ANAC declaring that "*the control structure of Transportes Aéreos Portugueses, S.A. (TAP) and of Portugália–Companhia Portuguesa de Transportes Aéreos, S.A. (PGA) deriving from the purchase by Atlantic Gateway SGPS, S.A. (Atlantic Gateway) of 61% of the capital of TAP–Transportes Aéreos Portugueses SGPS, S.A. (TAP SGPS) is in accordance with what is laid down in Regulation (CE) no. 1008/2008, of 24.9.2008, which requires companies licensed to carry out Community air transport to belong to and be effectively controlled by Member States and/or nationals of Member States*", and that "*With this decision, the protective measures imposed by ANAC on 19.02.2016 are no longer in effect*".

April 10, 2017 – Public offering of 5% of the shares representing the share capital of TAP, SGPS to employees of Transportes Aéreos Portugueses, S.A. and of other companies of the TAP Group, in accordance with what is laid down in the Council of Ministers' Decision no. 42-A/2017, of March 23.

June 30, 2017 – Conclusion of the transaction contemplated in the share sale and purchase agreement concluded on May 19, 2016, amending, on this date, the allocation of the share capital of TAP, SGPS between shareholders Parpública and Atlantic Gateway, to 50% and 45%, respectively. According to the statement released by the Council of Ministers on June 29, 2017, "*The commitment undertaken in the Government Programme for the State to become the largest shareholder of TAP so* *that, together with Atlantic Gateway, it capitalises, modernises and ensures the development of the company at the service of the Portuguese people and of a strategy of Portuguese affirmation, has thus been fully carried out*".

July 5, 2017 ─ Hainan Airlines Holding Co., Ltd. ("HNA") acquires 7% of the share capital and voting rights of Atlantic Gateway.

July 11, 2017 ─ TAP and Portugália–Companhia Portuguesa de Transportes Aéreos, S.A. notify ANAC of the change of TAP, SGPS's shareholder structure, resulting from the transaction carried out on June 30, 2017.

November 27, 2017 ─ HNA reinforces its participation in the share capital of Atlantic Gateway, to hold 11.5% of the respective share capital.

Main Events

January

As the first company in the world to operate the A330neo, TAP offers the replica interior of the Airspace cabin at the International Tourism Fair (FITUR) in Madrid, making it possible for visitors to experience the new seats and the possibility to go on a virtual trip, in which comfort, innovation and design stand out, combining modernity and new technologies.

February

TAP Corporate fly program, dedicated to SMEs, is upgraded in the new website tapcorporate.com, with new technology, design and more features.

March

Under the fleet upgrade program, the first of seven A330 aircraft completes the cabin renewal process and starts operating, with the design aligned with the A330neo aircraft cabins' interior, which will be part of the TAP fleet.

The Company's 72 years of existence are highlighted, and TAP becomes the only airline to assign designations of national districts and autonomous regions to its aircraft, by naming the aircraft within the TAP Express fleet – ATR72, Embraer 190 and Embraer 195 with the names of Portuguese districts and autonomous regions.

A new feature is available through the Company's website – Time to Think – enabling time for the final decision to be made, guaranteeing the reservation and the selected rate for a period of 48 hours after the beginning of the reservation process.

April

A new trade policy for intercontinental flights is now underway, though it's already been in place since September 2016 for destinations in Europe and North Africa. The new rates offered are intended to offer customers greater flexibility in product selection, who can select, in an easy and transparent way, the option they most value and fit the purpose of their trip, paying only the respective price.

The new version of FlyTAP – the central part of the new digital ecosystem of the Company in an innovative concept – is available at www.flytap.com and in the app, integrating a personal area for Customers, which allows the choice of the trip according to the budget and preference.

As part of the Taste the Stars project, TAP partners with five Michelin-starred Portuguese Chefs so that, together with Chef Victor Sobral, the Company's Gastronomic Consultant, they're able to further enrich customers' travel experience and reinforce TAP's mission as Portugal's ambassador around the world.

May

The project to simplify the Company's digital ecosystem is strengthened in partnership with SIBS, making FlyTAP more personal and better adjusted to the various mobile platforms and enabling purchases via smartphone or tablet through the provision of a new payment method – MB WAY.

June

On Portugal's National Day (June 10) started the operation of four new destinations: Toronto (Canada), following the expansion strategy in North America; Gran Canaria and Alicante (Spain) and Stuttgart (Germany), an on-going strengthening of its positioning in the European market.

As part of the anniversary celebrations, the new TAP A330-300 aircraft, dubbed Portugal, in a tribute by the Company to its long history, goes into operation with a retro emblematic painting – using one of the previous corporate images –, and invites passengers for a trip back to the glamorous 70's aviation time, re-creating an identical atmosphere, through various elements, and throughout multiple moments of the trip. The retro flights occur throughout 2017 from Lisbon to Toronto, Sao Paulo, Miami, Rio de Janeiro, Luanda, Maputo, New York and Recife, as well as a flight from Oporto to São Paulo.

July

In an effort to increase its presence in Europe, the operation for Bucharest (Romania) and for Budapest (Hungary) is resumed, therefore accompanying the increasing trade and investment between Portugal and Romania and corresponding to the important Romanian community resident in Portugal, and serving one of the most active European capitals for Tourism – Budapest.

TAP's position in the European market is strengthened, with the opening of Cologne, a new destination in Germany, where it consolidates its presence, covering a total of seven destinations: Frankfurt, Berlin, Hamburg, Munich, Dusseldorf, Stuttgart and Cologne.

After 15 years of disruption, the operation in the economic capital of Côte d'Ivoire, Abidjan, has resumed.

The strategic positioning in Africa is intensified with the inauguration of the Lomé (Togo) operation.

The first direct flight between Portugal and China – in a flight between Lisbon and Beijing –, operated by Beijing Capital Airlines. The provision of services, in a code-share regime with TAP, allows the Company to offer new services in the Asian market and a convenient access to important destinations in the region, in tourism and in business.

The exclusive TAP Lounge is inaugurated at Humberto Delgado Airport – Lisbon. Subject to major renovations, the new space includes a resting area, showers, kid's play area and a Business Centre, among other facilities, to better meet, with quality of service, the real needs of TAP Passengers who enjoy more exclusive services, either by the Victoria Frequent Passenger segment to which they belong, or by opting for comfort in the trip.

Miles&Go is an innovative product in Portugal made available in the Company's website to Victoria Programme's customers to reduce the amount they pay in TAP flights, by using miles.

Launched in the summer of 2016, TAP Portugal Stopover program celebrates its first anniversary and looking even more attractive. In its first year, the program brought to Portugal 70,000 new tourists and was elected the best Stopover program in the world by the American Condé Nast Traveler. TAP upholds the on-going role as one of the largest external promoters of the Country.

September

The transition from the previous TAP Portugal designation to the new brand – TAP Air Portugal –, is officially complete. The new designation, which facilitates the brand's association with an airline, immediately allows its recognition in the main market in which it operates – the international market.

October

The competitive position in the UK market is strengthened by adding to the Heathrow and Gatwick operation, the beginning of London City operation, an airport located in the financial centre of London.

A new destination in Africa is added to the operation network, which is one of the most exotic and attractive areas of Morocco – Fez, the fourth destination operated by the Company in that country, right after Casablanca, Marrakesh and Tangier – the Company totals 17 destinations , in 11 countries in that region.

The Taste of Portugal initiative brings together TAP and Time Out New York magazine to present Portugal to the United States, and in which the Company also announces the Portugal Stopover program to a vast panel of guests.

November

As part of the TAP Company initiative, Wine Experience, and reinforcing the main role as ambassador and promoter of the Country, TAP has, for three days, invited 60 guests from all over the world to visit Portugal's main wine-growing regions, aboard the TAP Express ATR – TAP's regional fleet.

December

The online store TAP Store is launched, making available the Company's new merchandising lines at store.flytap.com. In addition to more than 50 articles, the catalogue includes everything from aircraft models to suitcases, fashion articles and accessories. Following the upcycling process, it also offers an innovative concept of recycling materials that are no longer used in the Company's regular operations.

Distinctions and Prizes awarded in 2017

Continued strengthening of prestige in the markets in which the Company operates:

- Impact on the economy, recognition in various regions of the world;
- The dissemination of the culture, values and products, in a partnership of national scope;
- Promotion of contributions witnessing concerns related to human rights.

Europe

Personality of the Year – Prize awarded by the Publituris newspaper to David Neeleman, a shareholder of TAP, at the opening of the Lisbon Tourism Exchange (BTL). The award was aimed at highlighting TAP's contribution to the growth of national tourism, following all the efforts made in 2016, considered to be of intense activity and change for the Company, either by improving existing routes or opening up to new markets, which are decisive for tourist activity in Portugal.

The Airline Business Award (Airline Strategy) **–** Awarded to Fernando Pinto, TAP's CEO, by Flight Airline Business, in recognition of the exceptional strategic contribution to the air transport business, through his effort to transform the Company, having first achieved a prominent position on flights between Europe and Brazil, and since then, in implementing the entry of private shareholders in TAP and a strong growth and modernization of the Company.

World Company Award (WOCA) – Fernando Pinto, TAP's CEO, received the World Company Award promoted by the Global Council Sales Marketing (GCSM). The award aims to promote the integration of international markets.

Best Airline (Airline category) – Highlight made within the 9th Edition of the Marketeer Awards, for the work developed by the Company in Marketing, Advertising and Communication areas during 2016 in Portugal.

CAPA Award Airline Turnaround of the Year – Highlight made to TAP in London, by the Centre for Aviation (CAPA), an annual initiative aimed at distinguishing the Airline that has managed to turnaround the business through adopting innovative strategic changes and/or restructurings.

Best Aviation Company – The award was given by the Publituris newspaper at the Portugal Travel Awards ceremony, in which the best companies, institutions, services and professionals who have succeeded in the Tourism business are awarded during the last semester of 2016 and the first semester of 2017.

Internationalization Ranking of Portuguese Companies (RIEP) – First place awarded to TAP, concerning the number of countries where companies have subsidiaries, with presence in 34 countries, as a result of the increased diffusion in new markets, in particular in North America. RIEP is an annual initiative of INDEG–ISCTE Executive Education in collaboration with the Fundação Dom Cabral's Centre of Strategy and International Business and with the institutional support of AICEP Portugal Global.

International Istanbul Tourism Film Festival Award (Tourism Companies category) – Prize awarded to TAP's safety video – The Journey –, which was ranked second. Since its presentation, TAP's safety video has also been highlighted by several audiences, namely in the following fields: Terres Cataluya – International Eco & Tourism Film Festival (Spain), where it was selected to be part of the event's official selection; Award for Best Web Film, given by the Australian website Best Ads on TV; in the shortlist of Lusophone Creativity Awards; nomination for the Zagreb International Tourism Festival's awards.

Digital Communication Awards (DCA) (Product Launch category) – Awarded by the Quadriga University of Applied Sciences in Berlin, recognizing the strategy, innovation and creativity, implementation, results and efficiency of the Portugal Stopover Program, a TAP program that allows Passengers to enjoy a stop in Portugal in outbound or inbound routes.

Portugal Digital Awards – Distinction made to FlyTAP project, with an honourable remark at the Portugal Digital Awards ceremony with the objective of identifying distinctive and innovative projects and individuals within the digital transformation area.

Marketing Media and Advertising Awards (M&P) 2017 – Highlights as a winning company, awarded in the 4th Edition of the event promoted by M&P newspaper, in the following categories: (Automobile and Transport) accredited to the campaign *Viajar é TAP*; (Travel and Tourism and International Markets) accredited to Portugal Stopover program's initial campaign.

Efficiency Awards – The launch of the Portugal Stopover programme and the *Ponte Aérea* (Air Shuttle) campaigns were awarded by APAN–Associação Portuguesa de Anunciantes (Association of Portuguese Advertisers), with a view to highlighting the effectiveness of advertising activities.

Human Resources Awards 2016 (Health and Wellness Promotion category) – Distinction received within the 6th Edition of the annual initiative of Human Resources Portugal magazine.

Best Air Cargo Transporter – Awarded to TAP Cargo by *Logística & Transportes Hoje* magazine, recognising TAP as the best company in Portugal in logistics and transportation sector.

Airline of the Year Award – Awarded to TAP Express, operated by Portugália Airlines and TAP regional fleet brand, as part of the annual ceremony in Athens of the European Regions Airline Association (ERA), valuing the successful complete renewal of the fleet.

United States of America

Freddie Award – Distinction made to TAP Victoria Program as part of the 27th Edition of the event in Jersey City, identifying this TAP program from among the best frequent flyer programs of airlines worldwide. Recognized with the 210 Award for Europe/Africa, TAP Victoria was also ranked 3rd in the Best Elite Program category, Best Capacity in Miles Usage and Best Loyalty Credit Card, and 4th place in the categories Program of the Year and Better Customer Service.

World Travel Awards – Awards given to TAP as part of this global travel and tourism industry event in St. Petersburg (Russia), which highlighted the Company in three categories: Leading European Airline for Africa; European Airline Leading for South America and award for Leading In-Flight Magazine in Europe, received by TAP's In-Flight Magazine – the **UP**.

Gold and Bronze Awards – Highlights of the wines served on board by TAP in Business Class, by the American magazine Global Traveler, within the 13th Edition of the event in New York: Gold Award (sparkling wines category) to Luís Pato Blanc de Blancs (*Bairrada*) and Bronze Award to all the wines served on board by TAP in business class.

South America

Best European Airline – Distinction made to TAP within the survey conducted in Brazil through the Brazilian Best Destinations website, which identified TAP as the Best European Airline and as the third best Best International Airline, Victoria Program received a silver medal as Best International Miles Program. This Brazilian platform also identifies Portugal, as the best destination in Europe and top-three in the world.

Similarly, throughout 2017, TAP and several Portuguese destinations were object of attention and deserved varied comments internationally:

Bloomberg (USA)	Lisbon – The new coolest Capital of Europe
The Huffington Post (USA)	The quality of the Portugal Stopover programme
The Huffington Post (USA)	FlyTAP Reservations System considered to be one of the best in the world
Independent (UK)	On the Embraer 190 flight between Porto and London – Distinguished for its comfort, space between seats, meal on board and punctuality
The Emerald Street (UK)	TAP *a reliable company*
eDreams	TAP – One of the top-ten companies in the world in several services

Corporate Strategy

Designed at the end of 2014, the 2015-2020 strategy has been strengthened by the new shareholders of the TAP Group, evolving to reflect market and environmental economic changes.

At the end of 2014, as a result of the significant challenges faced by TAP, due to the increase of competition, namely the entry of low-cost airlines into the market, the limited financial resources and the structure of its liabilities, a strategic reflection was initiated for the 2015-2020 period, and six strategic axis were then defined as guidelines for the Company, as well as for the transformation that it would face in the following years.

2015-2020 Strategic Plan
Strategic Axis

1. Renewal and expansion of all fleets
2. Development of the commercial model
3. Automation and improvement of customer experience
4. Consolidation of the Company's growth and increased focus on the hub
5. Operating efficiency improvement
6. Repositioning of maintenance and engineering business units in Portugal and Brazil

In 2015, the reprivatization process of TAP Group began, with 2017 becoming a hinge for its development. On June 30, the General Meeting Committee of TAP, SGPS, S.A. approved the reconfiguration of the shareholder structure of the Group, the new Articles of Association and the restatement of the Shareholders' Agreement, with the Portuguese Government holding 50% of the Company's share capital, although it remains private. Following the shareholder reconfiguration, the Board of Directors of TAP SGPS, S.A. was appointed, consisting of six elements designated by the Government and six elements nominated by the Atlantic Gateway consortium. The Executive Commission, responsible for the Management of the Company, being composed of three members nominated by the Atlantic Gateway, was also appointed.

One of the key principles of the Memorandum of Understanding signed in February of 2016, as embodied in the Shareholders' Agreement and Strategic Commitments, and subsequently reiterated throughout the various stages of the reprivatization process, was based on express acceptance of the convergence and sharing of TAP Group's Strategic Project and the consequent commitment assumed by the Portuguese Government and Atlantic Gateway to comply and implement it. This Strategic Project was designed based on the strategic reflection 2015-2020, mentioned above and resulting in the following actions envisaged:

Actions set out under the Strategic Project

1. Capitalization and renegotiation of current debt
2. Strategic investments
3. New operational strategy
4. Focus on staff
5. Improving profitability

Main developments in 2017 within the scope of TAP Group's Strategic Project

1. Capitalization and renegotiation of current debt

The capitalization component of the Strategic Project was entirely carried out in 2015-2016, with (i) the provision of supplementary benefits by Atlantic Gateway, in TAP SGPS, S.A., amounting to approximately EUR 220 million, of which approximately EUR 150 million available shortly after the privatization and approximately EUR 70 million in 2016; and (ii) the subscription of EUR 120 million in convertible bonds of TAP SGPS, S.A. to 10 years, of which EUR 90 million by Azul airline and EUR 30 million by Parpública, in March and June of 2016, respectively.

Following the privatization process, and in addition to a successful recapitalization of the TAP Group, the owners and the TAP Board of Directors were able to restructure the Company's short-term debt, ensuring with the funders a long-term commitment, up to seven years from the closing date, i.e. until 2022. The debt-restructuring program agreed and established with the vast majority of credit institutions guarantees that the total amount of the Capitalization will be used to strengthen TAP's operations, to fleet upgrading, and the development of its network.

Nevertheless, still in the context of debt restructuring in 2017, Atlantic Gateway and TAP administration successfully completed a renegotiation process totalling EUR 464 million, improving the negotiated interest rate, and restructuring EUR 138 million, from short to long term (until 2022). Similarly, during this year, and in the context of the aforementioned renegotiation process, TAP Group's business plan was updated, with a view to reflecting the current Strategic Project for the period 2017-2022.

2. Strategic investments

In 2017, a significant increase in the fleet occurred again, with a net increase of 8 aircraft between December 2016 and December 2017, namely:

- ⇨ Wide-body fleet +2 aircraft, ending the year with 22 aircraft (4 A340, 4 A330-300 and 14 A330-200)
- ⇨ Narrow-body fleet +2 aircraft, ending the year with 45 aircraft (21 A319, 20 A320 and 4 A321)
- ⇨ Regional fleet +4 aircraft, ending the year with 21 aircraft (8 AT7, 9 E-190 and 4 E-195)

During 2017, was sustained the cabin retrofit effort, on the existing fleet, with 44 aircraft – 35 narrow-body and 9 wide-body –, already being refurbished, allowing TAP to redefine the offer to the passenger, improving comfort and increasing the number of seats, as well as reducing the weight of aircraft and consequently fuel consumption. In this program, TAP reinforced its investment in the national economy, through the selection of business partners for the product design, design of the seats and production of the respective covers and supply of materials.

Throughout the year, the definition of the 67 new aircraft already contracted was also continued, of which 53 were directly with Airbus, to begin its operation between 2018 and 2025, aiming at a product in line with the needs of the passengers, aiming to increase the comfort, innovation in the in-flight entertainment system and connectivity, along with an alignment with the new interior cabin layout, as well as greater efficiency and cost savings.

3. New operational strategy

In 2016, after the privatisation process and with a view to ensuring the Company’s cost-effectiveness, certain changes were introduced in the airline routes network. Several routes were cancelled and a new strategy was implemented focused on the exploration of opportunities related to TAP’s geographical position to capture the potential traffic flowing between North America and Europe. In 2017, this strategy was continued, despite the recovery made in the Brazilian market.

Benefitting from a favourable economic environment, a strong and dynamic demand in Europe and in the United States, and the recovery of the Brazilian market, the addition of eight aircrafts to its fleet (six narrow-body and two wide-body) allowed TAP to increase its capacity and expand its network of routes. In this regard, new destinations were launched, designed to increase the Company’s portfolio and to diversify opportunities in different geographies, with a view to reducing dependence on a limited number of markets. At the end of 2017, TAP was flying to eighty-five destinations, ten more than in December of 2016.

- ⇨ In **North America**, a region that stood out for its greater traffic growth, increasing about 47% in relation to 2016 and representing about 11% of TAP’s aggregate supply, flights were resumed to Toronto, a destination with an important Portuguese community to where TAP had stopped flying in the mid-1990s, before implementing the current Hub & Spoke strategy in the Company;
- ⇨ In **Africa**, new services were launched to Abidjan, Lomé and Fez;
- ⇨ In **Europe**, flights to Budapest and Bucharest were resumed, and new services were launched to Gran Canaria, Alicante, Cologne, Stuttgart and London City.

As for the Brazilian market, TAP managed to maintain the leadership position of capacity provider, regarding Europe-Brazil, an upturning market, having achieved a 29% seat quota during the Summer period. The recovery of the Brazilian market justified an increase in frequencies to several destinations, namely in the number of services to Sao Paulo (Guarulhos), Brasília, Recife, Fortaleza, Belo Horizonte and Porto Alegre, where the number of weekly frequencies increased globally to seventy-three, during the peak period. In Africa, frequencies were increased to Marrakesh, Dakar, Bissau and São Vicente. In Europe, new frequencies were added to Manchester and Moscow. In Portugal, a 4th daily flight to Faro was implemented and two new daily frequencies from Lisbon to Ponta Delgada were added. Reinforcements of the routes already flown, as well as the number of daily flights to new destinations, such as Stuttgart and Cologne, allowed for the increase of the Lisbon Hub connectivity, and for the creation of a more attractive product for business traffic.

Launching new routes in the United States and recovering the Brazilian market both reinforced the impact of previously established code-share agreements with the companies Azul Linhas Aéreas Brasileiras, Jet Blue and United Airlines, allowing the Company to better distribute its passengers in these countries. Also, with its hub in Lisbon, it has become a unique strength as the Atlantic gateway, an objective for which the code-share agreements held proved to be particularly important.

During 2017, the adaptation of the Airbus narrow-body aircrafts should be mentioned, as it increased the number of places per aircraft and, thus, the number of seats supplied.

As a whole, the additional listed capacity and operations to recently-launched destinations led to an important reinforcement of the Lisbon Hub, contributing decisively to the record number of tourists seen in Portugal.

Concurrently, with the expansion of the network and supply, there was a significant increase in the load factor in 2017, as well as a yield improvement, as a result of a more incisive commercial policy, supported by new fares (the new branded fares, released in 2016 for continental flights, were extended to intercontinental flights in 2017), in ancillary revenues (extra luggage revenue and early seat choice, among others), and the increase in actions in the context of planning and reporting. It should also be highlighted that the number of passengers in the year under analysis exceeded 14 million for the first time, an increase of approximately 22% over the previous year. As for TAP's Stopover program, which was launched in 2016, it showed progression in 2017, both in terms of the launching of new destinations and in terms of extending the duration of the stopover, which extended from 3 to 5 days, thus giving passengers more time to get to see the country.

In addition, TAP Group maintained a sustained effort in 2017 to promote Portugal, both nationally and internationally, with the launch of programs such as Taste the Stars introducing Portuguese chefs, the opening of the new lounge in Lisbon and its promotional campaign, the execution of several retro flights referring to the history of TAP, the TAP Wine Experience campaign and the launch of the online store.

Finally, TAP's Transformation Process (Processo de Transformação da TAP) project, launched in the second half of 2016, was extended during 2017, focusing on implementing actions to improve operational efficiency in several areas of the Company, namely in product, organization and sales areas.

4. Focus on the emplyees

During the first half of 2017, the process of acquiring 5% of TAP's shares by its employees was completed, and a total of 75,000 shares were made available for sale at a nominal price of approximately EUR 10 per share. The entity involved in the process (BPI, in a statement to the CMVM–*Comissão do Mercado de Valores Mobiliários*) informed that the demand was 17.5 times higher than the offer, well reflecting the level of commitment of employees to the Company, as well as the conviction held about its potential valorisation as a result of the strategy defined by the current shareholders, for the Group, and employees were included as shareholder of the Company in the distribution of the profit generated.

It is also worth mentioning the ongoing development of the design of a new program for the evaluation of employees, its implementation is expected to happen soon, and the subsequent launch of an associated incentive scheme.

5. Improving profitability

As a result of the implementation of the actions foreseen in the Strategic Project, namely, the capitalization and renegotiation of debt, strategic investments and fleet growth, the new operational strategy – through the restructuring of the network and an increased focus in North America, with a significant increase in revenue due to an increase in load factor and yield, and the beginning of a process to revise the Company's costs and processes matrix (to be continued in subsequent years) and also a greater attention to its employees, TAP guaranteed, in 2017, a result and margin significantly higher than the levels recorded in the previous year.

The strategy for the TAP Group also considers the possibility of valuing business units, interests in subsidiaries and other assets, and these operations may include, as an example, the obtaining of financial resources based on an efficient asset management.

Also noteworthy is the global turnaround process in progress in M&E Brazil, with an impact on organizational restructuring, reinforcement of policies as well as sales and marketing teams, and the start of a new process of planning and redesigning of the hangar organization, as well as cross training of the workforce.

Priorities for 2018

For 2018, the Company set the following priorities:

- Increase staff satisfaction, through a management focused on proximity, improvement of working conditions and a more intense and open communication policy with the employee;

- Improve customer service by focusing on increasing punctuality, product investment, and consistency of passenger experience;

- Increase the Company's profitability, increasing revenue, optimizing efficiency and reducing waste, along with a systematic review of processes.

It should be highlighted, as a means to improve the Company's profitability, the process of global review of the Company's costs and processes, currently under way, and it is expected that it will continue to improve next year's results. In addition, it is expected that the entry into service of the new aircraft, whose operation significantly more efficient and with consumptions by about 15% lower than the current fleet, can also reinforce the Company's results, as early as 2018.

Finally, the strategic investment effort foreseen in the Group's Strategic Project will be sustained, in particular as it relates to the increase in the fleet, resulting from a significant entry into service of new aircraft, including the arrival of the first Neo Airbus, as well as with the completion of the aircraft retrofit project. These new investments will enable the Company to open new destinations and frequencies, as well as guarantee the reinforcement of ancillary revenue collection and new cargo services.

Other TAP Group Companies

With regard to the remaining participations held by TAP, SGPS, S.A., reference should be made to the development of the activity in areas related to the Group's core businesses – Air Transport and Maintenance and Engineering. The criteria for the selection of these investments was based on the assumption that the development of the respective activities contributes to strengthen those businesses, both by the return on invested capital and the increase in competitive advantages promoted by the synergistic effect. TAP has a company that operates as a holding for some of its subsidiaries which develops activities that are complementary or collateral to its core businesses of air transport and maintenance – TAPGER–Sociedade de Gestão e Serviços, S.A. – whose main objective is to monitor the management of those companies in a direct and participatory way.

In keeping with the trend in the Industry, TAP holds its financial investments in the areas of Catering, Information Systems, Health Services, Ground Handling services and also, in sales in Airport Shops and on Board having done in this case, in July 2017, the sale of its holding in the company LFP–Lojas Francas de Portugal, SA, whose purpose is that activity.

Performance Analysis

TAPGER–Sociedade de Gestão e Serviços, S.A.

TAPGER is a public limited liability company based in Lisbon, created by TAP in September 1997 for the purpose of achieving more direct and active management of the various complementary or collateral activities of the core business of air transport and maintenance, with a view to its development. The company's objective is the supervision of the management of its participated companies, particularly their respective financial and economic performance, as well as the provision of assistance and support to the companies, Lojas Francas de Portugal S.A. until July 2017, and Cateringpor–Catering de Portugal, S.A., in specific areas, as established under the Joint Venture Agreement and Technical Service Agreement, respectively. In order to ensure this assistance and the entire administrative process in a more satisfactory manner, TAPGER maintains a contract of shared services with TAP, S.A..

During 2017, TAPGER monitored the activity developed by its participated companies and held the necessary general meetings for the approval of the respective accounts relative to the financial year of 2016.

The net income for the year of 2017 decreased by 13.0% in comparison to 2016 (EUR 718.2 thousand less).

Other TAP Group share holdings, on December 31, 2017
EUR thousand

		Stake of TAP	Amount of TAP Share Capital	Net Income
Portugália, S.A.		100%	15,000.0	(707)
Aeropar Participações, Lda. (Brazil)		100%	0.2	(24,569)
	TAP–Maintenance and Engineering Brazil, S.A.	98.64%	207,057.7	(50,138)
TAPGER–Sociedade de Gestão e Serviços, S.A.		100%	2,500.0	4,799
Catering	Cateringpor–Catering de Portugal, S.A.	51%	1,785.0	1,689
Information Systems	Megasis–Soc. de Serv. e Eng. Inf., S.A.	100%	500.0	125
Health-Care Services	UCS–Cuidados Integrados de Saúde, S.A.	100%	500.0	126

Outlook for 2018

Macro environment and market conditions in the sector

After a growth of around 3.7% in 2017, world economic activity is expected to continue to gain momentum, with a slightly higher growth of around 3.9% in 2018, which is still lower than the growth observed before the 2007/2008 crisis.

In this evolution of the world economy, we highlight the impact of the recently approved changes in the US fiscal policy, with increasing signs of synchronization. Thus, prospects among the advanced economies point to a moderate expansion of around 2.3%, while in the emerging market and developing economies context, expectations are of around 4.9%, supported by the recovery of raw material exporting countries.

Consequently, the economic growth in the United States is expected to increase to 2.7%, from 2.3% in 2017, supported by solid domestic demand and the expected macroeconomic impact of the tax reform, in particular by the reduction of corporate tax rates, and by the temporary benefit on total investment expenditure. In Japan, the expansion pace will remain moderate at around 1.2%, while in the United Kingdom it is expected that uncertainty over the Brexit negotiations could penalize growth, which is expected to be only 1.2% by 2018. Conversely, an increase in growth is expected in emerging economies, especially in China, where it is expected to reach 6.6%, due to new investments in infrastructure. Growth is also expected in several commodity-exporting countries like Brazil and Russia, both countries emerging from a recessive phase in 2017, while India will continue to stand out as one of the emerging countries with more growth – expected to be around 7.4% in 2018.

On the price side, the extension of the OPEC+ agreement to limit oil production as well as the geopolitical tensions in the Middle East have supported crude oil prices, which show a rising trend also reflecting the growth of the world economy.

In the Eurozone, economic expansion is expected to remain robust with private consumption and investment supported by favourable financing conditions, improved labour markets and the furtherance of the global recovery, with the extension of the accommodative monetary policy orientation of the ECB to the European economy, as well as the continued growth of credit to the private sector, driven by low interest rates and favourable bank financing conditions. Private consumption and growth in residential investment should benefit from further improvements in labour market conditions, while business investment will continue to recover, reflecting also an increase in profit margins in the face of demand pressures. It is also expected that the Eurozone exports will remain robust, benefiting from the present expansion of world economic activity and the corresponding growth of the external demand. Gross Domestic Product (GDP) is expected to grow by 2.3%, reflecting, however, a slowdown from 2.4% in 2017, determined by a slow fading of the effects of several factors that have supported the growth seen. Of particular note is the impact of previous monetary policy measures, while, in turn, the appreciation of the euro since April 2017 and a deceleration in the growth rate of euro area external demand should mitigate to some extent, the growth of exports.

Regarding the Portuguese economy, after a growth of 2.7% in 2017, the projections point to a slowdown in the recovery trajectory that has occurred in the last two years, which should translate into an evolution of GDP, in the order of 2.3% in 2018. This development has underpinned a rebuilding of global demand, focused on more sustainable growth, based on export and investment dynamism and within a favourable international environment. In this respect, we should highlight an improvement in activity in all euro countries where Portugal's main trading partners are located, and a sustained expansion of economic activity is also expected outside the Eurozone, while monetary and financial conditions should, in turn, remain in favourable ground. It should be noted that the robust export growth was around 6.5%, reflecting increases in external demand and gains in market share, which highlights the contribution of exports related to tourism activity, which is expected to maintain growth above the evolution of total exports and above the evolution of the aggregate external demand for goods and services. The expected growth of the Portuguese economy will also be supported by the behaviour of the most dynamic component of global demand, Gross Fixed Capital Formation (GFCF), reflecting in particular the growth of business investment, benefiting from a favourable macroeconomic environment. In turn, private consumption is expected to maintain a lower growth than activity, in line with real disposable income, including a rebound towards the slowdown in the consumption of durable goods, associated with the fading of the cumulative latent demand effect that followed the end of the recessive period. The evolution of activity should be accompanied by the gradual recovery of the labour market situation, with the projection of continued employment growth, albeit on a slower trajectory than that of economic activity. Inflation, as measured by the Harmonized Index of Consumer Prices (HICP), after accelerating in 2017, is expected to drop slightly to 1.5% by 2018 to levels close to those projected for the Eurozone average. However, some structural weaknesses remain reflected in the slow pace projected for the process of real convergence of the Portuguese economy. The need to reduce public and private debt and to increase innovation and modernisation of the productive system are among the significant macroeconomic imbalances.

Regarding the Air Transport Sector, after reaching the highest ever result in 2017, and despite the prospect of a certain deterioration in the conditions of the environment, particularly associated with the increase in oil prices, the Industry expects to reach globally, still in 2018, an important result, which is expected to be around USD 38.4 billion, compared with the estimated USD 34.5 billion for 2017. It is then anticipated that 2018 will represent the fourth consecutive year of sustainable profits, supported by a still robust demand, higher levels of efficiency and the reduced level of financial expenditures, despite a scenario of higher operating costs, specifically employee costs and fuel costs, in this case harsher for companies with lower levels of hedging.

A certain downturn on stimulus demand is therefore expected, which is associated with lower oil prices, leading to a certain slowdown in global growth, which is expected to be the case for air passenger transport in the order of 6.0% (+7.6% in 2017), expressed in revenue passenger kilometers (RPK), and for air cargo transport by about 4.5% (+9.0% in 2017), expressed in freight tonne kilometres (FTK).

Following some control of capacity expansion (around 5.7%), which is expected to be lower than the growth in demand, the overall passenger load factor will be maintained at a high level (around 81.4%) which, together with a robust demand from the business segment, supported by the continuation of economic conditions, will contribute to a moderate increase in yields.

This behaviour is expected to be extended to all regions, but it should be noted that US airlines are expected to have the best financial performance. In Europe, the region performance is also expected to strengthen, with European airlines benefiting from a strong economic recovery in domestic markets, including Russia, from the recovery of terrorist events in 2016, as well as from some sector consolidation. For its part, performance in Latin America is expected to improve as a result of the moderate recovery of the Brazilian economy and the devaluation of the US dollar, while in Africa, demand is expected to be supported by improved economic conditions, although this appears to be delayed in the region, in a comprehensive way.

With regard to the prospects for the air cargo transport business in 2018, there is a certain optimism regarding the growing increase in international e-commerce and in the transport of products sensitive to temperature and time spent in the trip, such as pharmaceuticals. Overall, the pace of demand growth is expected to decline, compared to the excellent 9.0% achieved in 2017, but should reach a very satisfactory level of 4.5%. There are, however, a number of challenges to be faced, namely the need for Industry-wide developments for more efficient processes, enabling improved customer satisfaction and market capturing to meet the increasing demands on shippers' and consumers' expectations.

Outlook for TAP in 2018

Under the reprivatisation concluded on 12 November 2015, a number of changes were contemplated – including a Capitalisation Plan, already fully implemented, targeting TAP SGPS, S.A., TAP, S.A. and other subsidiaries. The Capitalisation Plan will indirectly strengthen the shareholder structure of TAP, S.A. and position it positively for future growth. The details of this strategy, in the year 2018, particularly as regards the Fleet, Network and Product, are given below.

Air Transport

Changes in the Fleet

2018 will be a year of great transformation in TAP fleet with several new aircraft going into operation. The first A320neo is scheduled to be delivered at the end of the first quarter, followed by the delivery of four A321neo aircraft, also intended for medium-haul operations during 2018. In this way, the process of replacing medium-haul aircraft with new and significantly more efficient aircraft is initiated. Additionally, in the medium-haul equipment, in order to allow the growth of the operation before the start of the 2018 summer period, two aircraft (one A319 and one A320) are expected to be added under short-term operating lease until the beginning of 2019, the date on which these aircraft will be replaced by A320neo aircraft model that is expected to become an integral part of the Company's fleet.

Farther, it should be noted that the first units of A321neo LR (Long Range) will be delivered and operational during 2018, and it is expected that by the end of that year there will be two aircraft of this model in operation and that, by 2019, four additional of these aircraft will be added to TAP fleet. These aircraft, with a superior maximum take-off weight (MTOW) and with additional fuel tanks, will allow transatlantic flights to Brazil, to the eastern coast of the United States of America and Canada, as well as to Africa. Regarding the product for the passenger, these aircraft have been designed to provide the customer with an experience equivalent to the one that will be offered in the new A330neo. Therefore, these aircraft will be equipped with *full-flat* model executive seats, electrical sockets in all cabin seats, and with entertainment and Internet systems identical to the new A330neo systems.

In addition, it is scheduled for 2018, the delivery and the entry into service of the A330neo aircraft, which will progressively replace the older A330 and A340 aircraft, as well as the A330-300, a process that will run until the end of 2019. It should be noted that seven A330neo aircraft, during 2018, and ten additional aircraft of this model, in 2019, will be added to TAP fleet. This is a relevant investment for the renewal of the fleet, which will allow to significantly improve the product offered to the passenger, as well as making available consistency in all long-haul aircraft. The new cabins will have state-of-the-art seats, in business-class and in economy-class, making it possible to significantly increase the comfort of the passengers, which will then have electrical outlets available on all seats in the airplane. It is also worth mentioning the availability of in-flight entertainment systems, with bigger and more modern HD screens, as well as the existence of Internet on board, and the distribution of digital content to passengers' portable devices. It should also be noted that TAP's A330neo aircraft are expected to be the first aircraft to operate with the new *Airspace* cabin concept, launched by Airbus.

Nonetheless, no changes are expected in the regional fleet during 2018.

Key changes to the Network

In 2018, TAP remains committed to developing a network of routes geared to cost-effectiveness, with a view to ensuring a sustainable growth.

In this sense, new opportunities in Brazil will be explored, without, however, compromising the Company's position in the North-American market. Namely, in particular:

- A third frequency to São Paulo (Guarulhos), to be launched from June onwards. The Lisbon-Belo Horizonte and Lisbon-Brasília routes will be on a daily basis, and the Lisbon-Recife will step up to ten weekly frequencies;
- In Brazil, TAP will explore the code-share agreements with airline partners, with a view to reinforcing its position as the leading European airline operating to this country;
- Flights to Toronto will be reinforced, with a view to better serving the Portuguese community and promoting the consolidation of TAP's presence in Canada;
- In the United States, TAP will use the current code-share agreements with airline partners to deepen its incursion in offline destinations and to strengthen the Company's position in North America.

In Europe, TAP will continue to expand its destination portfolio, by launching the Lisbon-Florence route in June 2018.

However, in 2018 TAP's most significant investment will be in Oporto, with the allocation of two narrow-body aircrafts to operate four new routes from Oporto: Oporto-Milan, Oporto-Barcelona, Oporto-London City and Oporto-Ponta Delgada.

The commitment of TAP, S.A. to Portugal

In 2018, TAP will continue to further reinforce its strategic commitment to promote the establishment of connections between Europe and the regions of Africa, North America and South America, contributing to the growth of tourism in Portugal, while at the same time acting as a facilitator in establishing business relations and in creating new business opportunities.

Likewise, TAP's contribution should also be noted as regards the development of traffic flows, whether for leisure or business purposes, directed at the North of Portugal, connecting Oporto to several European destinations, with at least a daily flight, as well as its contribution to promoting the Azores' and Madeira's connectivity to Oporto, and to Europe through the cities of Oporto and Lisbon.

Finally, in a manifestation of the Company's commitment towards Portugal, TAP's increased presence among the Portuguese communities and other relevant migrant communities should be mentioned.

Additional changes to the type of service

During 2017, the great majority of medium and long-haul aircraft were the object of works to improve the cabins. The result of these interventions was a significant improvement of the product for the passenger. In 2018, that program will be completed with interventions in the remaining number of aircraft that were not subject to intervention in 2017, hence making possible an almost complete standardization of the product. It should be noted that the full completion of this standardization process is expected to occur between 2018 and 2019 with the arrival of the A330neo, the A320neo and the A321LR.

It is worth mentioning that by the end of 2019 all of TAP's long-haul aircraft will be equipped with *full-flat* executive seats, thus allowing for a significantly higher level of comfort compared to the one that currently exists in a relatively large part of the fleet.

In addition, the process to select a solution and a provider of entertainment and Internet systems for TAP medium-haul aircraft is expected to take place during 2018. This measure is part of the set of initiatives for product improvement, and should enable the first modified aircraft to be made available in 2019.

Maintenance and Engineering

With regard to TAP–Maintenance and Engineering Portugal, in the commercial context, the prospects for 2018 are of consolidation in view of the significant growth in 2017. The focus continues on the loyalty of current Customers, as well as on the expansion of their base, essentially in the engine business and for which the contract signed with Lufthansa, although modest in terms of turnover, is of great importance for the recognition of its capacity and the strengthening of TAP–Maintenance and Engineering Portugal's position as alternative to large engine workshops at peak times.

Regarding airframe, the expansion of the business is limited by the available hangar area, nonetheless the quality and competence demonstrated by Maintenance and Engineering over the years has been a guarantee for the stability of this activity, which has focused on the wide-body fleets, for reasons such as competitiveness and value for the business. There will be another modification of sharklets for an executive Airbus, and this is an activity in which Maintenance and Engineering intends to consolidate, as a world reference.

The activity in the components maintenance for third parties will result mainly from the fleet management contracts that TAP–Maintenance and Engineering Portugal maintains with the French Air Force and with SATA and as a consequence of the engine business volume.

In the operational perspective, the strong involvement of all Maintenance and Engineering in the preparation of the phase-out and phase-in of the aircrafts continues, not only those that will occur in 2018 but also those already planned for the next years, with the focus in preparation for the A330neo and A320/321neo introduction, so that this can occur without affecting the Air Transport operation of TAP. Always aiming to better serve our passengers, we will be implementing a maintenance group exclusively dedicated to cabin interiors, in order to keep them fully operational, as well as the *look and feel* of the new interiors and the proposal of policies that guarantee the best that TAP has to offer its passengers in this area.

Working conditions will continue to be a priority, reduction of absenteeism and of work accidents, as well as improving processes, seeking greater levels of efficiency and productivity. Innovation and its impact on operations, particularly in technological and digital terms, will also continue to be a priority.

Finally, it's important to highlight the beginning of the preparation to achieve competence on maintenance service to the LEAP engine that will power the A320neo fleet and which, in future, will allow TAP–Maintenance and Engineering Portugal not only to continue to support TAP's fleet but also to provide services to third parties.

Within the Organization scope, we will continue to work towards strengthening a culture of commitment and focus on results and on agreed objectives.

In the Maintenance and Engineering business in Brazil, 2018 will continue to be of focus on the following objectives: i) improvement of production capacity and efficiency, particularly in terms of quality, price and Turn-Around-Time (TAT); ii) improvement of commercial performance; iii) economic/financial health; iv) to continue the right sizing process in order to bring supply into line with demand, to reduce otioseness and consequently, costs; v) continue to evaluate the interest of potential partners.

It should be noted that TAP, SGPS, S.A. has a strategic vision for the future, one of its major objectives being to create a financially sustainable airline company, where one of its main strategic lines fleet-wise is to position itself among the best companies in the world, ensuring an ever more decisive role in the connections between Europe, Africa, Brazil and North America.

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL YEAR OF 2017

TAP – TRANSPORTES AÉREOS PORTUGUESES, SGPS, S.A.

INDEX

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017 AND 2016

Amounts stated in thousand euros	Notes	2017	2016
ASSETS			
Non-current assets			
Tangible fixed assets	4	607,212	718,963
Investment properties	5	2,126	2,248
Goodwill	6	135,184	172,060
Intangible assets	7	3,056	1,504
Investments in subsidiaries and associates	8	5,706	-
Other financial assets	9	46,805	40,560
Deferred tax assets	10	57,067	67,571
Other receivables	11	95,245	80,269
		952,401	**1,083,175**
Current assets			
Inventories	12	97,058	85,839
Other receivables	11	426,977	290,238
Income tax receivable	13	1,411	10,473
Other financial assets	9	34,853	-
Restricted cash	14	83	538
Cash and cash equivalents	14	167,734	150,468
		728,116	**537,556**
Non-current assets held for sale	15	-	36,355
		728,116	**573,911**
Total assets		**1,680,517**	**1,657,086**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	15,000	15,000
Supplementary capital contributions	16	224,093	224,093
Legal reserves	16	3,000	3,000
Foreign currency translation reserves	16	(58,649)	(36,869)
Hedge reserves	16	-	(461)
Equity holdings adjustment		(2,260)	(2,260)
Retained earnings	16	(676,459)	(647,884)
Net income/(loss) for the year	16	21,224	(27,731)
Total equity of the Group		**(474,051)**	**(473,112)**
Non-controlling interests	17	(1,870)	3,475
Total equity		**(475,921)**	**(469,637)**
Non-current liabilities			
Provisions	18	20,645	26,441
Borrowings	19	756,122	666,841
Post-employment benefits obligations	20	61,422	67,688
Deferred tax liabilities	10	19,942	19,422
Other payables	21	112,813	105,479
		970,944	**885,871**
Current liabilities			
Borrowings	19	114,752	328,274
Other payables	21	648,532	571,448
Income tax payable	13	10,479	-
Liabilities from unused flight documents	22	411,731	317,867
		1,185,494	**1,217,589**
Non-current liabilities held for sale	15	-	23,263
		1,185,494	**1,240,852**
Total liabilities		**2,156,438**	**2,126,723**
Total equity and liabilities		**1,680,517**	**1,657,086**

The accompanying notes form an integral part of the consolidated statement of financial position as at 31 December 2017.

CONSOLIDATED INCOME STATEMENT
FOR 2017 AND 2016

Amounts stated in thousand euros	Notes	2017	2016
Operating income			
Sales and services rendered	23	2,934,894	2,289,638
Gains and losses in associates	24	3,250	1,743
Other operational income	25	39,457	46,897
		2,977,601	**2,338,278**
Operating costs			
Cost of goods sold and materials consumed	26	(188,293)	(146,395)
Variation in production	27	2,090	2,320
External supplies and services	28	(1,946,288)	(1,511,112)
Employee costs	29	(624,557)	(585,831)
Impairment in inventory and receivables	30	(2,791)	(3,941)
Provisions (increases/decreases)	18	3,527	1,442
Fair value increases/decreases	31	(122)	32
Other operating expenses	32	(26,271)	(24,553)
		194,896	**70,240**
Depreciation,amortisation and impairment losses	33	(66,057)	(57,196)
Impairment of assets not subject to depreciation/amortisation (losses/reversals)	6	(22,000)	-
Operating income/(loss) (earnings before interests and taxes)		**106,839**	**13,044**
Finance income	34	6,654	2,877
Finance expense	34	(75,054)	(44,190)
Net income/(loss) before income tax		**38,439**	**(28,269)**
Income tax for the year	35	(26,867)	(3,688)
Net income from continuing operations		**11,572**	**(31,957)**
Results from discontinued operations	15	11,706	8,944
Net income/(loss) for the year		**23,278**	**(23,013)**
Net income/(loss) attributable to owners of TAP SGPS		21,224	(27,731)
Net income/(loss) attributable to non-controlling interests	17	2,054	4,718
Basic earnings per share of continuing operations (Euros)	16	7.7	(21.3)
Diluted earnings per share of continuing operations (Euros)	16	7.1	(21.3)
Basic results per share (euros)	16	14.1	(18.5)
Diluted results per share (euros)	16	13.0	(18.5)

The accompanying notes form an integral part of the consolidated income statement as at 31 December 2017.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR 2017 AND 2016

Amounts stated in thousand euros	Notes	2017	2016
Net income/(loss) for the year		**23,278**	**(23,013)**
Items that may be reclassified to income statement:			
Gains and losses on translation of foreign operations	16	(21,010)	32,569
Gains and losses in derivate financial instruments - cash flow hedge	16	636	402
Deferred tax on derivative financial instruments - cash flow hedge	10	(175)	(111)
Items that will not be reclassified to income statement:			
Remeasurements of defined benefit plans	20	(2,885)	(16,109)
Deferred tax on remeasurements	10	2,061	2,172
Other comprehensive income/(loss) net of tax		**(21,373)**	**18,923**
Comprehensive income/(loss)		**1,905**	**(4,090)**
Attributable to:			
Owners of TAP SGPS		(939)	(7,730)
Non-controlling interests	17	2,844	3,640
		1,905	**(4,090)**
Comprehensive income/(loss) attributable to the owners of TAP SGPS arises from			
Continuing operations		(10,793)	(12,291)
Discontinued operations		9,854	4,561
		(939)	**(7,730)**

The accompanying notes form an integral part of the consolidated statement of comprehensive income as at 31 December 2017.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FROM 1 JANUARY 2016 TO 31 DECEMBER 2017

Amounts stated in thousand euros	Share Capital	Supplementary capital contributions (Note 16)	Legal reserves	Foreign currency translation reserves (Note 16)	Hedge reserves (Note 16)	Equity holdings adjustment	Retained earnings	Net income/(loss) for the year	Subtotal	Non-controlling interests (Note 17)	TOTAL
Equity as at 1 January 2016	**15,000**	**154,353**	**3,000**	**(70,406)**	**(752)**	**(2,260)**	**(478,015)**	**(156,042)**	**(535,122)**	**4,807**	**(530,315)**
Transactions with owners in 2016	**-**	**69,740**	**-**	**-**	**-**	**-**	**(156,042)**	**156,042**	**69,740**	**(4,972)**	**64,768**
Application of net income/(loss) and distribution of profit and reserves	-	-	-	-	-	-	(156,042)	156,042	-	-	-
Supplementary capital contributions	-	69,740	-	-	-	-	-	-	69,740	-	69,740
Distribution of dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,972)	(4,972)
Comprehensive income/(loss) in 2016	**-**	**-**	**-**	**33,537**	**291**	**-**	**(13,827)**	**(27,731)**	**(7,730)**	**3,640**	**(4,090)**
Net income/(loss) for the year	-	-	-	-	-	-	-	(27,731)	(27,731)	4,718	(23,013)
Other comprehensive income/(loss)	-	-	-	33,537	291	-	(13,827)	-	20,001	(1,078)	18,923
Equity as at 31 December 2016	**15,000**	**224,093**	**3,000**	**(36,869)**	**(461)**	**(2,260)**	**(647,884)**	**(27,731)**	**(473,112)**	**3,475**	**(469,637)**
Transactions with owners in 2016	**-**	**-**	**-**	**-**	**-**	**-**	**(27,731)**	**27,731**	**-**	**(8,189)**	**(8,189)**
Application of net income/(loss) and distribution of profit and reserves	-	-	-	-	-	-	(27,731)	27,731	-	-	-
Supplementary capital contributions	-	-	-	-	-	-	-	-	-	-	-
Changes in perimeter (Notes 15 and 17)	-	-	-	-	-	-	-	-	-	(7,373)	(7,373)
Distribution of dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(816)	(816)
Comprehensive income/(loss) in 2017	**-**	**-**	**-**	**(21,780)**	**461**	**-**	**(844)**	**21,224**	**(939)**	**2,844**	**1,905**
Net income/(loss) for the year	-	-	-	-	-	-	-	21,224	21,224	2,054	23,278
Other comprehensive income/(loss)	-	-	-	(21,780)	461	-	(844)	-	(22,163)	790	(21,373)
Equity position as at 31 December 2017	**15,000**	**224,093**	**3,000**	**(58,649)**	**-**	**(2,260)**	**(676,459)**	**21,224**	**(474,051)**	**(1,870)**	**(475,921)**

The accompanying notes form an integral part of the consolidated statement of changes in equity as at 31 December 2017.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2017 AND 2016

Amounts stated in thousand euros	Notes	2017	2016
Operating activities:			
Receipts from customers		3,048,710	2,363,288
Payments to suppliers		(2,398,343)	(2,079,817)
Payments to employees		(499,703)	(446,454)
Income tax payment/receipt		5,573	(5,032)
Other receipts/payments relating to operating activities		(29,713)	225,385
Cash flow from operating activities		**126,524**	**57,370**
Investment activities:			
Receipts from:			
Tangible fixed assets		219,039	64,666
Financial investments		15,600	116
Interests and similar income		5,491	2,665
Supplementary capital subscriptions		1,000	-
Payments relating to:			
Tangible fixed assets		(120,374)	(143,409)
Intangible assets		-	(42)
Other financial assets		(47,133)	(39,276)
Cash flow from investment activities		**73,623**	**(115,280)**
Financing activities:			
Receipts from:			
Borrowings		55,429	227,650
Supplementary capital contributions	16	-	69,740
Payments relating to:			
Borrowings		(55,567)	(81,010)
Financial leasing contracts		(128,100)	(89,816)
Interests and similar costs		(40,613)	(42,909)
Dividends (non-controlling interests)		-	(5,622)
Cash flow from financing activities		**(168,851)**	**78,033**
Net increase (decrease) in cash and cash equivalents		31,296	20,123
Effects of exchange rate changes		(14,205)	(7,597)
Cash and cash equivalents at the beginning of the year		**150,726**	**140,991**
Non-current assets held for sale	15	**-**	**(2,791)**
Cash and cash equivalents at the end of the year	14	**167,817**	**150,726**

The accompanying notes form an integral part of the consolidated statement of cash flows as at 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2017

1 – Economic activity of the Group

The Group, composed by TAP – Transportes Aéreos Portugueses, SGPS, S.A. ("TAP SGPS") and its subsidiaries ("TAP Group" or "Group") has its head office at Lisbon Airport and is dedicated to air transport operations involving passengers, cargo and mail, the implementation of maintenance and engineering works, providing handling services during air transport stopovers and catering for aviation.

The Group's core business consists in the air transport of passengers, cargo and mail, operating in Portugal, mainland and its Autonomous Regions, Europe, Africa, North Atlantic, Mid-Atlantic and South Atlantic. The Group has 24 representative offices in foreign countries and 4 in Portugal.

Head Office	Lisbon Airport, Edifício 25
Share Capital	Euro 15,000,000
Taxpayer Number:	506 623 602

TAP – Transportes Aéreos Portugueses, SGPS, S.A. was incorporated on 25 June 2003 under Decree-Law number 87/2003, of 26 April, and its share capital was fully underwritten and paid-up in kind by Parpública - Participações Públicas, SGPS, S.A. ("Parpública"), through the entry of shares representing the entire share capital of the company Transportes Aéreos Portugueses, S.A. ("TAP S.A.").

As part of the TAP Group re-privatization process, on 24 June 2015 was signed the "Direct Sale Agreement" of TAP – Transportes Aéreos Portugueses, SGPS, S.A. ("TAP SGPS"), between Parpública (as seller), DGN Corporation ("DGN") and HPGB, SGPS, S.A. ("HPGB") (as proponents) and Atlantic Gateway, SGPS, S.A. ("Atlantic Gateway", currently adopting a limited corporation type) (as buyer), from which resulted the transmission of 915,000 nominal shares representative of 61% of the share capital of TAP SGPS to Atlantic Gateway on 12 November 2015, and Parpública remains with 39%.

Besides the "Direct Sale Agreement", it should be noted that, from among the various contractual instruments that have been formalised on 24 June 2015, the "Strategic Commitment Agreement", was formalised between the Portuguese State, Parpública, TAP SGPS, TAP S.A., DGN, HPGB and Atlantic Gateway, which establishes the terms and general conditions for the implementation of the "Strategic Plan", presented with the binding technical proposal, containing the measures that should contribute to the objectives of re-privatisation. Under this agreement, the parties assumed some strategic commitments, such as the promotion of the national hub e the maintenance of head office from TAP S.A. and Portugália – Companhia Portuguesa de Transportes Aéreos, S.A. ("Portugália") in Portugal.

With the transmission of 61% of the share capital of TAP SGPS to Atlantic Gateway on 12 November 2015, among other contractual instruments, it should be noted the "Agreement on Economic and Financial Stability of TAP" ("Acordo Relativo À Estabilidade Económica-Financeira"), between Parpública, Atlantic Gateway, TAP

SGPS, TAP S.A. and Portugália, in which Atlantic Gateway, as buyer, and TAP S.A. and Portugália, as borrowers, assumed some obligations related to TAP Group financial debt and debt service.

As part of the process of notification to the Portuguese Civil Aviation Authority ("ANAC") of the transaction concluded on 12 November, 2015, which led to the acquisition by Atlantic Gateway of shares representing 61% of the share capital of TAP SGPS, should be noted that, by resolution of 19 February 2016, the Board of Directors of ANAC imposed a set of precautionary measures to the TAP Group. This proceeding with ANAC was, concluded favourably on 23 December 2016, at which date the Board of Directors of ANAC deliberated that TAP SA fulfilled the conditions set forth in Article 4 of Regulation (CE) nº 1008 / 2008 of the European Parliament and of the Council of 24 September 2008, on common rules for the operation of air services in the European Community.

Additionally, in December 2015 the Portuguese State informed Atlantic Gateway of its intention to review, by negotiation, the terms and conditions of its participation in TAP SGPS, namely through an increase in its participation in the equity of TAP SGPS, with Atlantic Gateway and its partners, HPGB and DGN, being willing to take part in the negotiation process proposed by the Portuguese State.

As this, on 6 February 2016, the Portuguese State and Atlantic Gateway formalised a "Memorandum of Understanding", which was amended on 26 April 2016, with the purpose of establishing the principles, rules and conditions to be followed by the parties during the revision of the participation of the Portuguese State, through Parpública, in TAP SGPS.

In accordance with the Memorandum of Understanding, Parpública, HPGB, DGN and Atlantic Gateway signed a purchase agreement on 19 May 2016, under which, once fulfilled certain precedent conditions, Atlantic Gateway undertook to sell shares representing the equity of TAP SGPS to Parpública, so that Parpública becomes the holder of 50% of TAP SGPS (the "Share Purchase Agreement"). Among the precedent conditions for the conclusion of this Agreement, we highlight the conclusion of the offer to sell shares representing up to 5% of TAP SGPS share capital to the Group's employees, the necessary third party authorizations and the bank debt restructuration of TAP Group. The draft Shareholders' Agreement and Strategic Commitments of TAP SGPS to be signed between Parpública and Atlantic Gateway on the date of the conclusion of the Share Purchase Agreement ("Shareholders Agreement and strategic commitments of TAP SGPS") were attached to this Share Purchase Agreement.

The Resolution of the Council of Ministers nº 30/2016 of 19 May, which approved the minutes of the Share Purchase Agreement and the Shareholders Agreement and Strategic Commitments of TAP SGPS, also determined, among others, (i) the immediate cessation of the effects of the Strategic Commitment Agreement formalised on 24 June 2015, referred to above, on the date that the Shareholders Agreement and Strategic Commitments of TAP SGPS became effective, as well as (ii) the expiration of the unavailability scheme provided for in the specifications of the Reprivatization Process - with respect to the number of shares of TAP SGPS and TAP SA that are necessary to ensure the majority of the voting rights and effective control of mentioned companies - on the effective date of the transfer of the shares of TAP SGPS to Parbública.

Following the capitalization plan of the TAP Group defined under the scope of the Reprivatization Process, by resolution of TAP SGPS General Meeting on 8 March 2016, previously authorised by ANAC, was approved the issuance by TAP SGPS of a convertible bond into up to 130,800 special shares of the company in the amount of Euro 120 million and maturity in 10 years. The aforementioned issue is composed by two series: the first (series A), amounting Euro 90 million, subscribed by Azul Linhas Aéreas Brasileiras, SA ("Azul SA") on 16 March 2016, and the second (series B) in the amount of Euro 30 million subscribed by Parpública on 14 June 2016. The conversion of these bonds into shares of TAP SGPS and the collateralisation under this issue were subject to the express approval of ANAC, which occurred on 23 December 2016.

After the deliberation of the Board of Directors of ANAC dated 23 December 2016, on 12 January 2017, the General Meeting of TAP SGPS decided to recognise the full production of the effects of the bonds issued by TAP SGPS, which was approved by the General Meeting of TAP SGPS on 8 March 2016, as well as the effects of the guarantee agreement entered into under the aforementioned bond issuance between TAP SGPS, TAP SA, Megasis - Sociedade de serviços de Engenharia e Informática, S.A., Azul S.A. and Bondholders, SL. It should be noted that the TAP Group has not yet fulfilled the contractually agreed guarantees, having agreed with the bond underwriters about the extension of the term for those guarantees.

Following the privatization of TAP SGPS, it was determined and concluded the public offering of shares available for TAP Group's employes, consisting on the sale of representative shares up to 5% of TAP SGPS' share capital, from Parpública, to the employes of TAP SGPS and other Group companies, as identified in Annex II of the Council of Ministers Resolution n.º 4-A/2015, from 20 January, amended by nº 7 of the Council of Ministers Resolution n.º 4-A/2015, from 23 March. This public offering of shares to employees was launched in 10 April 2017, in accordance with the Council of Ministers Resolution n.º 42-A/2017, from 23 March, TAP Group's employees acquired a total of 75,000 shares representing 5% of TAP SGPS' share capital and voting rights.

In accordance with the Council of Ministers Resolution n.º 95/2017, from 4 July, approved in 29 June 2017, with effects from that date, Parpública and Atlantic Gateway concluded on 30 June 2017 the transfer of shares established in the Share Purchase Agreement consequently ANAC has been notified under the terms and conditions legally foreseen, which hasn't formaly responded.

On that same day, 30 June 2017, also occurred the General Meeting of TAP SGPS to decide, among others, about the election of the new members of the Board of Directors and about the amendment of the TAP SGPS articles os association, according to the Share Purchase Agreement.

Therefore, TAP SGPS' share capital is as follows:

- As a whole, employees hold a total of 75,000 common shares, representing 5% of TAP SGPS' share capital, voting rights and economic rights;
- Parpública holds 750,000 category B shares, representing 50% of TAP SGPS' share capital and voting rights and 5% of its economic rights; and

✈ Atlantic Gateway holds 675,000 category A shares, representing 45% of TAP SGPS' share capital and voting rights and 90% of its economic rights.

Under these amendments, the TAP Group still does not qualify as a public company of the Portuguese State's business public sector, under the terms and for the purposes of Decree-Law nº 133/2013.

On 30 June 2017 it was also signed the "Debt Service Agreement on the Bebt service resctructuring and monitoring of TAP Group" ("Acordo de Adaptação e Monitorização de Passivo Financeiro Relativo ao Grupo TAP") between several bank entities, TAP SGPS, TAP S.A. and Portugália, as borrowers, and Parpública and Atlantic Gateway, as shareholders, TAP Group agreed with the signatory bank entities the change of certain conditions about the respective financing contracts, the financial debt and the debt service of the Group. This agreement has replaced the "Agreement on Economic and Financial Stability of TAP" ("Acordo Relativo À Estabilidade Económica-Financeira"), signed on 12 November 2015, which has been expressly repealed.

These consolidated financial statements, which include the assets, liabilities, costs and income of the TAP Group companies as listed in Note 2.3.1., were approved by the Board of Directors on 8 March 2018. However, these financial statements are still subject to approval by the General Meeting of Shareholders, under the terms of the commercial legislation in force.

The members of the Board of Directors that sign this report declare that, to the best of their knowledge, the information contained herein was prepared in conformity with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial position and results of the companies included in the Group's consolidation scope.

2 - Summary of the significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are described below.

2.1. Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS – formerly referred to as the International Accounting Standards - IAS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC) in force on the date of preparation of the mentioned financial statements.

The accompanying consolidated financial statements were prepared on a going concern basis from the accounting books and records of the companies included in the consolidation (Note 2.3.1.) and under the historic cost convention, except for derivative financial instruments, investment properties and customer loyalty programs, which are recorded at fair value.

The preparation of the financial statements, accordingly IFRS, requires the use of important estimates and judgments in the application of the Group's accounting policies. Despite the estimates used are based on the best information available during the preparation of these financial statements and best knowledge of past and present events, we note that actual and future results may differ from these estimates. The principal statements which involve a greater degree of judgment or complexity and the most significant assumptions and estimates used in the preparation of the aforesaid financial statements are disclosed in Note 2.32.

The TAP Group, in the preparation of these consolidated financial statements confirms to be in compliance with IAS/IFRS standards and its SIC/IFRIC interpretations, as adapted by the European Union.

✈ New standards, changes and interpretations of existing standards mandatory as at 31 December 2017:

The application of the interpretations and amendments to the standards mentioned below, are mandatory by the IASB for the financial years beginning on or after 1 January 2017:

Description	Changes	Effective Date*
IAS 7 – Cash flow statement	Reconciliation of changes in financing liabilities with Cash flows for financing activities	1 January 2017
IAS 12– Income Taxes	Accounting for deferred tax assets on assets measured at fair value, the impact of deductible temporary differences in future taxable income estimates and the impact of restrictions on the recoverability of deferred tax assets	1 January 2017

** Financial years beggining on or after*

The revision of this standards did not have any significant impact on the consolidated financial statements of the Group.

✈ New standards and interpretations not mandatory as at 31 December 2017:

There are new standards, interpretations and amendments of existing standards that, despite having already been published, are only mandatory for the periods starting on or after 1 January 2018, and which the Group decided not to early-adopt in the current period, as follows:

Standards (new and amendments) that will become effective, on or after 1 January 2018, endorsed by the EU:

Description	Changes	Effective Date*
IFRS 9 – Financial instruments	New standard for the accounting of financial instruments	1 January 2018
IFRS 15 – Revenue from contracts with customers	Revenue recognition for the provision of goods or services, following a five step approach	1 January 2018
IFRS 16 - Leases	New definition of lease. New accounting of lease contracts to lessees. No major changes to lessors lease accounting.	1 January 2019
IFRS 4 – Insurance contracts (Applying IFRS 4 with IFRS 9)	Temporary exemption for insurance companies only, from applying IFRS 9 for annual periods beginning before 1 January 2021. Overlay approach for assets within IFRS 4 that qualify as FVTPL under IFRS 9 and at amortised cost under IAS 39, being the measurement difference reclassified to OCI.	1 January 2018
Amendments to IFRS 15 - Revenue from contracts with customers	Identification of performance obligations, timing of revenue recognition from licenses of IP, change to principle versus agent guidance, and new practical expedients on transition.	1 January 2018

** Financial years beggining on or after*

The adoption of IFRS 15 - Revenue from contracts with customers and IFRS 9 - Financial instruments will not produce any materially relevant effects on the patrimonial and financial position of the Group.

Regarding IFRS 16 - Leases, the Group has not yeat concluded the analysis of the impacts arising from its application, however, it expects that this standard will produce materially relevant effects over the Group patrimonial and financial position.

2.2. Comparability of the financial statements

The figures presented in the financial statements for the year ended on 31 December 2017 are comparable in all significant aspects with the figures for the year ended on 31 December 2016.

Standards (new and amendments) that will become effective, on or after 1 January 2018, not yet endorsed by the EU:

Description	Changes	Effective Date*
Annual improvements to IFRS 2014 - 2016	Clarifications to: IFRS 1, IFRS 12 e IAS 28.	1 January 2017 and 1 January 2018
IAS 40 – Investment Property	Clarification that evidence of the change in use is required, when assets are transferred to, or from investment properties category.	1 January 2018
IFRS 2 – Share-based Payment	Measurement of cash-settled share-based payments, accounting for modifications and classification as equity-settled share-based payments when employer withholds tax	1 January 2018
IFRS 9 – Financial Instruments	Accounting treatment options for financial assets with negative compensation features	1 January 2019
IAS 28 – Investments in Associates and Joint Ventures	Clarification regarding long-term investments in associates and joint ventures that are not being measured through the equity method	1 January 2019
Annual improvements to IFRS 2015 - 2017	Clarifications: IAS 23, IAS 12, IFRS 3 e IFRS 11.	1 January 2019
IFRS 17 – Insurance Contracts	New accounting for insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics.	1 January 2021

** Financial years beggining on or after*

Interpretations that will become effective, on or after 1 January 2018, not yet endorsed by the EU:

Description	Changes	Effective Date*
IFRIC 22 – Foreign currency transactions and advance consideration	Foreign exchange rate to apply when consideration is paid or received in advance	1 January 2018
IFRIC 23 – Uncertainty over income tax treatments	Clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments	1 January 2019

** Financial years beggining on or after*

Without prejudice to the above, as a result of the re-examination of the Group's financial management policies and the respective nature and magnitude of the exchange transactions specific to the air transport business, it was decided to amend the accounting classification of the realised and not realised currency differences in the consolidated income statement, resulting from balances in foreign currency in captions of cash and cash equivalents and other assets and liabilities. Therefore, since 2017 the currency exchange differences generated by the aforementioned balances in foreign currency are presented in finance income in the consolidated income statement.

The Group considers that this accounting classification amendment reflects, currently, in a more adequate way its business and its operational and financial events. According to its immateriality in the context of the consolidated financial statements for the year ended 31 December 2016 (Euro 3,836 thousand according to Note 25), the comparative figures were not restated.

2.3. Basis of Consolidation

2.3.1. Subsidiaries

Subsidiaries are all entities over which the Group considers control to exist.

The Group considers that there is control over an entity when the Group is exposed and/or has the right, as a result of its involvement, to the return of the entity's activities and has the capacity to affect that return through the existent control over that entity, namely when it holds direct or indirectly more than half of the voting rights. The existence and the effect of potential voting rights which are currently exercisable or convertible are taken into account when the Group assesses whether it has control over another entity.

Equity and net profit for the period corresponding to third party participation in subsidiaries are reflected separately in the consolidated statement of financial position and in the income statement, respectively in caption "Non-controlling interests" (Note 17).

The companies included in the consolidated financial statements are below detailed:

Name	Head office	Core business	Shareholders	% share capital held	
				2017	2016
TAP - Transportes Aéreos Portugueses, SGPS, S.A.	Lisbon	Management and administration of holdings	Parpública Atlantic Gateway TAP Group employees	50.00% 45.00% 5.00%	39.00% 61.00% -
Transportes Aéreos Portugueses, S.A.	Lisbon	Aeronautical activities	TAP SGPS	100.00%	100.00%
TAPGER - Sociedade de Gestão e Serviços, S.A. ("TAPGER")	Lisbon	Provision of management services	TAP SGPS	100.00%	100.00%
Portugália - Companhia Portuguesa de Transportes Aéreos, S.A. ("Portugália")	Lisbon	Aeronautical activities	TAP SGPS	100.00%	100.00%
Cateringpor - Catering de Portugal, S.A. ("Cateringpor")	Lisbon	*Catering*	TAPGER	51.00%	51.00%
L.F.P. - Lojas Francas de Portugal, S.A. ("LFP")	Lisbon	Duty free shop operation	TAPGER	-	51.00%
Megasis - Soc. de Serviços de Engenharia e Informática, S.A. ("Megasis")	Lisbon	Engineering and provision of It services	TAPGER	100.00%	100.00%
U.C.S. - Cuidados Integrados de Saúde, S.A. ("UCS")	Lisbon	Provision of health care services	TAPGER	100.00%	100.00%
Aeropar, Participações, S.A. ("Aeropar")	Brazil	Management and administration of holdings	TAP SGPS Portugália	99.83% 0.17%	99.83% 0.17%
TAP – Manutenção e Engenharia Brasil, S.A. (ex-VEM) ("TAP M&E Brasil")	Brazil	Maintenance and aeronautical engineering	TAP SGPS Aeropar	51.00% 47.64%	51.00% 47.64%

During the period ended at 31 December 2017 there were changes in the consolidation perimeter of the Group, after the sale of 51% of the share capital of the subsidiary L.F.P. – Lojas Francas de Portugal, S.A, which had been classified as non-current asset held for sale in 2016.

The purchase method is used in recording the acquisition of subsidiaries. The cost of an acquisition is measured by the fair value of the assets transferred, the equity instruments issued and liabilities incurred or assumed on acquisition date.

Transaction costs directly attributable to business combinations (consulting services, legal advice, administrative expenses, among others) are immediately recognised in the consolidated financial statements of the TAP Group as expenses of the year in which the acquisition took place, recognised in the consolidated statement of income.

The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are initially measured at fair value on the date of acquisition, irrespective of the existence of non-controlling interests. The excess of the acquisition cost relative to the fair value of the Group's share of the identifiable assets and liabilities acquired is recorded as Goodwill (Note 6).

Investments in subsidiaries where the TAP Group has control are fully consolidated from the date the Group assumes control over their financial and operating activities until the moment that control ceases to exist.

If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary (negative goodwill), the difference is recognised directly in the income statement in the period when it takes place under "Other operational income or expenses".

Intercompany transactions, balances, unrealised gains on transactions and dividends distributed between group companies are eliminated. Unrealised losses are also eliminated, except where the transaction displays evidence of impairment of a transferred asset.

When, at the date of the acquisition of control, Group TAP already holds a previously acquired interest in the subsidiary, its fair value is considered in determining the goodwill or negative goodwill.

When Group TAP acquires control over a subsidiary with less than 100%, the purchase method considers non-controlling interests either at their fair value or in the proportion of the fair value of the assets and liabilities acquired. This decision is made for each individual transaction.

Subsequent transactions with non-controlling interest that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gain or losses on disposals to non-controlling interests are also recorded in equity.

Equity and net income, corresponding to the participation of third parties in subsidiary companies, are presented separately in the consolidated statement of financial position and in the consolidated income statement, respectively, under the heading of non-controlling interests. The losses and gains applicable to non-controlling interests are attributed to them.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Any subsequent remeasures do not affect goodwill balances, except if made up to 12 months after the date of acquisition.

The subsidiaries' accounting policies have been adjusted whenever necessary to ensure consistency with the policies adopted by the Group.

2.3.2. Associates

Associates are all the entities in which the Group exercises significant influence but does not have control, which is generally the case with investments representing between 20% and 50% of the voting rights. Investments in associates are accounted for under the equity method.

In conformity with the equity method, financial investments are recorded at their acquisition cost, adjusted by the amount corresponding to the Group's share of changes in the associates' shareholders' equity (including net income/loss) with a corresponding gain or loss recognised for the period on earnings or on changes in capital, and by dividends received.

The difference between the acquisition cost and the fair value of the assets and liabilities attributable to the affiliated company on the acquisition date is, if positive, recognised as Goodwill and recorded as investments in affiliated companies. If negative, goodwill is recorded as income for the period under the caption "Gains and losses in associates".

In the event that impairment loss indicators arise on investments in associates, an evaluation of the potential impairment is made, and if deemed necessary, an impairment loss is recognised in the consolidated income statement. Impairment losses recognised in previous years may be reversed when it can be concluded that no impairment loss indicators exist.

Unrealised gains on transactions with associates are eliminated to the extent of the Group's investment in the associates. Unrealised losses are also eliminated, except where the transaction reveals evidence of impairments on the transferred assets.

The associates' accounting policies used in the preparation of the individual financial statements are adjusted, whenever necessary, to ensure consistency with the policies adopted by the Group.

The following entity qualifies as an associate:

Name	Head office	Core business	Shareholders	% share capital held	
				2017	2016
SPdH – Serviços Portugueses de Handling, S.A. ("SPdH")	Lisbon	*Handling*	TAP SGPS Portugália	43.90% 6.00%	43.90% 6.00%

The investments in associates are presented in detail in Note 8.

2.4. Segment Reporting

As recommended by IFRS 8, the operating segments are presented on these financial statements in the same way as internally used for the Group's performance evaluation. Operating segment are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments. The Group does not disclose segmental assets and liabilities taking into consideration that this information is not presented to the chief operating decision-maker.

Four operational segments were identified: air transportation, maintenance and engineering, catering and others. It should be noted that the free shop activity is no longer considered as an operating segment, considering its classification as a discontinued operation as at 31 December 2016 and the conclusion of the sales process of 51% of the share capital of the subsidiary LFP on 2017 (Note 15).

The accounting policies used in segment reporting are those consistently used in the Group. All inter-segmental sales and services rendered are made at market prices and eliminated on consolidation. Segmental information is disclosed in Note 36.

2.5. Foreign currency translation

2.5.1. Functional and presentation currency

The items included in the financial statements of each one of the Group's entities are measured using the currency of the economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in **Euro thousands**, which is the Group's functional and presentation currency.

2.5.2. Balances and transactions expressed in foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Gains or losses resulting from the payment / receipt of transactions, as well as the translation of assets and liabilities denominated in foreign currencies using the applicable exchange rate at the reporting date, are recognised in the consolidated income statement under the caption financial results.

2.5.3. Group companies

The results and the financial position of the Group's entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

(i) The assets and liabilities presented are translated at the closing rate at the date of that statement of financial position. Exchange differences resulting from this conversion are recognised as a separate component in shareholders' equity under "Foreign currency translation reserves";

(ii) If materially relevant, the income and costs are converted at the exchange rate prevailing at the dates of the transactions. Otherwise, income and expenses are translated at the average monthly exchange rate of the reporting period.

Goodwill and fair value adjustments arising on the acquisition of foreign entities are treated as assets and liabilities of these entities and translated to Euro at the closing rate.

Exchange differences resulting from a monetary item, which forms part of the net investment in a foreign operation unit, are recognised in a separate component of equity and, when the net investment is sold or settled, are recognised in profit or loss as part of the gain or loss of the disposal.

The exchange rates used in the conversion of the financial statements expressed in a currency other than the Euro or to update balances expressed in a foreign currency were as follows:

Currency	2017	2016
BRL	3.9729	3.4305
USD	1.1993	1.0541
VEF	4,011.7	710.21
AOA	185.40	184.48

Regarding the subsidiaries located in Brazil, the monthly results were converted at the exchange rate of the last day of each month, as follows:

Month	2017	2016
January	3.3535	4.4294
February	3.2810	4.3394
March	3.3800	4.1174
April	3.4718	3.9738
May	3.6485	3.9850
June	3.7600	3.5898
July	3.6764	3.6478
August	3.7410	3.6016
September	3.7635	3.6210
October	3.8059	3.4836
November	3.8668	3.6118
December	3.9729	3.4305

2.6. Tangible fixed assets

Property, plant and equipment that were acquired prior to 1 January 2004 are recorded at their deemed cost, which is the book value under the accounting principles generally accepted in Portugal until 1 January 2004 (transition date to IFRS), including revaluations made in accordance with the prevailing legislation, deducted of depreciation and impairment losses.

Additionally, at transition date to IFRS, the subsidiary TAP S.A., under the exemptions of IFRS 1 - First-time Adoption of International Financial Reporting Standards – considered fair value as deemed cost for some tangible fixed assets categories, reported as at transition date (1 January 2004).

Thus, taking effect as at 1 January 2004, the assets related to the buildings category of TAP S.A. were revalued at their fair value on that date. The fair value of these items was determined through an evaluation study performed by an independent expert (Colliers P&I), which also determined the remaining useful life of these assets, on the transition date.

Property, plant and equipment acquired after the transition date are presented at cost, less accumulated depreciation and impairment losses. The acquisition cost includes all expenditure directly attributable to the acquisition of the assets.

Subsequent costs, including fleet renewals and structural maintenance, are included in the cost of acquisition of the asset whenever future economic benefits are likely to flow to the Group. Other costs with maintenance and repairs are recognised as losses in the period as are incurred.

Depreciation is calculated with regard to the acquisition cost, mainly using the straight line method from the date the assets are ready to enter into service, at the depreciation rates that best reflect their estimated useful lives, as follows:

	Years of useful life	Residual value
Buildings and other constructions	20-50	-
Basic equipment:		
Flight equipment:		
Airbus		
Aircraft	20	5%
Aircraft under financial leasing	20	5%
Spare engines and spare parts	20	5%
Spare engines under financial leasing	20	5%
Other flight equipment		
Aircraft	16	10%
Aircraft under financial leasing	16	10%
Spare engines and spare parts	16	10%
Spare engines under financial leasing	16	10%
Other basic equipment	7-20	0-10%
Transport equipment	4-10	-
Tools and utensils	8-20	0-10%
Administrative equipment	5-16	-
Other tangible fixed assets	10	-

The residual values of the assets and respective useful lives are reviewed and adjusted, when necessary, at the date of the statement of financial position (Note 4). If the book value of the asset is higher than the asset's realizable value, then it is written down to the estimated recoverable amount by recognizing an impairment loss (Note 2.10.).

Gains or losses arising from derecognition or disposal are calculated as the difference between the proceeds received on the disposal and the asset's book value, and are recognised in the income statement as other operating income or expenses.

2.7. Investment properties

Investment properties are buildings, land and other constructions held for capital valuation purposes, lease applications, or both. Investment properties were recognised at fair value at the date of transition to IFRS. After initial recognition investment properties are carried at fair value, for all assets classified as such.

The fair value of Investment properties are based on evaluations made by independent external evaluators, considering its usage conditions, or its best use, depending on whether the properties are leased or not.

2.8. Intangible assets

Intangible assets are booked at acquisition cost less accumulated impairment losses and are amortised using the straight line method over an estimated useful life. The amortisation period can be from 3 up to 10 years.

2.9. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary/associate at the date of acquisition by the Group.

Goodwill on acquisitions of subsidiaries and associates is not amortised and is tested, at least on an annual basis, for impairment. Impairment losses on goodwill cannot be reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to that entity.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to the operating segment.

2.10. Impairment of non-current assets

Non-current assets which do not have a defined useful life are not subject to depreciation, but are subject to annual impairment tests. Assets subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

If the recoverable amount is lower than net book value, an assessment is performed as to whether there is objective permanent evidence of impairment, and recognised the impairment loss in the income statement. If the loss is not considered permanent, the reasons that support the decision are disclosed.

An impairment loss is recognised as the amount of the excess of the asset's book value over its recoverable amount. The recoverable amount is the higher of the net sale price and its value in use.

For the purpose of conducting impairment tests, the assets are grouped at the lowest level for which cash flows can be identified separately (cash generating units which belong to the asset), when it is not possible to do so individually for each asset.

The reversal of impairment losses recognised in previous periods is recorded when it can be concluded that the recognised impairment losses no longer exist or have decreased (with the exception of impairment losses relating to Goodwill – see Note 2.9).

The reversal of impairment losses is recognised in the consolidated income statement under the caption "Impairment of assets not subject to depreciation/amortization" or "Depreciation, amortization and impairment losses", unless the asset has been revalued, in which case the reversal will represent a portion or total of the revaluation reserve. However, an impairment loss is reversed only up to the limit of the amount that would be recognised (net of amortization or depreciation) if it had not been recognised in prior years.

2.11. Financial instruments

The Group classifies its financial instruments in the following categories: loans and receivables, financial assets at fair value through profit and loss, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its instruments at initial recognition and reassesses this classification on each reporting date.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is no intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterpart.

All acquisitions and disposals of these instruments are recognised on the date of the respective purchase and sale contracts, irrespective of the financial settlement date.

Financial instruments are initially recorded at the acquisition cost, when their fair value equals the price paid, including transaction expenses (except financial assets at fair value through profit or loss). The subsequent measurement depends on the category the instrument falls under, as follows:

✈ **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments and which are not quoted in an active market. They are originated when the Group advances money, goods or services directly to a debtor without any intention of negotiating the debt.

These instruments are included in current assets, except when their maturity exceeds 12 months after the date of the statement of financial position, in which case they are classified as non-current assets.

Loans and other accounts receivables are initially measured at the fair value and subsequently at amortised cost and are included in consolidated financial position in the caption " Others receivables".

✈ **Financial assets at fair value through profit or loss**

A financial asset is classified under this category if acquired primarily for the purpose of selling in the short-term or if so designated by management. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the date of the statement of financial position. These investments are measured at fair value through the income statement.

- **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Investments in this category are recorded at amortised cost using the effective interest rate method.

- **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale at initial recognition or that do not meet the conditions to be classified in any of the remaining categories, as described above. Available-for-sale financial assets are classified as a non-current assets, except if management has the intention to sale the financial investment within 12 months after, the reporting date. These financial instruments are recognised at fair value, as quoted at the reporting date.

If there is no active market for a financial asset, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same as the one in question, discounted cash-flows analysis and option pricing models refined to reflect the issuer's specific circumstances.

Potential fair value gains and losses arising from these instruments are recorded directly in the fair value reserve (shareholders' equity) until the financial investment is sold, received or disposed of in any way, at which time the accumulated gain or loss formerly reflected in fair value reserve is taken to the income statement.

If there is no market value or if it is not possible to determine one, these investments are recognised at their acquisition cost. At each reporting date the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired.

- **Impairment of financial assets**

(i) Loans and receivables and held-to-maturity investments

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired (difference between the recoverable amount and financial asset amount at the reporting date). The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Analysis of non-compliance;
- Failure to comply for more than 6 months;

- financial difficulties of the debtor;
- It becomes probable that the debtor will enter bankruptcy.

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The asset’s carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement under the caption “Impairment in inventory and receivables”.

(ii) Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement.

Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

These categories of assets are derecognised when (i) the Group's contractual rights to receive their cash flows expire; (ii) the Group has transferred substantially all the risks and rewards associated with their detention; or (iii) not substantially all the risks and rewards associated with their holding, the Group has transferred control over the assets.

2.12. Derivate financial instruments

The Group uses derivative financial instruments to manage the financial risks to which it is exposed. Whenever expectations of changes in interest rates or jet fuel prices justify this, the Group seeks to hedge against adverse movements through derivative instruments, such as interest rate swaps (IRS), swaps and options.

The selection of derivative financial instruments is essentially driven by their economic properties. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised in other comprehensive income. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss and recognised as operating income/(expense) for jetfuel instruments and as financial results for interest rate swaps, at their settlement date. The gain or loss relating to the effective portion of interest rate swaps is recognised in the income statement within ‘finance expense’. The gain or loss relating to the ineffective portion is recognised in the income statement.

Thus, expenses related to hedged debt are accrued for at the rate of its respective hedging operation. Gains or losses arising from early termination of this type of instrument, are recognised in the consolidated income statement when the hedged transaction also affects results.

Whenever possible, the fair value of derivatives is estimated on the basis of listed instruments. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash-flow method and option valuation models, in accordance with prevailing market assumptions. The fair value of derivative financial instruments is included, essentially, in the headings of other receivables and other payables.

✈ **Hedge accounting**

The possibility of classifying a derivative financial instrument as a hedge instrument follows the provisions of IAS 39 – Financial instruments: recognition and measurement.

Derivative financial instruments used for hedging can be classified as hedge instruments for accounting purposes, provided that they cumulatively comply with the following conditions:

- ✈ On the starting date of the transaction, the hedge relationship is identified and formally documented, including the identification of the hedged item, the hedge instrument and the assessment of the effectiveness of the hedge;
- ✈ It is expected that the hedge relationship will be highly effective, on the starting date of the transaction and throughout the life of the operation;
- ✈ The effectiveness of the hedge can be measured reliably, on the starting date of the transaction and throughout the life of the operation;
- ✈ For cash flow hedge operations, it should be highly probable that they will occur.

2.13. Assets and liabilities fair value

The fair value measurements and related disclosures are based on a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels.

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Group can access at the reporting date.

Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data.

2.14. Corporate income tax

Corporate income tax includes current and deferred tax. Current income tax is calculated based on net income, adjusted in conformity with tax legislation in place at the date of the statement of financial position.

Deferred taxes liabilities are recorded based on the temporary differences between the book values of the assets and liabilities and their respective tax base. Deferred tax assets are recognised whenever there is a reasonable likelihood that future taxable profits will be generated or there are deferred taxes liabilities against which they can be offset. Deferred tax assets are revised periodically and decreased whenever it is likely they will not be used.

The income tax rate expected to be in force in the period in which the temporary differences will reverse is used in calculating deferred tax.

Deferred taxes are recorded as a cost or income for the year, except where they result from amounts recorded directly under shareholders' equity, in which case deferred tax is also recorded under the same caption, i.e., the amounts to be included in the current tax and in the deferred tax, resulting from transactions and events recognised in reserves, are recorded directly in these same headings, not affecting the net profit for the period. Therefore, the impact of changes in the tax rate is also recognised in net income, except when it refers to items recognised directly in equity, in which case this impact is also recorded directly in equity.

2.15. Inventories

Inventories are valued in accordance with the following criteria:

✈ **Goods and raw materials**

Goods and raw, subsidiary and consumable materials are valued at the lower of their purchase cost or their net realizable value. The purchase cost includes ancillary costs and it is determined using the weighted average cost as the valuation method.

The inventories held essentially refer to parts used in aircraft maintenance activities.

Material recovered internally is valued at cost.

✈ **Intermediate products and work in progress**

Intermediate products and work in progress are valued at the lower of their production cost (which includes incorporated raw materials, labour and general manufacturing costs, based on a normal production capacity level) or their net realizable value.

The net realizable value corresponds to the estimated selling price after deducting estimated completion and selling costs. The difference between production cost and net realizable value, if lower, are recorded as an operational cost in caption “Impairment in inventory and receivables”.

2.16. Trade and other receivables

Debtors’ balances and other current assets are initially recorded at fair value and are subsequently recognised at their amortised cost, net of impairment losses, in order to present those balances at their net realisable amount (Note 11).

Impairment losses are recognised when there is objective evidence that the Group will not receive the full amount outstanding in accordance with the original conditions of the accounts receivable.

2.17. Cash and cash equivalents

Cash and cash equivalents includes cash, bank accounts and other short-term investments with an initial maturity of up to 3 months which can be mobilised immediately without any significant risk of fluctuations in value. For the purposes of the cash flow statement, this heading also includes bank overdrafts, which are presented in the statement of financial position, in current liabilities, under the heading " Borrowings”.

The Group records the cash and cash equivalents, whose repatriation is restricted, in the heading "Restricted cash" under current assets.

2.18. Share capital and own shares

Ordinary shares are classified in shareholders’ equity (Note 16).

Costs directly attributable to the issue of new shares or other equity instruments are reported as a deduction, net of taxes, from the proceeds of the issue.

Costs directly attributable to the issue of new shares or options for the acquisition of a new business are included in the acquisition cost as part of the purchase consideration.

Own shares are recorded at their acquisition value, as a reduction of equity, under the heading "Own shares", with any gains or losses inherent to their disposal being recorded under other reserves. Pursuant to the applicable commercial legislation, while own shares are held by the company, a reserve of an amount equal to their acquisition cost is unavailable.

2.19. Borrowings

Borrowings are initially recognised at fair value, net of the transaction costs incurred and are subsequently stated at their amortised cost. Any difference between the amounts received (net of transaction costs) and the amount to be repaid is recognised in the income statement over the term of the debt, using the effective interest rate method.

Borrowings are classified as a current liability, except when the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the date of the statement of financial position (Note 19).

2.20. Borrowing costs

Borrowing costs relating to loans are usually recognised as financial costs, in accordance with the accrual principle.

Financial costs on loans directly related to acquisition of the fixed assets, construction (if the construction period or development exceeds one year) or production, are capitalised as part of the asset's cost.

Capitalisation of these charges begins once preparations are started for the construction or development of the asset and is suspended after its utilization begins or when the respective project is suspended.

2.21. Provisions

Provisions are recognised whenever the Group has a present legal or constructive obligation, as a result of past events, in which it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions for current lawsuits are recorded in accordance with the risk assessments carried out by the Group and its legal advisors, based on historical success rates by nature of legal action and probability of unfavourable outcomes for the Group.

Provisions for future operating losses are not recognised. Provisions are reviewed on the date of the statement of financial position and are adjusted to reflect the best estimate at that date (Note 18).

2.22. Post-employment benefits

Some of the Group's companies have undertaken to make payments to their employees for complementary retirement pension, early retirement, health care and seniority bonuses.

As referred in Note 20, the Group set up autonomous Pension Funds as a means of funding most of the commitments for such payments. The total liability of Post-employment benefits referred above is estimated, periodically, by a specialised and independent entity in accordance with the projected unit credit method.

Remeasurements resulting from differences between the assumptions used for purposes of calculating the liabilities and what effectively occurred (as well as from changes made thereto and from the difference between the expected amount of the return on the funds' assets and the actual return) are recognised when incurred directly in the consolidated statement of comprehensive income.

The liability thus determined is stated in the consolidated statement of financial position, less the market value of the funds set up, as a liability, under the caption "Post-employment benefits obligations".

Plans that have surplus funding are recorded as assets, when there is explicit authorization for their offsetting with future employer contributions, or if the reimbursement of this financial surplus is explicitly authorised or permitted.

Gains and losses generated on a curtailment or settlement of a defined benefit pension plan are recognised in the income statement when the curtailment or settlement occurs. A curtailment occurs when there is a material reduction in the number of employees or the plan is altered in such a way that the benefits awarded are reduced with a material impact.

Past-service costs that results from the implementation of a new plan or increases in the benefits attributed are recognised immediately in income statement.

For defined contribution plans, the Group pays contributions to pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

2.23. Suppliers and other payables

Current suppliers and other payables are, initially, recorded at their fair value and, subsequently, at amortised cost (Note 21).

2.24. Government grants

Government grants are recognised when there is a reasonable assurance that the grant will be received and the group will comply with all required conditions.

Government grants related to operating costs are deferred and recognised in the income statement over the period that matches the costs with the compensating grants.

Government grants received to compensate capital expenditure are reported under “Other current payables” and are recognised in the income statement during the useful life of the asset being financed, by deducting the value of its depreciation/amortisation.

2.25. Leases

Fixed assets acquired under leasing contracts, as well as the corresponding liabilities, are recorded using the finance method.

According to this method, the asset’s cost is recorded in Tangible fixed assets and the corresponding liability is recorded under liabilities as Borrowings, while the interest included in the instalments and the asset’s depreciation, calculated as described in Note 2.6, are recorded as costs in the consolidated income statement of the period to which they relate.

Leases under which a significant part of the risks and benefits of the property is assumed by the lessor, with the Group being the lessee, are classified as operating leases. Payments made under operating leases, net of any grant received by the lessee, are recorded in the income statement during the period of the lease.

2.26. Dividends distribution

The distribution of dividends to shareholders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the shareholders and up until the time of their payment.

2.27. Revenue and accrual basis

Income from sales is recognised in the consolidated income statement when the risks and benefits inherent in the ownership of the respective assets are transferred to the purchaser and the income can be reasonably quantified.

Revenue from the sale of passenger and cargo transport is recorded as a liability when the sale is made, under the heading "Liabilities from unused flight documents". When the ticket is used or cancelled, its value is transferred from this heading to the income statement for the year or to an account payable, depending on whether the transport has been: i) carried out by the Group or the ticket has been cancelled and is not subject to reimbursement ii) made by another airline carrier or the ticket has been cancelled but is subject to reimbursement, respectively, by a value which is usually different from that recorded at time of its sale. Periodically, the balance of “Liabilities from unused flight documents" is analysed to adjust the balance of tickets sold to check for those that have already been used or that are no longer valid and thus, not suitable for flight or reimbursement.

Commissions attributed by the Group on ticket sales are deferred and recorded as costs for the year, according to the distribution of the periods between years of the respective transport revenue.

For the "TAP Victoria" frequent flyer program, the Group follows the procedure, under defined conditions and based on flights carried out, of granting free air miles to customers who join the loyalty scheme, which may subsequently be used for flights with favourable conditions, such as reduced fares. Based on the number of miles attributed and not used or expired at the end of each year, adjusted to the estimate of the miles to expire without use and on the unit value attributed, at fair value, the Group defers the revenue corresponding to the estimate of the value perceived by the customer in the attribution of miles.

For purposes of the recognition of revenue of work in progress from maintenance contracts, Group recognises only to the extent of contract costs incurred that it is probable will be recoverable. It should be noted that, generically, maintenance contracts periods are less than three months.

Contract costs are recognised as a cost in the year in which they occur. When it is likely that the total costs of the contract will exceed the total revenue, the expected loss is recognised as an expense.

The preliminary invoicing of maintenance work in progress for third parties as at 31 December 2017 is recorded under the caption “Other payables”.

Revenue is shown net of value-added tax, returns, rebates and discounts and comprises the fair value of the consideration received or receivable for the sale of goods.

Group companies record their costs and income according to the accrual basis of accounting, so that costs and income are recognised as they are generated, irrespective of the time at which they are paid or received.

The differences between the amounts received and paid and the respective costs and income are recognised as other current receivables and payables (Notes 11 and 21, respectively).

2.28. Contingent assets and liabilities

Contingent liabilities in which the probability of an outflow of funds affecting future economic benefits is not likely, are not recognised in the consolidated financial statements, and are disclosed in the notes, unless the probability of the outflow of funds affecting future economic benefits is remote, in which case they are not disclosed.

Provisions are recognised for liabilities which meet the conditions described in note 2.21.

Contingent assets are not recognised in the consolidated financial statements but are disclosed in the notes when it is probable that a future economic benefit will arise from them.

2.29. Non-current assets and liabilities held for sale and discontinued operations

Non-current assets are classified as non-current assets held for sale when is intended to be recovered mainly through a sale transaction rather than continued use and there is a decision of the Board of Directors with the consequent definition of the price and buyer demand, which allows to classify the sale transaction, as a highly probable realization, in the period up to 12 months.

These assets are measured at the lower of book value and fair value less costs to sell, at the date of classification as held for sale. Assets with defined useful lives are no longer depreciated/amortised from the date of classification as held for sale, up to the date of sale.

A discontinued operation is a component of the TAP Group that has either been disposed of or is classified as held for sale and:

- Represents an important business line or separate geographic area of operations;
- It is a part of a single coordinated plan to dispose of an important separate line of business or geographical area of operations; or
- It is a subsidiary acquired exclusively with the purpose of resale.

2.30. Consolidated statement of cash flow

Consolidated statement of cash flow is prepared in accordance IAS 7, through direct method. Cash and cash equivalents includes cash, bank accounts and other short-term investments with an initial maturity of up to 3 months which can be mobilised immediately without any significant risk of fluctuations in value. For the purpose of the consolidated cash flow statement, this heading also includes bank overdrafts, which are presented in the consolidated statement of financial position, under the heading "Borrowings ", as well as "Restricted cash".

The cash flows are presented in the consolidated cash flow statement, depending on their nature, into (1) operating activities, (2) investment activities and (3) financing activities.

Operating activities essentially include revenue from customers, and payments to suppliers and employees. These activities also include payments of net indirect taxes, income tax and payments related to post-employment benefit obligations.

The cash flow from investing activities includes, namely, acquisitions and disposals of financial investments, dividends received from associate companies, and revenue and payments arising from the purchase and sale of tangible and intangible assets.

The cash flow from financing activities includes, namely, the payments and receipts related to loans obtained, finance leases, payments with interests and related expenses, own shares acquisition and payment of dividends.

2.31. Subsequent events

Events after the date of the statement of financial position which provide additional information about the conditions prevailing at the date of the statement of financial position are reflected in the consolidated financial statements.

Subsequent events which provide information about conditions which occur after the date of the statement of financial position are disclosed in the notes to the consolidated financial statements, if material.

2.32. Accounting estimates and judgments

The preparation of consolidated financial statements requires that the Group's management makes judgments and estimates that affect the amount of revenue, costs, assets, liabilities and disclosures at the date of the statement of financial position.

These estimates are influenced by the Group's management's judgments, based on: (i) the best information and knowledge of present events and in certain cases on the reports of independent experts; and (ii) the actions which the Group considers it may have to take in the future. However, on the future date on which the operations will be realised, the outcome could be quite different from those estimates. Pursuant to IAS 8, any changes to these estimates, which occur after the date of the consolidated financial statements, are adjusted prospectively through income statement.

The estimates and assumptions which present a significant risk of generating a material adjustment to the book value of assets and liabilities in the following financial period are presented below:

✈ **Impairment of goodwill**

The Group tests the goodwill carried in its statement of financial position for impairment losses annually, in accordance with the accounting policy described in Note 2.9. The recoverable amounts of the cash generating units are ascertained based on the calculation of their value-in-use. These calculations require the use of estimates.

The estimated value in use involves a high degree of judgement by the Board of Directors, regarding the determination of estimated cash flows, applicable discount rates and residual values.

✈ **Deferred tax**

The Group recognises and settles income tax based on the earnings of its operations, calculated in accordance with the local corporate legislation, considering the rules of the tax legislation, which are different from the values calculated in accordance with the IFRS. Pursuant to IAS 12, the Group recognises deferred tax assets and liabilities based on the existing difference between the book value and tax base of its assets and liabilities. The Group periodically analyses the recoverability of the deferred tax assets based on historical information on taxable profit, the projection of future taxable profit and the estimated time of reversal of temporary differences.

✈ Post-employment benefits

Liabilities relating to defined-benefit plans are calculated based on actuarial assumptions. Changes to those assumptions can have a material impact on the aforesaid liabilities. The key assumptions for pension obligations are detailed in Note 20. The Group's policy is to periodically review the main demographic assumptions, when their impact on the consolidated financial statements is considered relevant.

✈ Recognition of provisions and impairments

The Group is involved in several lawsuits, for which, based on the opinion of its lawyers, a judgment is made in order to decide if it should be recorded a provision for those contingencies.

Impairment losses in trade receivables are booked essentially based on the analysis of the ageing of accounts receivable, the customers' risk profile and their financial situation.

Impairment losses in inventories are calculated based on criteria's that consider the nature, purpose of use, ageing and moving average stock levels.

✈ Customer loyalty program

The deferral of revenue related with the customer loyalty program "TAP Victoria", is based on the unit value of the mile perceived by the customer. Changes in the assumptions used by the Group in the calculation of this estimate may have a significant impact.

✈ Liabilities from unused flight documents

The Group carries out a periodic analysis of the balance of the caption "Liabilities from unused flight documents" in order to correct the values of tickets sold whose vouchers are no longer valid. The estimation of the amounts of these coupons, which cannot be exchanged or reimbursed, requires judgment by the Board of Directors, and therefore changes in the assumptions used by the Group in calculating this estimate may have a significant impact on the consolidated financial statements.

✈ Useful life and residual value of tangible fixed assets

The determination of the useful life of tangible fixed assets and their residual value, as well as the method of depreciation/amortisation, is essential to estimate the amount of depreciation/amortisation to be recorded in the consolidated income statement for each financial year.

These parameters are defined in accordance with the best judgement of the Board of Directors for the referred assets in question, also considering the practices adopted by peers.
See additionally Note 4.

✈ Venezuela rate exchange

Following the strong deterioration of the Venezuelan economy, the successive devaluations of the local currency and the current limitation to the repatriation of capital controlled by local government entities, the Group has been periodically monitoring the timing of the repatriation of the amounts indicated and applicable rate exchange in order to obtain the best possible estimate as at 31 December 2017.

The future currency fluctuations and future capital repatriation policies are not under Group's control, thus a different completion may result in significant impacts in the future, which could affect the operating results and the Group's financial position. See additionally Note 14.

3 - Financial risk management policies

Risk management is conducted at the strategic level by the Group and subject to ongoing monitoring by the management board. The defined guidelines and decisions adopted regarding risk management are key elements for the positioning of the Group in the face of external threats of the markets and the economic and financial environment. Given the multiplicity of scenarios and possible developments, the Group's risk management strategy incorporates elements of flexibility and discretion to allow adjustment in a timely basis to changes in the general context.

The Group's activities are exposed to a variety of financial risk factors, including the effects of market price changes, namely fuel price risk, currency risk, interest rate risk, as well as credit risk and liquidity risk.

The Group's risk management is driven and monitored by the Board of Directors and is executed by competent management areas of the Group, in particular, with regard to financial instruments risk management, including derivative fuel operations, interest and exchange rate, by the corporate finance department, following the guidelines and policies defined and disclosed as well as specific instructions issued.

✈ **Market risk**

Competition in commercial aviation has intensified in recent years as a result of the increasing liberalization of regulation in many countries and markets and as a consequence of the increase in the number of players in the sector.

In Europe the level of competition has been very high in most markets and low-cost operators have successively achieved a larger market share. In Portugal the level of penetration of low cost airlines has also been high. However, TAP S.A.'s growth in 2017 allowed the recovery of market share in Lisbon's airport, after last years loss.

Also in the long-haul there is an increasing competition between operators given the various alternative routes available to the same destination. Madrid, for example, can easily compete with Lisbon in attracting traffic originated in Brazil and bound for multiple European cities. This dispute has been happening on some Brazilian routes. Similarly, in the North Atlantic, TAP tries to divert traffic from other routes and to attract US passengers, or that go to the US, to pass through the Lisbon hub, where TAP S.A. maintains a strong market share and reaches most of the relevant markets in Europe. In fact,when comparing to other European hubs, Lisbon has an unique location as Atlantic gateway, connecting America, Africa and Europe. From Lisbon, North America is, on average, 431 Km nearer, representing around less 30 minutes of flying time, and the same applies to South America which is, on average, 1,250 km nearer, representing around less 90 minutes of flying time.

Competition on a day-to-day basis is based on the price factor, including the stratification of supply in several fare classes on the same flight and on the same aircraft. However, in the medium and long-haul, competition and market risks are faced by airlines through the construction of business models, route networks, and products that satisfy the customer in the various aspects valued.

This differentiated product incorporates elements such as reliability, regularity, timeliness, diversity of schedules, flight frequency, equipment comfort, in short, product quality, quality in flight experience. Many of these aspects are inevitably linked to the characteristics of the aircraft, which have to be comfortable, modern, technologically advanced and also economically efficient, with low consumption, low noise, low emissions and flexible in terms of flight autonomy. A modern and advanced fleet is a fundamental asset to compete.

The growth in cargo transportation, which began at the end of 2016 and continued throughout 2017, has been evident in most of the Group's sales destinations, with a greater focus on the Brazilian, Portuguese and North American markets . The investment on the North America routes, together with a more competitive fare level, undoubtedly contributed to these routes growth. The use of Miami as a cargo hub for Central and Southern America also proved to be a good bet, generating very interesting revenues with high growth in all of the region's offline destinations. The Angolan market stabilised in 2017, with an expectation of revenue recovery for 2018.

Immediately after the reprivatisation of the Group in November 2015, the Group began an ambitious strategic plan for the global fleet renewal, to be implemented in several stages. This cycle of massive investment and deep Group's renewal will last for several years, including the renewal of most of the current fleet, to be replaced for 53 new aircraft ordered to Airbus in 2015 to be delivered between 2018 and 2025. This order involved, early in 2016, a first phase of investment by TAP S.A. in pre delivery payments paid to the manufacturer and will require a high and continuous financial effort during the coming years.

Given that the planned deliveries of the new aircraft will only take place gradually from 2018 onwards, the Group has prepared an interim renewal program for the existing fleet, including the improvement of the cabin interior of the aircraft, in order to provide passengers with greater comfort and greater flexibility for the Group to manage the space to be sold. This cabin modification program (retrofit) of 48 aircrafts began in 2016 and pursued in 2017, involving a substancial part of the aircrafts, from medium-haul (41 narrowbodies) to long-haul fleet (7 widebodies), being that until 31 December 2017, almost all the aircrafts have already been interventioned, (47). Retrofit interventions have mainly been made in maintenance and engineering in Portugal and in the maintenance unit of TAP Group in Brazil.

Besides the existing fleet modernization, and looking forward to the reinforcement of the available capacity, namely for operating the new released routes and frequencies in 2017, entered in operation four aircrafts A330, one A321, one A320 and four Embraer 195 all as operating leases.

✈ Fuel price risk

In commercial aviation markets, airlines are particularly subject to the impact of changes in international energy markets that determine their fuel costs. This cost is, in TAP Group, the component with the most weight in the operating expenses structure. On the other hand, it is a cost component with extreme volatility and that is decisive for the operating result, as well as for the definition of the fare conditions and market policies, in each year.

TAP Group did not have fuel price hedging operations in place for 2018 at the end of the year 2017.

As at 31 December 2017 a variation (positive or negative) of 10% in the jet fuel price, would result in an impact on the income statement of approximately some Euro 58 million.

✈ Currency risk

The TAP Group's overall foreign exchange exposure comes from several markets, several areas of activity, multiple relevant costs and many of its assets and liabilities. From all the markets where the Group operates, the foreign exchange exposure is more significant depending on its operation in more than 100 routes in three continents and also due to the relevant position of the routes between Europe and the American continent, in air transport activity, in addition to its involvement in Brazil in terms of industrial investment in aircraft maintenance and engineering activity. To the risks inherent to exchange rate fluctuations and exchange rate policy decisions of the monetary authorities of countries with controlled exchange systems, joins the sovereign risks such as the one that occurred in Venezuela due to its economic and financial collapse.

Despite the strong geographical diversification of the commercial activity and the operational activity of the TAP Group, more than 50% of sales are made in markets whose official currency is the euro, or whose currency has a fixed exchange rate with the euro zone, as is the case of some African countries.

At revenues level, Brazil has been recovering weight in the total sales of the Group. Still regarding the Brazilian market, its should also be mentioned specific features of the Brazilian market, with potential cash flow impact, such as the practice of instalment sales, as well as agreements, which are regularly established with the acquiring entities, in order to anticipate the receipt the TAP Group's receivables.

The American market accounted for, in the end of 2017, nearly 10% over the total of the Group's ticket sales. The resulting exposure to the dollar is important to counterbalance the adverse net exposure to the currency that the Group has in a substantial part of its costs. The Group's perspectives are to continue the growth and expansion in the North American market, which is a strategic commercial element and a relevant economic source of diversification, but also for currency exchange pourposes.

The various foreign exchange costs of the TAP Group are responsible for a significant unbalance in its foreign exchange balance, which is deficient in relation to the US dollar. Generally, the cost headings of the TAP Group are largely dependent on the euro and the dollar, with the remaining currencies, with the exception of the Brazilian real, having a reduced impact. The dollar, however, is the aviation reference currency and covers such diverse and important inputs as fuel, aircraft leasing, maintenance materials and services, aviation insurance, shipping fees and airport charges in many of the geographic areas. Regarding fuel, even in contracts subject to invoicing and settlement in euro, namely in the Portuguese market, the calculation of amounts receivable is indexed, and established by reference, to the quotation of the dollar against the euro, almost total exposure to the dollar, in which only certain commercial rates and fees are excluded, with a marginal weight in the global fuel bill.

Also in the case of operating leases and wet leases the market operates predominantly in dollars from monthly rentals to maintenance reserve costs or to security deposits. Aircraft maintenance is another source of dollar exposure that is not always passed on to the final customer in terms of billing in that currency. The various materials incorporated in the TAP fleet are also normally purchased in dollars. At the strictly financial level, still, since some loans are also denominated in dollars, also the respective interest and capital repayments result in an additional exposure to the American currency. At the end of 2017, 14% of the TAP Group's debt was denominated in dollars, against 11% at the end of 2016.

Exposure to the dollar also has a long-term dimension resulting from the liabilities assumed with the purchase of aircraft in the current framework of investments contracted with Airbus. The order signed with this manufacturer for 53 aircraft to be delivered in the coming years translates into a medium and long-term exposure to the dollar of a very material value related to the final price of the aircraft, in the short term, an annual investment effort of high dollar amounts in the form of pre payments to the manufacturer on account of the ongoing manufacture of the aircraft.

The maintenance company in Brazil is an additional source of foreign exchange risk resulting from the incorporation of several costs in Real, mainly costs with labour. Since this company is part of the Group's consolidated statement of financial position, a change in the Real at the end of each year generates losses or gains on the equity of the TAP Group. As a result of these changes, equity was subject to an unfavourable adjustment in 2015, a favourable in 2016 and again an unfavourable adjustment in 2017.

The Group's exposure to currency risk as at 31 December 2017 and 2016, based on its financial position, from financial assets and liabilities converted into euro at the exchange rates at the reporting date, is presented as follows:

	2017					
	USD	BRL	AOA	VEF	OTHER	TOTAL
ASSETS						
Cash and cash equivalents (Note 14)	92,273	2,270	33,670	-	15,678	143,891
Other financial assets (Note 9)	81,277	-	-	-	-	81,277
Restricted cash (Note 14)	-	-	-	83	-	83
Receivables - customers	23,199	167,158	1,464	7	19,235	211,063
Receivables - other	92,563	51,293	3,742	-	4,157	151,755
	289,312	**220,721**	**38,876**	**90**	**39,070**	**588,069**
LIABILITIES						
Borrowing (Note 19)	121,266	-	-	-	-	121,266
Payables - suppliers	31,895	11,503	392	521	7,482	51,793
Payables - other	159,042	15,393	3,020	82	6,468	184,005
	312,203	**26,896**	**3,412**	**603**	**13,950**	**357,064**

	2016					
	USD	BRL	AOA	VEF	OUTRAS	TOTAL
ASSETS						
Cash and cash equivalents (Note 14)	14,020	1,932	35,414	-	19,766	71,132
Other financial assets (Note 9)	40,377	-	-	-	-	40,377
Restricted cash (Note 14)	-	-	-	538	-	538
Receivables - customers	19,290	86,656	1,698	24	15,849	123,517
Receivables - other	60,829	45,009	190	-	3,347	109,375
	134,516	**133,597**	**37,302**	**562**	**38,962**	**344,939**
LIABILITIES						
Borrowing (Note 19)	107,292	-	-	-	-	107,292
Payables - suppliers	20,780	15,346	-	162	5,531	41,819
Payables - other	150,001	22,404	1,804	214	6,522	180,945
	278,073	**37,750**	**1,804**	**376**	**12,053**	**330,056**

It should also be noted that, on 31 December 2017, “Other financial assets” includes the amount of Euro 80,812 thousand (2016: Euro 39,654 thousand), referring to Angola’s Treasury bonds subscribed in 2017 and 2016, indexed to the US dollar currency risk. Additionally, under the heading “cash and cash equivalents”, also indexed to the US dollar currency risk, is included the amount of Euro 7,928 thousand, also deposited in Angola (2016: Euro 448 thousand) (Notes 9 and 14).

As at 31 December 2017, a 10% variation (positive or negative) of all the exchange rates relative to the Euro, would have an impact in the income statement of some Euro 23 million (2016: Euro 1.5 million).

✈ Interest rate risk

At the end of 2015, coinciding with the reprivatisation of the TAP Group, there had been multiple changes in the financial operations in force, including a deep restructuring of short-term debt with national entities, consisting of the conversion of these short-term loans into operations at 7 Years.

On the other hand, in 2016 a structuring transaction was executed, given its term and nature: the negotiation of a bank loan, with a national institution, collateralised by TAP SA's real estate assets, in the amount of Euro 75 million, with a maturity of 12 years.

On 30 June 2017, agreements relating the TAP Group’s borrowings were formalised with 8 creditor banks, which had previously participated in the 12 November 2015 renegotiation, allowing the Group to extend repayment terms referring to the amount of scheduled repayments for the end of the current year, as well as to generically uniform and reduce the applied margins to the overall loans granted by the financial entities, covering a total of Euro 465 million of debt.

The amount of fixed-rate debt in the total Group’s debt decreased 36% from the total in 2016 to 22% in 2017, at the end of the year. The majority of floating rate loans, corresponding to 78% of the total, bear interests at Euribor, plus the contractual spread, and once more indexed to negative values, for all the terms, during 2017, the amount applied in the respective operations was zero, according to the floor imposed by the financing entities. In practice, all variable-rate euro-denominated credits are charged considering the contractual spread only.

Interest rate risk has not materialised in recent years, given the long period of rates close to zero that occurred in Europe and also in the United States. However, during 2017 there was a gradual rise in interest rates in dollars and in the end of the year the short and long-term interest rates in this currency increased even more sharply. The future impacts of a rise in the general interest level, either in US Dollar or possibly in Euro, are relevant to the TAP Group, not only in relation to existing debt but possibly more in terms of amounts of debt to be contracted in the future, as a result of the planned investments. Interest rates are also a factor of cost increase in operating leases to be contracted in the future, transactions in which the level of long-term interest rates is normally passed on to the aircraft rental.

As at 31 December 2017 and 2016, financial liabilities with interest rate exposure, by type of interest rate, is as follows:

	2017					
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Loans	9	121,434	368,489	37,092	7,500	534,524
Financial leases	102,907	30,339	8,075	11	-	141,332
	102,916	**151,773**	**376,564**	**37,103**	**7,500**	**675,856**
Fixed Rate						
Loans	8,217	7,310	30,259	137,926	-	183,712
Financial leases	3,619	3,762	3,925	-	-	11,306
	11,836	**11,072**	**34,184**	**137,926**	**-**	**195,018**
Total	**114,752**	**162,845**	**410,748**	**175,029**	**7,500**	**870,874**
% fixed rate	**10%**	**7%**	**8%**	**79%**	**0%**	**22%**

	2016					
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Loans	140,143	-	266,622	142,077	15,000	563,842
Financial leases	34,343	27,213	6,261	137	-	67,954
	174,486	**27,213**	**272,883**	**142,214**	**15,000**	**631,796**
Fixed Rate						
Loans	56,794	7,301	14,878	126,003	-	204,976
Financial leases	96,714	25,151	36,198	-	-	158,063
	153,508	**32,452**	**51,076**	**126,003**	**-**	**363,039**
Total	**327,994**	**59,665**	**323,959**	**268,217**	**15,000**	**994,835**
% fixed rate	**47%**	**54%**	**16%**	**47%**	**0%**	**36%**

The TAP Group performs a sensitivity analysis in order to assess the impact in the income statement cause by and increase or decrease in market interest rates, considering all other variables constant. This is an illustrative analysis only, since changes in market rates rarely occur in isolation.

The sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect interest income and expenses arising from financial instruments subject to floating rates;
- Changes in market interest rates only lead to interest income and expenses regarding fixed rate instruments that are measured at their fair value.

Under these assumptions and considering also: (i) theoretical assumptions for the market interest rate and for euro-dollar exchange rate (ii) that the intra-annual amortisation is linear for purposes of future interest calculation (simplifying assumption), an increase or decrease of 0.5% in market interest rates regarding loans with a variable interest rate, as at 31 December 2017 and 2016 would result in a decrease or increase of the future interest expense of approximately Euro 10 million.

Note 19 presents detailed information about the remunerated bank debt.

✈ Liquidity risk

The Group's liquidity risk is, therefore, made up of a combination of factors that result from the operation, the existent debt and its repayment schedule, the negotiations conditions for new transactions, currency conversion gains or losses, and investment activities, when significant. The Group has to ensure, annually, the repayment of its debt, although properly planned and scheduled over time, has an impact on the Group´s treasury and has to be continuously evaluated in accordance with the events occurred during financial years. Any turbulence in financial markets, such as those that occurred during the sovereign debt crisis, or any market changes in terms of the Group current costs or revenues, restricts the treasury, liquidity, economic and financial balance and the prosperity of the Group.

The table below, which includes principal and interests payments, considers assumptions related to market interest rates and Eurodollar exchange. The financial liabilities reflect the amounts payable in each maturity, including the estimation of all contractual cash flows including principal and interest payments, not discounted, until borrowings maturity. It was considered a simplifying assumption of linear intra-annual amortisation rate for future interest’s calculation purposes:

	2017						
	< 6 months	6 months - 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Loans	19,418	11,730	158,392	426,988	240,306	7,649	864,483
Financial leases	82,864	27,797	35,500	12,305	12	-	158,478
Total	**102,282**	**39,527**	**193,892**	**439,293**	**240,318**	**7,649**	**1,022,961**

	2016						
	< 6 months	6 months - 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Loans	42,480	174,217	34,348	321,754	347,363	15,594	935,756
Financial leases	42,382	94,604	54,994	43,712	141	-	235,833
Total	**84,862**	**268,821**	**89,342**	**365,466**	**347,504**	**15,594**	**1,171,589**

✈ Credit risk

The following table presents elements relative to the Group's assets as at 31 December 2017 and 2016, as well as other accounts receivable, which reflect the credit risk on those dates:

	2017	2016
Non-current assets		
Judicial deposits - Brazil (Note 11)	37,936	37,748
Other non-current assets (Notes 9 and 11)	104,114	83,081
Current assets		
Cash and cash equivalents	167,734	150,468
Restricted cash	83	538
Receivables - Customers (Note 11)	279,745	187,999
Other current assets (Notes 9 and 11)	145,396	72,431
	735,008	**532,265**

The Group's quality of credit risk and liquidity, as at 31 December 2017 and 2016, relative to financial assets (cash and cash equivalents and derivative financial instruments), whose counterparts are financial institutions, are detailed as follows:

Rating	2017	2016
AAA	705	373
AA-	1,013	286
A+	74,294	26,077
A	2,452	2,325
A-	479	71
BBB+	1	166
BBB	801	245
BBB-	31,533	1
BB+	-	516
BB-	2,089	6,507
B+	1,236	1,424
B	31	538
B-	-	71,478
CCC+	-	1,274
CCC	5,412	-
Other	47,653	39,652
	167,699	**150,933**
Restricted cash (Note 14)	83	538
Bank deposits (Note 14)	167,616	150,395
	167,699	**150,933**

The caption "Other", in the amount of Euro 47,653 thousand, refers to values related to various international institutions, for which it was not possible to obtain their rating, among which Euro 41,640 thousand are deposited in Angola (Note 14).

As at 31 December 2017 and 2016, the receivables from customers showed the following age structure, considering the maturity date as reference:

	2017	2016
Outstanding values	250,999	143,008
1 to 90 days	14,423	19,608
91 to 180 days	4,061	17,750
181 to 270 days	6,179	2,788
271 to 365 days	1,084	1,502
over 366 days	76,676	82,037
	353,422	**266,693**
Impairment (Note 11)	(73,677)	(78,694)
Customers - Net value (Note 11)	**279,745**	**187,999**

The values correspond to the amounts owed, after the contracted maturity periods. Although there are delays in the settlement of some values in relation to these maturity periods, this does not result in the identification of impairment losses apart from those considered through the recognised impairment loss. The impairment loss recognised refers, essentially, to debts overdue for more than 366 days.

The balances of airline companies and travel agencies included in Trade receivables, as identified in Note 11, are settled, mainly, through the IATA Billing and Settlement Plan ("BSP") and the IATA Clearing House system ("ICH"), which substantially reduces the credit risk of the TAP Group.

In addition to short and long term financial management and treasury management, the management of current assets was also closely followed up to monitor customer positions and the impact of the economic crisis on their creditworthiness, and it has been possible to limit the worsening, for example, of adjustments to a value which is not significant for the size of the activity.

✈ Capital management

The Group's goal relating capital management, which is a broader concept than the capital under the consolidated financial position, is to maintain a balanced capital structure. The contracting of financial debt is periodically reviewed through the weighting of factors such as financing cost and treasury needs.

Regarding borrowings, current and non-current, there is a downward trend. However, the roup's debt has a strict accounting policy but can be analysed and measured in a more extensive and substantial way, aggregating liabilities that, in some aspects, are similar to borrowings, although in the form of operating leases, especially of aircraft, which are connected to several risk factors similar debt risks. The increase aircraft operating lease costs corresponds to an increase in significant future liabilities, as far as these are medium and long-term contracts, which are close to staggered debt payments, although there is no risk of residual value of the aircraft at the end of the lease. In addition to the renewal and expansion of fleet, in the form of lease, it is relevant in terms of risk management, and for the return on invested capital, the future increase of debt that may occur in the form of borrowing, or in the form of an operating lease, to enable the investment cycle in the Group's new fleet.

4 - Tangible fixe assets

During the years ended 31 December 2017 and 2016, changes in tangible fixed assets, as well as the accumulated depreciation and impairments losses, were as follows:

2017	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Tools and utensils	Administrative equipment	Other tangible fixed assets	Other assets in progress	Advances to suppliers of tangible assets	**Total**
Acquisition Cost										
Opening balance	41,804	348,148	1,798,618	6,255	35,729	64,177	11,848	23,139	166,792	**2,496,510**
Additions	-	1,501	69,373	144	2,431	2,378	845	32,849	126,558	**236,079**
Disposal	-	-	(349,817)	(155)	(40)	(370)	-	-	-	**(350,382)**
Other transfers / w rite-offs	-	35	2,659	(60)	(91)	(136)	(50)	(6,196)	(112,500)	**(116,339)**
Currency conversion differences	(88)	(544)	(1,864)	(11)	(1,565)	(517)	-	(330)	-	**(4,919)**
Closing balance	**41,716**	**349,140**	**1,518,969**	**6,173**	**36,464**	**65,532**	**12,643**	**49,462**	**180,850**	**2,260,949**
Accumulated Depreciation										
Opening balance	-	258,685	1,416,980	5,238	23,306	62,681	10,657	-	-	**1,777,547**
Appropriations (Nota 33)	-	5,744	46,302	320	1,530	1,400	425	-	-	**55,721**
Impairment losses recognized (note 33)	-	-	9,910	-	-	-	-	-	-	**9,910**
Disposal	-	-	(183,528)	(155)	-	(361)	-	-	-	**(184,044)**
Other transfers / w rite-offs	-	-	(1,717)	(60)	(111)	(134)	(50)	-	-	**(2,072)**
Currency translation differences	-	(259)	(1,621)	(13)	(947)	(485)	-	-	-	**(3,325)**
Closing balance	**-**	**264,170**	**1,286,326**	**5,330**	**23,778**	**63,101**	**11,032**	**-**	**-**	**1,653,737**
Carrying Amount	**41,716**	**84,970**	**232,643**	**843**	**12,686**	**2,431**	**1,611**	**49,462**	**180,850**	**607,212**

2016	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Tools and utensils	Administrative equipment	Other tangible fixed assets	Other assets in progress	Advances to suppliers of tangible assets	**Total**
Acquisition Cost										
Opening balance	41,674	347,081	1,921,837	5,671	30,905	65,369	26,960	7,678	49,867	**2,497,042**
Additions	-	253	34,384	969	2,134	1,111	1,723	15,537	120,309	**176,420**
Disposal	-	-	(156,748)	(52)	(2)	(20)	-	-	-	**(156,822)**
Other transfers / write-offs	-	-	(3,038)	(290)	582	(471)	(22)	(595)	(3,384)	**(7,218)**
Currency conversion differences	130	814	2,757	18	2,143	752	-	519	-	**7,133**
Transfer to non-current assets held for sale (Note 15)	-	-	(574)	(61)	(33)	(2,564)	(16,813)	-	-	**(20,045)**
Closing balance	**41,804**	**348,148**	**1,798,618**	**6,255**	**35,729**	**64,177**	**11,848**	**23,139**	**166,792**	**2,496,510**
Accumulated Depreciation										
Opening balance	-	252,634	1,495,358	5,318	21,173	63,045	18,513	-	-	**1,856,041**
Appropriations (Note 33)	-	5,689	46,513	296	887	1,079	210	-	-	**54,674**
Impairment losses recognized (note 33)	-	-	2,294	-	-	-	-	-	-	**2,294**
Disposal	-	-	(127,602)	(52)	(2)	(20)	-	-	-	**(127,676)**
Other transfers / write-offs	-	-	(1,463)	(290)	(21)	(475)	19	-	-	**(2,230)**
Currency translation differences	-	362	2,407	17	1,296	709	-	-	-	**4,791**
Transfer to non-current assets held for sale (Note 15)	-	-	(527)	(51)	(27)	(1,657)	(8,085)	-	-	**(10,347)**
Closing balance	**-**	**258,685**	**1,416,980**	**5,238**	**23,306**	**62,681**	**10,657**	**-**	**-**	**1,777,547**
Carrying Amount	**41,804**	**89,463**	**381,638**	**1,017**	**12,423**	**1,496**	**1,191**	**23,139**	**166,792**	**718,963**

The land, buildings and other constructions of the head office of TAP S.A. were transferred to this subsidiary's ownership under Decree-Law number 351/89 of 13 October.

To guarantee payment of the amounts due under a loan agreement with a national institution, in the amount of Euro 75 million, a mortgage was set up on an urban building of TAP SA, composed by twenty-nine office buildings, workshops for construction materials and others, located at the Lisbon Airport (Note 19).

The main impacts occurred during the year ended 31 December 2017 are as follows:

- The additions of basic equipment in the amount of Euro 69,373 thousand, essentially refer to: (i) investment projects in fleet equipment, namely cabin modification (Cabin Retrofit), in the amount of Euro 28,942 thousand and the amount of Euro 2,444 thousand related to the life extension of A319/A320/A321 fleet (Extended Service Goal - ESG) and (ii) capitalization of maintenance costs of own aircraft or under finance lease in the amount of Euro 28,619 thousand.

- Basic equipment disposals, in the net amount of Euro 166,289 thousand, are mainly related to (i) disposal of five aircraft A330 of TAP S.A., resulting from a sale and leaseback operation, having originated a net gain of Euro 17,856 thousand (Note 25); (ii) disposal of two aircraft Fokker 100 from Portugália, which has originated a loss in the amount of Euros 786 thousand and (iii) the finance lease operation of an aircraft Embraer 145 (Note 11), with a net loss of Euros 69 thousand.

- Transfers and write-offs of basic equipment refer, essentially, to the write-off of spare parts as scrap and other miscellaneous maintenance equipment.

- The additions of other assets in progress, in the amount of Euro 32,849 thousand, refers essentially to: (i) equipment for the future aircraft NEO A330/A320F, in the amount of Euro 19,765 thousand; (ii) project of the cabins modification (Cabin Retrofit), in the amount of Euro 5,336 thousand and (iii) capitalization of maintenance cost of own aircraft or under finance lease in the amount of Euro 4,797 thousand.

- The increase recorded in the heading "Advances to suppliers of tangible fixed assets", in the amount of Euro 126,558 thousand, refers, essentially, to the pre delivery payments made for future aircrafts acquisition (Note 40).

- The disposals and write-offs in “Advances to suppliers of tangible assets”, in the amount of Euro 112,500 thousand includes the amount of Euro 107,541 thousand related to: (i) transfer of the responsibility on the predelivery payments of 8 aircraft to lessors (Euro 97,491 thousand) and (ii) modification of the equipment type of 2 aircraft (Euro 10,050 thousand), within the process of acquisition of the new fleet, through credit granted by Airbus. As at 31 December 2017 there is an amount of Euro 5,063 thousand to be used, which is recorded under “Other current receivables” (Note 11), and will be used in future predelivery payments.

The main impacts occurred during the year ended 31 December 2016 are as follows:

- The additions of basic equipment in the amount of Euro 34,384 thousand, essentially refers to: (i) investment in fleet equipment, namely the introduction of sharklet technology in the aircrafts in the amount of Euro 4,806 thousand, cabin retrofit in the amount of Euro 7,501 thousand and the amount of Euro 6,500 thousand related to the useful life extension of the A319/A320/A321 fleets (Extended Service Goal - ESG) and (ii) capitalisation of expenses with structural aircraft maintenance for own aircrafts or acquired through financial leasing arrangements in the amount of Euro 10,339 thousand.

- Basic equipment disposals, in the net amount of Euro 29,146 thousand, mostly relate to the sale of three A330 aircraft, due to a sales and leaseback operation, which resulted in a gain of Euro 16,261 thousand (Note 25).

- The additions of other assets in progress, in the amount of Euro 15,537 thousand, refers essentially to the consulting services provided in the process of negotiating purchase agreements for future aircraft acquisition (Note 40) in the amount of Euro 4,595 thousand and to the cabin retrofit project, in the amount of Euro 7,686 thousand.

- The increase recorded in the heading "Advances to suppliers of tangible fixed assets", in the amount of Euro 120,309 thousand, refers, essentially, to the pre delivery payments made for future aircrafts acquisition (Note 40).

- Transfers to non-current assets held for sale relate to the tangible fixed assets of the subsidiary LFP.

Depreciation of tangible fixed assets is recognised under "Depreciation, amortisation costs and impairment losses" in the consolidated income statement (Note 33).

As at 31 December 2017 and 2016, the heading "Basic equipment" is detailed as follows:

	2017			**2016**		
	Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount
Flight equipment						
Aircraft	467,678	(399,309)	68,369	439,276	(384,828)	54,448
Spare engines	18,547	(14,082)	4,465	22,754	(17,211)	5,543
Spare parts	119,686	(89,907)	29,779	118,833	(86,606)	32,227
	605,911	**(503,298)**	**102,613**	**580,863**	**(488,645)**	**92,218**
Flight equipment under financial leases						
Aircraft	796,171	(684,221)	111,950	1,101,841	(830,394)	271,447
	796,171	(684,221)	111,950	1,101,841	(830,394)	271,447
Machines and miscellaneous	116,887	(98,807)	18,080	115,914	(97,941)	17,973
	1,518,969	**(1,286,326)**	**232,643**	**1,798,618**	**(1,416,980)**	**381,638**

As at 31 December 2017 and 2016, the Group's aircraft fleet is detailed as follows:

	2017					2016				
	Owned by TAP Group	Finance leases	Operating leases	ACMI	Total	Owned by TAP Group	Finance leases	Operating leases	ACMI	Total
Airbus A340	4	-	-	-	**4**	4	-	-	-	**4**
Airbus A330	-	3	15	-	**18**	-	8	8	-	**16**
Airbus A319	-	9	12	-	**21**	-	9	12	-	**21**
Airbus A320	1	4	15	-	**20**	1	4	14	-	**19**
Airbus A321	-	2	2	-	**4**	-	2	1	-	**3**
Fokker 100	4	-	-	-	**4**	-	6	-	-	**6**
Embraer 145	-	7	-	-	**7**	-	8	-	-	**8**
Embraer 190	-	-	9	-	**9**	-	-	9	-	**9**
Embraer 195	-	-	4	-	**4**	-	-	-	-	**-**
ATR 72	-	-	-	8	**8**	-	-	-	8	**8**
	9	**25**	**57**	**8**	**99**	**5**	**37**	**44**	**8**	**94**

In the scope of the regional operation, the TAP Group created a new image and commercial brand - TAP Express - to be used in aircrafts operated by Portugália and White, companies with which TAP SA celebrated ACMI contracts, (Aircraft, Crew, Maintenance and Insurance).

In July 2016, eight ATR 72-600 aircrafts operated by White, mainly used in the Lisbon / Oporto air-bridge, started operation.

In October 2016, nine Embraer E190 aircrafts, operated by Portugália, mainly used on the nearest and with lowest density European routes, were also incorporated in the operation. Additionally, during 2017, 4 aircraft Embraer 195 became operational.

5 - Investment properties

As at 31 December 2017, "Investment properties" refers to: i) a property in Maputo (Mozambique); ii) two apartments in Sacavém, and iii) an apartment in Oporto.

The movement occurred in this caption was as follows:

	2017	2016
Opening balance	2,248	2,216
Fair value adjustments - net gains and losses (Note 31)	(122)	32
Closing balance	**2,126**	**2,248**

The fair value of the investment properties was determined by an independent expert with recognised professional qualifications, where the methods and significant assumptions applied in the determination of the fair value of the properties was supported by market evidence.

The amounts recognised through profit or loss for the year, related to income from rents and direct operating costs, are immaterial in the Group's financial statements as a whole.

6 - Goodwill

During 2017 and 2016, the Goodwill movement was as follows:

	2017			
	Opening balance	Impairment losses	Currency translation differences	Closing balance
Air Transport	63,099	-	-	63,099
Maintenance and Engineering Brazil	108,961	(22,000)	(14,876)	72,085
	172,060	**(22,000)**	**(14,876)**	**135,184**

	2016			
	Opening balance	Impairment losses	Currency translation differences	Closing balance
Air Transport	63,099	-	-	63,099
Maintenance and Engineering Brazil	86,692	-	22,269	108,961
	149,791	**-**	**22,269**	**172,060**

The negative amount of Euro 14,876 thousand refers to the currency translation differences of the Goodwill of Maintenance and Engineering Brazil, which is denominated in Brazilian Real in the amount of Real 373,791,337.

Accordingly to IAS 36, goodwill is subject to impairment tests carried out on an annual basis, as described in the accounting policy (Note 2.9).

Goodwill is attributed to the Group's cash-generating units (CGUs), identified in accordance with the business segment and country of the operation, as follows:

	2017		
	Air Transport	Maintenance	Total
Portugal	63,099	-	63,099
Brazil	-	72,085	72,085
	63,099	**72,085**	**135,184**

	2016		
	Air Transport	Maintenance	Total
Portugal	63,099	-	63,099
Brazil	-	108,961	108,961
	63,099	**108,961**	**172,060**

For the purposes of impairment tests, the recoverable value of the CGUs is determined based on the value in use, in accordance with the discounted cash flow method. The calculations are based on historical performance and expectations of business development with the current productive structure, considering the budget for the following year and an estimation of cash flows for the subsequent 4 years.

For the Maintenance and Engineering Brazil business unit, was considered a budget for the following year and an estimation of cash flows for the subsequent period of 7 years which incorporated, namely, the recovery of the existent tax losses.

Considering the evolution of the maintenance and engineering activity in Brazil and the impairment test performed to the respective CGU, as at 31 December 2017, an impairment loss has recognized of Real 87,404 thousand (Euro 22,000 thousand) in the Group's consolidated income statement.

The main assumptions used for the purposes of impairment tests were the following:

31 December 2017	**Portugal**	**Brasil**
Discount rate*	8.9%	13.0%
CAGR of revenue**	4.1%	6.4%
Perpetuity grow th	2.0%	5.0%
Tax rate	29.5%	34.0%

31 December 2016	**Portugal**	**Brasil**
Discount rate*	8.9%	14.0%
CAGR of revenue**	7.7%	14.4%
Perpetuity grow th	2.0%	5.0%
Tax rate	25.5%	34.0%

* Discount rate net of taxes

*** Compound Annual Growth Rate of revenue - year-on-year growth rate of na investment over a given period of time*

The impairment tests carried out in 2017 sustain the recoverability of the book value of the referred cash-generating units after the recognition of the impairment loss in the maintenance and engineering unit in Brazil. As at 31 December 2017 the book value of the air transport CGU amounts to Euro 304,077 thousand (2016: Euro 207,731 thousand), and the book value of the maintenance unit in Brazil is negative in some Euro 277,229 thousand (2016: negative by Euro 283,529 thousand).

7 – Intangible assets

During 2017 and 2016, changes in other intangible assets were as follows:

	Industrial property and other rights	Computer programmes	Assets in progress	Total
Acquisition cost				
Balance as at 1 January 2016	**11,952**	**2,825**	**5**	**14,782**
Acquisitions	-	1,268	-	1,268
Regularisation, transfer and write-off	-	(16)	(5)	(21)
Currency conversion differences	-	23	-	23
Transfer to Assets Held for Sale (Note 15)	-	(723)	-	(723)
Balance as at 31 December 2016	**11,952**	**3,377**	**-**	**15,329**
Acquisitions	-	425	1,557	1,982
Currency translation differences	-	(15)	-	(15)
Balance as at 31 December 2017	**11,952**	**3,787**	**1,557**	**17,296**
Accumulated amort. and impairment losses				
Balance as at 1 January 2016	**(11,952)**	**(2,296)**	**-**	**(14,248)**
Amortisations and impairment losses (Note 33)	-	(228)	-	(228)
Currency translation differences	-	(11)	-	(11)
Transfer to non-current assets held for sale (Note 15)	-	662	-	662
Balance as at 31 December 2016	**(11,952)**	**(1,873)**	**-**	**(13,825)**
Amortisations and impairment losses (Note 33)	-	(426)	-	(426)
Currency translation differences	-	11	-	11
Balance as at 31 December 2017	**(11,952)**	**(2,288)**	**-**	**(14,240)**
Carrying amount as at 31 December 2016	**-**	**1,504**	**-**	**1,504**
Carrying amount as at 31 December 2017	**-**	**1,499**	**1,557**	**3,056**

8 - Investments in subsidiaries and associates

As at 31 December 2016, the investment in SPdH was reduced to zero and the liabilities attributable to the TAP Group were recorded in provisions (Note 18).

As at 31 December 2017, investments in subsidiaries and associates are as follows:

	2017						
	Opening Balance	Reclassification (Note 11)	Variations affecting results	Variations affecting equity	Other adjustments (Note 18)	Supplementary contributions capital	Closing Balance
Associates							
SPdH	-	4,700	3,250	33	(1,277)	(1,000)	5,706
	-	**4,700**	**3,250**	**33**	**(1,277)**	**(1,000)**	**5,706**

In 17 March 2009, a consortium of three banks (BIG, Banif and Banco Invest) transferred the participation in SPdH (50.1%) to "TAP S.A." for Euro 31.6 million. On the same date and during the period in which the concentration process was pending at the Competition Authority, "TAP S.A." transferred the exercise of its voting and supervision rights, as majority shareholder of SPdH, to an independent entity of the Group.

On 19 November 2009, the Competition Authority following an in-depth investigation process adopted a decision of prohibition relative to the concentration operation, which consisted in the acquisition of the exclusive control of SPdH, by “TAP S.A.”, through the acquisition of a 50.1% of the share capital of SPdH.

The Competition Authority thus imposed the forced separation of SPdH through the Group’s disposal of its shares representing at least 50.1% of the share capital of SPdH. Until the sale, the regulator imposed that SPdH should be administered by a trustee, acting on behalf of the Competition Authority, and managing SPdH independently from the Group.

On 18 June 2012, a purchase and sale agreement was concluded between “TAP S.A.”, “TAP SGPS” and Portugália and between SPdH and Urbanos Grupo, SGPS, S.A. for the acquisition of 50.1% of the share capital of SPdH, which became effective from 20 July 2012 onwards, the date of the Competition Authority's deliberation regarding the decision of non-opposition to the aforesaid operation. In the meantime, on 17 October 2012, Pasogal SGPS, S.A. succeeded Urbanos Grupo, SGPS, S.A. in all rights and obligations that resulted from the agreement referred above and the shareholders' agreement.

SPdH operating licenses to provide handling services to third parties, at Lisbon and Oporto airports, in categories 3 (baggage handling), 4 (cargo and mail handling) and 5 (runway operations handling) of reserved access expired on 31 December 2011.

Portuguese Civil Aviation Institute ("INAC") had still not completed the international public tenders for issue of new licenses, and consequent selection of the second service provider in these reserved access categories for Lisbon and Oporto airports, in which SPdH was an opponent. Decree-Law nº 19/2012, of 27 January, has been published in the meantime.

This Decree-Law now enables INAC to extend, on an exceptional basis, the reserved access licenses to the ground handling service provider in the aforesaid reserved categories at Lisbon and Oporto airports, held by SPdH as at 31 December 2011, until the time when the ground handling service providers begin their activity, after being selected under the public tenders in progress.

Following the above mentioned facts, Decree-Law nº 57/2014, of 11 April, was published, which amended article 4 of Decree-Law nº 19/2012, of 27 January. The article now states that the current licenses granting access to the activity of ground handling services in Lisbon, Oporto and Faro airports can be extended until 31 May 2015 or until the date on which the ground handling service providers, to be selected, begin their activity in the mentioned categories and airport infrastructures accordingly to article 27 of Decree-Law nº 275/99, of 23 July, whichever is earlier.

In September 2014, Portuguese Civil Aviation Authority (ANAC), former INAC, initiated 9 public tenders to grant access licences to the activity of ground handling services in luggage, ground and cargo categories for Lisbon, Oporto and Faro airports. SPdH ran for all tenders, being the status as at 31 December 2017 as follows:

- **Licenses to the handling service activity in Oporto airport**

  The licenses were assigned to the three running categories of the public tender: category 3 (baggage), on 10 November 2016, category 4 (cargo and mail) and category 5 (runway operations), on 15 November 2017.

- **Licenses to the handling service activity in Faro airport**

  Licenses for the three running categories of the public tender (3, 4 and 5),were assigned on 23 October 2017.

- **Licenses to the handling service activity in Lisbon airport**

  The final results of the public tender for the three running categories (3, 4 and 5), were communicated and assigned to SPdH on 14 December 2017. The final assignement is pending the analysis of the documentation that demonstrates the compliance with several financial requirements, resources and manpower proposal, as well as with operational and security manual procedures, which has been submitted within the deadlines, in February 2018.

Regarding the access license applicable to the airports of Madeira and Porto Santo, whose extension ended on 31 December 2016, SPdH requested the extension for an additional period of 7 years, which was formalised on 23 September 2016.

It should be noted that on 30 November 2017, SPdH reimbursed supplementary capital contributions to the TAP SGPS in the total amount of Euro 1,000 thousand.

It should be noted that if SPdH is not selected as the handling service provider in future international public tenders, Pasogal SGPS, S.A. will have the right to dissolve the aforesaid purchase and sale agreement.

As at 31 December 2017 and 2016, the financial information relative to the associate SPdH is as follows:

	2017				
	Assets	Equity	Liabilities	Sales and services rendered	Net income/(loss) for the year
SPdH	38,444	11,435	27,010	124,270	8,708

	2016				
	Assets	Equity	Liabilities	Sales and services rendered	Net income/(loss) for the year
SPdH	30,306	3,727	23,579	113,935	2,163

9 - Other financial assets

As at 31 December 2017 and 2016, other financial non-current assets are detailed as follows:

	2017		2016	
	Current	Non-Current	Current	Non-Current
Angola's treasury bonds	34,853	45,960	-	39,654
Bank deposits in Guinea Bissau	-	1,683	-	1,813
SITA Group Foundation	-	648	-	648
Salvor Hotéis Moçambique loan	-	-	-	61
Other	-	212	-	211
	34,853	**48,503**	**-**	**42,387**
Impairment losses	-	(1,698)	-	(1,827)
	34,853	**46,805**	**-**	**40,560**

During 2016, Angola's Treasury bonds were subscribed for a total amount of Kwanza 6,899,934 thousand corresponding to Euro 34,853 thousand (2016: Euro 39,654 thousand), corresponding to the original exchange rate of 165,074 kwanzas per dollar. These bonds have a maturity date of 6 December 2018 and are indexed to the US dollar.

During 2017, it were subscribed Angola's Treasury bonds in the total amount of Kwanza 9,099,958 thousand (Euro 45,960 thousand), corresponding to the original exchange rate of 165,095 kwanzas per dollar (subscription of Kwanza 6,599,993 thousand) and 165,098 kwanzas per dollar (subscription of Kwanza 2,499,965 thousand), with a maturity date of 19 February 2019 and 5 December 2019, respectively, being also indexed to the US dollar.

The value presented for the SITA Group Foundation refers essentially to 519,778 certificates (unlisted securities) of that company, which was founded by Société International de Télécommunications Aéronautiques.

The movement which occurred in this heading during 2017 and 2016 was as follows:

	2017		2016	
	Current	Non-Current	Current	Non-Current
Opening balance	-	40,560	-	1,100
Increases	-	47,273	-	39,654
Decreases	-	(48)	-	(198)
Transfers	39,654	(39,654)	-	-
Currency translation differences	(4,801)	(1,326)	-	4
Closing balance	**34,853**	**46,805**	**-**	**40,560**

The movement ocurred in the heading of other financial assets impairment in 2017 and 2016 is as follows:

	2017	2016
At 1 de january	1,827	1,853
Currency translation differences	(129)	(26)
At 31 December	**1,698**	**1,827**

10 – Deferred tax assets and liabilities

As mentioned in Note 2.14, the Group recorded deferred taxes related to the temporary differences between assets and liabilities for tax and accounting purposes, as well as existing tax losses carried forward as at the date of the consolidated statement of financial position.

The Group believes that the deferred tax assets recognised in the consolidated statement of financial position are recoverable, both through their use in reducing future taxable profits, based on the net income of TAP S.A. budgeted for 2018 on net income projections for subsequent years, adjusted by differences between the accounting and tax results, and through the reversal of deferred tax liabilities.

As at 31 December 2017 and 2016 the tax rate used to calculate the deferred tax assets relating to tax losses carried forward was 21%. In the case of temporary differences, the rate used was 29.5%, when it was deemed that the taxation of temporary differences in the estimated period of application of the aforesaid rate was probable.

Tax benefits are considered at 100%, whereas, in some cases, their full acceptance is still dependent on the approval of the authorities granting these tax benefits. The deferred taxes arising from tax benefits are recorded when they have been approved by the authorities granting these tax benefits.

The main temporary differences between accounting and taxable amounts as at 31 December 2017 and 2016, the corresponding deferred tax assets and liabilities and the respective effect on the results for 2017 and 2016 are as follows:

	2017				
	Opening balance	Effect in results (Note 35)	Effect in comprehensive income	Transfer to assets held for Sale (Note 15)	Closing balance
Deferred tax assets					
Tax losses carried forward	35,461	(14,711)	-	-	20,750
Employee benefits obligations	15,153	(890)	2,061	-	16,324
Impairment losses in inventories	8,460	1,013	-	-	9,473
Impairment losses in fixed assets	1,091	2,209	-	-	3,300
Impairment losses of accounts receivable	6,962	120	-	-	7,082
Derivative financial instruments (Note 16)	175	-	(175)	-	-
Tax benefits	136	(136)	-	-	-
Other provisions and adjustments not accepted for tax purposes	133	5	-	-	138
	67,571	**(12,390)**	**1,886**	**-**	**57,067**
Deferred tax liabilities					
Revaluation of tangible fixed assets	19,422	520	-	-	19,942
	19,422	**520**	**-**	**-**	**19,942**
		(12,910)	**1,886**		

	2016				
	Opening balance	Effect in results (Note 35)	Effect in comprehensive income	Transfer to assets held for Sale (Note 15)	Closing balance
Deferred tax assets					
Tax losses carried forward	38,050	(2,589)	-	-	35,461
Employee benefits obligations	13,935	(954)	2,172	-	15,153
Impairment losses in inventories	8,155	305	-	-	8,460
Impairment losses in fixed assets	506	585	-	-	1,091
Impairment losses of accounts receivable	7,481	(519)	-	-	6,962
Derivative financial instruments (Note 16)	286	-	(111)	-	175
Tax benefits	517	(381)	-	-	136
Other provisions and adjustments not accepted for tax purposes	555	(264)	-	(158)	133
	69,485	**(3,817)**	**2,061**	**(158)**	**67,571**
Deferred tax liabilities					
Revaluation of tangible fixed assets	20,037	(615)	-	-	19,422
	20,037	**(615)**	**-**	**-**	**19,422**
		(3,202)	**2,061**		

✈ Tax losses carried forward

Under the terms of current tax legislation in Portugal, tax losses are reportable for a period of five years after its occurrence (six, four, five and twelve years after its occurrence, until 2009, from 2010 to 2011, from 2012 to 2013 and from 2014 to 2016, respectively) and susceptible to de deduction of tax profits generated during those periods, until the limit of 70% of taxable income.

In Brazil, tax losses have not a limited period for its deduction. However, the deduction is limited to 30% of taxable profit for the following years.

The Group considers that, tax losses carried forward are partially recoverable, through their use in the reduction of future taxable profit, and therefore recorded the corresponding deferred tax assets.

The tax losses carried forward as at 31 December 2017 and used in 2017 are detailed as follows:

1 January 2017	2012	2013	2014	2015	2016	2017	Total
TAP SGPS	2,923	-	3,549	2,138	1,016	n/a	**9,626**
TAP S.A.	-	-	58,370	207,606	-	n/a	**265,976**
UCS	191	95	-	-	-	n/a	**286**
TAP M&E Brasil	21,563	17,193	44,232	8,172	9,940	n/a	**101,100**
	24,677	**17,288**	**106,151**	**217,916**	**10,956**	**n/a**	**376,988**

Expired / not used in 2017	2012	2013	2014	2015	2016	2017	Total
TAP SGPS	(2,923)	-	-	-	-	n/a	**(2,923)**
TAP S.A.	-	-	-	-	-	n/a	**-**
UCS	(128)	-	-	-	-	n/a	**(128)**
TAP M&E Brasil	-	-	-	-	-	n/a	**-**
	(3,051)	**-**	**-**	**-**	**-**	**n/a**	**(3,051)**

Used in 2017	2012	2013	2014	2015	2016	2017	Total
TAP SGPS	-	-	-	-	-	n/a	**-**
TAP S.A.	-	-	(58,370)	(11,618)	-	n/a	**(69,988)**
UCS	(63)	-	-	-	-	n/a	**(63)**
TAP M&E Brasil	-	-	-	-	-	n/a	**-**
	(63)	**-**	**(58,370)**	**(11,618)**	**-**	**n/a**	**(70,051)**

31 December 2017	2012	2013	2014	2015	2016	2017 Estimated	Total
TAP SGPS	-	-	3,549	2,138	1,016	-	**6,703**
TAP S.A.	-	-	-	195,988	-	-	**195,988**
UCS	-	95	-	-	-	-	**95**
TAP M&E Brasil	21,563	17,193	44,232	8,172	9,940	29,080	**130,180**
	21,563	**17,288**	**47,781**	**206,298**	**10,956**	**29,080**	**332,966**
Limit for deduction (in Portugal)	**2017**	**2018**	**2026**	**2027**	**2028**	**2022**	

11 – Other receivables

As at 31 December 2017 and 2016, other receivables are detailed as follows:

	2017		2016	
	Current	**Non-current**	**Current**	**Non-current**
Customer	353,446	-	266,693	-
Other debtors	66,394	97,166	52,129	82,190
Accrued income	25,308	-	15,048	-
Advances to suppliers	23,540	-	9,883	-
Deferrals	22,982	-	17,296	-
State	13,707	-	12,512	-
Impairment losses	(78,400)	(1,921)	(83,323)	(1,921)
	426,977	**95,245**	**290,238**	**80,269**

For the presented years there are no diferences between book and fair values.

✈ **Trade receivables**

As at 31 December 2017 and 2016, the caption "Trade receivables" is detailed as follows:

	2017	2016
Customers- Current account	299,882	211,160
Doubtful debtors	53,564	55,533
	353,446	**266,693**
Impairment losses	(73,701)	(78,694)
	279,745	**187,999**

The detail of this heading by type of customer is as follows:

	2017	2016
Private entities	176,225	93,083
Travel agency	65,615	61,045
Airlines	33,452	28,371
Related parties (Note 37)	785	2,165
Other	3,668	3,335
	279,745	**187,999**

The increase in trade receivables is mainly due to the increase in ticket sales in the last months of 2017 and to the effect of the operation made in 2016 of the receivable antecipation of installment sales from credit cards in Brazil in the amount of Euro 56,775 thousand.

The trade receivable from travel agencies and airline companies are primarily settled through IATA Billing and Settlement Plan (BSP) and IATA Clearing House (ICH).

✈ **Other debtors – Non-current**

As at 31 December 2017 and 2016, the recorded amount in the caption "Other debtors – Non-current" is detailed as follows:

	2017	2016
Security deposits (Note 19)	46,940	25,006
Judicial deposits - Brazil	37,936	37,748
Related parties (Notes 19 and 37)	3,298	9,444
SITA - Société Internationale de Télécommunications Aéronautiques	254	315
Other	8,738	9,677
	97,166	**82,190**
Impairment losses	(1,921)	(1,921)
	95,245	**80,269**

The security deposits are constituted under the operating lease contracts for aircraft and engines, and will be returned, without interests, when the aircraft and engines are returned to their lessors. The increase verified is related to the guarantee deposits associated with the new operating lease contracts carried out in 2017, for aircraft and reactors incorporated into the operation during the current financial year and for the aircrafts to enter into operation in the future (Note 40). Additionally, as at 31 December 2017, the caption 'Related parties', in the amount of Euro 3,298 thousand, also relates to a security deposits provided to Azul S.A. (2016: Euro 4.744 thousand) (Note 19).

The caption “Judicial deposits – Brazil” refers to security deposits related to several labour, fiscal and civil legal processes in which TAP M&E Brasil is involved (Note 18).

As at 31 December 2016, the caption "Related parties - non-current" included the amount of Euro 4,700 thousand, relates to the supplementary capital contribution granted to SPdH (Note 8).

✈ Other debtors – Current

As at 31 December 2017 and 2016, the amount recorded under the caption "Other debtors - current" corresponds to:

	2017	2016
Employees	13,424	14,572
Interline and other invoicing	10,925	10,248
Suppliers account receivable	9,105	6,446
Airbus (Note 4)	5,063	-
Pasogal, SGPS, S.A. (Note 8)	3,000	3,000
Representations VAT	2,469	2,476
Debtors - Brazil	1,805	2,246
Deposits and guarantees	1,781	1,558
Consignment supplieres	1,313	908
Leased aircraft	1,170	-
Related parties (Note 37)	824	1,263
Debtors - Italy	-	745
Other	15,515	8,667
	66,394	**52,129**
Impairment losses	(4,699)	(4,629)
	61,695	**47,500**

The caption "Other", in the amount of Euro 15,515 thousand recorded as at 31 December 2017, includes Euro 594 thousand (2016: Euro 531 thousand) relative to the financing surplus, of the “Horizonte Valorização” Pension Fund of the subsidiary UCS. This financing surplus is reimbursable under the terms of the law and/or exemption from future contributions (Note 20).

✈ Accrued income

As at 31 December 2017 and 2016, the amount recorded under the caption "Accrued income" is detailed as follows:

	2017	2016
Work for aviation companies	19,068	11,573
Swaps jet fuel	3,201	-
Sale of miles to partners	830	1,235
Other	2,209	2,240
	25,308	**15,048**

As at 31 December 2017, the swaps jet fuel represents the effective gain of the financial derivative instruments concluded as at 31 December 2017.

✈ **Advances to suppliers**

The amounts recorded in advances to suppliers, are essentially the result of, advances to maintenance suppliers.

✈ **Deferred costs**

As at 31 December 2017 and 2016, the caption "Deferred cost" is detailed as follows:

	2017	2016
Aircrafts and reactors leases	10,219	6,985
Rental costs	4,190	3,220
Commissions	2,753	2,722
Related parties (Note 37)	598	731
Insurance	452	446
Manutenção de equipamento	196	384
Other deferred costs	4,574	2,808
	22,982	**17,296**

The increase in deferred costs, related to the leasing of aircraft and reactors is due to the increase in the number of aircraft under operating leases.

Commissions refer to the values paid to agents for tickets sold but which have not yet been used and have not expired until 31 December 2017 and 2016.

✈ **State**

For the years ended on 31 December 2017 and 2016, the balances under this caption are detailed as follows:

	2017	2016
VAT	8,516	6,429
State - Brazil	4,768	4,588
Fare compensation	411	1,473
Other	12	22
	13,707	**12,512**

As at 31 December 2017, the outstanding balance of the VAT refers to requests for reimbursements, not yet received, for the months of October, November and December 2017.

As at 31 December 2017 and 2016, the value recorded under the heading "Fare Compensation" includes the part of the fare subsidised by the Portuguese State for the routes of the Autonomous Region of the Azores until 29 March 2015, in the total amount of 118 thousand euros and 516 thousand euros, respectively. These values correspond to tickets sold, which may be used on Group or other airline flights.This caption also includes, as at 31 December 2017 and 2016, a receivable amount from the Portuguese State of 293 thousand euros and 957 thousand euros, respectively, relative to flights between the islands of the Autonomous Region of the Azores. The figures for the years of 2015 to 2017 have not yet been verified and audited by the

Portuguese Authorities or approved by the Government. However, no significant corrections to the values recorded by the Group are expected.

Decree-Law nº 258/98 of 17 August repealed the tax exemptions from which “TAP S.A.” had benefited, and which had been established based on XII attached to Decree-Law nº 39.188 of 25 April 1953 and on Decree-Law nº 39.673 of 22 May 1954, nº 41.000 of 12 February 1957 and nº 44.373 of 29 May 1962, which implied that “TAP S.A.” is no longer exempt from the payment of tax and other contributions to the State.

✈ Impairment losses on trade and other receivables

The movements in this caption in 2017 and 2016 are as follows:

Opening balance as at 1 January 2016	**81,301**
Increases (Note 30)	4,558
Reversals (Note 30)	(2,429)
Utilisation	(29)
Currency conversion differences	1,911
Transfer to non-current assets held for sale (Note 15)	(68)
Closing balance as at 31 December 2016	**85,244**
Increases (Note 30)	3,511
Reversals (Note 30)	(2,257)
Utilisation	(4,296)
Currency conversion differences	(1,881)
Closing balance as at 31 December 2017	**80,321**

12 - Inventories

On 31 December 2017 and 2016, the detail of the inventories is as follows:

	2017	**2016**
Goods (Note 26)	68	64
Products and w ork in progress (Note 27)	10,002	7,870
Raw materials, inputs and consumables (Note 26)	135,087	127,001
Inventory impairment losses	(48,099)	(49,096)
	97,058	**85,839**

The caption "Products and work in progress" corresponds to the value of materials and hours spent on aircraft maintenance works for third parties which are still in progress at the reporting date.

“Raw, materials, inputs and consumables” refer, essentially, to technical material used in aircraft maintenance services for the Group’s fleet and for third parties.

The movement of Inventory impairment losses in 2017 and 2016 is as follows:

Opening balance as at 1 January 2016	**44,355**
Increases (Note 30)	2,643
Reversals (Note 30)	(831)
Utilisation	(13)
Currency conversion differences	3,671
Transfer to non-current assets held for sale (Note 15)	(729)
Closing balance as at 31 December 2016	**49,096**
Increases (Note 30)	2,517
Reversals (Note 30)	(980)
Utilisation	(90)
Currency conversion differences	(2,444)
Closing balance as at 31 December 2017	**48,099**

The currency translation differences verified in 2017 and 2016 arises from the conversion of the Brazilian subsidiary financial statements.

13 – Income tax receivable/ payable

Since 2017, the majority of the Group's subsidiaries headquartered in Portugal, started to be taxed through the Special Taxation Regime for Groups of Companies ("RETGS"), being the tax result determined in TAP SGPS. However, each company's income tax estimate is recorded based on its fiscal results.

At the years ended December 2017 and 2016 the balance relating income tax receivable or payable is detailed as follows:

	2017		**2016**	
	Current assets	**Current liabilities**	**Current assets**	**Current liabilities**
Income tax receivable/payable				
Payments on account	-	1,801	419	-
Withholding taxes	-	3,144	11,135	-
Current income tax (Note 35)	-	(15,444)	(1,081)	-
Other	1,411	20	-	-
	1,411	**(10,479)**	**10,473**	**-**

14 - Cash and cash equivalents

As at 31 December 2017 and 2016, cash and cash equivalents is detailed as follows:

	2017	**2016**
Term deposits	104,311	11,278
Bank deposits available on demand	63,305	139,117
Cash	118	73
Cash and cash equivalent in the statement of financial position	**167,734**	**150,468**
Restricted cash	**83**	**538**
Bank overdrafts (Note 19)	**-**	**(280)**
Cash and cash equivalents in the cash flow statement	**167,817**	**150,726**

The bank deposits in Angola as at 31 December 2017, in the amount of Euro 41,640 thousand, denominated in kwanzas, dollars and euros are currently experiencing difficulties in repatriating the funds. As at 31 December 2016, the bank deposits in Angola amounted to Euros 35,903 thousand. Additionally, the aforementioned cash will also be used to pay the local expenses of the air transport operation.

Surplus liquidity is normally invested in short term financial investments, earning interest at normal market rates.

Restricted cash

During the 2016 and 2017 financial year, the continued deterioration of the country's economic situation led to a significant depreciation of the SIMADI rate (3,345 VEF/USD as at 31 December 2017 and 673,76 VEF/USD as at 31 December 2016). Consequently, at this date, it is the Board of Directors' understanding that the SIMADI rate is the best estimate for the exchange rate of Venezuelan restricted cash.

15 – Non-current assets and liabilities held for sale and discontinued operations

In 2016, following the decision to divest 51% of the capital held in the subsidiary L.F.P. - Lojas Francas de Portugal, SA, which materialised on 11 July 2017, TAP Group carried out the reclassification of its assets and liabilities, in the consolidated statement of financial position, which are classified as non-current assets and liabilities held for sale considering its classification as a discontinued operation.

✈ Statement of financial position

Assets and liabilities from the referred subsidiary classified as held for sale as of 31 December 2016 are detailed as follows:

Amounts stated in thousand euros	Non-current assets/liabilities held for sale
Non-current assets	
Tangible fixed assets	7,683
Other intangible assets	46
Deferred tax assets	234
	7,963
Current assets	
Inventories	16,307
Trade receivables	849
State and other public entities	1,233
Other receivables	5,850
Deferred expenses	1,362
Cash and cash equivalents	2,791
	28,392
Total Assets	**36,355**
Current liabilities	
Suppliers	19,157
State and other public entities	1,050
Other payables	2,717
Deferred revenue	339
Total liabilities	**23,263**

✈ Income statement

The income and expenses of LFP, presented as result from discontinued operation, for the year ended 31 December 2016 is detailed as follows:

Amounts stated in thousand euros	**2016**
Sales and services rendered	207,282
Cost of goods sold and materials consumed	(126,319)
External supplies and services	(63,930)
Employee costs	(10,610)
Impairment in inventory (losses/reversals)	(172)
Other operating income	8,109
Other operating costs	(423)
Earnings before interests, taxes, depreciation and amortisation	**13,937**
Depreciation and amortisation costs	(2,030)
Operating income/(loss) (earnings before interests and taxes)	**11,907**
Finance costs	(14)
Net income/(loss) before income tax	**11,893**
Income tax for the year	(2,949)
Net income for the year of discontinued operations	**8,944**

✈ Statement of cash flows

The cash flows related to aforementioned subsidiary for the year ended 31 December 2016 were considered as an integral part of this statement and are detailed as follows:

Amounts stated in thousand euros	2016
Net cash flows of the operating activities	18,438
Net cash flows of the investing activities	(6,026)
Net cash flows of the financing activities	(10,576)
Discontinued operations net cash flows	**1,836**

✈ Gains / losses recognised in discontinued operations

The gains or losses recognized in discontinued operations as at 31 December 2017 are as follows:

Amounts stated in thousand euros	2017
Net income for the year of discontinued operations	3,780
Gains from the subsidiary disposal	1,426
Other gains from the subsidiary disposal	6,500
Results from discontinued operations	**11,706**

The net income of the exercise of the discontinued operation is related to the results of the LFP up to the date of disposal. The income and expenses of the LFP at that date are detailed as follows:

Amounts stated in thousand euros	2017	2016
Sales and services rendered	106,038	91,144
Cost of goods sold and materials consumed	(63,856)	(56,109)
External supplies and services	(33,465)	(27,844)
Employee costs	(5,937)	(5,319)
Impairment in inventory (losses/reversals)	(26)	(211)
Other operating income	3,621	3,649
Other operating costs	(156)	(182)
Earnings before interests, taxes, depreciation and amortisation	**6,219**	**5,128**
Depreciation and amortisation costs	(1,209)	(857)
Operating income/(loss) (earnings before interests and taxes)	**5,010**	**4,271**
Finance costs	(2)	(19)
Net income/(loss) before income tax	**5,008**	**4,252**
Income tax for the year	(1,228)	(1,036)
Net income for the year of discontinued operations	**3,780**	**3,216**

16 – Equity

The nominal share capital of TAP SGPS, in the amount of Euro 15,000,000 is represented by 1,500,000 nominal shares of Euro 10 each, and is fully underwritten and paid-up.

Following the re-privatization process of TAP Group, on 12 November 2015, 915,000 nominal shares, representative of 61% of share capital of TAP SGPS, were transferred to Atlantic Gateway, and Parpública remains with 39% of share capital of TAP SGPS.

On 30 June 2017 the process of the renegotiation of Portuguese State’s participation in TAP Group, which was preceded by the public offering of shares representing 5% of the share capital of TAP SGPS was concluded, as referred in the Note 1. Therefore, TAP SGPS is now held in 50% by Parpública, in 45% by Atlantic Gateway and by 5% by TAP Group's employees.

✈ Supplementary Capital Contributions

Following the Shareholders General Meeting resolution on 12 November 2015, the shareholder Atlantic Gateway preceded to a cash entry, fully realised, in the amount of Euro 154,353 thousand of supplementary capital contributions, in two phases, one of Euro 15,000 thousands and another of US Dollars 150,000 thousands. These supplementary capital contributions are non-remunerated, do not have a defined maturity date and may not be reimbursed before a period of 30 years. If any reimbursement occurs after such period the respective deliberation has to be approved by, at least, 76% of the General Meeting members with voting rights.

In 2016, and following the TAP Group reprivatisation process, following the Shareholders General Meeting resolution on 29 March 2016, the shareholder Atlantic Gateway made cash inflows in four instalments of Dollar 19,188 thousand, fully paid-up, in the total amount of Dollar 76,750 thousand (Euro 69,740 thousand), which characteristics are similar to the capital contributions that occurred in 2015, described above.

Accordingly to the legislation in force, the supplementary capital contributions can only be reimbursed to shareholders if the equity does not become lower than the sum of the share capital and the legal reserve.

✈ Legal reserves

The legal reserve was constituted in accordance with article 295 of the Commercial Companies Code, which establishes that, at least, 5% of annual net profit must be transferred to legal reserves until it reaches 20% of the company share capital. This reserve cannot be distributed, except in the case of the company's liquidation, but can be incorporated into the share capital or used to absorb losses after all other reserves have been depleted.

As at 31 December 2017 and 2016, the legal reserve was fully constituted in accordance with the commercial legislation in force.

✈ Foreign currency translation reserves

Foreign currency translation reserves resulting from the conversion of operating units denominated in foreign currency are recorded in equity, under this caption:

	2017			
	Opening balance	Increases	Decreases	Closing balance
TAP M&E Brasil and Aeropar:				
Currency translation of financial statements and goodwill	66,322	40,216	-	106,538
Extension of the net investment in TAP M&E Brasil	(103,191)	-	(61,996)	(165,187)
	(36,869)	**40,216**	**(61,996)**	**(58,649)**
			(21,780)	

	2016			
	Opening balance	Increases	Decreases	Closing balance
TAP M&E Brasil and Aeropar:				
Currency translation of financial statements and goodwill	117,137	-	(50,815)	66,322
Extension of the net investment in TAP M&E Brasil	(187,543)	84,352	-	(103,191)
	(70,406)	**84,352**	**(50,815)**	**(36,869)**
			33,537	

The increase of Euro 40,216 thousand relates to the Group's appropriation of exchange differences resulting from the conversion of the financial statements of the companies operating in Brazil, in the favourable amount of Euro 55,092 thousand, and of the corresponding goodwill, in the unfavourable amount of Euro 14,876 thousand (Note 6).

The decrease of Euro 61,996 thousand in 2017 relates to the negative currency conversion differences arising from the medium and long-term loans granted to TAP M&E Brasil, whose settlement is unlikely to occur in the foreseeable future, and is, in substance, an extension of the group’s net investment in this foreign operation.

The difference between the net reduction of the foreign currency translation reserves balance, amounting to Euro 21,780 thousand, and the amount recorded in the consolidated statement of comprehensive income in the amount of Euro 21,010 thousand, results from the amounts assigned to non-controlling interests.

✈ Hedge reserves

As at 31 December 2016, the negative amount of Euro 461 thousand presented under the caption "Hedge reserves" corresponds to the fair value of the financial instruments classified as hedging accounting of the subsidiary TAP, S.A. recorded in accordance with the policy described in Note 2.12., net of tax, in the amount of Euro 175 thousand (Note 10). As at 31 December 2017 there are no outstanding derivative financial instruments.

As at 31 December 2017 and 2016, the derivative financial instruments fair value is detailed as follows:

	2017	2016
Interest rate swaps (Notes 21 and 39)	-	(636)
	-	**(636)**

The fair value of interest rate swap transactions corresponds to the mark-to-market value, based on agreed conditions and the estimated interest rate at the date of consolidated statement of financial position.

The interest rate swap open as at 31 December 2016 was paid in advance during 2017.

The interest rate and jet fuel derivative financial instruments in portfolio, classified as hedging instruments presented the following evolution, during the financial years ended on 31 December 2017 and 2016:

	Liabilities	
	Current	Non-current
Fair value as at 1 January 2016	**-**	**(1,038)**
Payment/(revenue) of swaps during the year	-	469
Revenue/(payment) of swaps retained through profit or loss	-	(469)
Increase/(decrease) of fair value reflected in equity	-	402
Fair value as at 31 December 2016	**-**	**(636)**
Acquisitions during the year - payment/(revenue)	9,523	-
Payment/(revenue) of swaps during the year	-	609
Revenue/(payment) of swaps retained through profit or loss	(9,523)	(609)
Increase/(decrease) of fair value reflected in equity	-	636
Fair value as at 31 December 2017	**-**	**-**

As at 31 December 2017 and 2016, the Group had no derivative financial instruments.

✈ Retained earnings

The caption "Retained earnings" corresponds to the net losses of previous years, as deliberated at the General Meetings. The impact that resulted from the first-time adoption of the International Financial Reporting Standards (IFRS) was also recorded under this caption, as well as gains or losses from the remeasurements of post-employment benefits, net of tax.

✈ **Results per share**

Considering that the convertible financial instruments on the shares of TAP SGPS, namely the convertible bonds, became effective with the approval of ANAC on 23 December 2016, the impact of the dilution of the result per share in 2016 was considered to be fully immaterial.

	2017	2016
Net income from continuing activities	11,572	(31,957)
Earnings/(losses) attributable to TAP SGPS shareholders	21,224	(27,731)
Weighted average number of shares	1,500,000	1,500,000
Basic earnings/(losses) per share from continuing activities (value in euro)	7.7	(21.3)
Diluted earnings/(losses) per share from continuing activities (value in euro)	7.1	(21.3)
Basic earnings/(losses) per share from discontinued operations (value in euro)	6.4	2.8
Diluted earnings/(losses) per share from discontinued operations (value in euro)	5.9	2.8
Basic earnings/(losses) per share (value in euro)	14.1	(18.5)
Diluted earnings/(losses) per share (value in euro)	13.0	(18.5)

17 - Non-controlling interests

The non-controlling interests recorded in the statement of financial position are detailed as follows:

	%	2017	2016
Non-controlling interests of equity			
TAP M&E Brasil	1.36%	(5,229)	(5,336)
Cateringpor	49%	3,359	3,290
LFP (Note 15)	49%	-	5,521
		(1,870)	**3,475**

The non-controlling interests, presented in the consolidated income statement, as at 31 December 2017 and 2016 are detailed as follows:

	2017	2016
Non-controlling interests of net income		
TAP M&E Brazil	(682)	(473)
Cateringpor	884	808
LFP (Note 15)	1,852	4,383
	2,054	**4,718**

18 - Provisions

During 2017 and 2016, changes in provisions were as follows:

	2017					
	Opening balance	Increases	Reversal of unused amounts	Currency conversion differences	Other movements	Closing balance
Provisions						
Provision for legal claims	23,243	654	(3,972)	(1,657)	807	**19,075**
Provision for financial investments (Note 8)	1,277	-	-	-	(1,277)	**-**
Other provisions	1,921	-	(209)	(153)	11	**1,570**
	26,441	**654**	**(4,181)**	**(1,810)**	**(459)**	**20,645**

	2016					
	Opening balance	Increases	Reversal of unused amounts	Currency conversion differences	Other movements	Closing balance
Provisions						
Provision for legal claims	20,503	2,816	(3,284)	2,358	850	**23,243**
Provision for financial investments (Note 24)	3,063	-	(1,743)	-	(43)	**1,277**
Other provisions	2,560	-	(974)	297	38	**1,921**
	26,126	**2,816**	**(6,001)**	**2,655**	**845**	**26,441**

In 2017 and 2016, resulted gains of Euro 3,527 thousand and Euro 1,442 thousand, respectively, recorded under the caption "Provisions" of consolidated income statement.

✈ Provision for legal claims

Provisions for legal claims are recognised in accordance with the Group's and its legal advisors risk assessments, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Group. As at 31 December 2017, the existent provision, in the amount of Euro 19,075 thousand, aims to cover the risk of several lawsuits filed against the Group, in Portugal and foreign countries.

The detail of the provision for legal claims is as follows:

	2017	2016
Group (without the subsidiary TAP M&E Brasil)	8,779	11,188
Subsidiary TAP M&E Brasil	10,296	12,055
	19,075	**23,243**

As at 31 December 2017, the subsidiary TAP M&E Brasil faced about 1,802 labour claims (1,847 claims as at 31 December 2016). The subsidiary is a joint debtor of the labour liabilities related to the migration of employees from VARIG to TAP M&E Brasil in 2001 and 2002. Labour claims have been filed by former employees of VARIG against the subsidiary and against "TAP S.A." due to the dismissal of VARIG employees following the judicial auction sale of the production unit of VARIG, held in July 2006.

These labour claims can be divided into 4 categories: (i) union claims; (ii) claims filed by pilots; (iii) claims filed by former employees of VARIG against it and the Group, demanding the succession of the employment status and (iv) claims filed by service providers requesting the acknowledgement of the Group's liability for any recognised labour debts.

✈ Other provisions

This caption is detailed as follows:

	2017	2016
Subsidiary TAP M&E Brasil:		
Provision for tax contingencies	790	864
Provision for civil contingencies	307	573
Remaining subsidiaries:		
Other provisions	473	484
	1,570	**1,921**

Provision for tax and civil contingencies

The subsidiary TAP M&E Brasil is currently involved in tax proceedings, both in the administrative and judicial sphere, which, when applicable, are guaranteed by judicial deposits and/or pledging of assets.

In 2009 the subsidiary TAP M&E Brasil joined the Tax Recovery Programme, called REFIS, through which it defined an instalment plan of all its federal contingencies with success probability classified as remote, compensating part of the interest and contingency fines with deferred rent tax and social security contributions, over the total tax losses carried forward and negative social security contribution base ("CSLL"), having reduced its debt by Euro 49,448 thousand.

On 9 July 2014, Provisional Measure nº 651/2014 (MP 651, converted into Law 13.043/14) was published which, among other issues, allowed the taxpayer to pay tax debts in advance, once the instalment plan was agreed, with the use of own credits from tax losses carried forward and negative calculation base of CSLL.

Considering this, TAP M&E Brasil, following the legal recommendation of the respective lawyer on the legal conditions required to benefit from the measures regulated by article 33 of the Provisional Measure, decided that criteria were met. Consequently, the Company paid 30% of the debt in the amount of Real 71,234 thousand and settled the rest with the tax credits arising from tax losses and from a negative social security contribution base in the amount of Real 166,214 thousand (Euro 51,594 thousand). This gain was recognised, in 2014, in the caption of "Other operating income", taking into consideration that this gain resulted essentially from social security contributions that were recorded in operating costs.

In addition, due to the accounting criteria adopted, the subsidiary requested a legal opinion on the tax treatment relative to the effects arising from the settlement of REFIS based on the tax credits arising from tax losses and from a negative social security contribution base. It is thus observed that it is a change in the form of use of an existing right, and thus no new right was created, regardless of its accounting classification. Considering this, the operating gain resulting from the compensation of the subdivision was not subject to corporate income tax, social integration programme (“PIS”) and contribution to the financing of social security ("COFINS").

The movement in the provision for tax and civil contingencies was as follows:

Balance as at 1 January 2016	**1,115**
Reversal by revised estimate	(13)
Currency translation differences	297
Other movements	38
Balance as at 31 December 2016	**1,437**
Reversal by revised estimate	(197)
Currency translation differences	(153)
Other movements	10
Balance as at 31 December 2017	**1,097**

19 – Borrowings

✈ Current and non-current borrowings

As at 31 December 2017 and 2016, Borrowings are detailed as follows:

	2017		2016	
	Current	**Non-Current**	**Current**	**Non-Current**
Bank loans	7,500	580,940	194,540	450,827
Bond issuance	-	120,000	-	120,000
Bank overdrafts (Note 14)	-	-	280	-
Interest accrued	3,943	15,845	4,297	6,003
Initial expenses	(3,217)	(6,775)	(1,900)	(4,949)
Borrowings	**8,226**	**710,010**	**197,217**	**571,881**
Financial leases	106,628	46,331	130,467	95,230
Interest accrued	480	-	1,218	-
Initial expenses	(582)	(219)	(628)	(270)
Financial leases	**106,526**	**46,112**	**131,057**	**94,960**
Increased liabilities	**114,752**	**756,122**	**328,274**	**666,841**

✈ Net debt

As at 31 December 2017 and 2016, net debt is detailed as follows:

	2017	2016
Borrowings		
Non-current	756,122	666,841
Current	114,752	328,274
	870,874	**995,115**
Cash and cash equivalents (Note 14)		
Cash	118	73
Bank deposits available on demand	63,305	139,117
Term deposits	104,311	11,278
	167,734	**150,468**
Net debt	**703,140**	**844,647**

✈ Bank loans

Accordingly with the conditions established in the Share Purchase Agreement, complemented with the Agreement on the Bebt Service Restructuring and Monitoring of TAP Group, referred in Note 1, on 30 June 2017, bank debt was restructured, being the main changes related to the maturity of the loans and its financial conditions, namely the reference rate and the applicable spread.

The remunerated bank loans, by maturity and type of interest rate, as at 31 December 2017 and 2016, is detailed as follows:

	2017	2016
Up to 1 year	8,226	196,937
1 to 2 years	128,744	7,301
2 to 3 years	135,795	89,753
3 a 4 years	131,122	98,170
4 to 5 years	131,831	93,577
Over 5 years	46,673	157,077
	582,391	**642,815**

	2017	2016
Variable rate		
Up to 1 year	9	140,143
1 to 2 years	121,434	-
2 to 3 years	122,136	82,359
Over 3 years	290,945	341,340
	534,524	**563,842**
Fixed rate		
Up to 1 year	8,217	56,794
1 to 2 years	7,310	7,301
2 to 3 years	13,659	7,394
Over 3 years	18,681	7,484
	47,867	**78,973**
	582,391	**642,815**

The detail of the bank loans, by functional currency, as at 31 December 2017 and 2016 is as follows:

	2017		2016	
	Values in foreign currency	Values in Euros	Values in foreign currency	Values in Euros
Loans in Euros (EUR)	582,391	582,391	623,839	623,839
Loans in American Dollars (USD) (Note 3)	-	-	20,003	18,976
		582,391		**642,815**

The chapter related to interest rate risk (Note 3) presents the bank loans liabilities and estimated interest expense until the loans maturity.

✈ Bond loan

By resolution of TAP SGPS General Meeting on 8 March 2016, previously authorised by ANAC, was approved the issuance by TAP SGPS of a convertible bond, into TAP SGPS shares in the amount of Euro 120 million. The aforementioned issue is composed by two series: the first (series A), in the amount of Euro 90 million, subscribed by Azul S.A. and the second series (series B), in the amount of Euro 30 million, subscribed by Parpública (Note 1). As of 31 December 2017 and 2016, to the principal amount of Euro 120 million, adds interest payable in the amount of Euro 15,845 thousand and Euro 6,003 thousand, respectively.

✈ Financial leases

The Group records the assets acquired under financial leases as tangible fixed assets. As at 31 December 2017 and 2016, the Group had commitments arising from financial leases liabilities as described in Note 4.

The financial leases liabilities, by maturity and type of interest rate, as at 31 December 2017 and 2016, are detailed as follows:

	2017	2016
Up to 1 year	106,526	131,057
1 to 2 years	34,101	52,364
2 to 3 years	11,748	31,450
3 a 4 years	127	10,887
4 to 5 years	125	122
Over 5 years	11	137
	152,638	**226,017**

	2017	2016
Variable rate		
Up to 1 year	102,907	34,343
1 to 2 years	30,339	27,213
2 to 3 years	7,823	6,019
Over 3 years	263	379
	141,332	**67,954**
Fixed rate		
Up to 1 year	3,619	96,714
1 to 2 years	3,762	25,151
2 to 3 years	3,925	25,431
Over 3 years	-	10,767
	11,306	**158,063**
	152,638	**226,017**

Financial leases, by functional currency, are detailed as follows:

	2017	2016
Financial leases in EUR	31,372	137,701
Financial leases in USD (Note 3)	121,266	88,316
	152,638	**226,017**

The chapter related to interest rate risk (Note 3) presents the financial leases liabilities and estimated interest expense until the leases maturity.

Some borrowings have real guarantees, namely financial leases, loan from BIC and Montepio and the bond loan (Note 4).

✈ Operating leases

As referred to in Note 2.25., these liabilities are not recorded in the Group's consolidated statement of financial position. Group’s operating leases contracts have different periods which may reach up to 12 years, which may be extended through the explicit consent of the contracting parties.

As at 31 December 2017, 57 aircrafts and 9 engines were under operating lease contracts and 8 aircrafts under ACMI contracts, as detailed on Note 4.

The present value of payment schedule under non-cancellable operating leases and ACMI agreements for the fleet in operation are detailed as follows:

	2017	2016
Up to 1 year	166,870	138,814
1 to 2 years	135,050	123,123
2 to 3 years	99,527	97,820
3 to 4 years	75,490	66,676
Over 4 years	95,810	128,137
	572,747	**554,570**

These contracts require security deposits which, as at 31 December 2017 and 2016, reached a total of Euro 50,238 thousand and Euro 29,750 thousand, respectively (Note 11). These deposits shall be returned to the Group when each of these aircraft is handed back to its lessor.

✈ ***Financial covenants***

The financial covenants in the lease and loan contracts are the usual ones in operations of this nature, including compulsory provisions such as the maintenance of the airline operator activity, commitments to periodically disclose the available financial information, and, in the specific case of financial leases, operating duties relative to registrations at official entities, information relative to leased aircraft, strict compliance with all the regulations, and procedures defined by the authorities, amongst others.

Additionally, in the context of the bank debt restructure referred above and the bond issuance, some commitments were assumed regarding the follow up of the Group's financial performance, through the analysis and accomplishment of certain ratios related to equity, EBITDAR, Net Debt / EBITDAR, unsecured financial net debt and minimum amount of unrestricted cash and cash equivalents. These ratios have as main objective to follow up the Group's financial situation and its capability to repay the debt.

20 – Post-employment benefits obligations

The Group has responsibility for post-employment benefits payments to employees who have retired, due to their age, taken early retirement or are still active.

✈ **Retirement pension supplements and early retirement instalments – "TAP S.A."**

Pursuant to the current rules at "TAP S.A.", employees who joined the company before 31 May 1993 are entitled to receive the difference between the state retirement pension paid by the Social Security System, due to the age limit or invalidity, plus a minimum amount assured by "TAP S.A." This amount corresponds to a fixed percentage of part of the pensionable salary (base remuneration + annuities) at the time of retirement, for each year of work at the company, up to a maximum of 20 years, as follows:

- Flight deck crew (pilots and flight technicians) - 3.2% per year of service;
- Ground staff and cabin crew - 4% per year of service.

In addition, "TAP S.A." has undertaken to pay early retirement pensions, whose value is fixed so that the respective net value receivable in situations of early retirement ranges from 75% to 100% of the net value that the employees received when active on the date of early retirement.

In October 2008, the Labour Agreement with the Civil Aviation Pilots Union (SPAC) was amended, with the following main changes:

- Pilots recruited before 31 May 2007: the pension plan includes the seniority bonus guaranteed by the State (of 15% or 10%, according to the starting date of the contributory career) and the possibility of an additional bonus (up to 25% or 30%) as an option for the beneficiary upon retirement (this additional bonus of up to 25% will be paid by "TAP S.A.");

- Pilots recruited as of 1 June 2007: the pension plan consists of a defined contribution scheme of 7.5% of the base remuneration effectively earned (14 times a year), of which 80% is paid by "TAP S.A." This plan is guaranteed by contracts of participation in open pension funds managed by Banco Português de Investimento ("BPI"). The participation contracts and their management are optional to SPAC, as established in the collective regulations.

"TAP S.A." has recorded all its liabilities related to past services for the payment of pension supplements and early retirement benefits relative to the defined benefit plan.

The quantification of the liabilities took into consideration that, under the terms of the collective regulations establishing the aforesaid pension plan, the total pension guaranteed by "TAP S.A.", i.e., the social security pension and pension supplement will never exceed the base monthly remuneration, net of personal income tax (IRS) and social security payments during employment. This premise is not applicable, since it is not established in the collective regulations relative to flight deck crew, for whom this limit does not apply and the pensionable salary is made up of the base salary set out in the pay scale, plus monthly earnings in the financial year and seniority bonuses.

In order to cover the liabilities related to the defined benefit plan, "TAP S.A." concluded a contract of participation in the VIVA open pension fund. As of 2011, the cost related to retirement pension supplements, constituted since 1998, is assumed by this participation. Annual expenditure on pensions is determined in accordance with the actuarial study, reviewed and adjusted annually according to the updating of salaries and the evolution of the participant group. Costs relative to retirement supplements constituted by December 1997, early retirement instalments and the portion of pilot retirement supplements, which exceeds the limit referred to in the preceding paragraph, are assumed directly by "TAP S.A." and covered by a specific provision.

✈ **Pensions - TAP M&E Brasil**

From 1 January 2002 onwards, the subsidiary TAP M&E Brasil became one of the sponsors of the AERUS Social Security Institute (AERUS), by means of the supplementary retirement pension plan assured to its employees, in the form of defined contributions, named Benefit Scheme II - VEM.

In 2008, the subsidiary requested the transfer of the manager of the benefits fund of its employees from the entity AERUS. This process was initially refused by the holding company of the AERUS fund, which claimed that TAP M&E Brasil had debts that were not recognised in the transfer of liabilities related to post-employment benefits, since it was jointly liable for the pension fund deficits of other sponsors. TAP M&E Brasil questioned the legal validity of this debt and the competent entities declared there was no reason for opposing the transfer mentioned above, such that, on 15 June 2012, the transfer was successfully carried out to the Benefit Scheme of the Petrobrás Social Security Foundation (PETROS), and renamed the TAPMEPreve Plan.

In spite of being a "defined contribution" benefit plan, this scheme also offers invalidity and death benefits under the concept of "defined benefits", in addition to guaranteeing special benefits to a group of employees from VARIG who were integrated in the staff of the subsidiary when the operations of this company were demerged.

Therefore, only the defined benefit component referred to above is recorded under the caption "Post-employment benefits obligations”.

✈ Pensions – Portugália

Portugália established a defined contribution scheme for flight deck crew on 1 January 2010. This scheme is managed by BPI, to which the subsidiary contributes 6% of the monthly wage effectively earned by the pilots, 14 times a year. Employees make social security payments of 1.5%, and can also make supplementary payments of 1% to 5%.

✈ Pensions – UCS

UCS is responsible, according to internal regulations, for granting, through a defined benefit scheme, retirement pension supplements for the part which exceeds those that are granted by Social Security. In order to cover this liability, the Company subscribed to the Horizonte Valorização Pension Fund. Annual expenditure on pensions, which includes contributions to the fund, is determined in accordance with the actuarial study, reviewed and adjusted annually according to the updating of salaries and the evolution of the participant group.

✈ **Seniority bonus - PNT - "TAP S.A."**

The Company Agreement concluded between "TAP S.A." and SPAC establishes that "TAP S.A." undertakes to pay to pilots recruited before 31 May 2007, in addition to a pension scheme, a one-off retirement bonus to every pilot upon retirement due to old age, which is funded by the capital accumulated in a collective insurance policy constituted by "TAP S.A." on behalf of the pilots. The main conditions of the collective retirement policy agreed with the insurance company, describing this Retirement Benefits Plan for Pilots, are as follows:

- Admission conditions: pilots who are still in active service;
- Normal retirement age: 65 years old;
- Guarantees: each participant is entitled, upon the retirement date, to an amount equal to 16 times the last declared monthly wage.

The Benefit Plan is funded through an insurance policy that is reinforced by contributions (premiums) paid by "TAP S.A." and by income obtained from investments made by the insurance company in an Autonomous Fund which supports this type of insurance.

In October 2008, the agreement between the Company and SPAC was amended, with the main changes being as follows:

- <u>Pilots recruited before 31 May 2007</u>: the one-off seniority bonus is maintained, but shall only be paid if, on the retirement date, the person is entitled to the full pension, with the possibility of increasing the capital for every additional year of service after the full pension age has been reached;

- <u>Pilots recruited as of 1 June 2007</u>: there is no entitlement to seniority bonus.

✈ **Health Care – "TAP S.A."**

"TAP S.A." ensures that both pre-retired and early-retired employees, below the age of 65, are provided with a health care plan providing access to medical care at reduced prices. In addition, "TAP S.A." provides its retired employees with access to UCS medical services, as a freely granted benefit, for which they pay a portion of the cost of each clinical service with the remainder being paid by "TAP S.A."

"TAP S.A." considers that although it provides its former employees with access to the health care services of UCS, this is not a liability but a freely granted benefit at any given time. Therefore the company assumes no accounting liability regarding the provision of health care services to current employees after they cease working for the company. As such, at the present time, the existing provision covers the total responsibility for medical treatment with former employees. The total responsibility was calculated based on an independent actuarial evaluation.

Assumptions used in the evaluation of liabilities

The liabilities of the different companies of the Group were calculated through actuarial studies reported as at 31 December 2017 and 2016, prepared by independent entities, individually for each company, using the projected unit credit method and essentially based on the following financial and demographic assumptions:

	2017		2016	
	Portugal	**Brazil**	**Portugal**	**Brazil**
Mortality table	TV 88/90	AT2000	TV 88/90	AT2000
Invalidity table	EKV1980	Mercer Disability	EKV1980	Mercer Disability
Discount rate	2.00%	10.60%	2.00%	11.59%
Fund yield rate	2.00%	10.60%	2.00%	11.59%
Growth rate				
Wages	1.50%	6.05%	1.50%	6.56%
Pensions	1.00%	5.00%	1.00%	5.50%
Trend of medical costs	1.50%	--	1.50%	--

The net liabilities evolution for past services, as at 31 December 2017 and 2016 is detailed as follows:

	2017	2016
Liabilities for past services at the beginning of the year	**67,688**	**54,268**
Net interest	258	1,278
Cost of current services	3,917	3,860
Pensions fund contributions	(7,808)	(5,174)
Remeasurements	2,992	16,054
Exchange rate changes in the plans measured in a different currency	(2,039)	1,085
Benefits paid	(3,586)	(3,683)
Liabilities for past services at the end of the year	**61,422**	**67,688**

Liabilities for 2017 and 2016 are detailed as follows:

2017	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority Bonus	England Representation	Brazil	UCS	Total
Liabilities from past services									
- Active employees	240	-	1,655	-	70,211	-	5,977	81	78,164
- Early retirement	60	-	345	19	-	-		-	424
- Retired	10,292	33,020	-	2,754	-	17,059	70,122	-	133,247
Fair value of the funds	(16,399)	-	-	-	(48,296)	(15,625)	(70,012)	(675)	(151,007)
Deficit / (surplus)	**(5,807)**	**33,020**	**2,000**	**2,773**	**21,915**	**1,434**	**6,087**	**(594)**	**60,828**

2016	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority Bonus	England Representation	Brazil	UCS	Total
Liabilities from past services									
- Active employees	359	-	2,313	-	67,777	-	9,545	122	80,116
- Early retirement	61	-	367	32	-	-	-	-	460
- Retired	9,959	35,424	-	2,908	-	16,133	68,680	-	133,104
Fair value of the funds	(16,280)	-	-	-	(49,145)	(14,806)	(65,639)	(653)	(146,523)
Deficit / (surplus)	**(5,901)**	**35,424**	**2,680**	**2,940**	**18,632**	**1,327**	**12,586**	**(531)**	**67,157**

The surplus financing of the Horizonte Valorização Pension Fund of the subsidiary UCS, in the amount of Euro 594 thousand, is recorded under the caption "Other receivables" (2016: Euro 531 thousand) (Note 11).

The liabilities between 2013 and 2015 are detailed as follows:

2015	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority Bonus	England Representation	Brazil	UCS	Total
Liabilities from past services									
- Active employees	324	-	1,841	-	58,921	-	-	9	61,095
- Early retirement	83	-	456	45	-	-	51,319	-	51,903
- Retired	9,951	37,197	-	2,957	-	15,859	-	-	65,964
Fair value of the funds	(16,792)	-	-	-	(44,527)	(15,641)	(47,725)	(646)	(125,331)
Deficit / (surplus)	**(6,434)**	**37,197**	**2,297**	**3,002**	**14,394**	**218**	**3,594**	**(637)**	**53,631**

2014	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority Bonus	England Representation	Brazil	UCS	Total
Liabilities from past services									
- Active employees	646	-	1,782	-	51,203	-	-	37	53,668
- Early retirement	129	-	476	87	-	-	9,065	-	9,757
- Retired	10,536	39,836	-	3,116	-	15,767	58,475	-	127,730
Fair value of the funds	(16,954)	-	-	-	(39,595)	(15,549)	(62,394)	(620)	(135,112)
Deficit / (surplus)	**(5,643)**	**39,836**	**2,258**	**3,203**	**11,608**	**218**	**5,146**	**(583)**	**56,043**

2013	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority Bonus	England Representation	Brazil	UCS	Total
Liabilities from past services									
- Active employees	1,739	-	1,062	-	39,334	-	-	5	42,140
- Early retirement	258	-	2,306	166	-	-	8,557	-	11,287
- Retired	9,765	38,569	-	2,948	-	16,180	51,903	-	119,365
Fair value of the funds	(16,443)	-	-	-	(35,218)	(14,948)	(58,585)	(587)	(125,781)
Deficit / (surplus)	**(4,681)**	**38,569**	**3,368**	**3,114**	**4,116**	**1,232**	**1,875**	**(582)**	**47,011**

According to the actuarial study carried out by an independent entity, the best estimate of contributions to the pension benefit plans, for the following financial year, is 5,501 thousand euros for the subsidiary “TAP S.A.” and Euro 2,750 thousand for the subsidiary TAP M&E Brasil.

As at 31 December 2017 and 2016, the defined benefit plans of the Group in Portugal (excluding the Representation in England and Brazil) covered 2,063 and 2,232 active beneficiaries, respectively. The total number of retired former employees entitled to a supplementary retirement pension, as at 31 December 2017 and 2016, was 650 and 688 beneficiaries, respectively.

As at 31 December 2017 and 2016, the average maturity of the liabilities related to the defined benefit plan for the VIVA open pension fund and seniority bonus scheme is 12 years.

Sensitivity analysis

✈ Annual discount rate

An increase (decrease) of 0.25% in the annual discount rate of the defined benefit plans of the VIVA open pension fund, Seniority Bonus scheme and Horizonte Valorização Pension Fund, and an increase (decrease) of 1% in the annual discount rate of the TAPMEPrev - Brazil defined benefit plan, would correspond to the following impacts on the Group's liabilities as at 31 December 2017:

	Rate	VIVA Pensions *	Seniority Bonus	Horizonte Valorização Pension Fund
Annual discount rate of pensions	2.00%	45,613	70,211	81
0.25% increase in the discount rate	2.25%	44,664	67,693	78
0.25% decrease in the discount rate	1.75%	46,599	72,849	83

* Includes "Pensions VIVA", "Before 1997" and "Assets"

	Rate	Brazil
Annual discount rate of pensions	10.60%	76,099
1% increase in the discount rate	11.60%	69,334
1% decrease in the discount rate	9.60%	84,197

✈ Rate of growth of medical costs

If the growth rate of medical care costs increases or decreases by one percentage point, the respective impact on the Group's liabilities as at 31 December 2017 and 2016 is as follows:

	Rate	2017	2016
Annual growth rate of medical costs	1.50%	2,773	2,940
1% increase in the growth rate of medical costs	2.50%	3,001	3,192
1% decrease in the growth rate of medical costs	0.50%	2,571	2,718

Evolution of liabilities from past services

The movement of the liabilities from past services, reflected in the consolidated statement of financial position, as at 31 December 2017 and 2016, is as follows:

2017	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority Bonus	England Representation	Brazil	UCS	Total
Liabilities at the beginning of the year	10,379	35,424	2,680	2,940	67,777	16,133	78,225	122	213,680
Exchange rate variation	-	-	-	-	-	(602)	(10,151)	-	(10,753)
Values recorded through profit or loss for the year:									
Current services	31	-	-	-	3,740	-	146	31	3,948
Net interest	208	708	54	59	1,364	934	8,183	3	11,513
Remeasurements	722	475	(734)	(226)	3,092	1,779	7,118	(75)	12,151
Benefits paid	(748)	(3,586)	-	-	(5,762)	(1,185)	(7,422)	-	(18,703)
Responsibilities at the end of the year	**10,592**	**33,021**	**2,000**	**2,773**	**70,211**	**17,059**	**76,099**	**81**	**211,836**

2016	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority Bonus	England Representation	Brazil	UCS	Total
Liabilities at the beginning of the year	10,358	37,197	2,297	3,002	58,921	15,859	51,319	9	178,962
Exchange rate variation	-	-	-	-	-	(1,779)	14,415	-	12,636
Values recorded through profit or loss for the year:									
Current services	31	-	-	-	3,734	-	95	14	3,874
Net interest	258	744	243	75	1,250	866	6,853	1	10,290
Remeasurements	522	1,166	140	(137)	4,329	1,757	10,157	98	18,032
Benefits paid	(790)	(3,683)	-	-	(457)	(570)	(4,614)	-	(10,114)
Responsibilities at the end of the year	**10,379**	**35,424**	**2,680**	**2,940**	**67,777**	**16,133**	**78,225**	**122**	**213,680**

Evolution of funds allocated to pensions benefit schemes

In 2017 and 2016 the fund assets evolution was as follows:

2017	VIVA Pensions	Seniority Bonus	England Representation	Brazil	UCS	Total
Opening balance	16,280	49,145	14,806	65,639	653	146,523
Exchange rate variation	-	-	(517)	(8,197)	-	(8,714)
Contributions in the year	-	4,200	223	3,385	-	7,808
Net interest	867	983	2,297	7,105	22	11,274
Remeasurements	-	(269)	-	9,502	-	9,233
Benefits paid	(748)	(5,763)	(1,184)	(7,422)	-	(15,117)
Closing balance	**16,399**	**48,296**	**15,625**	**70,012**	**675**	**151,007**

2016	VIVA Pensions	Seniority Bonus	England Representation	Brazil	UCS	Total
Opening balance	16,792	44,527	15,641	47,725	646	125,331
Exchange rate variation	-	-	(1,496)	13,047	-	11,551
Contributions in the year	-	4,200	-	974	-	5,174
Net interest	278	1,113	1,112	6,508	7	9,018
Remeasurements	-	(238)	119	1,999	-	1,880
Benefits paid	(790)	(457)	(570)	(4,614)	-	(6,431)
Closing balance	**16,280**	**49,145**	**14,806**	**65,639**	**653**	**146,523**

The composition of the funds and its category as at 31 December 2017 and 2016 is as follows:

2017	Fair Value Level	VIVA Pensions	Seniority Bonus	England Representation	Brazil	UCS	Total
Shares	1	5,515	-	9,896	20,475	169	36,055
Bonds	1	5,854	47,910	4,241	49,537	472	108,014
Public debt	1	4,018	-	-	-	-	4,018
Real estate	2	483	309	-	-	34	826
Liquidity	1	529	77	-	-	-	606
Other current investments	1	-	-	1,488	-	-	1,488
		16,399	**48,296**	**15,625**	**70,012**	**675**	**151,007**

2016	Fair Value Level	VIVA Pensions	Seniority Bonus	England Representation	Brazil	UCS	Total
Shares	1	4,995	-	9,377	8,533	163	23,068
Bonds	1	4,964	47,897	4,019	57,106	457	114,443
Public debt	1	4,859	-	-	-	-	4,859
Real estate	2	547	383	-	-	33	963
Liquidity	1	915	865	-	-	-	1,780
Other current investments	1	-	-	1,410	-	-	1,410
		16,280	**49,145**	**14,806**	**65,639**	**653**	**146,523**

Expenses related to pensions and other post-employment benefits

The expenses relative to pensions and other post-employment benefits are detailed as follows:

2017	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority Bonus	England Representation	Brazil	UCS	Total
Current Services	31	-	-	-	3,740	-	146	31	3,948
Net interest	(659)	708	54	59	381	(1,363)	1,078	(19)	239
	(628)	**708**	**54**	**59**	**4,121**	**(1,363)**	**1,224**	**12**	**4,187**

2016	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority Bonus	England Representation	Brazil	UCS	Total
Current Services	31	-	-	-	3,734	-	95	14	3,874
Net interest	(18)	744	243	75	138	(246)	342	(6)	1,272
	13	**744**	**243**	**75**	**3,872**	**(246)**	**437**	**8**	**5,146**

As previously mentioned, the pilots of TAP S.A., admitted after 1 June 2007, and the pilots of Portugália, benefit from a defined contribution plan. During 2017, a cost was recognised in the heading “Employee costs - expenses related to post-employment benefits obligation" in the amount of Euro 2,146 thousand (2016: Euro 1,723 thousand), relative to the contributions made during the year in favour of its employees.

The expenses relative to pensions and other post-employment benefits for 2017 and 2016 are recorded under the caption "Employee costs" (Note 29).

Remeasurement gains/losses

The remeasurement gains/losses related to post-employment benefit plans are detailed as follows:

2017	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Remeasurements									
Return of assets, excluding amounts included in net income	-	-	-	-	269	-	(9,502)	-	(9,233)
	-	**-**	**-**	**-**	**269**	**-**	**(9,502)**	**-**	**(9,233)**
(Gains)/losses due to changes in demographic assumptions	-	-	-	-	-	-	69	-	69
(Gains)/losses due to changes in financial assumptions	-	-	-	-	-	-	4,963	-	4,963
(Gains)/losses due to experience	722	475	(734)	(226)	3,092	1,779	2,086	(75)	7,119
	722	**475**	**(734)**	**(226)**	**3,092**	**1,779**	**7,118**	**(75)**	**12,151**
Total remeasurements	**722**	**475**	**(734)**	**(226)**	**3,361**	**1,779**	**(2,384)**	**(75)**	**2,918**

2016	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Remeasurements									
Return of assets, excluding amounts included in net income	-	-	-	-	238	(119)	(1,999)	-	(1,880)
	-	**-**	**-**	**-**	**238**	**(119)**	**(1,999)**	**-**	**(1,880)**
(Gains)/losses due to changes in demographic assumptions	-	-	-	-	-	-	59	-	59
(Gains)/losses due to changes in financial assumptions	478	1,403	160	168	5,135	-	9,375	-	16,719
(Gains)/losses due to experience	44	(237)	(20)	(305)	(806)	1,757	723	98	1,254
	522	**1,166**	**140**	**(137)**	**4,329**	**1,757**	**10,157**	**98**	**18,032**
Total remeasurements	**522**	**1,166**	**140**	**(137)**	**4,567**	**1,638**	**8,158**	**98**	**16,152**

The remeasurement gains/losses were recognised directly in the Group's comprehensive income. The difference to the amount recognised in the consolidated statement of comprehensive income relates to the remeasurements of the associated company SPdH, consolidated by the equity method (Note 8), in the amount of Euro 33 thousand (2016: Euro 43 thousand).

21 – Other payables

As at 31 December 2017 and 2016, the caption "Other payables" is detailed as follows:

	2017		2016	
	Current	**Non-current**	**Current**	**Non-current**
Accrued expenses	219,814	112,354	204,333	104,843
Suppliers	177,596	-	151,683	-
Deferred revenue	83,704	-	68,040	-
State	36,122	197	35,452	-
Advances from customers	1,043	-	1,403	-
Other payables	130,253	262	110,537	636
	648,532	**112,813**	**571,448**	**105,479**

✈ Accrued expenses

As at 31 December 2017 and 2016, the caption "Accrued expenses" is detailed as follows:

	Current	Non-current	Current	Non-current
Remunerations	92,613	-	84,094	-
Maintenance reserves	17,016	112,354	22,569	104,843
Navigation charges	15,731	-	11,313	-
Aircraft fuel	15,054	-	10,360	-
Special sales charges	14,305	-	12,348	-
Remuneration - air crew	16,512	-	15,256	-
Booking fees	5,230	-	3,461	-
Maintenance and repair of materials	4,871	-	2,868	-
Handling services	3,861	-	4,849	-
Specialised work	2,755	-	2,867	-
Insurance payable	1,961	-	1,321	-
Landing charges	1,475	-	1,361	-
Passenger boarding taxes	1,315	-	-	-
Other	27,115	-	31,666	-
	219,814	**112,354**	**204,333**	**104,843**

The variation verified is mainly related to the increase of the expenses with external supplies and services, directly associated with the increase of the Group's activity.

The increase recorded in remunerations, essentially refers to amounts to be paid of bonuses and indemnities.

The special sales charges refer to commissions granted to agents according with the flight revenue of the year obtained through this sale channel.

✈ Suppliers

As at 31 December 2017 and 2016, the carrying amount of the heading "Suppliers" is detailed as follows:

	2017	2016
Suppliers - current account	108,475	118,169
Suppliers - related parties (Note 37)	8,498	1,916
Suppliers - pending invoices	60,623	31,598
	177,596	**151,683**

✈ Deferred revenue

The caption "Deferred revenue", as at 31 December 2017 and 2016, is detailed as follows:

	2017	2016
Customer Loyalty Programm	50,399	42,972
Work for aviation companies	28,063	22,227
Related parties (Note 37)	103	99
Other	5,139	2,742
	83,704	**68,040**

Under the application of IFRIC 13 - Customer loyalty programme, the attribution of miles to customers who are members of the "TAP Victoria" customer loyalty programme is deferred based on the unit value of the mile, as perceived by the customer (Note 2.27.).

The amount of Euro 28,063 thousand (2016: Euro 22,227 thousand), recorded under the caption "Work for aviation companies", refers to advanced billing of maintenance work for third parties that was in progress as at 31 December 2017.

✈ State

As at 31 December 2017 and 2016, the caption "State" is detailed as follows:

	2017	2016
Social security	17,172	16,726
Income Tax	14,861	16,031
State - Brazil	2,891	1,381
VAT	920	987
Other	278	327
	36,122	**35,452**

✈ Other payables - current

As at 31 December 2017 and 2016, the caption "Other payables - current" was detailed as follows:

	2017	2016
Rates and taxes	90,619	72,461
Fixed assets suppliers	14,741	6,047
Employees	1,832	5,675
Related parties (Note 37)	1,485	7,500
Work accident indemnities	995	877
Trade unions	287	283
Other	20,294	17,694
	130,253	**110,537**

The caption of rates and taxes refers, essentially, to amounts payable to several entities, related to rates charged to customers on the issued tickets. The variation observed is related to the variation of the caption liabilities from unused flight documents due to the increase in the number of tickets issued in the second half of the year when compared to the same period of the previous year.

✈ Other payables – non - current

As at 31 December 2016, this caption refers to the fair value of the derivative financial instruments, namely interest rate swaps, in the amount of Euro 636 thousand. This amount was settled in advance in the exercise of 2017 and at reporting date there are no amounts to pay of this nature.

22 - Liabilities from unused flight documents

As at 31 December 2017 and 2016, the Group's liabilities relative to unused flight documents were as follows:

	2017	2016
Passengers	411,131	317,317
Cargo	600	550
	411,731	**317,867**

The variation verified in this caption is related to the joint effect of the increase of the timing of anticipation of purchase date when compared to the flight date and the increase in the number of tickets sold.

During 2017 and 2016, based on the partial and periodic analyses of this heading (Note 2.27.), adjustments were made to the revenue from passenger and cargo transport in the amount of Euro 65,073 thousand (2.4% of revenue from flown tickets) and Euro 72,181 thousand (3.4% of revenue from flown tickets), respectively, which were recognised under the caption "Sales and services rendered".

23 - Sales and services rendered

As at 31 December 2017 and 2016, the sales and services rendered, by external and internal market, are presented as follows:

	2017	2016
Sales		
Internal market		
Air transport and maintenance	331	419
Catering	6,457	6,193
Health care	39	155
Other	1,528	1,373
External market		
Air transport and maintenance	31,680	29,056
	40,035	**37,196**
Services rendered		
Internal market		
Air transport and maintenance	183,407	163,910
Catering	1,908	2,492
Health care	3,324	3,342
Information technologies	929	1,744
Other	2,797	4,677
External market		
Air transport and maintenance	2,702,494	2,076,277
	2,894,859	**2,252,442**
	2,934,894	**2,289,638**

The breakdown of sales and services rendered by geographic market is as follows:

2017	Air Transport	Maintenance		Catering	Holdings and other	Consolidated
		Portugal	Brazil			
Sales and services rendered:						
Mainland Portugal and islands	166,337	17,401	-	8,365	8,617	200,720
Europe	992,767	97,184	-	-	-	1,089,951
South Atlantic	888,502	9,685	76,094	-	-	974,281
North Atlantic	292,312	12,887	-	-	-	305,199
Mid Atlantic	28,074	-	-	-	-	28,074
Africa	329,611	1,802	-	-	-	331,413
Other	13	5,243	-	-	-	5,256
	2,697,616	**144,202**	**76,094**	**8,365**	**8,617**	**2,934,894**

2016	Air Transport	Maintenance		Catering	Holdings and other	Consolidated
		Portugal	Brazil			
Sales and services rendered:						
Mainland Portugal and islands	150,712	13,617	-	8,685	11,291	184,305
Europe	880,860	38,567	-	-	-	919,427
South Atlantic	586,150	8,288	81,248	-	-	675,686
North Atlantic	176,512	9,805	-	-	-	186,317
Mid Atlantic	31,309	-	-	-	-	31,309
Africa	284,854	569	-	-	-	285,423
Other	-	7,171	-	-	-	7,171
	2,110,397	**78,017**	**81,248**	**8,685**	**11,291**	**2,289,638**

Sales and services rendered by geographic market are defined based on the destination country of the goods and services rendered by the Group, which, in the case of air transport, is considered the destination country of the flight.

24 - Gains and losses in associates

For the years ended as at 31 December 2017 and 2016, the caption of gains and losses in associates are detailed as follows:

	2017	2016
Gains		
SPdH	3,250	1,743
	3,250	**1,743**

The amount recorded in this caption at 31 December of 2017 and 2016, amounting to Euro 3,250 thousand and Euro 1,743 thousand, respectively, refers to the appropriation of the Group's share in the net income of the company SPdH (Notes 8 e 18).

25 - Other operating income

During 2017 and 2016, this caption is detailed as follows:

	2017	2016
Supplementary income	18,237	24,630
Gains from tangible fixed assets	18,395	16,851
Operating government grants	2,234	1,106
Gains from inventories	268	232
Cash discounts received	149	107
Currency exchange differences	-	3,836
Other	174	135
	39,457	**46,897**

The caption "Supplementary income" presents the following composition as at 31 December 2017 and 2016:

	2017	2016
Recovered warehouse material	4,582	5,536
Rents and sub-leases	2,767	2,784
Advertising	2,105	2,610
Sales on board comission	1,876	3,003
Other	6,907	10,697
	18,237	**24,630**

The gains recorded under the caption "Gains from tangible fixed assets" is mainly due to the gain resultant from the disposal of five A330 aircrafts in a sale and leaseback operation during the first half of 2017, amounting to Euro 17,856 thousand (Note 4), compared to the capital gain in 2016 from the sale of three A330 aircrafts in the amount of Euro 16,261 thousand.

26 – Cost of goods sold and materials consumed

The cost of goods sold and materials consumed in 2017 and 2016 was as follows:

	2017		2016	
	Goods	Raw, subsidiaries and consumable materials	Goods	Raw, subsidiaries and consumable materials
Inventories - opening balance (Note 12)	64	127,001	16,719	108,125
Purchase goods	4,809	196,074	5,603	156,592
Transfer to non-current assets held for sale (Note 15)	-	-	(17,194)	(14)
Adjustment of inventories	-	(4,500)	-	3,629
Inventories - closing balance (Note 12)	(68)	(135,087)	(64)	(127,001)
	4,805	**183,488**	**5,064**	**141,331**
		188,293		**146,395**

The variation of 29% occurred in 2017, is mainly due to the increase in materials consumed in the maintenance and engineering activity.

In 2017 and 2016, the caption “Adjustment of inventories” refers, essentially, to the currency translation differences, verified in the Brazilian subsidiary, denominated in Reals, and to the capitalization of own fleet maintenance.

27 - Variation in production

The variation in production in 2017 and 2016 was as follows:

	2017	2016
Inventories - opening balance (Note 12)	(7,870)	(5,545)
Adjustment of inventories	(42)	(5)
Inventories - closing balance (Note 12)	10,002	7,870
	2,090	**2,320**

28 – External supplies and services

External supplies and services is detailed as follows:

	2017	2016
Aircraft fuel	580,218	433,819
Operating leases of aircraft and spare parts	178,918	118,862
Handling services	176,767	153,292
Maintenance and repair of flight equipment	163,832	115,165
Navigation charges	153,780	141,847
Specialised work	139,303	108,323
Landing charges	89,038	76,362
In-flight expenses	57,384	46,523
Commissions	47,024	34,475
Special sales charges - air transport	38,056	28,023
Accommodation and meals during stopovers	26,382	23,537
Subcontracts	20,098	16,343
Maintenance and repair of other assets	16,969	14,876
Rents	17,213	16,702
Insurance	7,014	5,828
Fees	4,985	6,196
Surveillance and security	3,923	3,023
Other costs related to external supplies and services	225,384	167,916
	1,946,288	**1,511,112**

The caption "Other costs related to external supplies and services" presents the following detail:

	2017	2016
Chartering of aircraft	44,944	21,198
Other costs related to passengers	35,998	24,989
Facilities at airports	29,103	22,243
Air traffic control charges	26,389	22,635
Advertising and publicity	23,108	21,009
Baggage, cargo and mail charges	17,952	13,768
Ground costs related to executive class passengers	11,097	8,850
Communication	8,597	6,970
Transport of goods	6,410	4,821
Electricity	4,133	4,455
Travel costs	3,752	3,287
Cleaning, hygiene and comfort	3,627	3,610
Travel costs	1,992	1,831
Other	8,282	8,250
	225,384	**167,916**

The increase in fuel expenses is mainly due to the increase of quantities and average price of jet fuel.

Operating lease expenses for flight equipment in 2017 increased 60,056 thousand Euros compared to 2016, due to the increase of aircrafts in this type of lease.

The increase in air transport activity cause the increase of many operating expenses as commercial costs, commissions, booking fees and advertising, as well as expenses with handling, catering, irregularities, food, accommodation at the scales, among others.

29 - Employee costs

Employee costs are detailed as follows:

	2017	2016
Employee remuneration	461,164	438,935
Social Security Contributions	93,864	88,208
Other personnel costs	63,196	51,819
Expenses related to post-employee benefits obligation (Note 20)	6,333	6,869
	624,557	**585,831**

The increase in employee costs is mainly due to the headcount variation, average salary increase and significant increase in variable remuneration, as a result of the strong growth of the operation.

The remunerations attributed to the Statutory Bodies, in 2017 and 2016, were:

	2017	2016
Board of directors (Note 37)	3,372	2,315
Supervisory board/ statutory auditor	92	93
	3,464	**2,408**

The caption "Other personnel costs" is detailed as follows:

	2017	2016
Insurance	21,839	19,178
Social action costs	10,609	10,329
Indemnities	16,159	7,811
Meals allow ance	6,101	5,032
Training	2,862	4,656
Other	5,626	4,813
	63,196	**51,819**

During 2017 and 2016, the average number of employees working for TAP SGPS and all its subsidiaries was 10,881 and 11,019, respectively:

2017	Air Transport	Maintenance	*Catering*	Other	Total
Portugal	5,285	1,840	455	767	8,347
Brazil	102	2,090	-	-	2,192
Other	333	9	-	-	342
	5,720	3,939	455	767	10,881

2016	Air Transport	Maintenance	*Catering*	Other	Total
Portugal	5,027	1,906	487	1,234	8,654
Brazil	129	1,870	-	-	1,999
Other	362	4	-	-	366
	5,518	3,780	487	1,234	11,019

30 – Impairment in inventory and receivables

As at 31 December 2017 and 2016, this caption is detailed as follows:

	2017		2016	
	Impairment	Reversal of impairment	Impairment	Reversal of impairment
Raw materials, inputs and consumables (Note 12)	2,517	(980)	2,643	(831)
Costumers and other receivables- Current (Note 11)	3,511	(2,257)	4,558	(2,429)
	6,028	**(3,237)**	**7,201**	**(3,260)**
		2,791		**3,941**

31 - Fair value increases/decreases

During the year ended on 31 December 2017, a loss of Euro 122 thousand was recognised (2016: a gain of Euro 32 thousand) related with changes in fair value of investment properties (Note 5).

32 - Other operating expenses

For the years ended as at 31 December 2017 and 2016, the caption other operating expenses is detailed as follows:

	2017	2016
Taxes	9,473	9,280
Other costs and losses from financial services	6,705	6,079
Indemnities from legal claims	3,200	4,151
Fraudulent use of credit cards	3,090	1,694
Losses from tangible fixed assets	1,876	1,591
Inventory losses	1,176	820
Own work capitalized	(1,052)	(559)
Fines and penalties	405	191
Other	1,398	1,306
	26,271	**24,553**

33 – Depreciation, amortisation and impairment losses

For the years ended as at 31 December 2017 and 2016, this caption is detailed as follows:

	2017	2016
Tangible fixed assets (Note 4)		
Buildings and other constructions	5,744	5,689
Basic equipment	46,302	46,513
Transport equipment	320	296
Tools and utensils	1,530	887
Administrative equipment	1,400	1,079
Other tangible fixed assets	425	210
	55,721	54,674
Intangible assets (Note 7)		
Intangible assets	426	228
Impairment losses on fixed assets (note 4)		
Basic equipment	9,910	2,294
	66,057	**57,196**

In 2017 an impairment loss was recognized in the subsidiary Portugália relating to its aircraft, amounting to 9,910 thousand Euros (2016: 2,294 thousand Euros), according to the assessments obtained at this date. The fleet is not in operation, given the renewal occurred in 2016 and 2017.

34 – Finance income and expenses

For the years ended as at 31 December 2017 and 2016, this captions are detailed as follows:

	2017	2016
Income and gains		
Interest income from investments	6,654	2,877
	6,654	**2,877**
Expenses and losses		
Interest expenses on loans	39,462	39,640
Currency exchange differences	29,748	2,734
Other financial expenses and losses	5,844	1,816
	75,054	**44,190**

The amount of interest expenses on loans is net of capitalised interest on tangible fixed assets in the amount of Euro 2,514 thousand of December 31, 2017 (Euro 6,890 thousand as of 31 December 2016).

The unfavourable currency exchange differences in 2017 resulted essentially from the significant devaluation of the real and kwanza, partially attenuated by the effect of the devaluation of the USD.

35 - Income tax for the year

The Group's companies with head office in Portugal are subject to Corporate Income Tax (IRC) based on their individual net income, at the rate of 21% plus a surcharge at the maximum rate of 1.5% on taxable profit, thus reaching an aggregate rate of 22.5%. This rate is increased by 3% on the portion of taxable profit of each company which is greater than Euro 1.5 million and less than Euro 7.5 million, by 5% on the portion of taxable profit of each company which is greater than Euro 7.5 million and less than Euro 35 million, and by 7% on the portion of taxable profit of each company which is greater than Euro 35 million, giving rise to an aggregate maximum tax rate of 29.5%.

In the calculation of the taxable profits, to which the tax rates referred to above are applied, the amounts not accepted for tax purposes are added and subtracted to the accounting results. These differences between the results for accounting and tax purposes may have a temporary or permanent nature.

Under the terms of article 88 of the Corporate Income Tax Code, the Group's companies based in Portugal are subject to autonomous taxation on some expenses, at the tax rates listed therein.

In accordance with the legislation in force, the tax returns of companies, placed in Portugal, included in the consolidation, are subject to review and correction by the tax authorities for a period of four years (five years for Social Security), except when tax losses have occurred, tax benefits have been granted, or inspections, claims or challenges are in course, in which cases, depending on the circumstances, the periods are extended or suspended. The Board of Directors of the Group understands that any corrections resulting from revisions/inspections by the tax authorities to those tax returns will not have a significant effect on the consolidated financial statements as of December 31, 2017 and 2016.

For the year ended as at 31 December 2017 and 2016, the caption "Income tax for the year" is detailed as follows:

	2017	2016
Current income tax	15,444	1,081
Insufficient/(surplus) estimate of taxes	(1,487)	(595)
Deferred income tax (Note 10)	12,910	3,202
	26,867	**3,688**

The reconciliation of the effective tax rate for 2017 and 2016 is detailed as follows:

	2017	2016
Net income/(loss) before income tax	**38,439**	**(28,269)**
Nominal tax rate	29.5%	21%
	11,340	**(5,936)**
Permanent differences	10,513	7,346
Insufficient/(surplus) estimate of taxes for the previous year	(1,487)	(595)
Use of tax losses carried forward of previous years without DTA	(13)	(9)
Tax losses carried forward for the year without DTA	6,107	2,590
Autonomous taxation and other forms of taxation	407	292
Income tax	**26,867**	**3,688**
Effective tax rate	70%	(13%)

36 - Segment reporting

The following business segments have been identified: air transport, maintenance, catering and other. The net income/(loss) of each segment correspond to those directly allocated to them, as well as to those that can be reasonable attributed to those segments.

The financial information by operational segment for 2017 is analysed as follows:

	Air Transport	Maintenance		*Catering*	Holdings and other	Intersegment eliminations	Consolidated
		Portugal	Brazil				
REVENUE							
Revenue	2,697,616	144,796	84,264	49,326	59,516	(100,624)	2,934,894
Net operating income/(loss)	156,546	17,471	(28,772)	2,245	(40,651)	-	106,839
External net financial results	(37,279)	1,410	(21,538)	(17)	(10,976)	-	(68,400)
Net gains in associates	-	-	-	-	3,250	-	3,250
Income tax	(27,103)	(4,417)	-	(539)	5,192	-	(26,867)
Non-controlling interests	-	-	(682)	884	1,852	-	2,054
Net income from continuing operations	**92,164**	**14,464**	**(50,310)**	**1,689**	**(46,435)**	**-**	**11,572**

The financial information by operational segment for 2016 is analysed as follows:

	Air Transport	Maintenance		*Catering*	Holdings and other	Intersegment eliminations	Consolidated
		Portugal	Brazil				
REVENUE							
Revenue	2,110,464	79,132	84,091	48,818	54,246	(87,113)	2,289,638
Net operating income/(loss)	34,973	8,699	(16,747)	2,065	(15,946)	-	13,044
External net financial results	(4,781)	-	(18,009)	(19)	(18,504)	-	(41,313)
Net gains in associates	-	-	-	-	1,743	-	1,743
Income tax	(2,701)	(889)	-	(497)	399	-	(3,688)
Non-controlling interests	-	-	(473)	808	4,383	-	4,718
Net income from continuing operations	**27,491**	**7,810**	**(34,756)**	**1,549**	**(34,051)**	**-**	**(31,957)**

37 - Related parties

Balances and transactions between Group companies which are included in the consolidation perimeter are eliminated in the consolidation process, and, therefore, are not disclosed in the present Note. The balances and transactions between the Group and the related parties are presented below. The terms and conditions enforced between the Group and the related parties are similar in substance to the terms which would normally be contracted between independent entities in comparable operations.

The members of the Group's Board of Directors were considered, according to IAS 24, as the only "key" management members of the Group.

During the financial years ended on 31 December 2017 and 2016, the remunerations earned by the Board of Directors reached Euro 3,372 thousand (2016: Euro 2,315 thousand), as described in Note 29.

As at 31 December 2017 and 2016, the balances with related parties are detailed as follows:

	2017 - Assets			
	Other receivables non-current (Note 11)	Trade Receivables (Note 11)	Other receivables non-current (Note 11)	Deferrals (Note 11)
Associates				
SPdH - Serviços Portugueses de Handling, S.A.	-	327	617	-
Other related entities				
Azul S.A.	3,298	458	207	598
	3,298	**785**	**824**	**598**

	2017 - Liabilities			
	Borrowings non-current (Note 19)	Suppliers (Note 21)	Other payables current (Note 21)	Deferrals (Note 21)
Shareholders				
Atlantic Gateway, SGPS, Lda.	-	(153)	-	-
Parpública - Participações Públicas, SGPS, S.A.	(33,677)	-	-	-
Associates				
SPdH - Serviços Portugueses de Handling, S.A.	-	(8,310)	(634)	(103)
Other related entities				
Azul S.A.	(102,167)	(35)	(851)	-
	(135,844)	**(8,498)**	**(1,485)**	**(103)**

	2016 - Assets			
	Other receivables non-current (Note 11)	Trade Receivables (Note 11)	Other receivables non-current (Note 11)	Deferrals (Note 11)
Associates				
SPdH - Serviços Portugueses de Handling, S.A.	4,700	729	688	-
Other related entities				
Azul S.A.	4,744	1,436	575	731
	9,444	**2,165**	**1,263**	**731**

	2016 - Liabilities			
	Borrowings non-current (Note 19)	Suppliers (Note 21)	Other payables current (Note 21)	Deferrals (Note 21)
Shareholders				
Atlantic Gateway, SGPS, Lda.	-	(76)	-	-
Parpública - Participações Públicas, SGPS, S.A.	(31,249)	-	-	-
Associates				
SPdH - Serviços Portugueses de Handling, S.A.	-	(795)	(6,665)	(99)
Other related entities				
Azul S.A.	(94,754)	(1,045)	(835)	-
	(126,003)	**(1,916)**	**(7,500)**	**(99)**

For the years ended as at 31 December 2017 and 2016, the transactions with related parties are as follows:

2017	External supplies and services	Other operational costs	Sales and services rendered	Other operational income	Financial results
Shareholder					
Atlantic Gateway, SGPS, Lda.	(961)	-	723	-	-
Parpública - Participações Públicas, SGPS, S.A.	-	-	-	-	(2,429)
Associates					
SPdH - Serviços Portugueses de Handling, S.A.	(91,862)	(29)	6,495	1,215	-
Other related entities					
Azul S.A.	(32,843)	(639)	22,077	6	(7,413)
	(125,666)	**(668)**	**29,295**	**1,221**	**(9,842)**

2016	External supplies and services	Other operational costs	Sales and services rendered	Other operational income	Financial results
Shareholder					
Atlantic Gateway, SGPS, Lda.	(663)	-	-	-	-
Parpública - Participações Públicas, SGPS, S.A.	-	-	-	-	(1,249)
Associates					
SPdH - Serviços Portugueses de Handling, S.A.	(79,738)	(32)	6,599	1,231	-
Other related entities					
Azul S.A.	(18,118)	(4,038)	587	-	(4,754)
	(98,519)	**(4,070)**	**7,186**	**1,231**	**(6,003)**

The transactions, amounting to the total of Euro 91,862 thousand (2016: Euro 79,738 thousand) recorded under external supplies and services, refer to ground handling services provided by SPdH to support aircraft, passengers, baggage, cargo and mail.

38 - Contingencies

Contingent assets

As at 31 December 2017 and 2016, the Group have no contingent assets.

Contingent liabilities

The Brazilian subsidiary TAP M&E Brasil is involved in tax, civil and labour claims, involving risks of loss classified by the Board of Directors as possible, based on the appraisal of its legal consultants, for which no provision has been recognised, as follows:

✈ Labour claims

(i) <u>Dangerousness/ Insalubrity and Other</u>
<u>Amount: Euro 65,608 thousand</u>

The main labour claim refers to the request for additional payment due to insalubrity and hazard, for all employees working as aircraft maintenance auxiliaries at Porto Alegre. Following analysis of the expert's report, it was concluded that the activities exercised are not characterised as hazardous or insalubrious. The Union has filed an appeal which is currently at the Superior Labour Court ("TST") of Brasília pending judgement. In May 2017, the TST pronounced, in relation to some employees, in favor of the subsidiary.

Other actions relate to individual cases concerning claims of different kinds, such as overtime, moral damages, among others.

Based on information provided by its lawyers, TAP M&E Brasil understands that from these legal actions will not result material impacts on its financial statements as at 31 December 2017.

✈ Tax claims

(ii) <u>Notice of infraction of import tax ("II"), tax on industrialised products ("IPI"), PIS and COFINS</u>
<u>Amount: Euro 23,193 thousand</u>

The subsidiary was notified by the Federal Reserve Office, on 26 April 2010, which considered that the exemption of II and IPI and 0% rate of PIS and COFINS are not applicable to the import operations of the subsidiary. The process is pending judgment by Tax Appeals Administration Board ("CARF").

Based on information provided by its lawyers, TAP M&E Brasil understands that from this legal action will not result material impacts on its financial statements as at 31 December 2017.

(iii) <u>Tax foreclosure relative to accessory obligations of tax on circulation of goods and services ("ICMS")</u>
<u>Amount: Euro 8,838 thousand</u>

In December 2007, the subsidiary was notified, in the context of tax foreclosure, proposed by the State Treasury Office of São Paulo (Guarulhos), relative to accessory obligations of ICMS. The subsidiary pledged 2% of turnover, and suspended the foreclosure, arguing for a review of the tax foreclosure. In VARIG bankruptcy documents, it was mentioned that the debt in the prior period to the acquisition of the shares by TAP SGPS, should not be TAP M&E Brazil responsibility but VARIG's. Therefore, the pledge suspension was requested with the consequent extinction of this process and the reimburse of the judicial deposits performed. The subsidiary awaits the decision from the Public Finance Court.

(iv) Notice of infraction regarding failure to comply with the temporary import regime.
Amount: Euro 2,717 thousand

In 2012, the subsidiary was notified by the Federal Revenue Office, due to failure to comply with the temporary import regime. The subsidiary awaits judgement of the appeal filed with the CARF. In September 2016 the subsidiary Voluntary Appeal was not accepted by CARF and the notice of inspection was partially revoked. In 2017, CARF decided, in favor of the subsidiary, which have reduced the ammount.

(v) Notice of infraction of PIS and COFINS - 2006
Amount: Euro 2,819 thousand

The tax authorities considered that there were differences between the analytical ledger and the Declaration of federal tax debits and credits ("DCTF"), with reference to 2006. The subsidiary allegations were not considered by CARF, and new declarations were filed, which are waiting judgement. In June 2017, the declaration was denied, and a decision was riched. In December 2017, the administrative process became final and waits the next phase, the judicial collection.

(vi) Notice of infraction of PIS and COFINS - 2007
Amount: Euro 1,555 thousand

The federal tax authorities considered that there was inconsistency in the statements presented by the subsidiary regarding PIS and COFINS contributions. A protest letter has been submitted in 2012, awaiting the referral of the records to file.

(vii) Notice of infraction of "ICMS"
Amount: Euro 1,235 thousand

TAP M&E Brasil was notified in 2014 by the Secretary of the Treasury Office of Rio Grande do Sul, due to the ICMS credit on electricity in Porto Alegre. The subsidiary filed a challenge and is still awaiting for trial.

✈ Civil claims

(viii) Claims over lawyers' fees
Amount: Euro 2,952 thousand

Claims over fees filed by a law firm against the subsidiary TAP M&E Brasil, within the scope of the withdrawal of the lawsuit and adhesion to the subdivision programme of REFIS. It is currently awaiting judgement of the appeal. In 2017, one of these cases became final through the agreement handed down by the 7th Civil Chamber.

✈ Other

(ix) Pledged assets
Amount: Euro 12,357 thousand

The subsidiary TAP M&E Brasil has pledged various assets in the amount of Euro 12,357 thousand, which refer to guarantees required in tax and labour proceedings. These assets include vehicles, computers, components and items of the hangars of Rio de Janeiro and Porto Alegre, among others.

TAP SGPS and TAP SA were notified on 10 November 2016 by a "Notice of Objections" issued by the European Commission – Directorate General for Competition, concerning the fares charged by TAP SA and SN Brussels on the Lisbon-Brussels route, considering the existing code-share agreements. TAP Group presented its defence in 2017 and understands that there are no substantiated indications of any breach and therefore an outflow of resources is not probable to be required.

Pledged Guarantees

As at 31 December 2017 and 2016, the pledged guarantees by the Group are detailed as follows:

	2017	2016
Bank guarantees provided by TAP S.A.		
Aircraft	41,616	47,357
INEA - "Spice" project	2,626	2,626
Fuel	1,734	2,199
Portuguese State - Operation of the Azores routes	1,654	1,654
Clean Sky Project	1,612	1,612
Labour Court	681	1,053
Natwest - *Acquiring* credit cards	-	2,453
Other	10,528	11,205
Bank guarantees provided by LFP		
Operating license concession contracts for Lojas Francas	-	11,724
Bank guarantees provided by other Group companies	397	2,057
Securities provided to insurers	-	90
	60,848	**84,030**

The actual guarantees provided under finance agreements are disclosed in Note 19.

39 - Financial assets and liabilities

The reconciliation of the consolidated financial positions, as at 31 December 2017 and 2016, relative to the different categories of the financial assets and liabilities, are detailed as follows:

	2017				
	Derivative financial instruments classified as hedge instruments (Note 16)	Credit and other receivables	Other assets/financial liabilities	Non-financial assets and liabilities	Total
Assets					
Other non-current assets	-	96,090	45,960	-	142,050
Current receivables	-	390,288	34,853	38,100	463,241
Restricted cash	-	-	83	-	83
Cash and cash equivalents	-	-	167,734	-	167,734
Total Assets	**-**	**486,378**	**248,630**	**38,100**	**773,108**
Liabilities					
Non-current borrowings	-	-	(756,122)	-	(756,122)
Other non-current liabilities	-	-	(112,813)	-	(112,813)
Current borrowings	-	-	(114,752)	-	(114,752)
Current payables	-	-	(528,706)	(542,036)	(1,070,742)
Total Liabilities	**-**	**-**	**(1,512,393)**	**(542,036)**	**(2,054,429)**

	2016				
	Derivative financial instruments classified as hedge instruments (Note 16)	Credit and other receivables	Other assets/financial liabilities	Non-financial assets and liabilities	Total
Assets					
Other non-current assets	-	81,175	39,654	-	120,829
Current receivables	-	260,430	-	40,281	300,711
Restricted cash	-	-	538	-	538
Cash and cash equivalents	-	-	150,468	-	150,468
Total Assets	**-**	**341,605**	**190,660**	**40,281**	**572,546**
Liabilities					
Non-current borrowings	-	-	(666,841)	-	(666,841)
Other non-current liabilities	(636)	-	(104,843)	-	(105,479)
Current borrowings	-	-	(328,274)	-	(328,274)
Current payables	-	-	(451,737)	(437,578)	(889,315)
Total Liabilities	**(636)**	**-**	**(1,551,695)**	**(437,578)**	**(1,989,909)**

The following tables present the assets and liabilities measured at fair value as at 31 December 2017 and 2016, according to the following fair value hierarchical levels established in IFRS 13:

Level 1: the fair value of financial instruments is based on prices available on active, liquid markets at the date of the financial position;

Level 2: the fair value of financial instruments is not determined based on active market prices, but rather through valuation models. The main inputs of these models are observable on the market; and

Level 3: the fair value of financial instruments is not determined based on active market prices, but rather through valuation models, whose main inputs are not observable on the market.

✈ Assets measured at fair value

	2017		
	Level 1	Level 2	Level 3
Non-financial assets			
Investment properties	-	2,126	-

	2016		
	Level 1	Level 2	Level 3
Non-financial assets			
Investment properties	-	2,248	-

✈ Liabilities measured at fair value

	2017		
	Level 1	Level 2	Level 3
Financial liabilities			
Derivative financial instruments hedging	-	-	-
Non-financial liabilities			
Deferrals - Customers loyalty program	-	50,399	-

	2016		
	Level 1	Level 2	Level 3
Financial liabilities			
Derivative financial instruments hedging	-	636	-
Non-financial liabilities			
Deferrals - Customers loyalty program	-	42,972	-

Derivative financial instruments

The fair value of the derivative financial instruments is recorded under the caption of other payables when negative, and under the caption of other receivables when positive.

During 2017 and 2016, the variation of derivative financial instruments fair value was recognised in equity.

The breakdown of the derivative financial instruments fair value is detailed in Note 16.

Credit and other receivables

Other receivables are initially recognised at their fair value, corresponding to their nominal value, deducted of any impairment loss identified during credit risk analysis.

Other financial liabilities

Other financial liabilities are recognised at their amortised cost, corresponding to the amount of the respective cash flow, discounted by the effective interest rate associated to each liability.

40 – Commitments

✈ Purchase commitments

The acquisition of 53 aircrafts (39 A320 NEO Family and 14 A330 NEO) to be received between 2018 and 2025 is contracted with Airbus SAS ("Airbus"). This order is due to the novation to TAP, S.A. of the previously negotiated acquisition agreement and signed between Airbus and DGN Corporation. Following this commitment was signed for 14 aircraft an assignment of contractual position with subsequent leaseback and sale and leaseback contracts (8 A320 NEO Family and 6 A330 NEO).

A commitment was also signed with CFM International Inc. on the acquisition of 83 LEAP-A1 reactors, including 5 reserve reactors, which will be incorporated in the new fleet of A320 NEO Family aircrafts.

✈ Other commitments

As at 31 December 2017, there were financial commitments, assumed by the TAP Group, related to operating leases of aircrafts and engines (including ACMI), in operation, in the amount of Euro 572,747 thousand (Euro 554,570 thousand at 31 December 2016) (Note 19).

In addition, operating leases contracts were also signed in respect to aircrafts whose the operation is expected to start between 2018 and 2020. The present value of payment schedule under non-cancellable agreements is around Euro 1,402,545 thousand in 31 of December 2017.

In 2017, were also signed letters of intent relating to the operating lease of three A330 NEO aircraft and two A321 NEO aircraft that are included in the purchase agreement signed between Airbus and TAP S.A.

A letter of intent was also signed for the operating lease of 3 additional A321 NEO aircrafts.

41 – Subsequent events

The Board of Directors is not aware of any subsequent events as at the reporting date that may have significant impact on the consolidated financial statements for the year ended as at 31 December 2017.

42 – Note added for translation

The accompanying financial statements are a translation of financial statements originally issued in Portuguese. In the event of any discrepancies the Portuguese version prevails.

CHARTERED ACCOUNTANT

Sandra Candeias Matos da Luz

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